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# Financial Inclusion: Status and Impacts

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RADISSON BLU HOTEL, CEBU CITY

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Philippine Institute for Development Studies

*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

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# What I want to present

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- Current status of financial inclusion in the country based on BSP survey data and other data sets
- From the perspective of households, what factors determine access and usage?
- What is the impact of financial inclusion on household incomes?

# What is Financial Inclusion?

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Financial inclusion  
or an inclusive financial system

A state wherein there is effective access  
to a wide range of financial products and  
services by all

# Financial Inclusion: Global Ranking

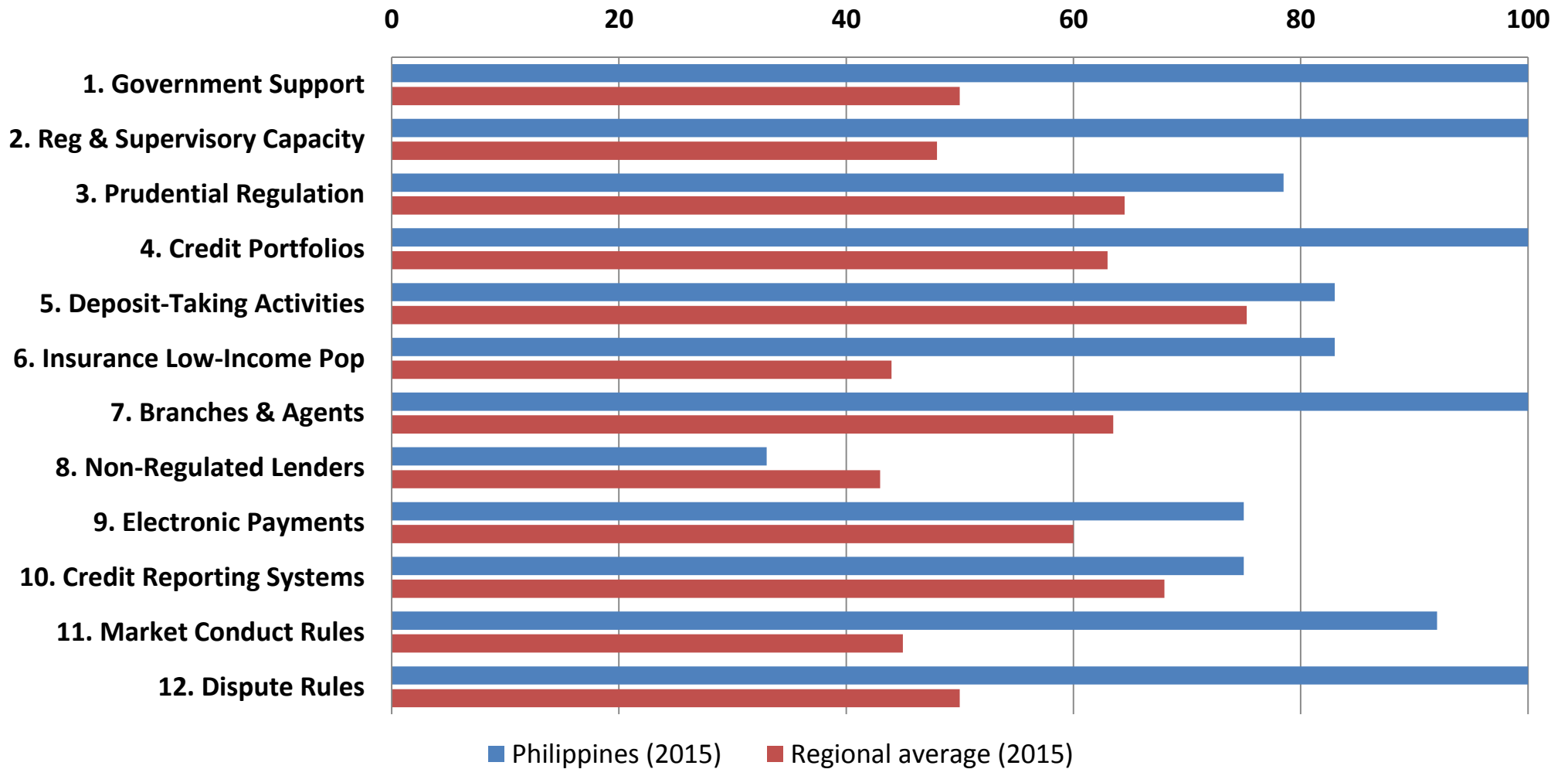
Rank / 55 countries			Score /100	Change in Score
		<b>Average</b>	<b>48</b>	<b>+2</b>
1	↔	Peru	90	+3
2	↔	Colombia	86	+1
3	↔	Philippines	81	+2
4	▲1	India	71	+10
5	▲2	Pakistan	64	+6
=6	▼2	Chile	62	-4
=6	▲3	Tanzania	62	+6
=8	▼1	Bolivia	60	+2
=8	▼3	Mexico	60	-1
10	▲8	Ghana	58	+7

Rank / 55 countries			Score /100	Change in Score
=11	↔	Indonesia	56	+1
=11	↔	Kenya	56	+1
=11	▲3	Uruguay	56	+3
=14	▼5	Cambodia	55	-1
=14	▲3	Morocco	55	+3
16	▼5	Rwanda	54	-1
=17	▼3	Brazil	53	0
=17	▲1	Nicaragua	53	+2
19	▼5	Paraguay	52	-1
=20	▲3	Bosnia and Herzegovina	51	+3
=20	▲3	Dominican Republic	51	+3
=20	▲3	Ecuador	51	+3

