Financial Inclusion: Status and Impacts

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Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas
What I want to present

- 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?

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

<table>
<thead>
<tr>
<th>Rank / 55 countries</th>
<th>Score /100</th>
<th>Change in Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Peru</td>
<td>90</td>
</tr>
<tr>
<td>2</td>
<td>Colombia</td>
<td>86</td>
</tr>
<tr>
<td>3</td>
<td>Philippines</td>
<td>81</td>
</tr>
<tr>
<td>4</td>
<td>India</td>
<td>71</td>
</tr>
<tr>
<td>5</td>
<td>Pakistan</td>
<td>64</td>
</tr>
<tr>
<td>6</td>
<td>Chile</td>
<td>62</td>
</tr>
<tr>
<td>6</td>
<td>Tanzania</td>
<td>62</td>
</tr>
<tr>
<td>8</td>
<td>Bolivia</td>
<td>60</td>
</tr>
<tr>
<td>8</td>
<td>Mexico</td>
<td>60</td>
</tr>
<tr>
<td>10</td>
<td>Ghana</td>
<td>58</td>
</tr>
</tbody>
</table>

Average: 48 +2

<table>
<thead>
<tr>
<th>Rank / 55 countries</th>
<th>Score /100</th>
<th>Change in Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Indonesia</td>
<td>56</td>
</tr>
<tr>
<td>11</td>
<td>Kenya</td>
<td>56</td>
</tr>
<tr>
<td>13</td>
<td>Uruguay</td>
<td>56</td>
</tr>
<tr>
<td>14</td>
<td>Cambodia</td>
<td>55</td>
</tr>
<tr>
<td>14</td>
<td>Morocco</td>
<td>55</td>
</tr>
<tr>
<td>16</td>
<td>Rwanda</td>
<td>54</td>
</tr>
<tr>
<td>17</td>
<td>Brazil</td>
<td>53</td>
</tr>
<tr>
<td>17</td>
<td>Nicaragua</td>
<td>53</td>
</tr>
<tr>
<td>19</td>
<td>Paraguay</td>
<td>52</td>
</tr>
<tr>
<td>20</td>
<td>Bosnia and Herzegovina</td>
<td>51</td>
</tr>
<tr>
<td>20</td>
<td>Dominican Republic</td>
<td>51</td>
</tr>
<tr>
<td>20</td>
<td>Ecuador</td>
<td>51</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Access points Filipinos are most aware of</th>
<th>Access points Filipinos are least aware of</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>98.3%</td>
</tr>
<tr>
<td></td>
<td>Microfinance nongovernment organizations</td>
</tr>
<tr>
<td>Pawnshops</td>
<td>95.7%</td>
</tr>
<tr>
<td></td>
<td>E-money agents</td>
</tr>
<tr>
<td>ATMs</td>
<td>93.5%</td>
</tr>
<tr>
<td></td>
<td>Non-stock savings and loan associations</td>
</tr>
</tbody>
</table>

Source: Bangko Sentral ng Pilipinas
Bank Usage (1)

- **Rural**
  - Bank User: 39.7%
  - Not Bank User: 57.6%
  - No Answer: 2.7%

- **Urban**
  - Bank User: 44.9%
  - Not Bank User: 54.0%
  - No Answer: 1.1%

- **NCR**
  - Bank User: 43.0%
  - Not Bank User: 56.0%
  - No Answer: 1.0%

- **Balanced Luzon**
  - Bank User: 43.0%
  - Not Bank User: 56.0%
  - No Answer: 1.0%

- **Visayas**
  - Bank User: 5.0%
  - Not Bank User: 34.0%
  - No Answer: 61.0%

- **Mindanao**
  - Bank User: 0.7%
  - Not Bank User: 42.0%
  - No Answer: 57.3%
Bank Usage (2)

AB Dwelling
- Bank User: 100.0%
- Not Bank User: 25.0%
- No Answer: 3.3%

C Dwelling
- Bank User: 71.7%
- Not Bank User: 25.0%
- No Answer: 3.3%

D Dwelling
- Bank User: 50.5%
- Not Bank User: 48.1%
- No Answer: 1.4%

E Dwelling
- Bank User: 72.0%
- Not Bank User: 24.3%
- No Answer: 3.7%

Male
- Bank User: 52.7%
- Not Bank User: 44.8%
- No Answer: 2.5%

Female
- Bank User: 49.5%
- Not Bank User: 49.2%
- No Answer: 1.3%
Bank Usage (3)

No Formal Education

- Bank User: 20.1%
- Not Bank User: 74.7%
- No Answer: 5.2%

Elementary

- Bank User: 31.2%
- Not Bank User: 66.7%
- No Answer: 2.2%

Highschool

- Bank User: 43.9%
- Not Bank User: 55.2%
- No Answer: 0.9%

Vocational

- Bank User: 35.8%
- Not Bank User: 62.7%
- No Answer: 1.5%

College

- Bank User: 85.7%
- Not Bank User: 13.6%
- No Answer: 0.7%

Post College

- 100.0% Bank User
Bank Usage (4)

