FINTQ
by PLDT

Retail Financial Services in a Sachet Economy

Bringing financial services to the grassroots through digital technology and *sari-sari* stores

Inclusive Digital Finance Report

VOLUME 2, 2018

VOYAGER

Established in January 2013 as the digital innovations arm of PLDT and Smart Communications, Voyager Innovations, Inc. (Voyager) drives the exploration and creation of disruptive and enabling digital services for the rapidly changing world. The Voyager team is committed to delivering the next generation of customer-centric digital products and services for emerging markets. Among its areas of focus are digital access and customer engagement, digital commerce, and digital financial services.

For more information, visit *www.voyagerinnovation.com*. *Follow us also on Facebook facebook.com/voyagerinnovations*.

FINTQnologies Corp. (FINTQ) is the global leader in customer-centric, demand-driven, evidence-based, and mobile-first digital financial innovations by way of engaging regulators, enabling enterprises, and empowering individuals with awesome consumer experience. FINTQ is committed to accelerating universal digital access to finance at scale via pioneering financial technologies in growth and emerging markets.

The team will achieve its vision of building massive bottom-up ecosystem via swift execution of sustainable, high impact, and socially relevant inclusive digital finance accelerators. It has a complete suite of inclusive digital finance platforms and solutions covering lending, microsavings, microinvestments, and microinsurance. FINTQ also offers tools on anti-fraud security, monitoring and evaluation (M&E), credit scoring aggregation, and digitally enabled KYC platform, among other products and services.

It leads in the promotion of financial inclusion and financial literacy through the formation of KasamaKA Community Builder, a multi-sectoral, community-based, and bottom-up inclusive ecosystem-building movement.

It is one of the most awarded FinTech startups in Asia with over 30 global and regional accolades in less than three years. Most recent was the Consumer Finance Product of Year for Lendr given by The Asian Banker, the first FinTech and non-bank institution to receive such recognition.

For more information about FINTQ, please visit *www.fintq.com*. For more information about Lendr, please visit *www.lendr.com.ph*. For more information about KasamaKA, please visit *www.kasamaka.com*.

Editorial Team

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WRITER AND PRODUCTION EDITOR

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and Ann Gregorio
MANUSCRIPT EDITORS

Joseluis Sebastian Borja
OVERALL LAYOUT AND DESIGN

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About the Report

Our Goal: 30 million Filipinos to be financially included by 2020

At Voyager, we have a goal—an ambitious one, yes, but achievable no doubt.

We aim to bring 30 million Filipinos in the formal financial system two years from now.

We aim that by 2020, unbanked and underserved Filipinos will at least get on board basic financial services: an electronic wallet for payments and remittance, and a microsavings account. They should also have access to affordable digital financial services such as microcredit, microinsurance and microinvestment.
We want them to build their financial footprint through our retail products so that they could eventually become fully banked with the power to access more sophisticated forms of financial services.

At the same time, we want banks and non-bank financial institutions to realize the vast potential of the unbanked and the underserved population. We want to help these players reach these markets at lower capital through our mobile-first financial products and platforms. This, in essence, is our model for financial inclusion where financial technology (FinTech) firms like us enable banks and non-bank financial institutions to empower the unbanked and underserved sectors of society.

Our bold mission has guided us in writing the second volume of the **Inclusive Digital Finance Report**. We believe that the country's financial inclusion agenda should begin with an earnest discussion on who the unbanked and underserved Filipinos are and what their needs are. This report aims to set the direction of the national conversation on the intersection of technology and financial development.

This new report profiled the vast unbanked and underserved population in the country. The report focused on whether families actually spend for financial services. Through this, we were able to understand their *usage of financial products and services*. The report also features use cases of FINTQ's "sacheted" products and services that could change the game in 2018 and in the years to come.

Finally, this report is intended to help you—policymakers, business executives, investors, development partners, media, and other stakeholders—understand the current landscape and evaluate the big potential of "sacheted" financial products.

Table of Contents

Executive Summary

The goal of bringing in more of the unbanked and underserved Filipinos into the mainstream financial services is attainable. But strong momentum is needed to realize this goal.

Against this backdrop, the **2nd FINTQ Inclusive Digital Finance Report** finds that “sachet banking” is fit for the Philippine market, given the socioecomic and income profile of its unbanked population. Sacheting means that the unbanked Filipinos could save money, take out a loan, get insured, and make an investment when these products are sold in sachet form or in other words, pocket-friendly amounts. Banks could reach the unbanked and underserved at a low cost by making their “sacheted” products available via mobile technology and accessible in neighborhood *sari-sari* (mom and pop) stores, which could act as their correspondent agents.

The Philippine market is ready for this sachet model. After all, the country pioneered this business model in its telecommunications industry—via the popular sachet or *tingi-tingi* load, introduced as early as 2003[1]. A parallel development to this was the electronic money model, of which, again, the Philippines was the pioneer with Smart Money and Smart Padala. This has allowed millions of Filipinos to send money anywhere through neighborhood retail outlets such as *sari-sari* stores. Recently, the platform model has provided the alternative means for banks to reach the unbanked markets efficiently. The platform and electronic money models have successfully worked in emerging markets, including the Philippines, which are known to have a high unbanked population but with a high mobile penetration.

1 Ganchero, E.G. 2008. Smart Communications: Low-Cost Money Transfers for Overseas Filipino Workers. Retrieved from http://growinginclusivemarkets.org/media/cases/Philippines_Smart_2008.pdf

Profile of the Unbanked and Underserved

Our report concludes that the platform-electronic money hybrid model holds the most promise in widening financial access, as the profile of the unbanked and underserved population fits the requirements for sachet financial services:

7 in 10 families are unbanked
Based on the 2015 Family Income and Expenditure Survey (FIES) of the Philippine Statistics Authority (PSA), the report finds that 71% of respondent families are unbanked. It is estimated that about 16.1 million of the total 22.7 million families did not make any bank deposits in 2015, effectively making them "unbanked" under the report's definition. These families belong to the poor, low income, lower middle income, and middle income segments.

1 in 5 banked families are 'loan underserved'
"Underserved" families have some level of access to formal financial institutions, but they nevertheless access other options outside formal financial institutions, or still lack access to other financial products offered by the formal system. As such, the report defines "underserved" as when a family reports having made bank deposits, but did not report making any disbursements in either loan or insurance or both.

* Foreign Exchange: PhP50 to USD1

About 19% of the total 6.6 million banked families were "loan underserved." They made deposits in banks, but reported not disbursing any amount for a loan. This may mean that the loan underserved may not have accessed lending services. Meanwhile, 4% of the banked families had deposits but did not report disbursing money for insurance premium, making them "insurance underserved" under the report's definition. This may mean that they may not have access to insurance products, as they have not reported any disbursement on insurance premium payment. The underserved families mostly belong to the low income, lower middle income, and middle income segments.

