ADB Forum on Promoting Remittance for Development Finance
Message of Mr. Jaime Augusto Zobel De Ayala

Good morning.

Before I begin, I would like to thank Asian Development Bank President, Mr. Takehiko Nakao, for welcoming me here to deliver today's keynote. I would also like to acknowledge the presence of Deputy Governor Nestor Espenilla of the Bangko Sentral ng Pilipinas, the Dean of Asian Development Bank Institute, Mr. Naoyuki Yoshino, and Director General of ADB's South Asia Department, Mr. Hun Kim. I am fully supportive of our collective participation in a forum that seeks to gain new insight and hopefully improve an engine of growth that is sometimes taken for granted.

Let me begin by highlighting the long-term value and positive effect of remittances on our economic growth as a country. The global success of the Overseas Filipino Worker in various skilled industries has become a key driving force supporting the Philippine growth story over the past decade. World Bank data on the Philippines tells us that remittances have grown at a yearly average of 10% over the last 10 years. As of 2014, remittances still account for 8.5% of GDP, largely keeping pace with a robust annual GDP growth rate of 6.1%, despite the appreciation of the peso and the US dollar relative to other currencies. Indeed, remittances have fueled consumer spending and retail sales, real estate investments and property development, as well as telecommunications, mobile finance, and other byproducts that create multiplier effects to the Philippine economy.

Today, I'd like to highlight three themes that hopefully will help frame our discussions and spur the thinking and dialogue. First, that despite our country's continued economic growth, there remains a broader need for inclusive development that touches a wider base of the population. Second, while we are seeing more progress on this front from other industries, the financial services sector has generally lagged behind in terms of developing financially inclusive products and services. Third, I'd like to highlight pockets of inclusive innovation in the financial sector, although I believe more can be done to support these types of initiatives.

To start with, I am a strong believer that real, long-term economic growth must promote shared prosperity across all socioeconomic classes. Ignoring issues that perpetuate economic inequity and weaken governance structures tend to destroy value in the long run and ultimately, jeopardize the sustainability of communities and enterprises, and that of the nation. While many are benefitting from our country's growth momentum, economic and social progress has yet to be shared by the vast majority, particularly those who belong to the base of the economic pyramid. I don't believe we can achieve sustainability or become a truly progressive country unless we can pull a much larger segment of our country from poverty and ensure a broader based development. This invariably includes the way remittance flows are channeled through our economy.

Over the years, many industries have significantly broadened access to their products and services with a view towards meeting the needs of a much larger segment of our society, particularly those at the base of the economic pyramid. This is a trend towards inclusiveness across our various industries that is an element both of our need to continue our growth trajectory and at the same time, engage broader sectors of our community. At Ayala, our real estate, banking, telecommunications and water businesses have all created products and services that now cater to a broader population.

For instance, in property development, where remittances constitute 25% of total residential sales, Ayala Land now offers products and services across various price points that cater to the low and middle-income segments. In fact, we have expanded our product range towards affordable and socialized housing, launching two new residential brands, Amaia and Bella Vita, that cater to much lower price points of as low as10,000 dollars or 400,000 pesos per unit.

Through our water business, we have deliberately reached out to low-income communities and, in fact, made it a priority at the onset to serve their needs first when we built the water distribution network. Today, even communities in low-income areas can extract clean water from the tap at considerably lower cost than buying from vendors. This has resulted in financial savings and improved quality of life for many urban poor households.

On the telecommunications side, our product offerings have also evolved to become more accessible to the base of the pyramid. We believe that significant inward flows have been channeled into this consumer sector and flexible mobile solutions are widely available that provide unlimited service for a fixed amount of time, serving the market's requirements on an as needed basis. Bottomline, a number of industries that benefit from the inward flow of funds from our overseas community have played a proactive role in creating value-added products and services, at the right price points, that contribute to inclusive development.

Which brings me to my second point: while we are seeing more inclusive innovation in these other sectors, the banking industry, however, for all its importance as a catalyst for inclusion, has not made as significant a leap to add value to a large unbanked sector. I want to recognize the significant efforts of Deputy Governor Nesting Espenilla in trying to change this reality. However, the Philippines continues to lag in terms of financial inclusion. Access to the banking system for many Filipinos is still inadequate, with currently eight out of 10 Filipinos remaining unbanked due to insufficient reach, engagement, and cost efficiency in remote areas. Owing to the Philippines' archipelagic nature, 40% of cities and municipalities do not have physical access to a bank. Moreover, traditional banking requirements are also too stringent for the low-income consumer. High maintaining balances, extensive loan requirements and even national identification requirements have become a restriction to broad engagement, under traditional regulatory rules.