Note: "=" denotes tied rank between two or more countries "↔" No change in rank

Source: The Global Microscope on Financial Inclusion, 2015

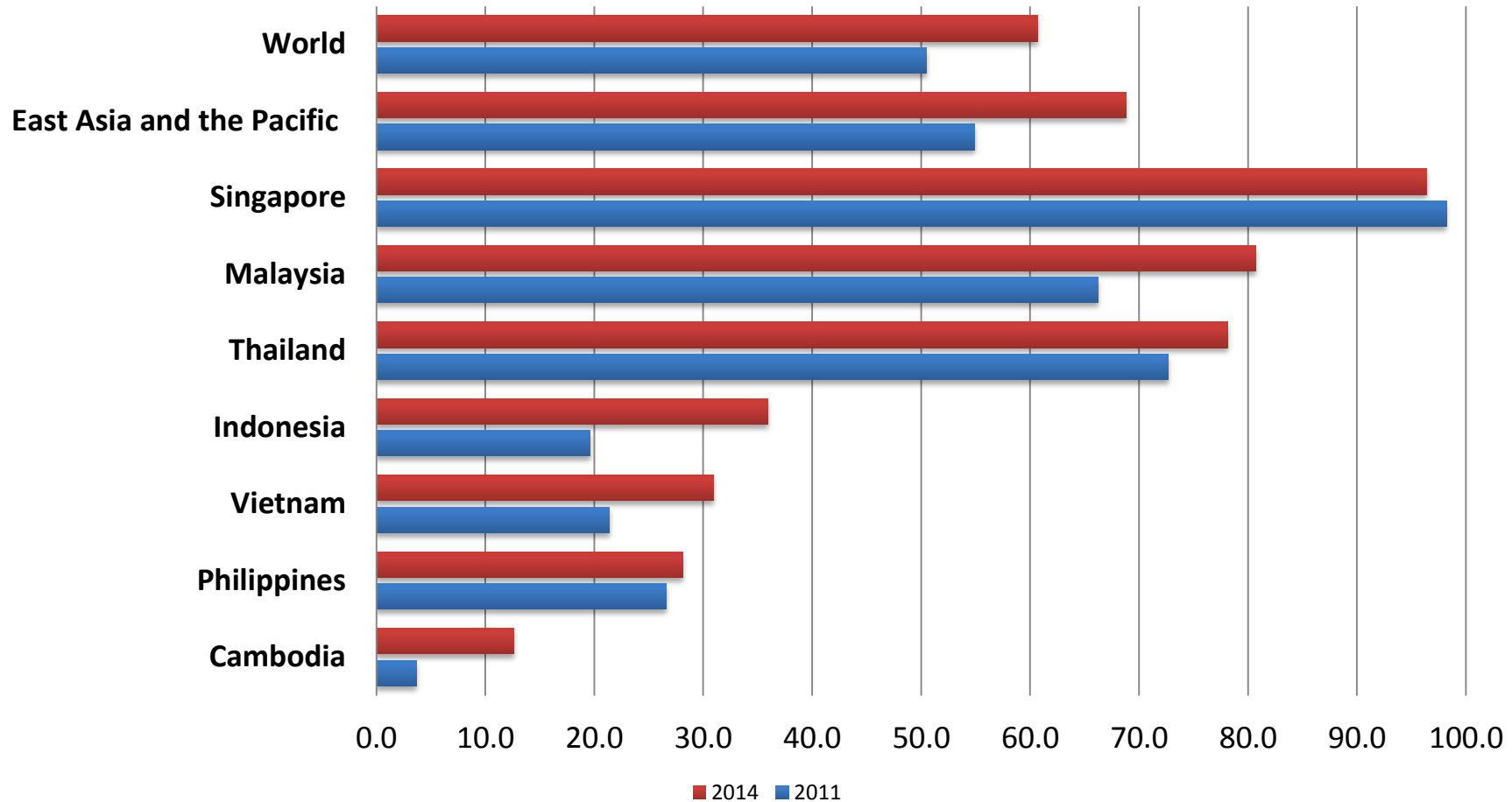
# Microscope Indicators, 2015



Source: The Global Microscope on Financial Inclusion, 2015

# Financial Inclusion: ASEAN

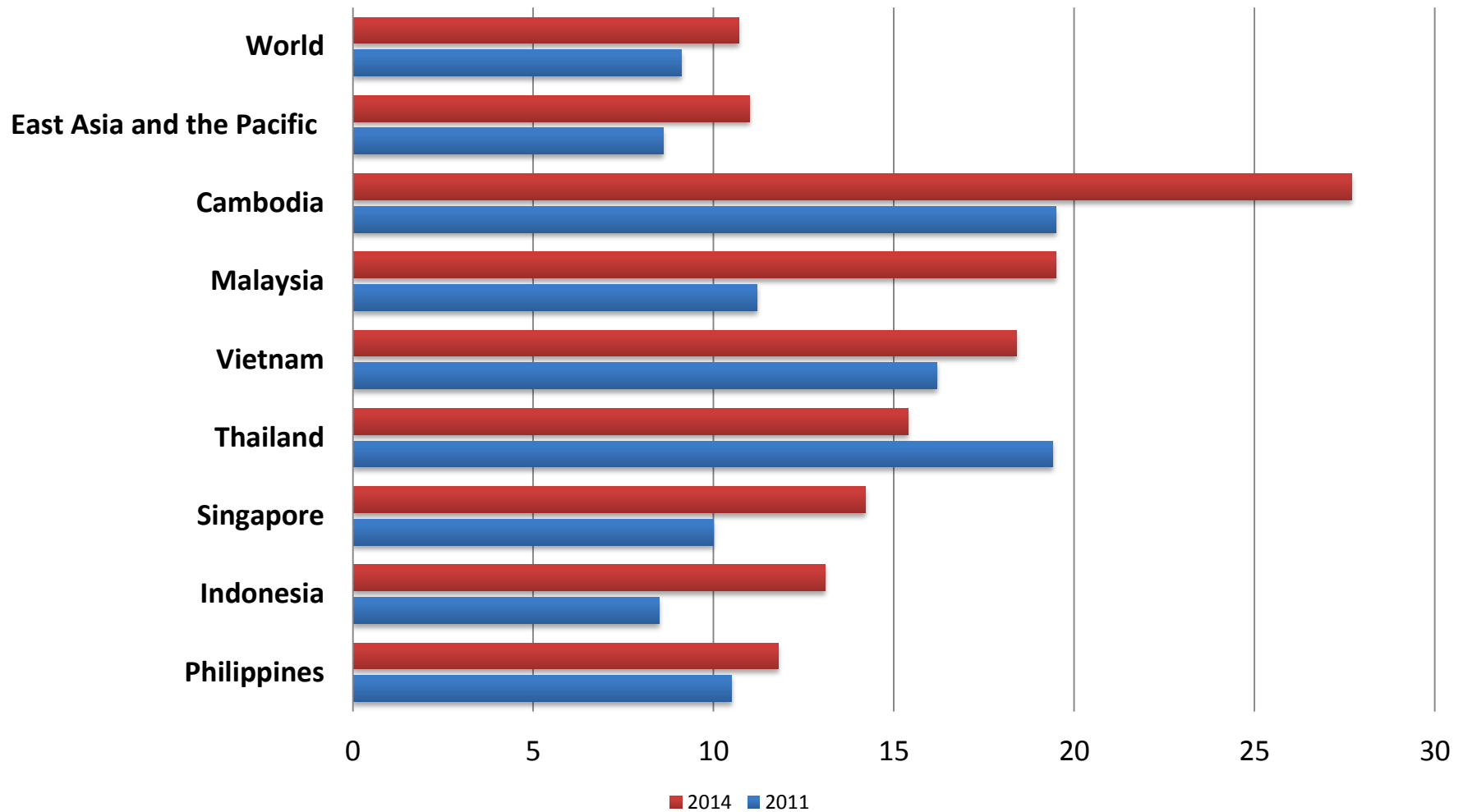
Account at a formal financial institution (% age 15+)



Source: Global Findex, World Bank, 2014

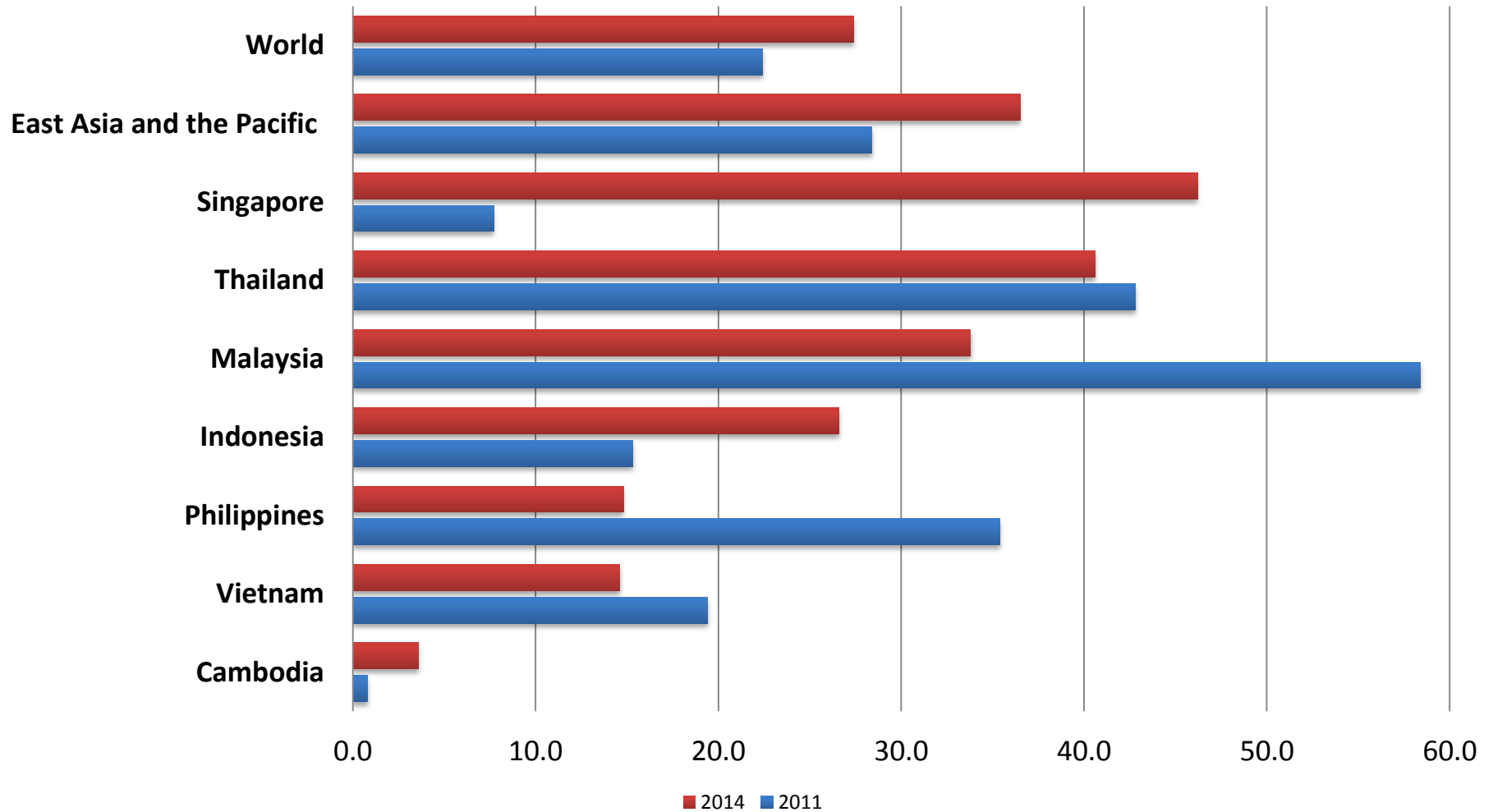
\*no 2014 data for Lao PDR

# Loan from a financial institution in the past year (% age 15+)



Source: Global Findex, World Bank, 2014  
\*no 2014 data for Lao PDR

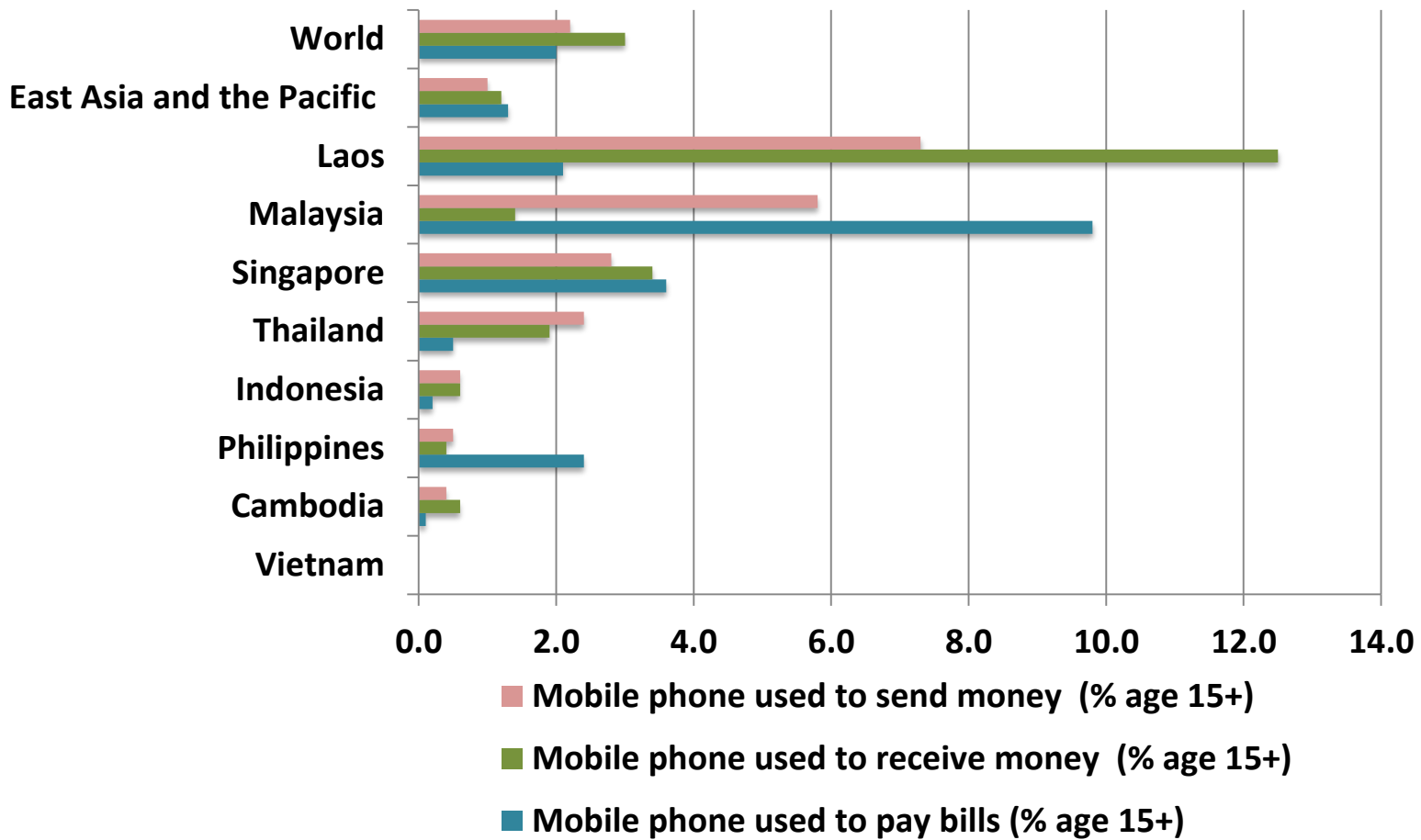
# Saved at a financial institution in the past year (% age 15+)