Sacheting financial services thus addresses fundamental barriers to financial inclusion.

Sacheting financial services thus addresses fundamental barriers to financial inclusion: the high cost of serving the unbanked and underserved market, the affordability of financial products, and accessibility of banks.

The unbanked and underserved can afford the bank's financial products, if the prices are within their means. Families from low income, lower middle income, and middle income backgrounds accumulate savings, which could be set aside for financial services. The expenditure pattern of banked families coming from poor, low income, and lower middle income classes also shows that these families allocated money for financial services from as low as PHP50 to PHP1,000 a month. These price points underpin the need to make financial services available in retail or sachet form.

Most unbanked own a mobile phone and can be served by mSMEs. Our findings show that the majority of unbanked and underserved families own mobile phones and live in communities where mSMEs such as *sari-sari* stories are more pervasive than banks.

Our research finds that the unbanked and underserved families coming from low income, lower middle income, and middle income backgrounds will most benefit from sachet financial services, given their relatively bigger savings and owning more assets compared to poor families. Poor families, meanwhile, can greatly access sachet financial services that are tied to income-generating programs such as conditional cash transfers or the government's *Pantawid Pamilyang Pilipino Program* (4Ps).

Moving Forward

Our research shows that sachet financial services could further widen financial inclusion when critical policies and programs are in place:

Sacheted savings could become the 'basic deposit account.'
Retail products could serve as entry point of the unbanked to the formal financial institutions, given that the sacheted savings are priced affordably, have low requirements, and are accessible in retail neighborhood outlets.

Sachet products should be tied to income-raising programs.
Results of our research show that unbanked poor families spend more than they earn, which means that they have to earn additional income to use sachet financial products. Thus, offering these products to poor families should be tied to income-raising programs such as the government's conditional cash transfer program.

More microfinance institutions, rural banks, and cooperatives should participate in digital finance.
Unbanked families are more willing to allocate resources for financial services if the prices are affordable. This means encouraging more microfinance institutions, thrift, rural, and cooperative banks to provide affordable products via digital finance. Digital finance, as the report finds, is the most affordable means to adopt for banks to penetrate the vast unbanked and underserved population.

Sachet services should be accessible for feature phones.
While Internet and smartphone penetration is increasing, majority of the unbanked families still rely on feature phones for communication. Thus, text-based features should be integrated into the sachet financial services, similar to the features of existing electronic money remittance services.

Banks and FinTechs should collaborate stronger.
Our analysis shows that banks could reach the unbanked markets at a low cost by tapping financial technology firms that have the capacity to offer platforms that can cater to this segment and mobilize the airtime load distribution network of telecommunication companies as banks' "cash agents."

Serving the Unbanked and Underserved Matters

This fact is undisputed: access to financial products and services has made life better for a lot of people, especially the poor. When people are able to borrow capital, get insured, or save money in formal financial institutions, they are able to live better lives.

Financial inclusion has profound impact on the economy as well. According to Consultative Group to Assist the Poor (CGAP), the degree of financial intermediation is "generally believed to causally impact growth" through better distribution of capital and risk across the economy."[2] With more capital available to the wider population, the economy grows as families and businesses are allowed to undertake productive investments—by opening up a business and investing in human capital, among other endeavors.

Expanding access to formal financial institutions also narrows the gap between the rich and poor. According to Beck, Demirgüç-Kunt, and Levine, this progress actually happened for many countries from 1960 to 2005. This conclusion suggests, according to CGAP, that "financial inclusion seems to reduce inequality by disproportionately relaxing credit constraints on poor people, who lack collateral, credit history, and connections."[3]

Yet this fact is also undisputed: billions are unbanked. All over the world, two billion people are beyond the reach of formal financial institutions. Philippines is one of the nations with the highest unbanked population.

In the Philippines, majority of the unbanked and underserved Filipinos find it hard to transact with banks because they lack money to begin with, according to the *Bangko Sentral ng Pilipinas*.[4] Air-conditioned banks also intimidate the poor. They cannot understand the financial jargons. They are overwhelmed by too many paperwork.

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2 The Consultative Group to Assist Poor (CGAP). 2015. Financial Inclusion and Development: Recent Evidence. Retrieved from https://www.cgap.org/sites/default/files/FocusNote-Financial-Inclusion-and-Development-April-2014.pdf

3 Beck, Thorsten, Demirgüç-Kunt A, Levine, R (as cited in CGAP, 2015). 2017. Finance, Inequality, and Poverty. Retrieved from https://www.cgap.org/sites/default/files/FocusNote-Financial-Inclusion-and-Development-April-2014.pdf

4 Bangko Sentral ng Pilipinas. 2015. Consumer Finance Survey 2014. Retrieved from http://www.bsp.gov.ph/downloads/Publications/2014/CFS_2014.pdf

When people are able to borrow capital, get insured, or save money in formal financial institutions, they are able to live better lives.

Going to the bank entails cost, which many unbanked simply cannot afford.

Some are underserved by the banks. For instance, the underserved Filipinos are those who own a savings account, yet cannot borrow money from banks for the same reasons that exclude the unbanked.

Hence, there is a prevailing notion in the financial sector that the unbanked population is an unprofitable market, especially since majority of the unbanked live in poor and conflict-ridden provinces. The cost of putting up a branch in far-flung communities, bankers contend, is enormous compared to the returns it could generate. As a result, the bank's financial resources go to where the branch is located: in the clusters of urban communities where the well-to-do live.

As such, the inequity in access to banks is stubbornly persistent. The status of financial access in 75 provinces has remained the same between 2015 and 2017, as revealed in the **first Inclusive Digital Finance Report**. This means that the financial resources of the high-access provinces have not spread out more equitably to low-access provinces between 2015 and 2017. This despite the overwhelming research that shows the impact of savings, lending, investment, and insurance on individuals.

Savings is important because the economy can grow bigger when there is more investment that can be tapped. For instance, when families save their income in banks, they earn from interest rates—and on a bigger picture, these deposits can be utilized by enterprises as additional capital, or by other individuals who are looking to invest in themselves through better health insurance or additional education. All these activities create a virtuous cycle: enterprises create more output, while better educated workforce improves labor productivity.

All these activities create a virtuous cycle: enterprises create more output, while better educated workforce improves labor productivity.