The traditional banks' current product offerings are also deemed unaffordable. With all of these challenges, consumers in many cases have no option but to fall prey to unregulated lenders. Currently, base of the pyramid lending is estimated to be at 100 billion pesos. Forty-percent of this involves small-scale businesses that borrow from the informal "5-6" lending that charge exorbitant rates. Unregulated markets still continue to flourish simply because the demand is both sizeable and urgent, and there are not enough solutions.

In this space, there is room for innovative disruption from the regulated industry players. Smaller-scale models can pave the way for new models of financial inclusion. At Ayala, a model we have adopted in our own corporate structure is through the use of official cooperatives. This legal structure has a number of advantages to participating employees, including tax-exemption on dividends, attractive rates, and rebates for members. They therefore provide returns on capital to members who have funds to park, as well as loans to those with productive uses for them. As an example, the Ayala Cooperative has total assets of ₱1.6 billion spread out across 26,000 members nationwide. Lending rates are highly competitive at 0.82% per month, along with a patronage fund rebate of 30%. Foundations and nonprofit organizations may be able to promote these initiatives with community leaders and OFWs, aligning interests in a group setting.

There are other private sector initiatives that are innovating how distribution and financing works, such as CARD Bank, a microfinance and community based social development undertaking focused on livelihood loans for economically challenged women and families. CARD today has built up a community of 2.8 million customers.

Another initiative I'd like to highlight is BPI Globe BanKO, the Ayala Group's own microfinance vehicle. A joint-venture between BPI, Globe, and Ayala that has a full banking license, BanKO has acquired over one million customers to date, the majority of which were previously unbanked, and is leveraging telecommunications and partner networks to improve access in remote areas. For the most part, however, initiatives such as BanKO remain largely challenged irrespective of their tremendous potential to cater to the unbanked and deliver financial services at price points well below traditional financial institutions. Existing banking regulations remain stringent for these new microfinance providers and add a heavy regulatory cost to a potentially innovative platform. These include requirements such as the physical transmission of application forms, the Know Your Customer rule, and even national identification requirements, which have become a restriction to sustainable growth in this sector.

This brings me to the final point I want to make: there is a tremendous opportunity to legitimize more channels for financial inclusion and use them more formally to promote our national development agenda. However, it is important that we find a way to lengthen the period of nurturing these important financial institutions that are part of the regulated sector, before they become subjected to the same legal, governance, and audit requirements of the traditional banking sector. A structured, efficient dialogue is necessary between the private sector and regulators to find a common ground to nurture these new sources of financial services, catering to a customer sector that do not have the traditional guarantees of an established banking client. Informed and transparent policy-making processes that are sensitive to the challenges of nontraditional microfinance banks will foster financial inclusion by allowing innovative initiatives to grow. The immediate need is to allow some regulatory flexibility for the responsible formal sector to scale up and reach those levels first. Failure to do so will only encourage the informal, nonregulated sector to flourish, as it is doing today.

In closing, it is my earnest hope that collectively, we within the financial services sector, in conjunction with our regulators, can do more to support financial inclusion in our country. If other industries like the real estate and telecommunications sectors can find ways to give traditionally lower-income consumers the products and services they need to engage in economic growth, why should the traditional banking sector not find itself in a similar situation? More innovative solutions are needed in the financial arena that are properly endorsed and supported by the regulatory authorities. It is hard to see an economy and its people prosper without a fundamental change in how the vast majority interact with the banking sector.

I congratulate the ADB for hosting this summit to try and find solutions to this challenge. We are a unique country in that we count remittance flows as a major driver of our economic growth. As these flow through our financial system, it is hard for me to see these funds being used in productive, value enhancing services that move beyond consumer spending if the traditional banking sector is not allowed to play a more fundamental role for the traditional end-users of these funds. I look forward to exchanging more insights with the rest of you today. Thank you and good morning.

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