Source: Global Findex, World Bank, 2014  
\*no 2014 data for Lao PDR



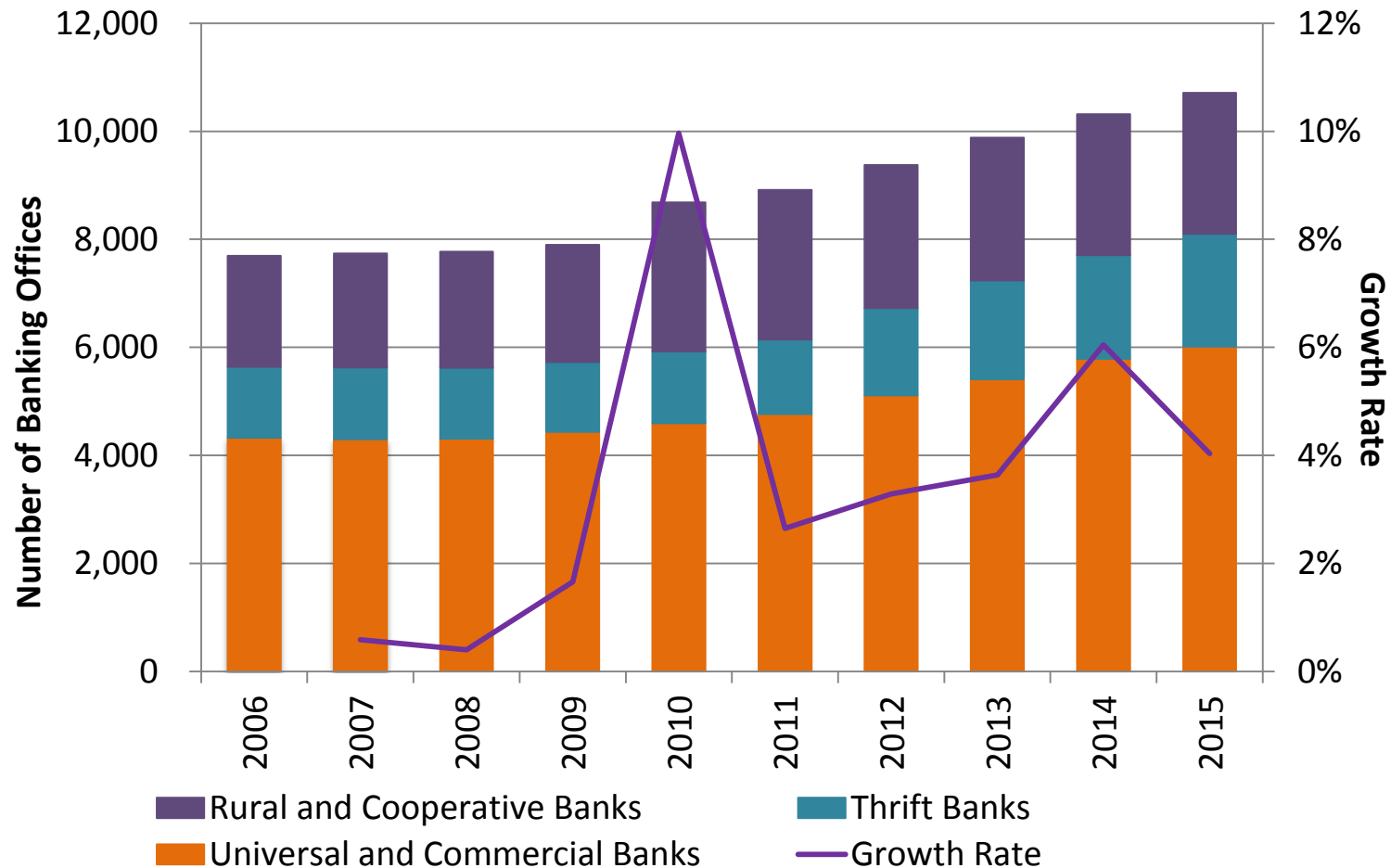
# Mobile phone usage (% age 15+)