At the micro-level, poor families get through difficult times because of their savings. They use their savings to manage cash flow, smoothen consumption, and build capital (CGAP, 2015). Dupas and Robinson (2013) concluded in their study that access to bank accounts has enabled women market vendors to save more, and increase productive investments and private expenditures.[5] Access to savings is empowering women, too. In fact, one study found that Filipino women had greater decision-making power when they were able to access commitment savings account.[6]

Access to financing is powerful in improving the well-being of individuals and fuelling economic expansion in the long run. One study noted that borrowers diversified their inventory and bought durable assets when they were given a two-month grace period before their first loan payment.[7]

Insurance has also been observed to play a critical role in economic development. The indemnification and risk pooling properties of insurance facilitate better commercial transactions and provision of credit by mitigating losses and management of risk. Research shows that insurance, in short, improves the investment climate and promotes a more efficient mix of activities that would be undertaken.[8] At the micro-level, insurance provides poor families greater resilience to mitigate risks and manage shocks. In Ghana, farmers who bought insurance were encouraged to shift from subsistence to riskier cash crops because of their belief of better returns, one study noted.[9]

These studies indeed point to one conclusion: that bringing more people in the formal financial system helps families, spurs economic growth, and reduces poverty in the long run. Which is why serving the unbanked and underserved population is not only an economic but also a moral imperative. Failing to do so would put the Philippines on the path of slow economic growth and incremental poverty reduction.

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5 Dupas, Pascaline and Robinson, J. 2013. Savings Constraints and Microenterprise Development. Evidence from a Field Experiment in Kenya. Retrieved from https://web.stanford.edu/~pdupas/SavingsConstraints.pdf

6 Ashraf, Nava, Karlan, D., Yin, W. 2010. Female Empowerment: Impact of a Commitment Savings Product in the Philippines. Retrieved from http://www.people.hbs.edu/nashraf/FemaleEmpowerment_WorldDev.pdf

7 Field, Erica, Pande, R., Papp, J., Rigol, N. 2013. Doe the Classic Microfinance Model Discourage Entrepreneurship Among the the Poor? Experimental Evidence from India. Retrieved from https://epod.cid.harvard.edu/files/epod/files/review_of_economic_studies_vol_80_no_4_pande_2013.pdf

8 Brainard, Lael. N.D. What is the role of insurance in economic development?. Retrieved from https://www.draudimas.com/allpics/What_is_the_role_of_economic_developement.pdf

9 Ibid. CGAP. 2015.

Bringing more people in the formal financial system helps families, spurs economic growth, and reduces poverty in the long run.

Without Access to Banks, This Store Owner Stores His Savings at Home

Lito Gallego, *sari-sari* store owner for 18 years, has three wishes for 2018.

First, that sales would remain stable despite the sharp upsurge in prices of soft drinks and other store staples due to the newly imposed taxes. "*Unang araw pa lang ng taon, tumaas na! Siguro, babalik din sa normal ang benta pag naka-adjust na sa presyo yung mga bumibili* (Prices went through the roof from the first day of the year! I just hope people would easily adjust with the hikes)."

Second, that the public senior high school, which stands a few blocks away from his store, would finally open this year. Another public high school used to stand in the lot where the new school building has been built, an opportunity Lito seized by putting up a store using his earnings from early retirement. Back then, the sales were brisker.

Lito's store earned big from selling meals to students with little baon (pocket money) to spare. Simple meals of rice and fried viands sold in volumes. "*Nakaka-24 kilos kami ng bigas na sinasaing noon* (We'd cook 24 kilos of rice at our peak)," he recalled. Until the school relocated. Competition from nearby stores also hit the business hard. Now, sales come from neighbors and passers-by who look for quick meals, soft drinks, cellphone load, or sachets of household items of which they would usually run out in the morning, like shampoo and instant coffee.

From masons who lunch at his store, Lito heard the new school building would open in March. "*Nilologo ko nga sila, eh di magkakapera na 'ko ulit* (I'd joke them, maybe I'll get rich once it's done)." Kidding aside, he hopes to earn as much as before when classes start.

Third, and related to the second one, is to be financially prepared for the final stretch of his children's schooling. As Lito's eldest child graduates from college in a year's time, and all three others now attending senior high—the cost of sending them to school would hit through the roof, hence the need to earn bigger. "*Kung anuman ang ma-set aside ko, may pupuntahan na. Kaya kung sasabihin mong personal savings, halos wala. Kinakapos pa minsan.* (Everything I set aside goes to pay for something else. I couldn't afford to have personal savings. I'd even run short of cash sometimes.)"

What little amount Lito saves up stays at home, never in a bank.

A biscuit tin holds the day's sales. "*Yung konting tutubuin, nakasingit sa damitan* (I keep my savings at the dresser)," he shared. "In case of emergency, *huhugutin lang dun* (I take it out there)."

Some of his neighbors would share the same story. "*May mga kapitbahay kami* (some neighbors)," he said, pointing to a house close by, "*tulad niyan, doktor 'yan—nakakaipon kahit lima ang anak. Ang masasabi mong walang ipon, yung mga nangungupahan. May kinikita, pero hindi nakapagtatabi* (like the doctor over there who earns comfortably enough to save some. Others, especially those who rent, are too hard up to set aside part of their earnings)."

Those with limited means but still wish to save up would end up deterred by banks' stringent terms. "'*Yun ang problema sa bangko. Bukod sa mahaba na ang pila, may amount na supposedly dapat mo munang ipasok bago magka-account* (Besides long lines, people are discouraged by the minimum balance required from them before they open an account)."

"*Ngayon, kung sabihin ng ahenteng 'Magsimula ho tayo sa P100 a day, tapos deposit ka lang nang deposit,' mae-encourage kami* (It would be a lot more encouraging if the agent would say, 'Ok, let's start with P100 a day, and lodge whatever money you have anytime')."

His store, like many community stores, operates as an informal ecosystem of support. Besides being a place where neighbors can go to when running out of soap or load, stores like his support other ventures looking for a place to distribute their goods. "*Etong diyaryo* (These papers)," Lito said, pointing to tabloids lined in a corner, "*nilapitan kami para ipatinda yan. Tutubo lang kami kahit piso, pero ang mahalaga nagkakatulungan kami* (are supplied by a neighborhood dealer who asked if we could sell them here. We'd only earn a peso for each paper sold, but to be able to help the dealer sell—it's all that matters)."

Financial services like savings accounts, if offered in and for small retailers, with greater flexibility and sachet-like convenience, fits well into a *sari-sari* store's role in the neighborhood: "*laging natatakbuhan, laging nakakatuwang* (always reliable, always helpful)," as Lito would describe.

Lito recalled encountering a similar savings scheme as a kid: "*Nung araw* (Back then)," he shared, "*may agent ang mga rural bank na kumukolekta sa palengke. May kanya-kanya libreta de banco ang mga tindera, pero yung mga ahente na ang nagre-remit sa bangko. Hinuhulugan nila araw-araw yun kahit bente pesos. Di sila pumupunta sa bangko, pero may savings sila* (Vendors had no time to go to a bank, so they remitted their savings from bank agents who went around. It didn't matter if they lodged P20.00 a day. What mattered was they got to save up.)."

As companies like FINTQ offer "sachet savings," where one could open a savings account at neighborhood stores for as little as P20.00, Lito and fellow store owners become agents of financial empowerment like the rural bank agents of yore.

