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Balancing Innovation with Regulation – Branchless Banking Regulation

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Balancing Innovation with Regulation - Branchless Banking Regulation

APEC Workshop on
Best Practices in Microfinance
Hanoi, Vietnam: 7-8 April 2011

by

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Presentation Outline

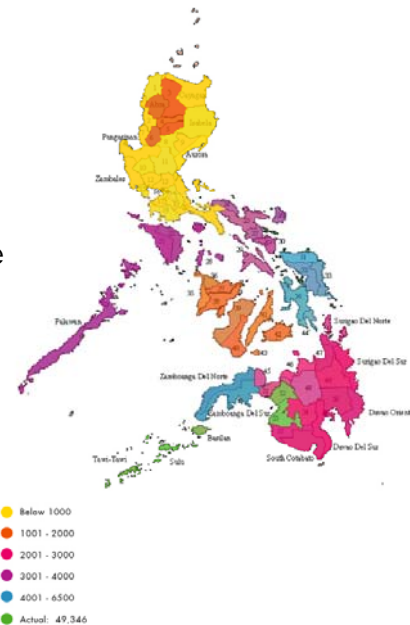
- The Philippine Context
 - Microfinance as a Foundational Stone
- Successful Experience in Microfinance
- BSP's Guiding Principles on Financial Access/Inclusion
- Selected BSP Circulars on Branchless Banking
- Phone-Banking: The case for Branchless Banking

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Philippine Context

- Access to finance is a major challenge
 - 609 out of 1,635 (37%) municipalities have no have banking offices, (as of end December 2009)
 - Services concentrated in higher income urban areas
 - Archipelagic structure provides spatial obstacles/barriers to access



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National Strategy of Microfinance

- Call for a more consistent and enabling credit policy environment in 1990s
- Basic features:
 - Non-participation of government line agencies in the direct implementation of credit and guarantee programs; focus on policy environment and capacity building
 - Adoption of market-oriented financial and credit policies, e.g., market-oriented interest rates
 - Greater role of private microfinance institutions (MFIs) in the provision of financial services

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National Regulatory Framework For Microfinance Institutions

- Covers all types of microfinance institutions
- Prudential regulation and supervision over deposit taking institutions, including Microfinance NGOs collecting capital “build up” beyond the compensating balance
- Framework Objective:
 - To protect the financial system from unsound practices by deposit-taking institutions;
 - To protect small clients; and
 - To promote the establishment of an accurate, reliable and transparent set of financial information for MFIs

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BSP Approach to Microfinance

- The General Banking Law of 2000, Sections 40, 43 and 44, mandated the BSP to recognize the peculiar characteristics of microfinance in the requirements, terms and amortization of loans and other credit accommodations
- The general policy approach is to:
 - Allow banks a wider scope for their sustainable microfinance operations
 - Protect the depositors, microfinance clients and the financial system

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Three Pronged Approach

- Development of a microfinance “friendly” policy and regulatory environment
- Capacity building within the BSP and the banking sector
- Promotion and advocacy efforts

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Microfinance Today

- Shift from directed credit to market approach
- Microfinance is seen as a range of financial services offered to the entrepreneurial poor who are clients and not beneficiaries
- Microfinance fully mainstreamed in the formal financial system
- Institutionalized means of transformation of NGOs to become formal financial institutions

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Microfinance Today

- Increased interest of commercial players/ investors (local and international)
- Professionalization of the industry through performance standards, thus greater transparency
- Interest in International Microfinance Rating Agencies
- Use of ICT to increase scale and other innovations
- New products for microfinance clients (housing, agriculture, microinsurance, etc.)

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Microfinance Today

- 212 banks (from around 30 in 2000) with microfinance operations reaching nearly 900,000 clients with an outstanding loan portfolio of more than PhP 6B (USD 129M) and savings of almost PhP 3B (USD 64M)
- Some measurable results:
 - Increased access to formal credit - For first time borrowers, microfinance was their first formal bank loan
 - Impact on Savings - 6 out of 10 borrowers are 1st time savers and overall, clients increased savings balances by 13% since taking their first loan

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Moving Toward Financial Inclusion

- BSP recognizes the need to bring more people into the financial system especially those previously un-served and un-banked.
- Inclusive financial system is characterized by a range of institutions that utilize multi-channels to deliver a wider range of financial services
 - Banks can expand their reach through their branches and other offices
 - Technological innovation can provide new ways in which financial services can be delivered (i.e. e-money, mobile banking)
 - Utilization of non-bank retail institutions as agents to extend the network of service channels

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Guiding Principles to Financial Access/Inclusion

- FI is a worthy policy objective, alongside the promotion of stability and efficiency in shaping the development of the financial system. Contributes directly to social cohesion and shared economic development.
- Market-based solutions to address financial access issues are feasible and can be addressed through an appropriately supportive regulatory environment.

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Guiding Principles to Financial Access/ Inclusion

- FI involves delivery of a wide range of financial services (savings, credit, insurance, payments, remittances). These products must be appropriately designed and priced for the particular market
- Bank and non-bank based delivery channels can combine to reach the financially excluded more effectively
- All financial service providers should be properly regulated to uphold consumer protection and financial system integrity.

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SELECTED BSP CIRCULARS FOCUSED ON BRANCHLESS BANKING

Circular 240 (5 May 2000) provides basic guidelines in the provision of electronic banking services (i.e. BSP approval, submission of description, diagram, security of the service, etc.)

