

# SECURED TRANSACTIONS REFORM FOR GREATER FINANCIAL INCLUSION

## PERSONAL PROPERTY SECURITY ACT



*Creating Markets, Creating Opportunities*

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Footer

# Financial Inclusion – A Vision for All



# Philippines: Credit Profile (% of 15+) – World Bank Findex Data (Total Population is 104 million; 69 million 15+)



- Philippines among the highest - borrowing from friends and family at 35%= 24 million (East Asia = around 30%)
- 11% borrowed formally - Formal account penetration in the country improved by 3.2 percentage points to 34.5% in 2017 from 31.3% in 2014.
- Credit Gap to MSMEs – around USD2 billion
- Only less than 1% of Philippines' GDP goes to MSME financing

# Rural Banks: Vital Statistics



- More than 260 RBs have closed since 2000
- As of October 2017, there are 492 rural banks
- From 2001-2007, average of 9 RBs closed annually while in 2008 >25 RBs closed on average
- A need to strengthen financial soundness and competitiveness
- Strengthening Program for Rural Banks (PDIC and BSP)
- Consolidation Program for Rural Banks

# “The Financial Inclusion Challenge is the source of opportunities...”

- The Market - Around 2 billion people don't use formal financial services and more than 50% of adults in the poorest households are unbanked
- National Financial Inclusion Strategy and UFA commitment can help increase reach
- Based on 2017 FINDEX data – rising trend on adults accessing
  - Use of the internet to pay bills or buy something online grew by 6.3 percentage points to 9.9% in 2017
  - Made or received digital payments in the past year rose by 5.6 percentage points to 25.1% in 2017.
- **Opening up the market and legal and regulatory framework (credit infrastructure reforms) can bring more opportunities**

# Promoting Greater Financial Inclusion: The Personal Property Security Act – Secured Transactions Reform





# MSMEs' Balance Sheet



- MSMEs start up with capital from friends and family
- MSMEs mostly have personal property in their current assets
- To grow as a business entity, one needs to leverage – strategic mix of debt and equity
- Debt can offer periodic payments and may be less costly than equity

Sources: DTI-IPO Pictures

# Personal Property Security Act – RA 11057 was signed by the President on August 17, 2018 – An Aspect of the Secured Transactions Reform



Bank Accounts



Accounts Receivable



Inventory and Raw Goods



Intellectual Property Rights



Industrial and Agricultural Equipment



Durable Consumer Goods



Agricultural Products (crops, livestock, fish)



Vehicles



# Personal Property Security Act

## Personal Property Security Act R.A. 11057



- Defines Personal Properties that can be used as collateral (accounts receivables, warehouse receipts, inventory, intellectual property etc.)
- Provides overall framework for use of personal property which includes warehouse receipts as collateral
  - ✓ Creation and Perfection of Security
  - ✓ Clear priority rules - foreclosure
  - ✓ Enforcement
  - ✓ Registry

# Game Changer in MSME Financing – What these means for Financial Institutions



- More Opportunities to expand your portfolio based on personal property as collateral
- Enhanced risk management tools through the centralized registry
- More protection through clear priority rules
- Faster due diligence process on loan application using personal property as collateral
- Lower cost - lesser time to do due diligence on personal property as collateral

## SME or Vendors: Inventories or Account Receivables as Collateral

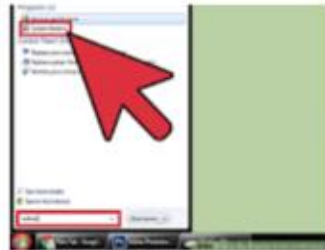


•1. Sari-sari store owner or market vendor wants to expand business

•2. Sari-sari store can present his/her store inventories as collateral

•3. Sari-sari store owner or market vendor goes to Bank to apply for a loan

•Bank reviews application and does due diligence and approved the loan



•4. Sari-sari store owner gets proceeds of the loan

•5. Bank registers collateral

•6. Sari-sari store owner expands business.