"*Kung ilalapit n'yo 'yan sa tao, malaking tulong* (People would appreciate that you're offering this)," Lito said. "*Ikaw ang makakapagbigay ng motivation sa kanila. Kung anuman ang paglalaanan nila, makakapagsimula sila* (It will motivate them to finally get started setting aside for their goals)."

And perhaps, it could likewise motivate him to save some more for him and his children.

Written by Rupert Mangilit

KasamaKA Microsavings

Bringing Basic Deposit Account to the Unbanked

The living conditions of unbanked families have made it hard for them to make bank transactions like savings and deposits. Primarily, they lack enough income and it is difficult for them to easily access bank services. Accessibility factors include geography (far or non-existent bank branches in their communities), technology or customer fit (products are geared towards wealthier customers).

The banking and finance industry is cognizant of these issues and efforts to innovate on how to address financial inclusion are starting to gain traction. For one, technology has helped open up access. Mobile phones are more ubiquitous than bank accounts. Public policies also cultivate an environment where banks can design innovative products for this population. The Bangko Sentral ng Pilipinas now allows banks to accredit third party providers that can facilitate deposit transactions.

This situation is what prompts FINTQ to offer KasamaKA Microsavings, a platform-as-a-service that enables financial institutions to do “agent banking” functions. This is the first of its kind in the Philippines in which FINTQ works together with financial institutions to deliver “sacheted” savings products. The banks need not worry about building their cash agent network as FINTQ links them to a 1.2 million-strong existing retailer network nationwide, thus making bank services available to customers in far-flung areas without bank branches. The platform, in other words, would bring down the cost of serving the unbanked at the grassroots level.

To the unbanked, this innovation is life-changing. They no longer need to hide their savings under their beds. They can now open an interest-bearing savings and deposit account for as low as PHP20 (USD0.40). They no longer need to go far as they can transact with banks through their trusted *sari-sari* stores.

First, the customer needs to register in KasamaKA either through the website or the mobile app and undergo a simplified digital-enabled KYC process. Once the customer has a KasamaKA profile, he/she can now open a savings account. The customer can deposit at the nearest accredited *sari-sari* store. He or she will then receive a notification via SMS and the app for every successful deposit transaction made. The customer can also check his/

Screengrab from KasamaKa app

her Savings Account balance through the KasamaKA app or through SMS.

KasamaKA Microsavings targets majority of the household heads who are self-employed, work for private households and other informal occupations, who are mostly unbanked. It is estimated that this profile comprises 15.6 million or 38% of the total working population of the country.

Through KasamaKA, the customer can deposit at the nearest accredited *sari-sari* store.

The Unbanked Pinoy

To understand what works for the unbanked population, it is necessary to understand who they are. Over the past years, the government and other institutions have released baseline surveys that have revealed the magnitude of the unbanked population. However, previous studies lack a detailed understanding of the population.

FINTQ's 2nd Inclusive Digital Finance Report fills in the gap by using a novel technique to account for the unbanked and underserved population: by looking at whether families actually spend for financial services (e.g. deposits, cash loan, and insurance), based on the analysis of the 2015 FIES conducted by the PSA.[10] Our analysis came from the responses of 41,544 families included in the FIES. The survey estimated that there were about 22.7 million families in 2015.

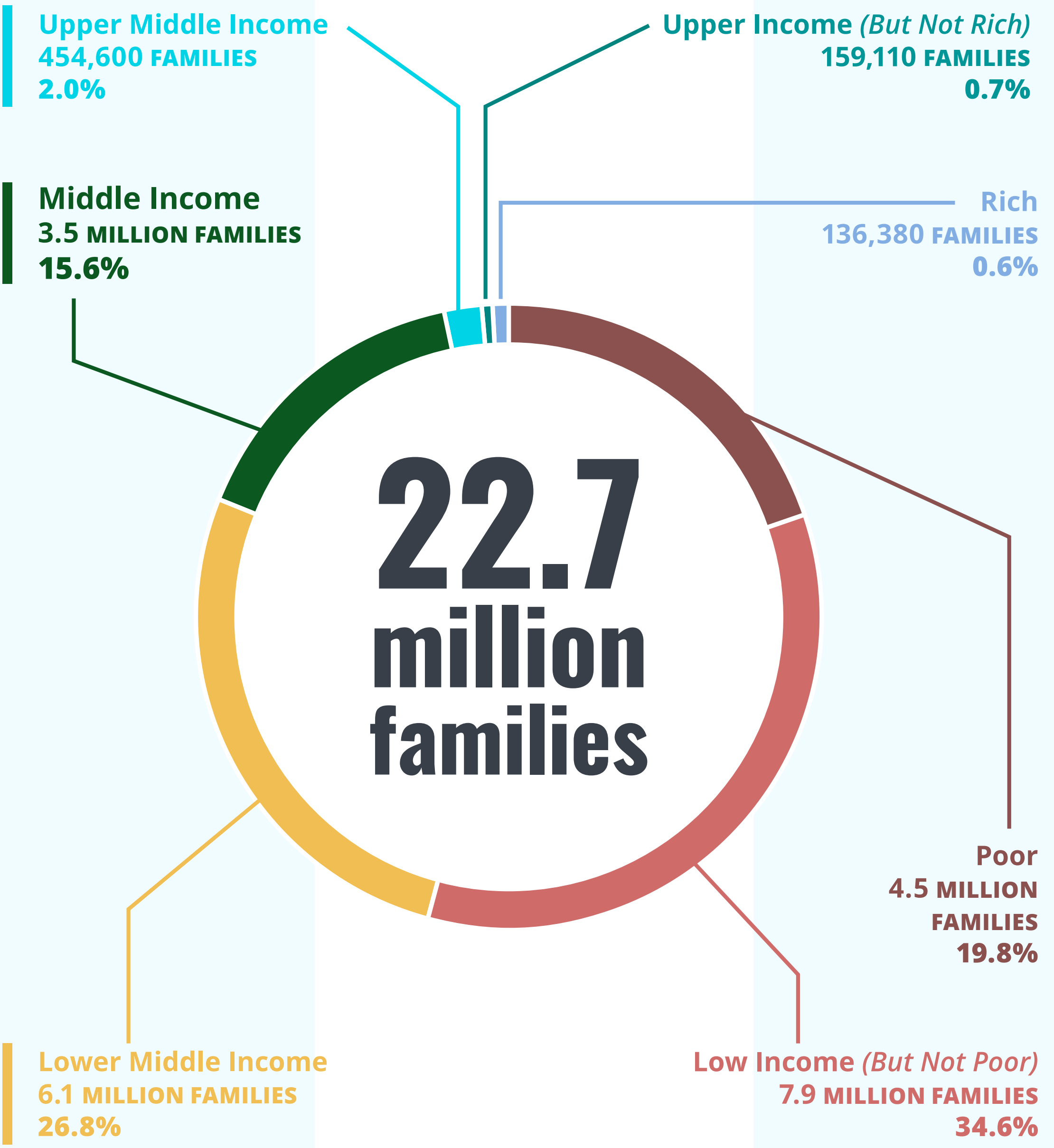
In this report, the unbanked family is defined as having no disbursement activities related to bank deposits. The reason for this selection is two-fold: first, a bank deposit transaction serves as the entry point to the formal financial system; second, this item in the survey is explicitly related to expenditures made in banks (e.g payment of cash loan may be disbursed via alternative financial sources such as family, informal lenders).
To provide a more nuanced understanding of this market, we segmented the families into seven income-based categories following the study made by Albert, Gaspar, and Ramundo (2015).[11]

The report also defines the "underserved family" as having disbursement activities related to bank deposits, but have no recorded transactions for the payment of cash loan and/or insurance disbursement.