Employed
- Bank User: 41.1%
- Not Bank User: 57.1%
- No Answer: 1.7%

Self-Employed
- Bank User: 45.2%
- Not Bank User: 53.4%
- No Answer: 1.4%

Part-time/Seasonal Worker
- Bank User: 2.5%
- Not Bank User: 71.6%
- No Answer: 25.9%

Student
- Bank User: 1.4%
- Not Bank User: 17.6%
- No Answer: 81.1%

Retired
- Bank User: 14.3%
- Not Bank User: 85.7%

Unemployed
- Bank User: 2.5%
- Not Bank User: 56.7%
- No Answer: 40.7%
Bank Usage (5)

Quintile 1: 56.7% Bank User, 40.0% Not Bank User, 3.3% No Answer

Quintile 2: 61.3% Bank User, 35.6% Not Bank User, 3.1% No Answer

Quintile 3: 50.3% Bank User, 48.2% Not Bank User, 1.6% No Answer

Quintile 4: 60.5% Bank User, 39.5% Not Bank User, No Answer

Quintile 5: 83.5% Bank User, 16.5% Not Bank User, No Answer
Bank Access (1)

- **Rural:**
  - Accessible: 50.9%
  - Not Accessible: 46.3%
  - No Answer: 2.7%

- **Urban:**
  - Accessible: 83.1%
  - Not Accessible: 15.8%
  - No Answer: 1.1%

- **NCR:**
  - Accessible: 89.0%
  - Not Accessible: 10.0%
  - No Answer: 1.0%

- **Balanced Luzon:**
  - Accessible: 78.7%
  - Not Accessible: 20.3%
  - No Answer: 1.0%

- **Visayas:**
  - Accessible: 42.3%
  - Not Accessible: 52.7%
  - No Answer: 5.0%

- **Mindanao:**
  - Accessible: 59.7%
  - Not Accessible: 39.7%
  - No Answer: 0.7%
Bank Access (2)

- **AB Dwelling**
  - Accessible: 80.0%
  - Not Accessible: 20.0%
  - No Answer: 0.0%

- **C Dwelling**
  - Accessible: 70.0%
  - Not Accessible: 26.7%
  - No Answer: 3.3%

- **D Dwelling**
  - Accessible: 70.7%
  - Not Accessible: 27.9%
  - No Answer: 1.4%

- **E Dwelling**
  - Accessible: 52.8%
  - Not Accessible: 43.6%
  - No Answer: 3.7%

- **Male**
  - Accessible: 66.0%
  - Not Accessible: 31.5%
  - No Answer: 2.5%

- **Female**
  - Accessible: 68.8%
  - Not Accessible: 29.8%
  - No Answer: 1.3%
Bank Access (3)

- **No Formal Education**
  - Accessible: 5.2%
  - Not Accessible: 46.6%
  - No Answer: 48.3%

- **Elementary**
  - Accessible: 35.5%
  - Not Accessible: 62.3%
  - No Answer: 2.2%

- **Highschool**
  - Accessible: 23.3%
  - Not Accessible: 75.8%
  - No Answer: 0.9%

- **Vocational**
  - Accessible: 76.1%
  - Not Accessible: 22.4%
  - No Answer: 1.5%

- **College**
  - Accessible: 74.3%
  - Not Accessible: 25.0%
  - No Answer: 0.7%

- **Post College**
  - Accessible: 100.0%
  - Not Accessible: 0.0%
  - No Answer: 0.0%
Bank Access (4)

- **Employed**
  - Accessible: 68.5%
  - Not Accessible: 29.7%
  - No Answer: 1.7%

- **Self-Employed**
  - Accessible: 65.1%
  - Not Accessible: 33.5%
  - No Answer: 1.4%

- **Part-time/Seasonal Worker**
  - Accessible: 67.9%
  - Not Accessible: 29.6%
  - No Answer: 2.5%

- **Student**
  - Accessible: 33.8%
  - Not Accessible: 64.9%
  - No Answer: 1.4%

- **Retired**
  - Accessible: 85.7%
  - Not Accessible: 14.3%
  - No Answer: 1.4%

- **Unemployed**
  - Accessible: 67.2%
  - Not Accessible: 30.3%
  - No Answer: 2.5%
Bank Access (5)

- **Quintile 1**: 41.3% Accessible, 55.3% Not Accessible, 3.3% No Answer
- **Quintile 2**: 35.0% Accessible, 61.9% Not Accessible, 3.1% No Answer
- **Quintile 3**: 29.3% Accessible, 69.1% Not Accessible, 1.6% No Answer
- **Quintile 4**: 29.6% Accessible, 70.4% Not Accessible
- **Quintile 5**: 18.0% Accessible, 82.0% Not Accessible
Reasons for not transacting with banks

- Not needed: 35.4%
- Lack of money: 23.7%
- Lack of documentary requirements: 9.7%
- Lack of knowledge: 9.7%
- Not preference: 8.6%
- No account: 4.3%
- Inaccessibility: 2.5%
- Others: 1.8%
- Lack of trust: 0.7%
- High costs: 2.5%
Impact on households

- 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

- 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)

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)

- 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)

• 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 hear, on the other

• Findings also supports the hypothesis that financial inclusion improves household income
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.
Thank you!

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