Circular 269 (21 December 2000) provides expanded guidelines to include adequate risk management process, and requirements to ascertain bank's capacity to provide electronic banking services

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SELECTED BSP CIRCULARS FOCUSED ON BRANCHLESS BANKING

Circular 471 (24 January 2005) provides the rules and regulations that govern the registration and operations of foreign exchange dealers/money changers and remittance agents

Circular 511 (3 February 2006) provides guidelines on technology risk management aimed at ensuring effective management of technology-related risks by FIs

Circular 542 (1 September 2006) promotes consumer protection for electronic banking

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SELECTED BSP CIRCULARS FOCUSED ON BRANCHLESS BANKING

Circular 563 (16 March 2007) provides authority to rural and cooperative banks to make equity investments in automated teller machine (ATM) networks as part of its allowable non-financial allied undertakings

Circular 649 (09 March 2009) provides the guidelines governing the issuance of electronic money (e-money) and the operations of electronic money issuers (EMI) in the Philippines

Circular 704 (22 December 2010) provides guidelines on outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP)

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Policy/Regulatory Approach to Mobile Banking and E-money

- Defined “e-money”, “e-money issuers” and developed a clear and proportionate regulatory framework for the business to move forward
- Distinguished deposit taking activities from fund transfer activities, deposit taking remains firmly with banks
- Safety and soundness regulation for entities with deposit taking activities

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Policy /Regulatory Approach to Mobile Banking and E-money

- E-money issuers can develop a vast and readily scalable agent network which extends the ecosystem of e-money service channels and facilitates ready access to banking services through partnerships
- AML/ CFT and Consumer Protection adequately addressed
- Develop supervisory capacity with the creation of specialist technology risk examiner

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Mobile Banking: A Branchless Banking Case

- Technology has the potential to extend outreach of microfinance and banking services to a large number of bankable but un-banked people
- Mobile phone industry in the Philippines serves all income groups especially low income groups
- More than 60% of the population have mobile phones; 1.5 billion texts or SMS everyday

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Current Models

- Bank-based Model (Smart Money) - 2004
 - Smart Telco and BDO Universal Bank Partnership
 - BDO issues/ owns Smart Money (accessed via Mastercard powered card)
 - BDO uses Smart Telco's mobile technology platform and distribution outlets as delivery channel, in addition to branches and ATM network
 - Smart Telco, as an E-money Technology Provider to banks, provide partner banks with the ability to use Smart Money as surrogate for cash. Partner banks have the responsibility to ensure that Smart is compliant with AML and consumer protection regulations.

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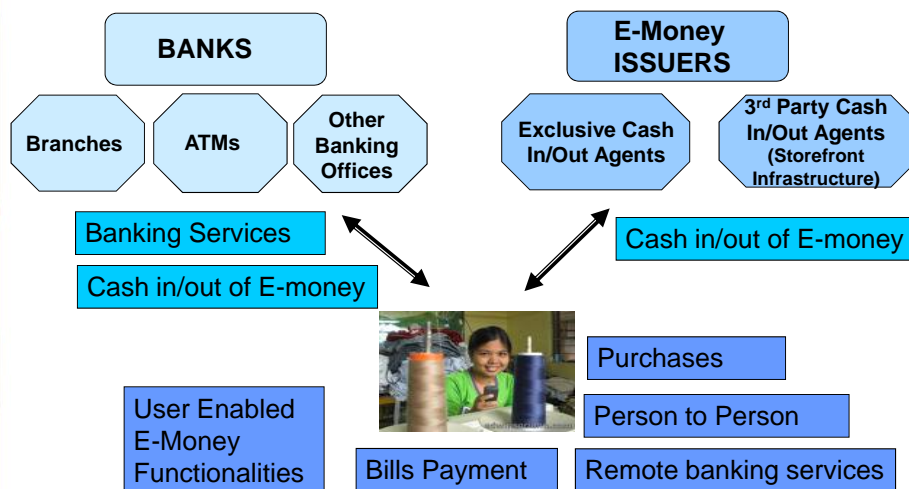
Current Models

- Non-Bank Based Model (G-Cash) - 2005
 - GXI, a subsidiary of Globe Telco, issues G-Cash (accessed via mobile device's virtual wallet)
 - GXI uses Globe Telco's mobile technology platform for distribution outlets as delivery channel, in addition to individually authorized agents
 - As a regulated non-bank E-money Issuer, GXI can develop its own network of cash in/cash out agents while remaining responsible that such agents comply with AML and consumer protection regulations. At present GXI has 18,000 agents
 - Banks may partner with GXI and use G-cash for their mobile banking applications

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Financial Inclusion Framework



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TO SUM UP

- **COMMITMENT** to Financial Inclusion should be a guiding principle that must be integrated in crafting policies, rules, guidelines and regulations.
- **BOLDNESS**, which basically means to think outside of the box when providing poverty solutions to address growing poverty.
- **ADAPTIVE** means to be flexible without sacrificing prudential standards and the safety of the financial system as well as the general public.
- **NATIONALISTIC** means to keep the interest of the country at heart, even as the world is becoming flat and inter-connected in terms of operations and business dealings.
- **KNOWLEDGE FOCUSED** is to be aware of what is happening globally in terms of technology, sound practices, development and socio-cultural changes.
- **"EARTHY" MIND** means to be grounded in reality and not be confined in ivory tower.
- **RESPONSIVE** to the need of the market, thus appropriate and proportionate regulations can be made.