10 Every three years, the government conducts the FIES where families are asked details about their sources of income income and the list of their expenditures within a specific year. The survey includes expenditures related to insurance, cash loan disbursements, and deposits. We excluded expenditures related to other financial services and payment of cash loan granted outside family.

11 Albert, Ramon, Gaspar, R., Raymundo, MJ. 2015. Who are the middle class?. Retrieved from https://www.rappler.com/thought-leaders/98624-who-are-middle-class

More than half of the 22.7 million families in 2015 belong to the poor and low income classes



Income Profile of Filipino Families

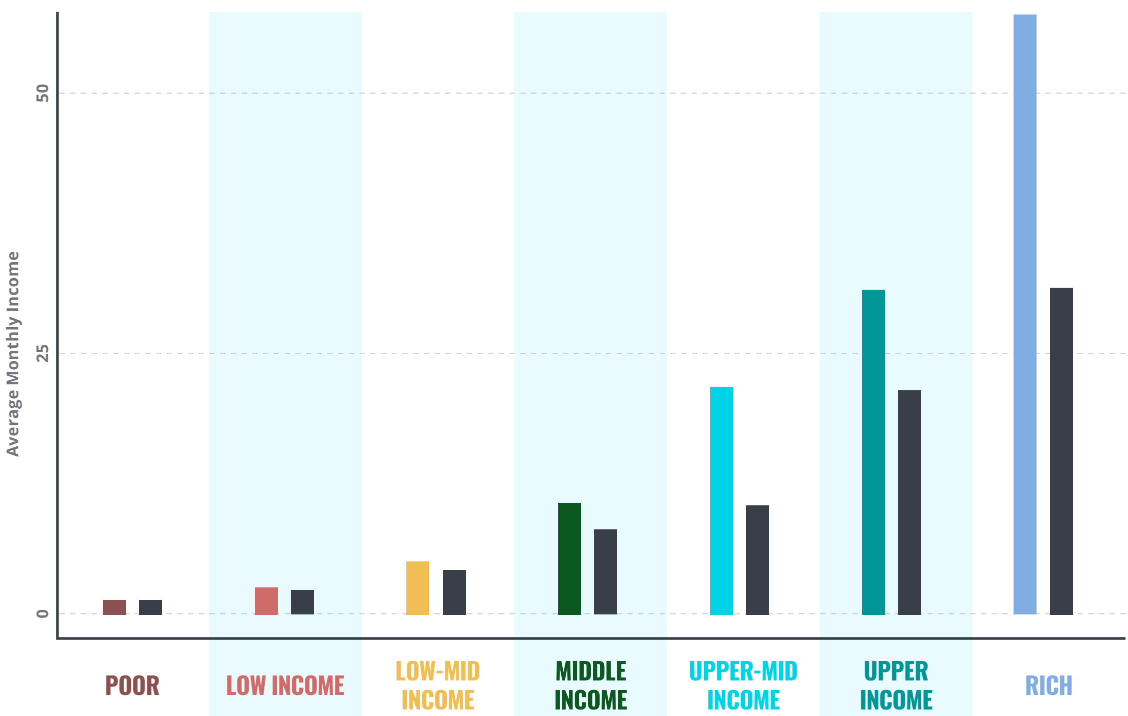
According to PSA, there were an estimated 22.7 million families in 2015. More than half of the families belong to the poor and low income classes. The middle class comprises 16% of the total families — however, the families from lower middle income, middle income, and upper middle income classes account for about 44% of the total families. The upper income and rich account for 1.5% of the total families (*see chart*).

Except for the poor, typical families across income classes earn more than they spend, creating savings in the process. Families from low income to rich backgrounds earned an average savings within the range of USD6 (PHP300) and USD600 (PHP30,000) per month. These patterns reflect the pervasive income inequality where the vast segments of the population earn a paltry sum compared to their rich counterparts.

The Persistent Inequality of Income

Ave. Monthly Per Capita Income & Expenditure By Income Level

	POOR	LOW INCOME	LOWER MIDDLE INCOME	MIDDLE INCOME	UPPER MIDDLE INCOME	UPPER INCOME	RICH
INCOME	PHP1,359.16 USD27.18	PHP2,615.95 USD52.32	PHP5,075.97 USD101.52	PHP10,706.02 USD214.12	PHP21,770.38 USD435.41	PHP31,083.24 USD621.66	PHP57,380.98 USD1,147.62
EXPENDITURES	PHP1,367.89 USD27.36	PHP2,350.86 USD47.02	PHP4,243.43 USD84.87	PHP8,188.34 USD163.77	PHP14,965.21 USD299.30	PHP21,467.00 USD429.34	PHP31,263.88 USD625.28



LEGEND: ■ = *Expenditures*

The Magnitude of Unbanked Families

Our research found that 71% of the families has reported not making any deposit in banks; hence, they are considered unbanked under the report's definition. The number of unbanked families were estimated at 16.1 million in 2015, based on FIES' estimated number of families at 22.7 million. About nine in 10 unbanked families belong to poor (26.2%), lower income (41%), and lower middle income (23%) segments.

As confirmed by previous studies, poverty and being unbanked are inextricably linked.[12] An overwhelming 95% of families (poor) whose monthly per capita income was below USD36.3 (PHP1,813) in 2015 were unbanked. Meanwhile, about a quarter of the families (rich) whose per capita income was above USD724 (PHP36,2000) a month reported not making deposits in a bank.

Income

The "unbanked" problem may also be driven by income inequality. Research has shown that income explains an individual's capacity to use financial services.[13] The latest finding follows current evidence. The upper income and rich families were more than five times as likely to make bank deposits than the poor and low income families. The poor and low-income families comprised half of the families, yet only 12% of them have bank deposit transactions in 2015.

Nevertheless, unbanked families accumulate savings after accounting for their expenditure. The average savings for unbanked families from low income, lower middle income, and middle income backgrounds was at 17.6% of their total income in 2015, a pattern

As confirmed by previous studies, poverty and being unbanked are inextricably linked.