Source: Global Findex, World Bank, 2011  
\*no 2014 data available

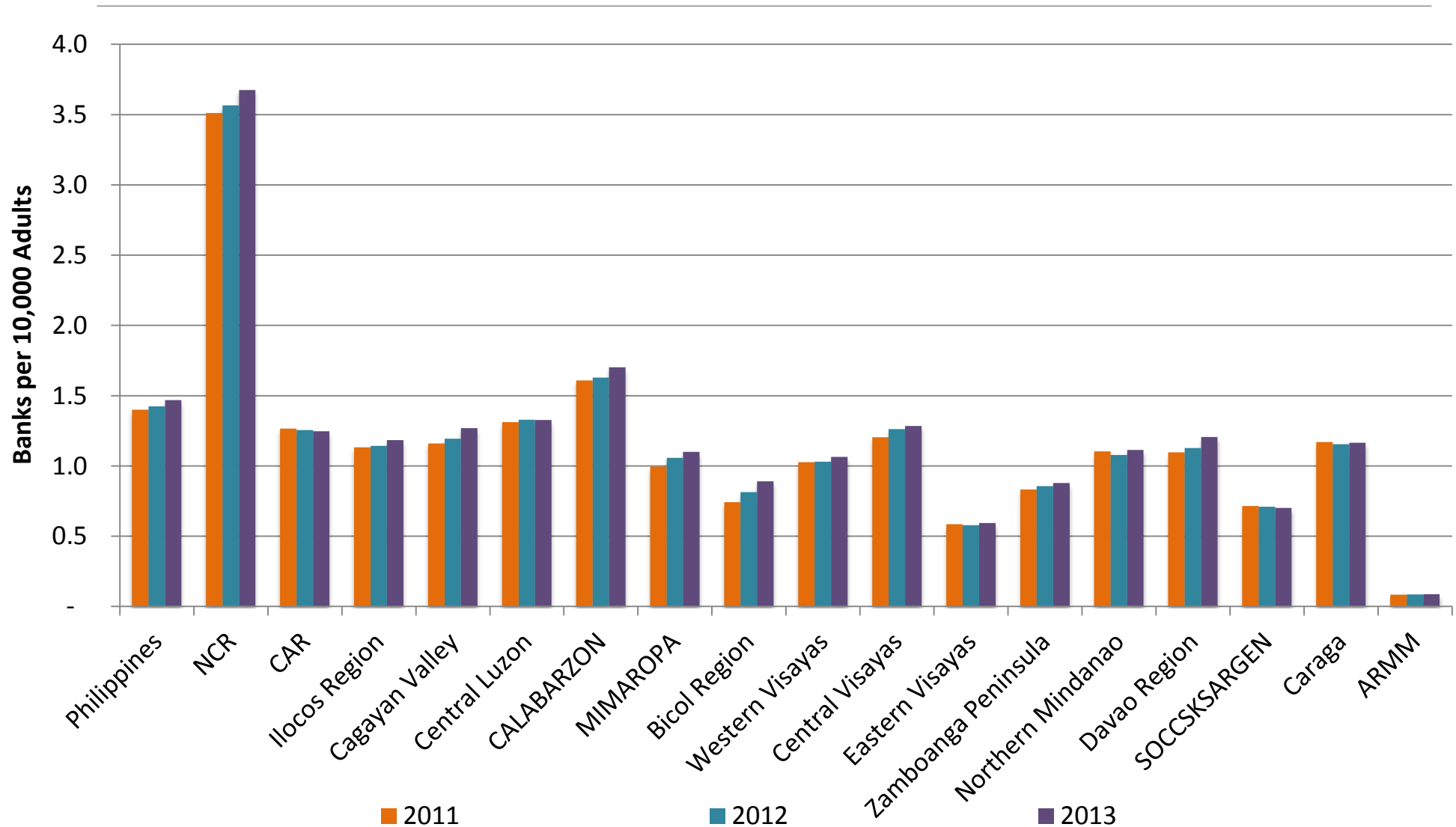
# The Philippine Financial System

Number and Growth of Banking Offices, 2006-2015



Source: Bangko Sentral ng Pilipinas

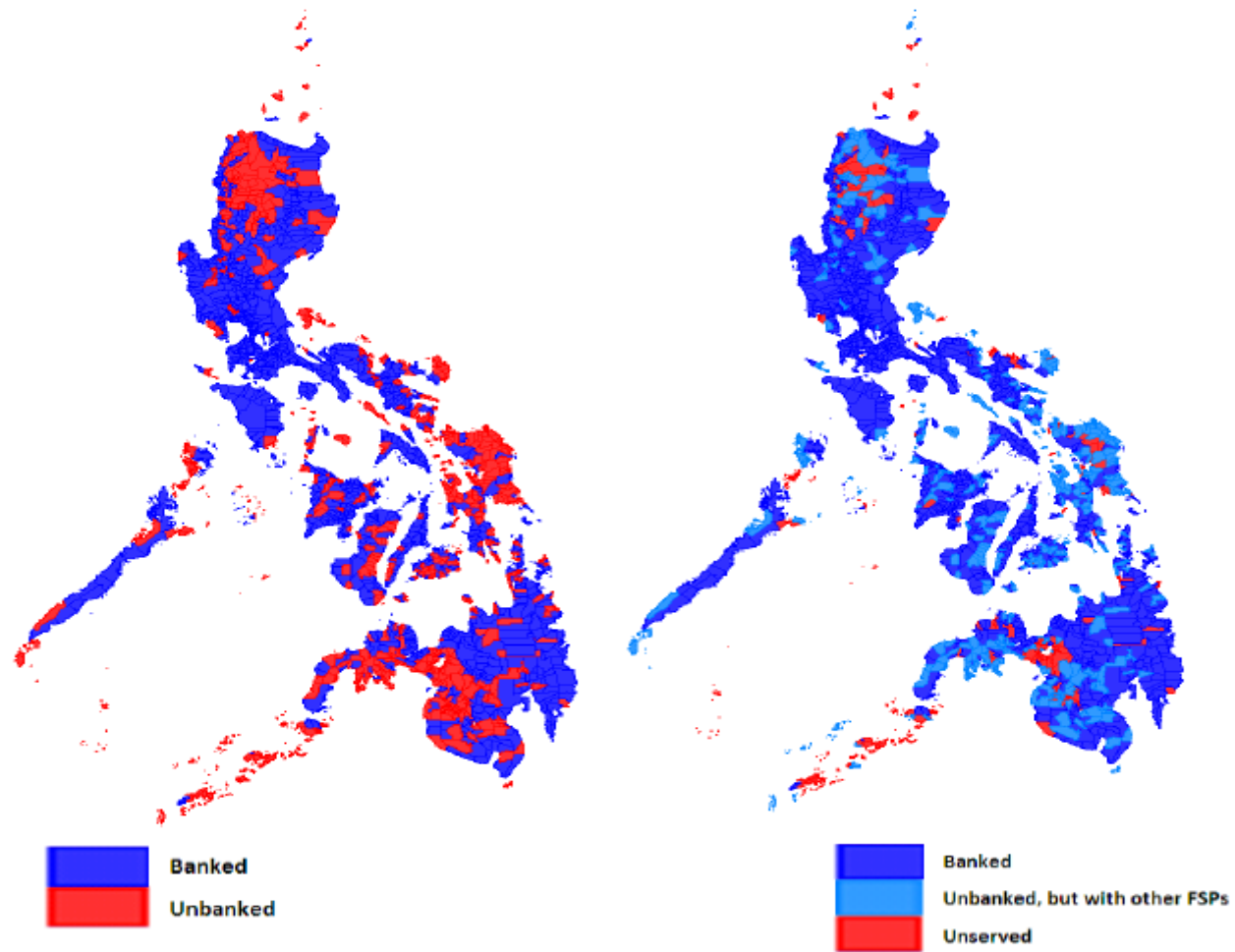
# Number of Banks per 10,000 Adults



Source: Bangko Sentral ng Pilipinas

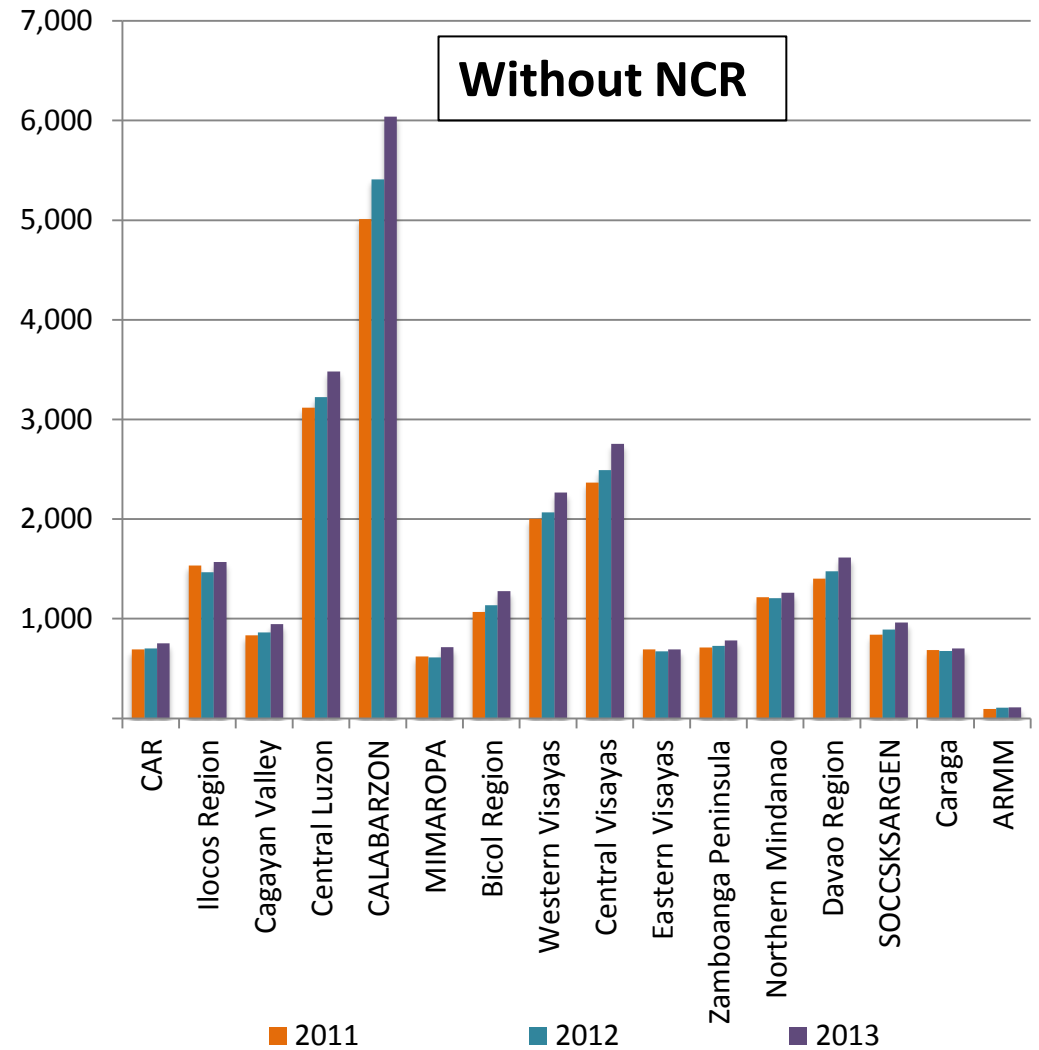
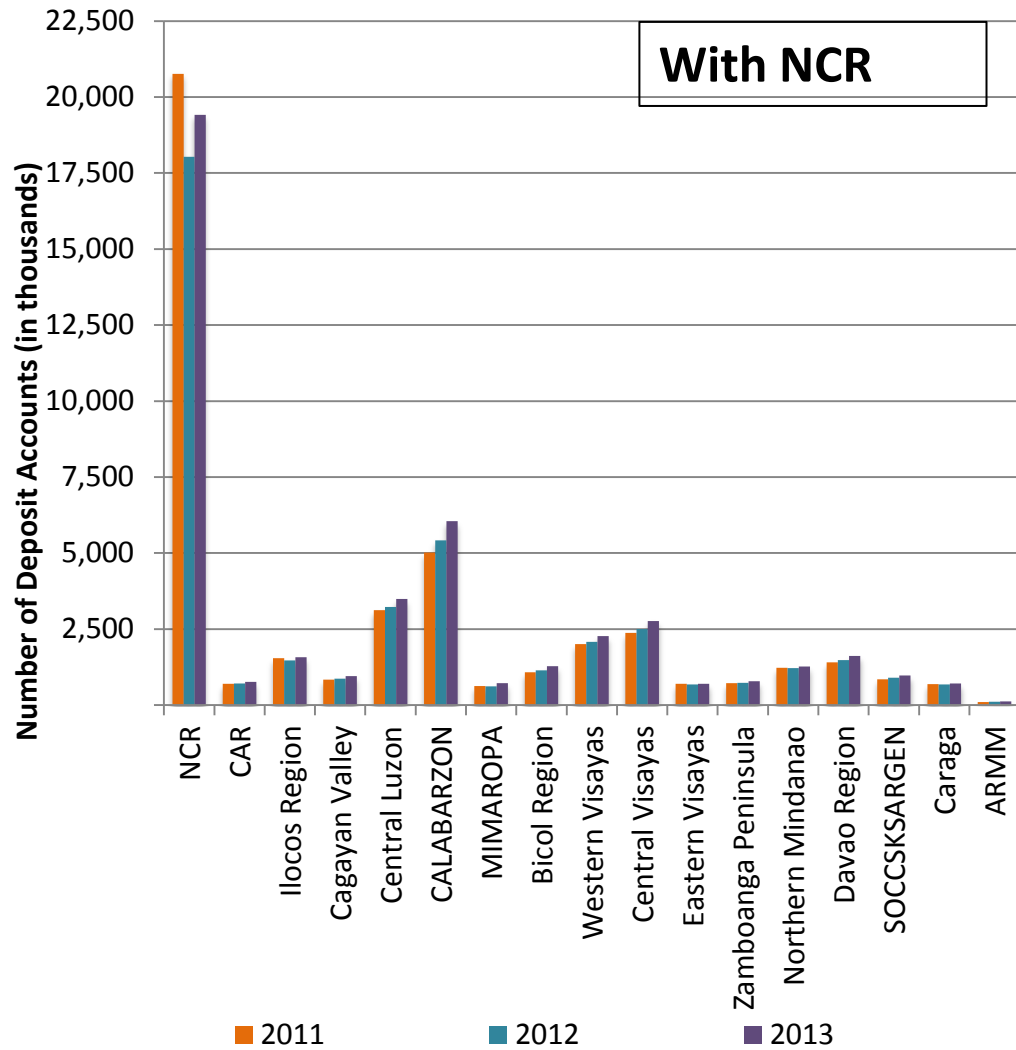
# Banked and Unbanked

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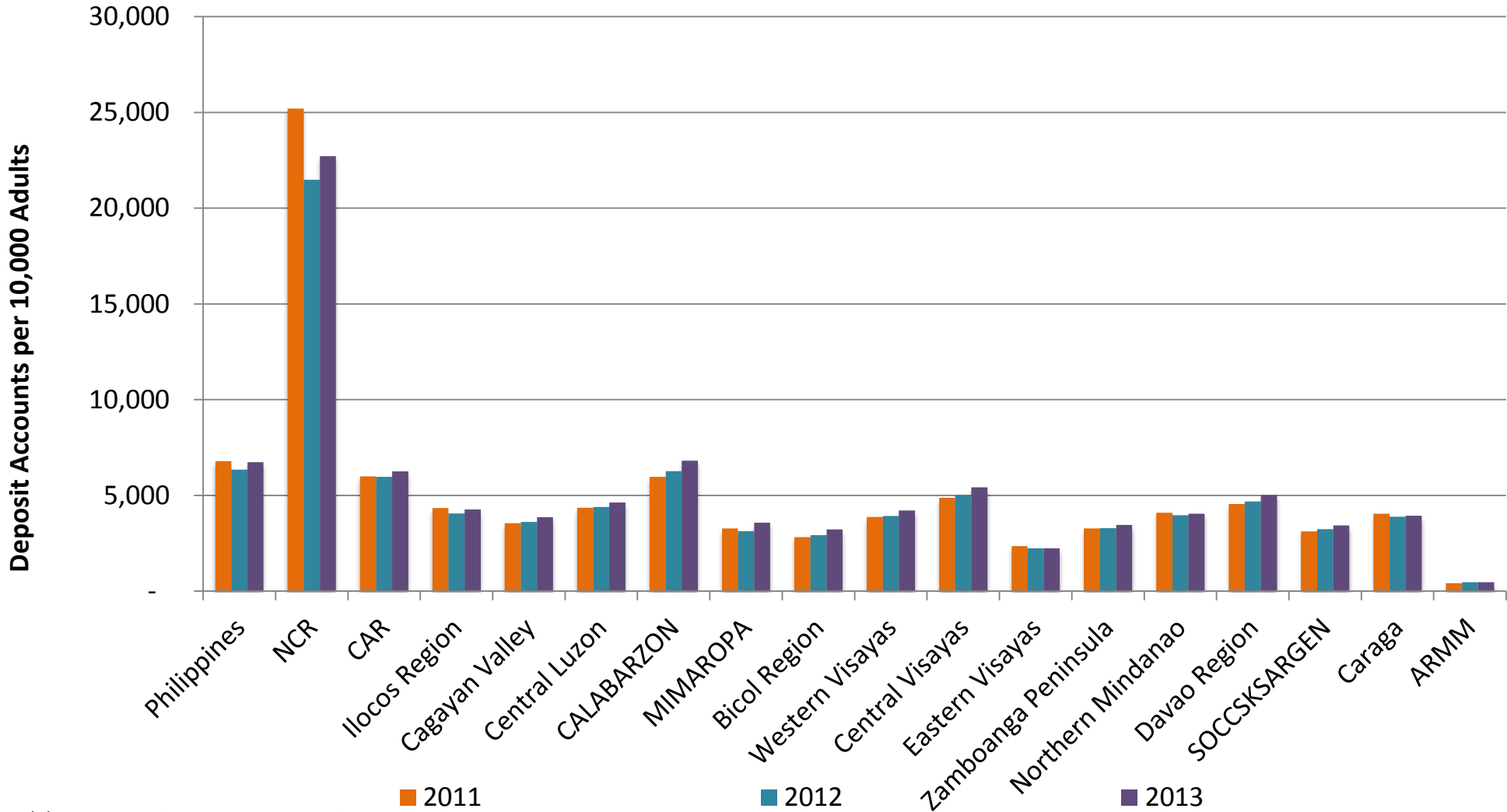
Source: Bangko Sentral ng Pilipinas