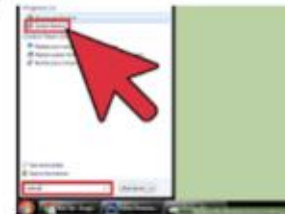
# Farmers: Warehouse Receipts



•1. Farmer harvest corn or any particular crop

•2. Harvested corn can be stored to a warehouse

•3. Warehouse issues warehouse receipt to be used by farmer as collateral to access loan from Bank



•4. Farmer presents warehouse receipt as collateral to apply for a loan from the Bank

•5. Loan of farmer is reviewed and approved by Bank and farmer walks out with cash borrowed

•6. Bank registers collateral

•7. Farmer can use cash to plant other crops or buy machinery



# Financial Inclusion is more than a Check in the Box



- Overall goal is to achieve financial independence for every hard working Filipino vs. interdependence to family and friends on money matters
- Key is a parallel effort on financial education and capacity building



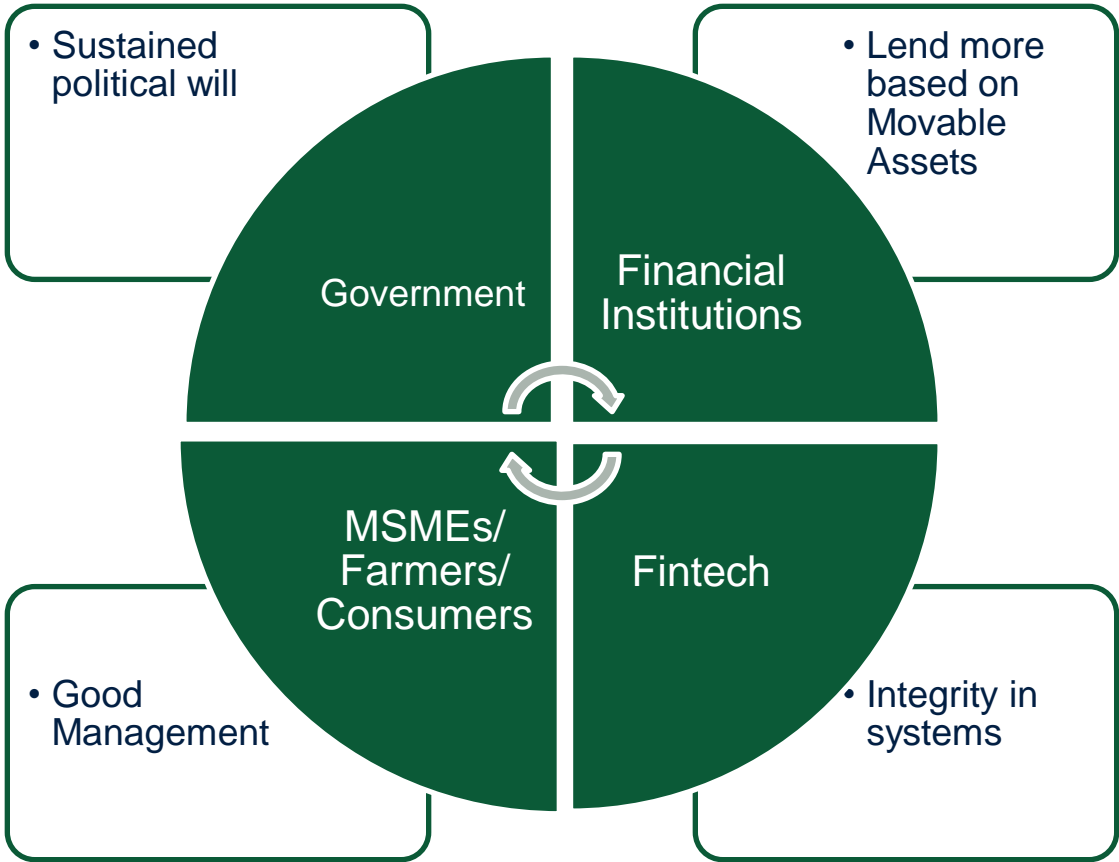
# Next Steps



- Drafting of Implementing Rules and Regulations
- Exploring expanding warehouse receipts and trade receipts finance
- Possible pilot with Small Business Corporation for MSMEs in Cold Storage Association
- Warehouse Receipts Law was lodged in Senate in August 2018
- Creation of the Registry - LRA

Sources: Entrepreneur, August 22, 2018

# The Way Forward – Creating Trust in the System



# Thank You !

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