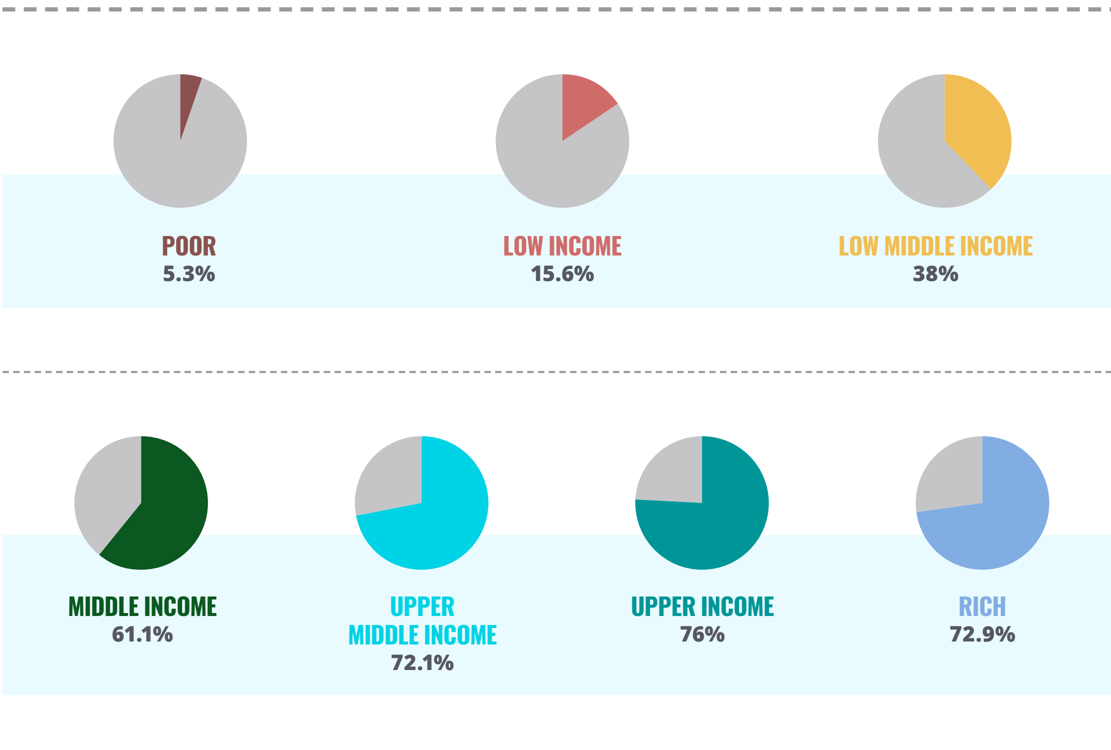
12 World Bank. 2012. Three Quarters of the World's Poor Are "Unbanked." Retrieved from http://www.worldbank.org/en/news/feature/2012/04/19/three-quarters-of-the-worlds-poor-are-unbanked

13 Tuesta, David, Sorensen, G., Haring, A., Camara, Noelia. 2015. Financial inclusion and its determinants: the case of Argentina. Retrieved from https://www.bbvaresearch.com/wp-content/uploads/2015/01/WP_15-03_Financial-Inclusion-in-Argentina.pdf

14 Aldaba, N. 2014. Why is our savings rate still low? Retrieved from http://www.ateneo.edu/news/research/why-our-savings-rate-still-low-eaglewatch-dr-nandy-aldaba

There Are Unbanked Segments Across All Income Levels

% Share of Families with Bank Deposit Disbursement by Income Level



that indicates unbanked families have disposable income that may be set aside for financial services. The average savings rate is as follows: 11.3% for low-income families; 17.4% for lower-middle-income families; and 24.2% for middle-income families.

(In theory, the savings accumulated by the growing middle class should have increased the savings rate, as the country's GDP per capita has been increasing over the past decade. The finding, however, shows that a sizeable portion of the middle class had not made any deposit in banks, although the typical middle income families had ample savings a month. This may mean that the banks may not be efficiently capturing the middle class's income. One economist noted that this may be due to lack of savings instruments, low financial literacy, and the general lack of "savings culture." [14])

14 Aldaba, N. 2014. Why is our savings rate still low? Retrieved from http://www.ateneo.edu/news/research/why-our-savings-rate-still-low-eaglewatch-dr-nandy-aldaba

Occupation

Banked families predominantly earn from wages and salaries. Unbanked families, meanwhile, get their income from a variety of sources: entrepreneurial activities, wages and salaries, and other sources of income.

The difference depends on the type of work one is employed. There is a growing body of research showing that the increasing shift towards knowledge economy (where growth is mainly driven by knowledge-intensive work) has widened the gap between skilled and unskilled workers.[15] Higher-paying jobs produce outputs based on knowledge-based skills, while low-paying jobs do labor-intensive work. It has been observed that families are more likely unbanked when the working members are employed in low-paying jobs.

The findings reflect this pattern. If the head of the family has a knowledge-intensive job, it is more likely that the said family has deposit accounts in banks. In most cases, the heads are professionals and public sector employees. On the other hand, if the head does manual labor, his or her family is more likely unbanked. In most cases, the family heads are farmers, fisherfolk, ambulant vendors, construction workers, and public utility drivers. Taken in another perspective, the unbanked families thrive in the informal economy, while the banked families are employed in the formal economy. Thus, financial institutions would have to lower their requirements to penetrate and serve the unbanked families who more likely belong to the informal economy.

> **The results also dispel the prevalent notion that the problem of being an unbanked is faced exclusively by the poor.**

15 Hudson, John. 2005. Inequality and the Knowledge Economy: Running to Stand Still?. Retrieved from https://www.aspc.unsw.edu.au/sites/www.aspc.unsw.edu.au/files/uploads/aspc_historical_conferences/2005/paper169.pdf

The Occupations of the Unbanked and Banked

Sample List of Occupations by Heads of Families

Banked

Mechanical engineers

Justices

Civil engineers

Electrical Engineers

Police inspectors and detectives

Medical doctors

Sales and marketing managers

Computer engineers and related professionals

Dentists

Systems analysts and designers

Professional, technical and related officers

Computer programmers

Science and mathematics teaching professionals

Agronomists and related scientists

Cotton and fiber crops farmers

Hand or pedal vehicle drivers

Deep-sea fishermen

Inland and coastal waters fishermen

Building construction laborers

Construction and maintenance laborers (*roads, dams and similar constructions)*

Rice farmers

Carpenters and joiners

Street ambulant vendors

Motorcycle drivers

Child care workers

Market and sidewalk stall vendors

Heavy truck and lorry drivers

Car, taxi, and van drivers

Unbanked

Education

Education determines who has access to financial services.[16] There is a link between education and income: compared to their counterparts, better educated workers are employed in knowledge-based jobs that pay higher salary. They also have better access to a wealth of information, which is critical in deciding whether to open a bank account or not.

