

Speech by Bangko Sentral ng Pilipinas (BSP) Deputy Governor

Mr. Nestor Espenilla, Jr.

“Opening Remarks”

Developing and Developed Country Perspectives on Financial Inclusion: A Global Dialogue

On behalf of Bangko Sentral ng Pilipinas' Governor Amando M. Tetangco, Jr., Chairman of the Alliance for Financial Inclusion (AFI) Steering Committee, it is a distinct privilege for me to open this conference.

AFI, being an exclusive network of financial sector regulators from developing countries, is often seen as a closed community. The presence of our peers and other financial sector stakeholders from both developing and developed worlds in this venue today is proof of AFI's openness. This conference is tangible evidence that the “east” can definitely meet the “west”. More significantly, this event underscores that financial inclusion is not an exclusive concern of developing countries but one that merits global attention.

Socrates, the founder of Western philosophy, left no published work. We know of his wisdom only from his conversations, as recorded in the writings of his most famous pupil Plato. Socrates, using a method now known as the Socratic dialogue, drew forth knowledge from his students by pursuing a series of questions and examining the implications of their answers.

You may be wondering why I am suddenly talking Greek. I just think it is appropriate to illustrate that even in ancient times, a dialogue signals the beginning of knowledge formation and promises an increase in wisdom. We must establish this fact early in this conference, considering that it is designed as a global dialogue on a subject matter that has different magnitudes, and possibly different interpretations, depending on which side of the globe we stand.

For developing countries, especially the AFI members, financial inclusion has become a key policy agenda. This is not surprising, given that 90 percent of the 2.5 billion unbanked population of the world reside in our jurisdictions. With financial inclusion, we aim to afford these people with the benefits that result from having effective access to the formal financial system. The financial system is the intermediary of public deposits and investments, the primary source of credit for the economy, and the channel through which funds flow into productive activities. It is therefore critical for developing countries to ensure that this system is not only stable but also inclusive.

In the AFI network, we deem that establishing an inclusive financial system can be one way to facilitate economic growth that provides jobs, reduces mass poverty and draws majority of the marginalized sectors into the economic and social mainstream. We see the need to develop a broad-based financial system that serves not only the relatively well-off clients and big businesses; but also the poor, low-income population that are currently unbanked or underserved. We believe that this can be achieved by appropriately balancing the objectives of inclusion, stability, integrity and protection. As much as practicable, these objectives are key considerations in AFI members' policymaking process. We exercise diligence in issuing regulations that enhance access of more people to financial services and protect their rights as consumers. At the same time, we ensure that the regulations keep financial institutions healthy in order to maintain financial stability and integrity.

While we uphold the principle of optimally balancing inclusion, stability, integrity and protection (ISIP); we also recognize that there is no standard financial inclusion policy solution that can be applied across AFI member countries. We acknowledge that developing economies have diverse and unique domestic environments; that supervisory capacities and resources have limits; and that the complexity of financial inclusion issues vary across jurisdictions. These factors require differential approaches that would address country-

specific barriers to reaching the financially excluded; and maximize the benefits of financial inclusion, without compromising the stability, integrity and efficiency of the financial system.

Thus, you will notice that AFI members' "Maya Declaration", which is what we call our public commitments to promote financial inclusion, is unique to each country. Yet, AFI members are one in trying to make financial inclusion real in our domestic spheres; and in pushing forward the financial inclusion agenda in international discussions. This united voice has made the network a recognized force and leader in the global financial inclusion discourse.

This renown may be partly due to the impressive growth of AFI. With only a handful of members in 2008, AFI today has 106 member institutions from 87 developing countries located all over the world. We also have strong linkages with groups like the G24 and the G20 Global Partnership for Financial Inclusion (GPFI). But the strength of AFI arises from its very nature. AFI is a group of peers. It is a member-driven, self-governing, policy-driving and knowledge-sharing network. This is what we refer to as the AFI DNA. This DNA defines not only how we relate with each other, but also how we work to establish policies and programs that support financial inclusion in our own backyards.

At the core of our DNA is peer learning and knowledge exchange. It includes a culture of openness and willingness to learn from the financial inclusion experience of other jurisdictions. It guides the member-driven discussions; and drives us to design smart and innovative policy solutions for specific in-country needs. The peer learning platform that AFI provides allows its members to access knowledge and expertise, which are proven to be very useful in domestic policymaking. Some of the exclusion problems faced by one member can be addressed by solutions that have already been tested in another. Challenges faced and lessons learned by one, can provide useful input for another who is just beginning to implement similar financial inclusion initiatives.

Being one of the founding members of AFI, the BSP can say with certainty that the peer learning platform works. Many of our financial inclusion initiatives in the Philippines were informed or inspired by the lessons learned from our interactions with peers in AFI. For example, our involvement in AFI's data working group has yielded knowledge resources that inform our current work on building a comprehensive financial inclusion data framework, which will enhance our ability to craft evidence-based policies and regulations.

The BSP has been the favorite destination for targeted knowledge exchange visits where we share our own experience with other AFI members. We are quite pleased to note that many of those visits produced tangible results by way of a new regulation, an enhanced strategy or even just a new way of looking at exclusion issues. We also benefitted from the exchanges with a broader view of financial inclusion; and a greater understanding of country-specific contexts that must not be overlooked if we want to bank the unbanked sectors. There are also other channels and modalities (e.g. Global Policy Forum; Online Member Zone) that AFI uses to propagate the culture of sharing and openness.

In true Socratic fashion, you may ask me why I have extensively discussed AFI's peer learning DNA. My main point is this – we at AFI would like to share that DNA with our counterparts from developed economies, as well as with other stakeholders. Even though there is great disparity in the levels of financial exclusion between our worlds, the underlying issues and the principles behind policy solutions may be cross cutting. In particular, the issues of international standards and SME finance are topics of joint relevance for both developing and developed economies. In light of the changing nature of risks, it is important to ensure that international standards are continuously relevant. This is a matter of common concern for the Standard Setting Bodies (SSBs) as well as the jurisdictions that adopt these standards. Strengthening SMEs as a foundation of broad-based economic growth is a proposition that holds true in Germany, as it does in the Philippines.

We are very open to develop a common understanding of each others' perspectives on how to optimally balance risks and benefits that greater financial inclusion generates. We are willing to learn, in parallel with you, the best ways of managing the emerging issues that financial inclusion may pose for the stability and integrity of financial systems around the world. We have much to learn from each other.

It was Socrates who also said that "the beginning of wisdom is the definition of terms". Allow me thus, to lay down the first building block of wisdom by defining our main objective for conducting this conference. We aim to exercise peer learning in an open and candid environment; discuss issues of mutual relevance; and identify opportunities for future peer learning exchanges between AFI members and developed economies.

I am as eager as everyone here to get the dialogue started. But before I end, let me thank the Frankfurt School of Finance and Management (FS); the German Federal Ministry for Economic Cooperation (BMZ); the Hessian Ministry of Economics, Transport, Urban and Regional Development; and the German International Cooperation (GIZ) for being willing partners and gracious hosts.

The multiple partnership among these German institutions with AFI to conduct this conference is a good indication that we can all look forward to a broad yet meaningful discussion topics related to inclusion in developed countries, standard setting and SME finance. I will therefore end my remarks at this point so that the peer learning can begin.