# Deposit Accounts



Source: Philippine Deposit Insurance Corporation

# Deposit Accounts per 10,000 Adults



Source: Philippine Deposit Insurance Corporation



# Awareness of Access Points: Demand Side

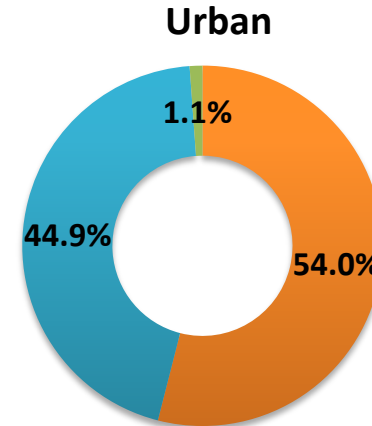
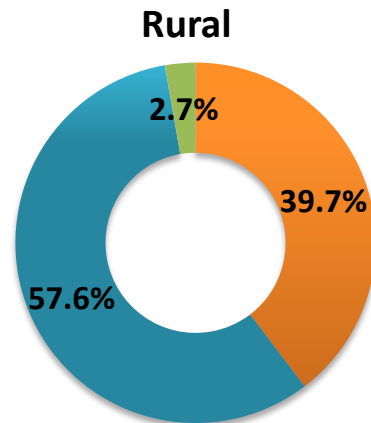
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Access points Filipinos are most aware of		Access points Filipinos are least aware of	
Banks	98.3%	Microfinance nongovernment organizations	30.5%
Pawnshops	95.7%	E-money agents	25.6%
ATMs	93.5%	Non-stock savings and loan associations	13.6%

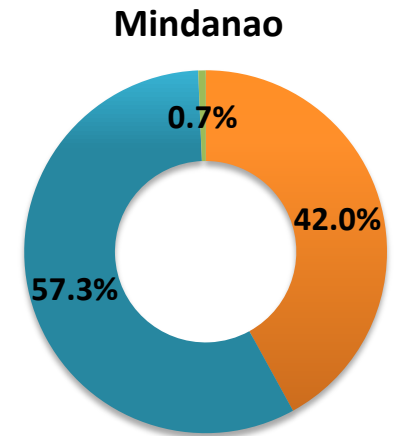
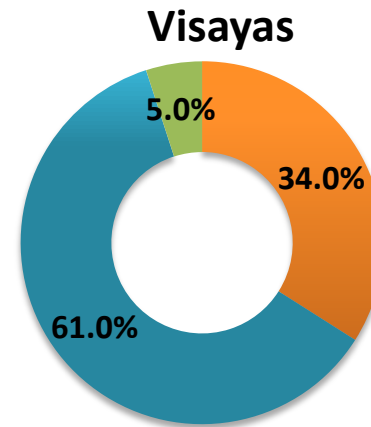
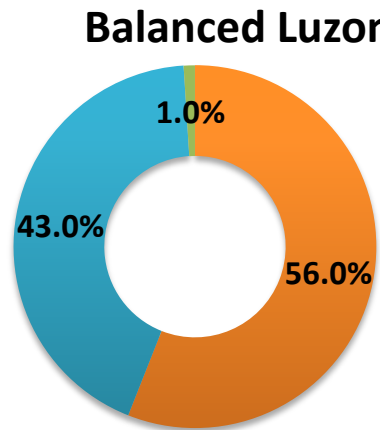
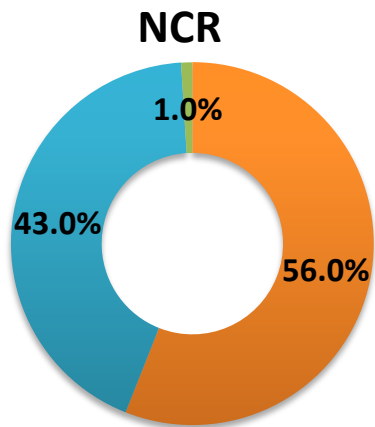
Source: Bangko Sentral ng Pilipinas

# Bank Usage (1)

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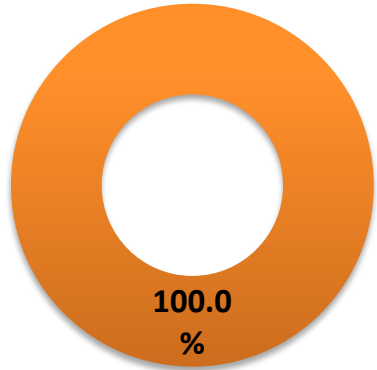
Bank User (Orange)    Not Bank User (Blue)    No Answer (Green)



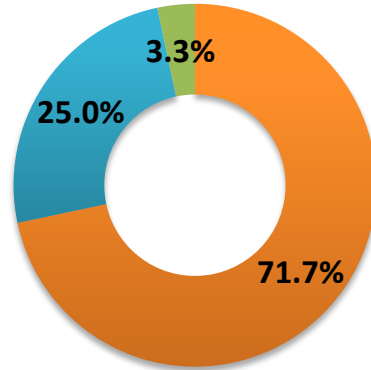


# Bank Usage (2)

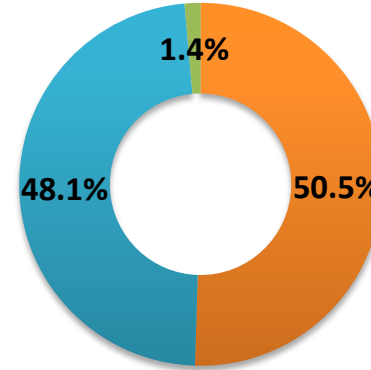
### AB Dwelling



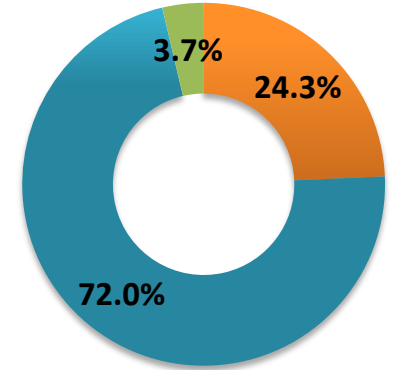
### C Dwelling



### D Dwelling

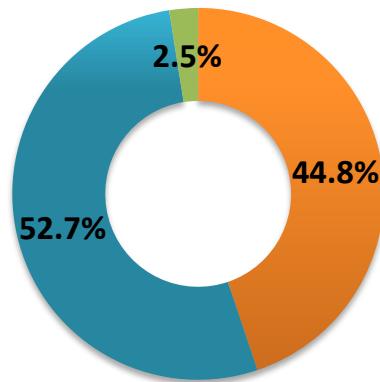


### E Dwelling

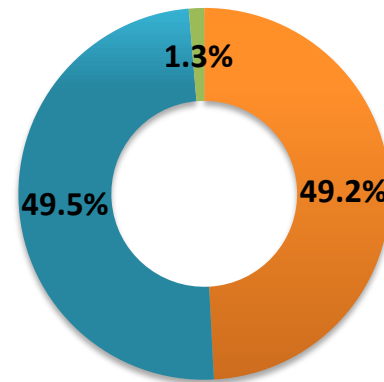


Bank User (orange)  
Not Bank User (blue)  
No Answer (green)

### Male

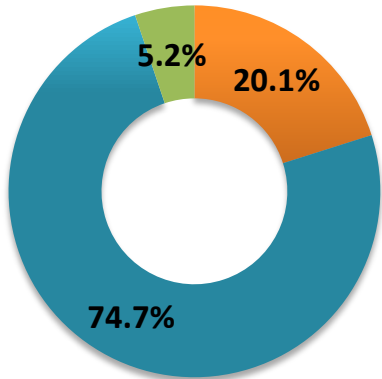


### Female

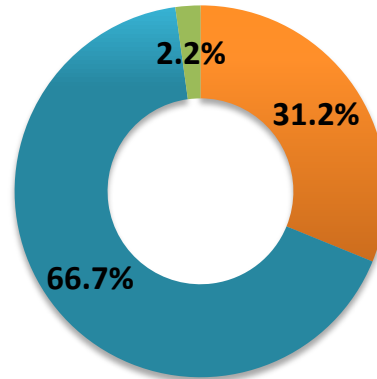


# Bank Usage (3)

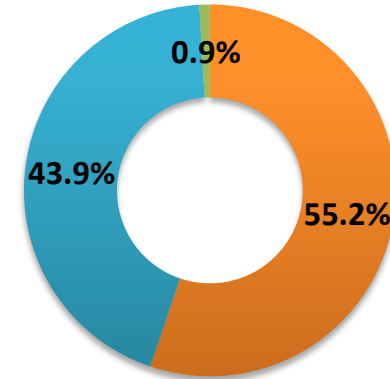
### No Formal Education



### Elementary

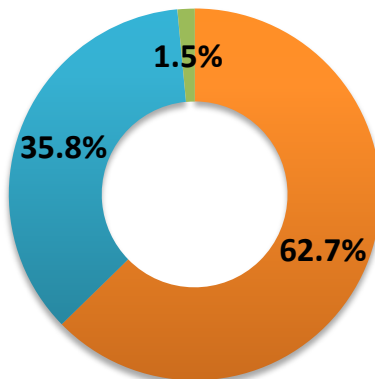


### Highschool

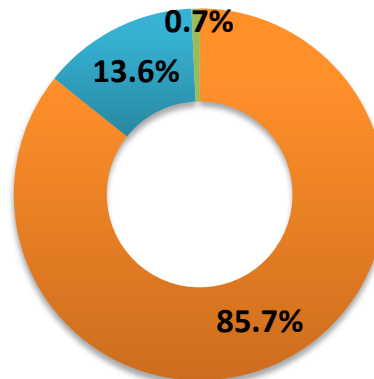


Bank User (orange)  
Not Bank User (blue)  
No Answer (green)