Research finds that unbanked and underserved families have lower levels of financial literacy. In one study, families were asked questions about interest rates, inflation, and savings, among other topics. The unbanked families, the study found out, were more likely to answer incorrectly than the banked families.[17]

Our research shows that the proportion of unbanked families is less in families with a better educated head. About 95% of the total families whose head failed to completed any grade level had reported not making a bank deposit. Overall, majority of the unbanked families have heads who managed to accomplish primary or secondary education.

It appears, however, that the "education advantage" seems to dissipate when income status is also considered. Regardless of the head's educational status, poor families are more likely unbanked. For instance, poor families with a college graduate head are more than three times as likely to be unbanked than middle income families with a college graduate head.

Asset Ownership

Majority of the unbanked and banked families own the house and lot they occupy, and majority of them also live in single houses. However, there is a higher proportion of banked families whose houses' walls and roofs are made of strong materials than the proportion of unbanked families. There is a far lesser proportion of unbanked families that own and use faucet than the proportion of banked families. While majority of the banked families use exclusively water-sealed, sewer septic toilets, some of the unbanked families still had open pit or closed latrines. As expected, unbanked families have fewer assets than the banked families. This pattern holds true for assets like motorized banca, motorcycle, and car. About 21% of banked families own an air conditioner compared to 5% of the total unbanked families.

Asset ownership decreases as the income status of the unbanked families decreases. For instance, 65% of the poor unbanked families own the house and lot they currently reside in. About 80% of middle-income unbanked families had ownership of their house and lot.

Overall, the analysis highlights a fascinating finding: a sizeable portion of unbanked families actually own property and durable assets, although their assets are of less quality and value compared to that of the banked families. This finding has profound implications on the Philippines' financial inclusion agenda.

Education advantage seems to dissipate when income status is also considered.

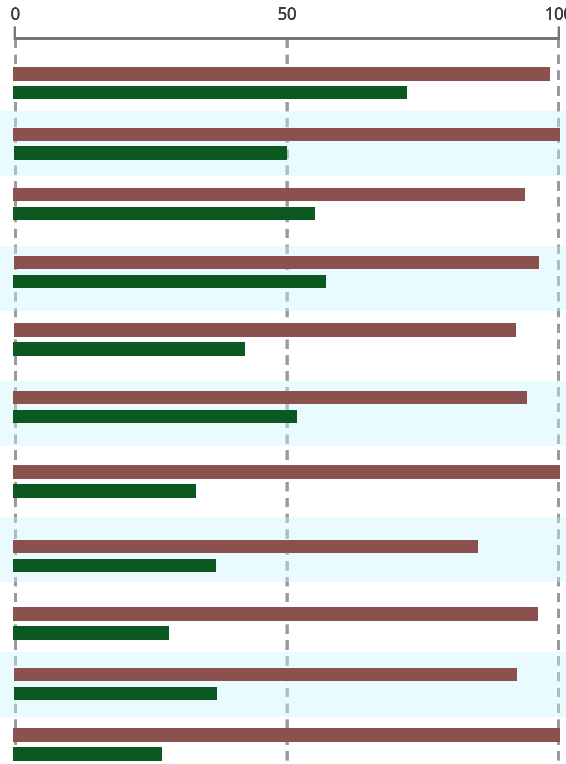
16 Djanjov, Simeon, Miranda, P., Seira, E., Sharma, S. 2008. Who Are The Unbanked?. Retrieved from http://documents.worldbank.org/curated/en/209341468333898194/pdf/wps4647.pdf

17 Breithbach, Elizabeth, Walstad, W. N.D. Financial Literacy and Banking Affiliation: Results for the Unbanked, Underbanked, and Fully Banked. Retrieved from http://cobhomepages.cob.isu.edu/peer/links/volumes/9.1/breitbach.pdf

Regardless of Education, There Are More Poor Unbanked Families Than Middle-Income Unbanked Families

% Share of Families Without Bank Deposits By Highest Grade Completed

	Poor Income	Middle Income
No Grade Completed	98.1%	72.0%
Preschool	100%	50.0%
Elementary Graduate	93.5%	55.1%
Elementary Undergraduate	96.1%	57.1%
High School Graduate	91.9%	42.3%
High School Undergraduate	93.9%	51.9%
Post-Secondary Graduate	100%	33.3%
Post-Secondary Undergraduate	85.0%	37.0%
College Graduate	95.9%	28.4%
College Undergraduate	92.0%	37.2%
Post-Baccalaureate	100%	27.1%



The World Bank has noted that access to the formal financial system can increase asset ownership, especially for women.[18] This is intuitive for it has been shown that individuals who put their financial resources to productive use have obtained these resources from the formal financial system. They put up their own business, invest in their children's education, or build their own house. The flipside is that when individuals who lack access to financial institutions run into cash-flow problems, they cope with the shock by selling their assets, among other means— a cycle that puts them in a perpetual life of poverty. Thus, financial inclusion interventions may need to integrate asset building component or mitigate the effects of asset destruction.

On the other hand, the fact that the proportion of unbanked families with housing and durable assets is relatively big bodes well for banks. Analysis of the asset index created for this report shows that majority of the unbanked families have a high or medium number of housing and durable assets. Their assets can become the basis for banks to create and offer basic micro financial services, suited to the demographic and asset profile of the unbanked.

18 World Bank. 2013. Global Findex Database. Retrieved from http://siteresources.worldbank.org/EXTGLOBALFIN/Resources/8519638-133225 9343991/N9gender.pdf

A sizeable portion of unbanked families actually own property and durable assets, although their assets are of less quality and value compared to that of the banked families.