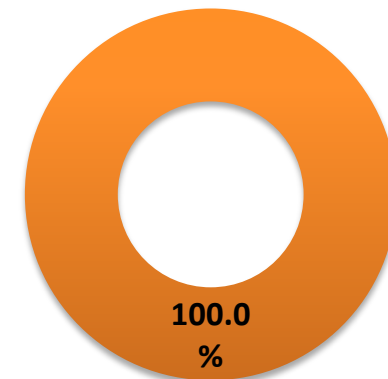
### Vocational



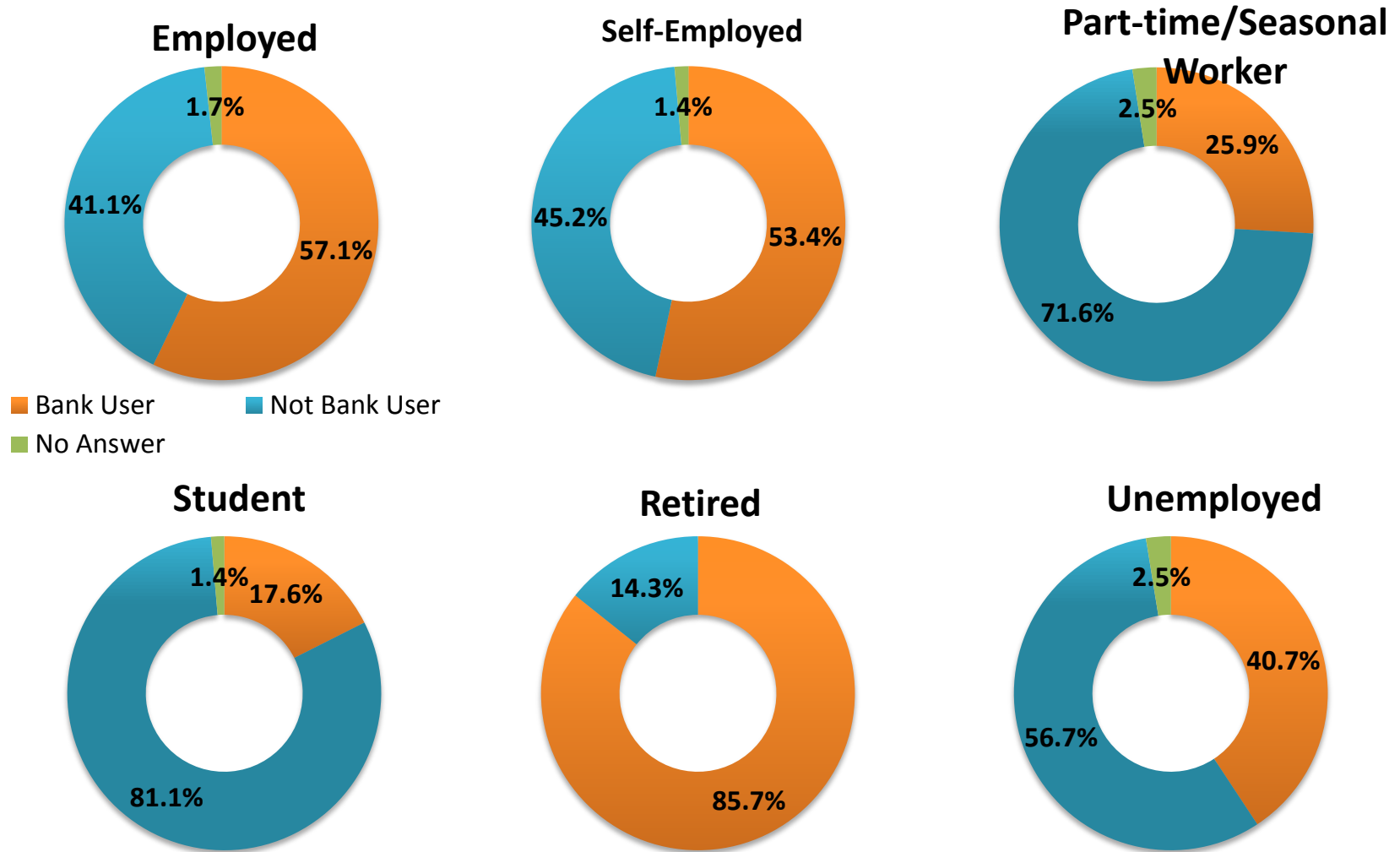
### College



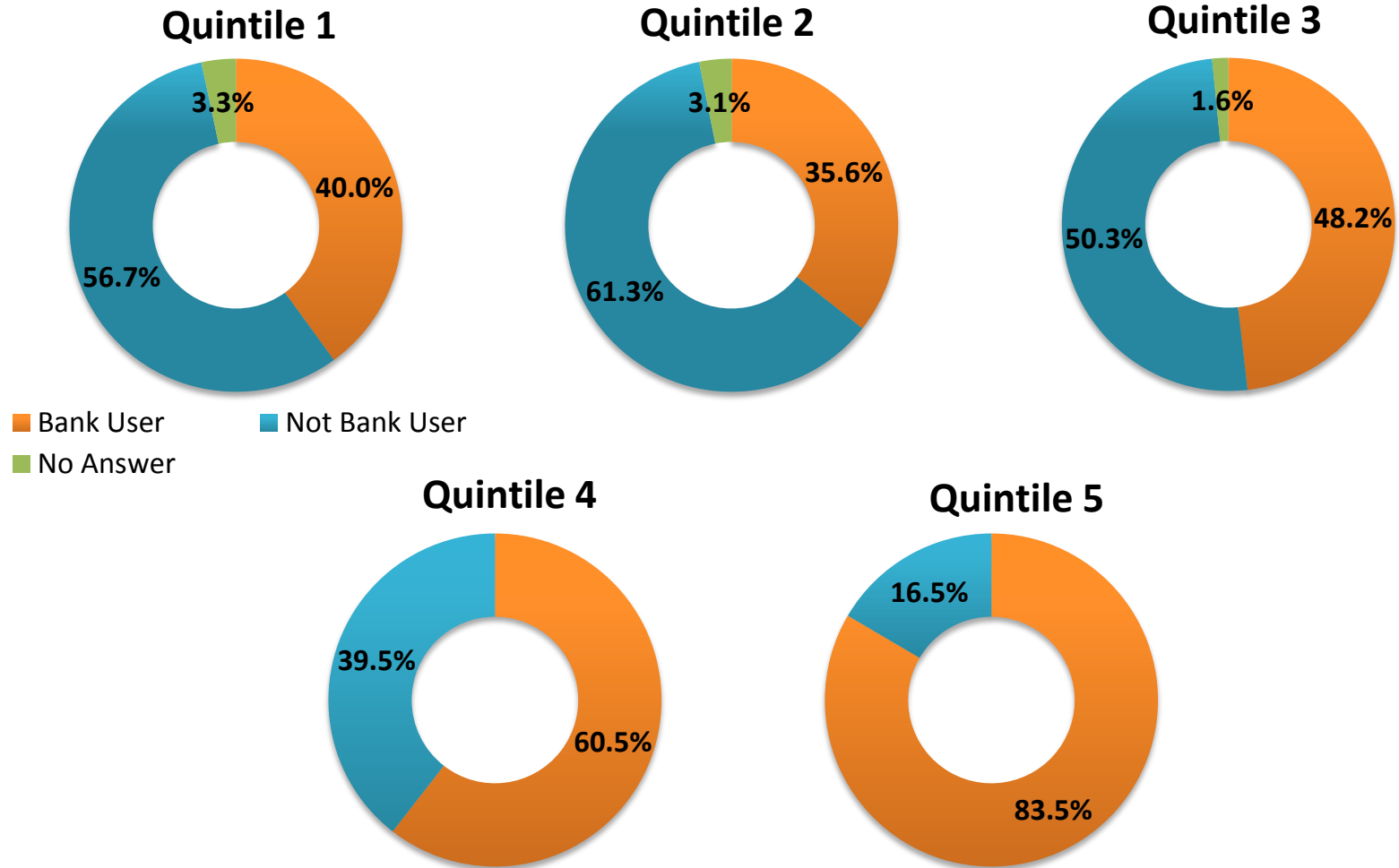
### Post College



# Bank Usage (4)

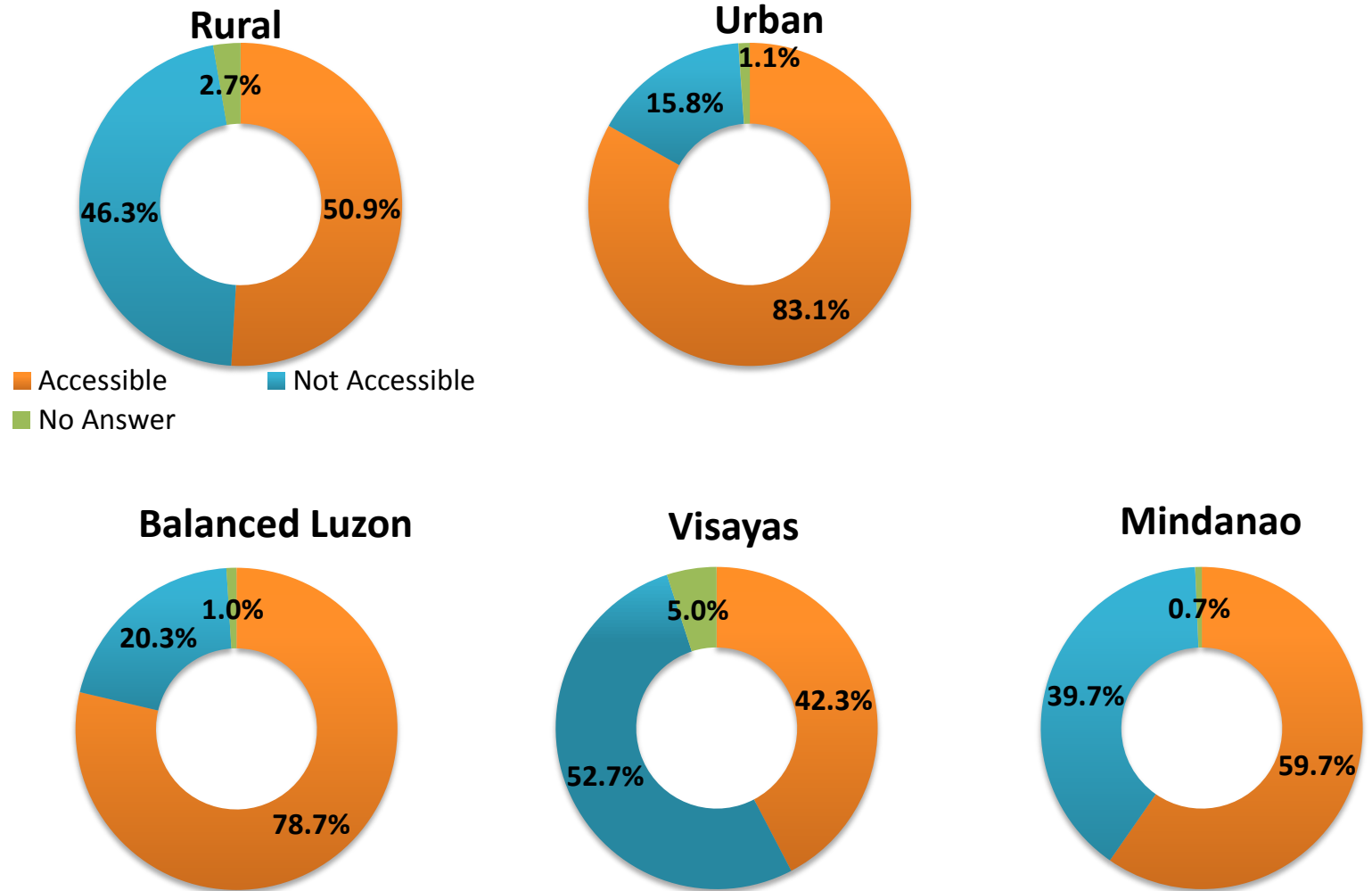


# Bank Usage (5)



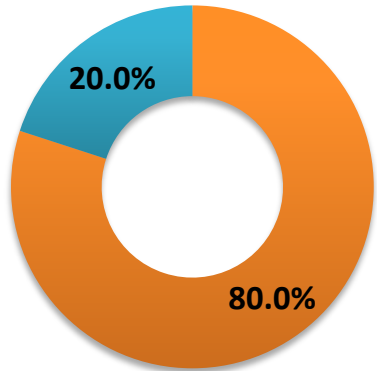
# Bank Access (1)

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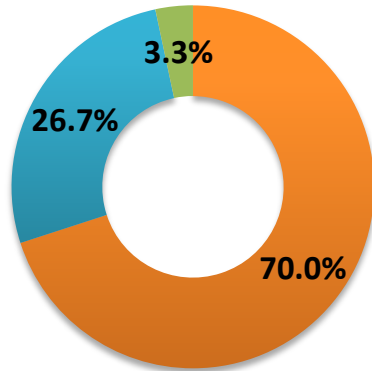


# Bank Access (2)

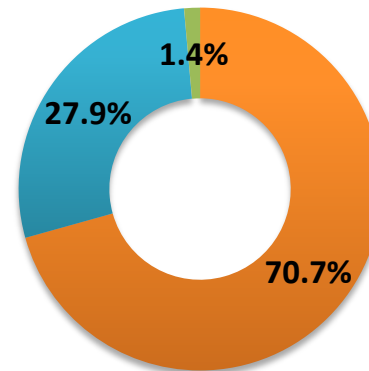
AB Dwelling



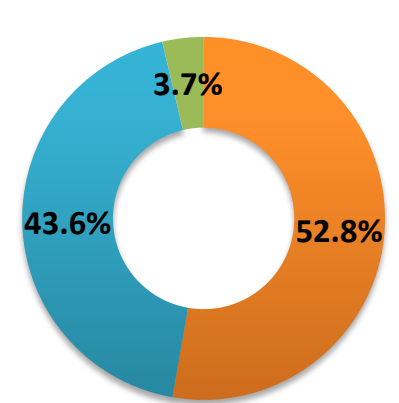
C Dwelling



D Dwelling

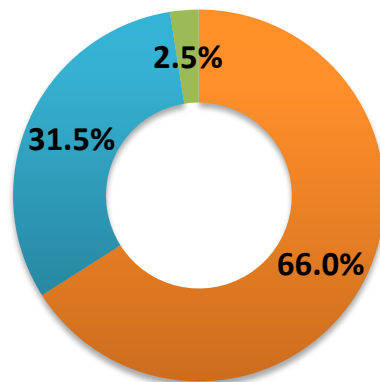


E Dwelling

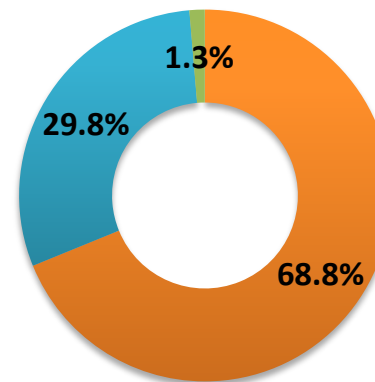


Accessible    Not Accessible  
No Answer

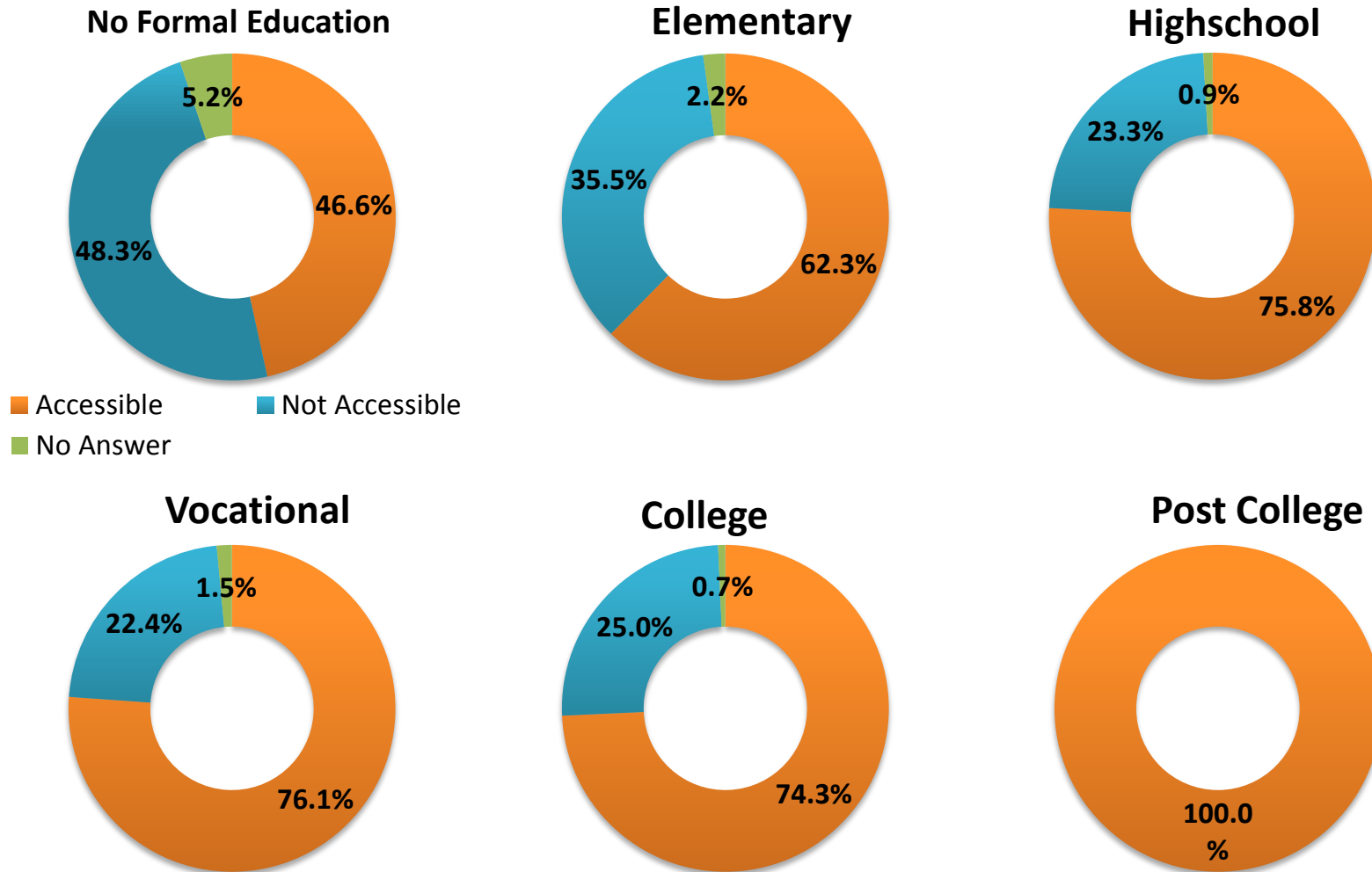
Male



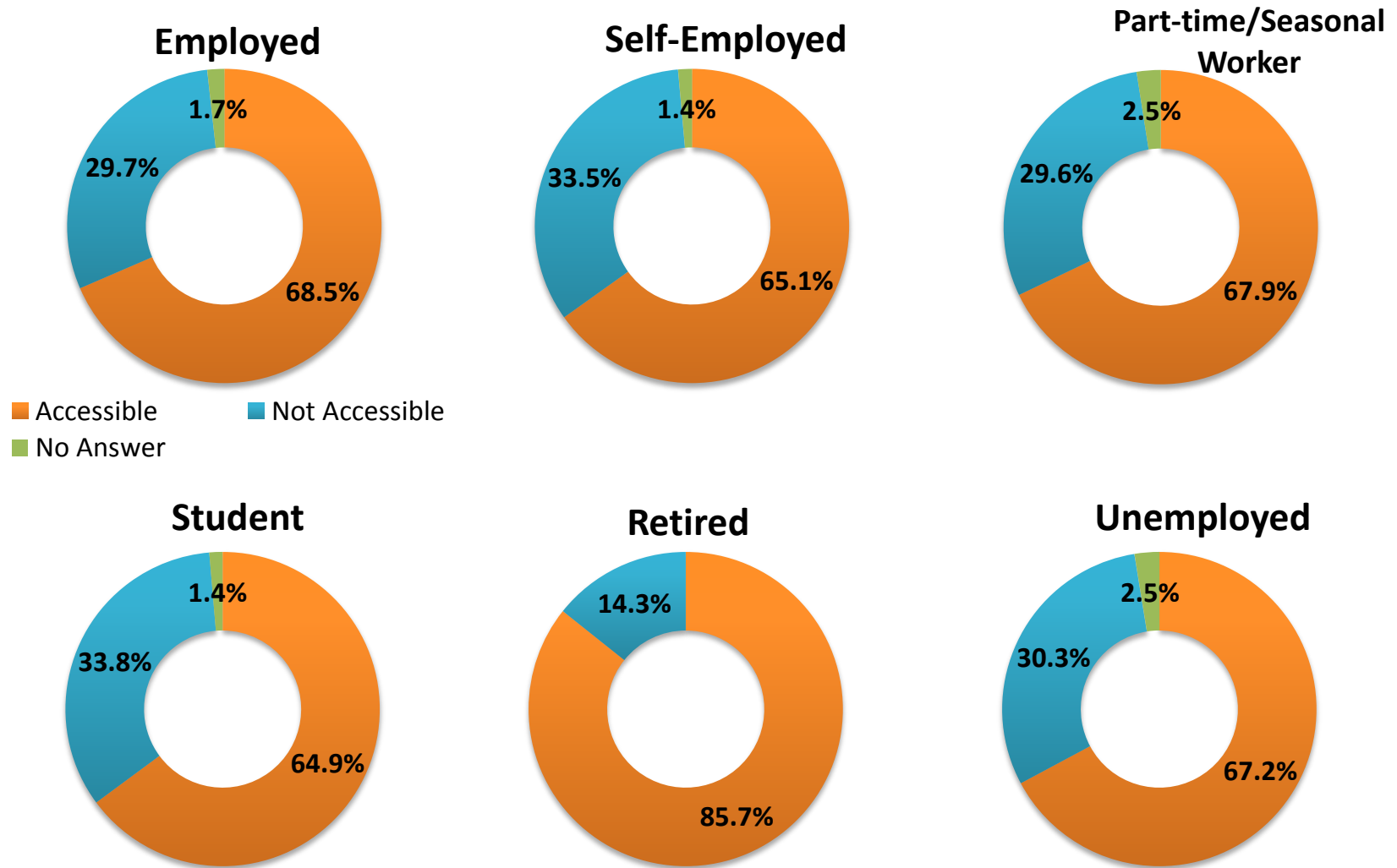
Female



# Bank Access (3)

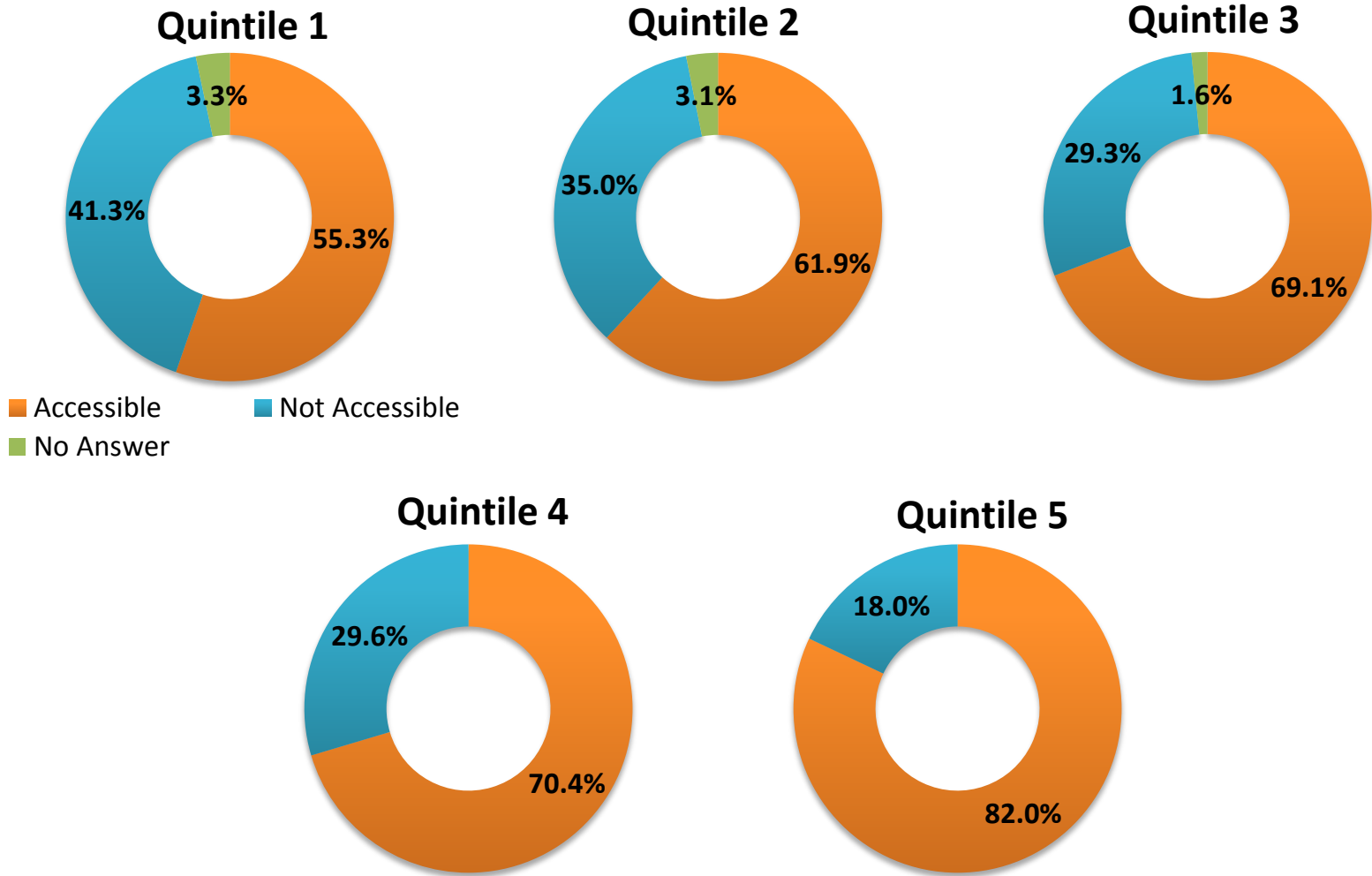


# Bank Access (4)

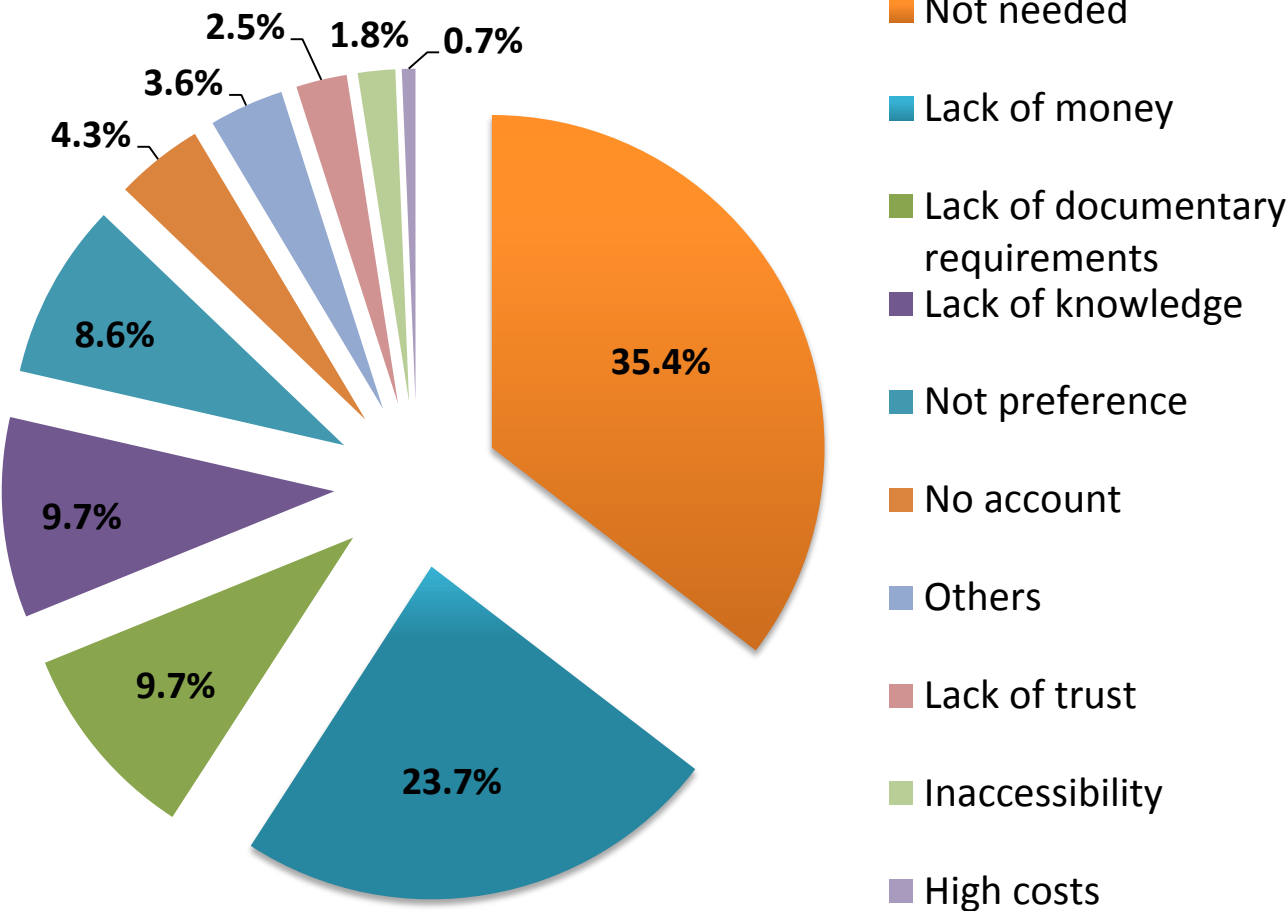




# Bank Access (5)



# Reasons for not transacting with banks



# Impact on households

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- What factors affect household decision to participate in the formal financial markets?
- Does financial inclusion increase/improve household incomes?
- Our estimation used micro-data from the Annual Poverty Indicators Survey.

# Econometric techniques used

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- Using the Heckman selection model estimation, the likelihood of availing of loans regardless of the source of loans—that is, loans from formal institutions or informal lenders—was first tested, followed by the likelihood of getting a formal loan (access to formal credit), as a series of Probit models for households.
- The second step is to test whether or not financial inclusion helps improve household income using a two-stage instrumental variable approach

# Empirical findings (1)

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- What matters to households in getting a loan, regardless of the source of loans? Age of the household head, bigger family size and a high dependency ratio lead household heads to borrow. Being employed is also a significant factor.
- The presence or availability of banks does not necessarily matter in household decisions to borrow. The source of loans could be informal lenders, which, as the literature shows, are mostly the source of loans for poor households.

# Empirical findings (2)

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- Shifting to a formal loan source (a bank) household decision to use financial services is positively and significantly correlated with family size, sex, age, marital status, and educational attainment of the household head.
- Income and education are key demand side determinants of access to formal banking.
- The empirical findings from a two-stage instrumental variable estimation supports the hypothesis that financial inclusion improves household income.

# Concluding Remarks (1)

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- Current policy discussions hold that financial inclusion is important for inclusive growth and poverty reduction
- Empirical findings showed robust and significant correlation between household decision to use financial services on the one hand, and the age of the household head, marital status, family size, and education attainment of the household head, on the other
- Findings also supports the hypothesis that financial inclusion improves household income

# Concluding Remarks (2)

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- **Policy Implications:**

- expanding access to and use of financial services by low-income households/individuals have a positive effect on household/individual welfare
- a key measure to address the financial exclusion of poor households is financial education
- BSP and financial institutions are on the right path, and should be supported in this endeavor.





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through policy  
research

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# Thank you!

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