Geography

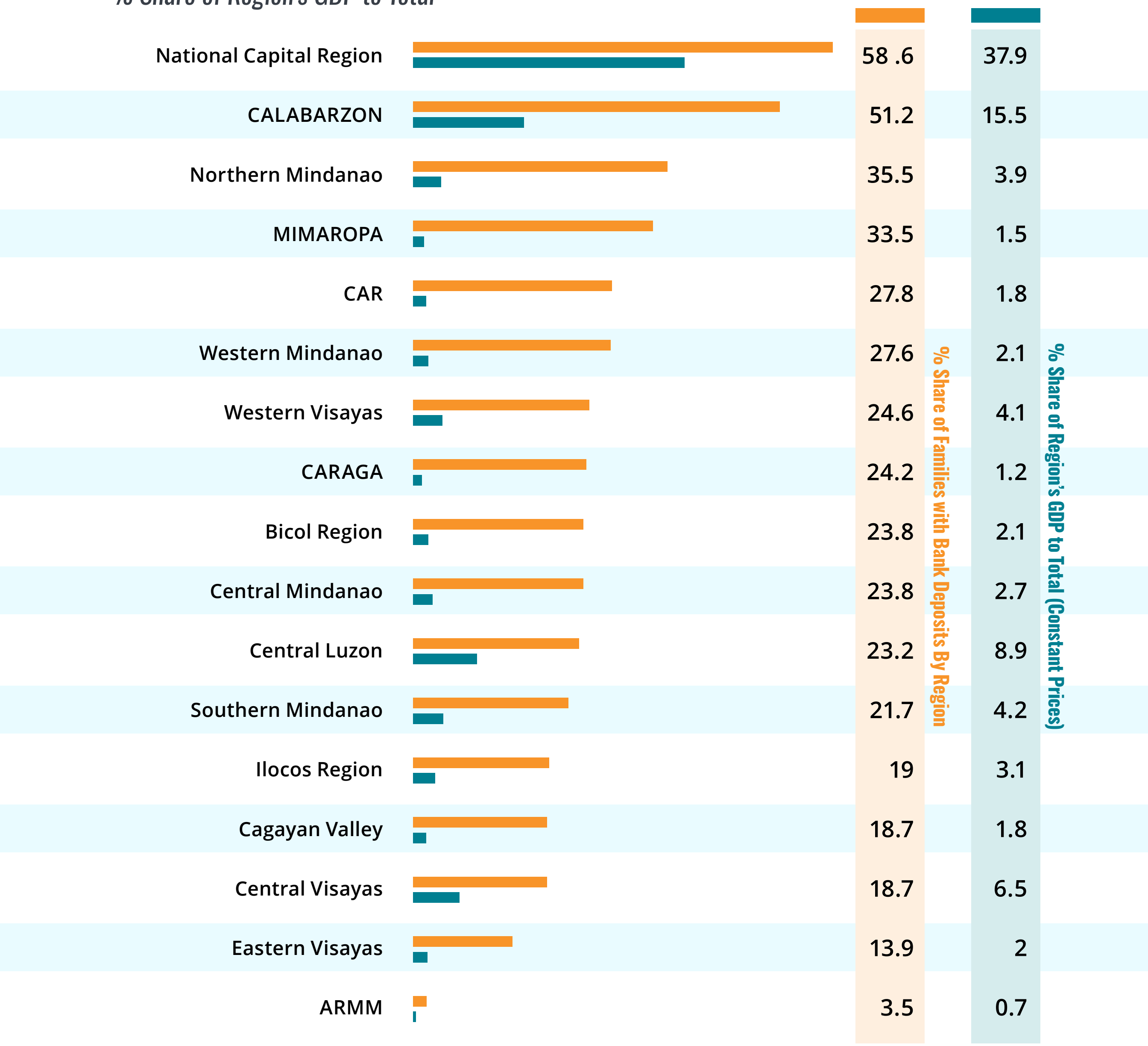
The location of the families matters in the distribution of the country's financial resources. FINTQ's first **Inclusive Digital Finance Report** has found out that the country's bank branches and financial transaction volume are mostly concentrated in a few wealthy provinces.

Our latest findings, looking at the financial disbursement of families, confirms the geography of financial exclusion. The proportion of unbanked families is less in wealthy regions than in poor regions. In the National Capital Region (NCR), about 59 in every 100 families reported having deposit transactions in banks. In the Autonomous Region in Muslim Mindanao (ARMM), only about four in every 100 made deposits in banks. However, deviations are pronounced in two wealthy regions, Central Luzon and Central Visayas, where the proportion of the unbanked families is particularly high.

The results also dispel the prevalent notion that the problem of being an unbanked is faced exclusively by the poor. There are regions in which the larger proportion of unbanked families is skewed towards the middle income class such as the NCR, CALABARZON (Cavite, Laguna, Batangas, Rizal, Quezon provinces), and Central Luzon. The problem is predominant among the poor families in Bicol, Eastern Visayas, Northern Mindanao, Caraga, and ARMM. Meanwhile, the lack of financial access affects both the poor and middle income families in the regions of Ilocos, Cagayan Valley, Cordillera Autonomous Region (CAR), MIMAROPA (Mindoro, Marinduque, Romblon and Palawan) , Western Visayas, Central Visayas, and Southern Mindanao.

Poor Regions Have Higher Proportion of Unbanked Families

% Share of Families with Bank Deposits By Region
% Share of Region's GDP to Total



The Underserved Pinoy

There is another face of financial exclusion: the underserved who can access the bank but on a limited basis. In this report, the underbanked families are able to make deposits in banks, but are unable to spend on other forms of financial transactions such as payment of cash loan or insurance. There is a compelling reason to understand the demographics of this market, as they are closer to the formal financial system and in theory relatively easier to convert to be a part of the banked segment.

Our findings show that underserved families predominantly come from low income, lower middle income, and middle income segments. They had a median monthly per capita income of PHP5,006 and a monthly per capita expenditure of PHP3,613. The median savings rate (or savings rate) is at 22%.

About 11% of the banked families had reported making deposits in banks but did not make any expenditure for both payment of cash loan and insurance in 2015. This group can be considered "fully underserved."

Meanwhile, 67% of the total families with deposits in banks did not report making any expenditure for cash loan payment. This group can be considered "loan underserved." The most striking finding is that the proportion of families that reported not making any cash loan expenditures is high across all income classes (from poor to rich), reflecting earlier observations that access to financing is heavily skewed towards big firms. The bigger proportion of loan underserved came from respondents belonging to the middle income class.

About 15% of the families with deposit transactions had not reported making any expenditure for insurance. This group can be considered "insurance underserved." In other words, there are more underserved families that have access to insurance than loan. They are mostly from families that come from lower income and lower middle income backgrounds.

The proportion of families that reported not making any cash loan expenditures is high across all income classes.

In Summary

Our report finds that families from low income, lower middle income, and middle income backgrounds build up disposable income that can be eventually allocated for financial services with microfinancial services.

Our research also shows that a sizeable portion of unbanked families own assets, and are either employed or own businesses—these characteristics could become the basis for designing micro financial services and establishing more relaxed criteria suited to the profile of unbanked and underserved families.

Such basic financial services could offer the bare bones that are enough to establish the financial and credit footprint of the unbanked and underserved, a crucial step to accessing the more sophisticated forms of financial products.

Rejected by Banks, This Vendor Turns to Neighborhood Lenders

"*Tatlong bangko na'ng nag-alok dito* (Three banks have gone here)," said Raul Gorospe, meat vendor for 17 years, when asked about banks offering loans. Borrowing is a norm for most vendors seeking cash to expand or replenish their capital, pay the stall rental, or cover for emergencies. Hence, the market is thick with lenders on the ground, with different terms and schemes to offer.

But Gorospe did not stand a chance.

"*Paano, maga-apply ang tindero ng* cash loan, *pero pagdating doon, di naman ma-approve* (Vendors felt bad about applying for loans only to get the thumbs down)." Raul tried obtaining one himself. "*Nanghiram ako ng kalahating milyon. Kumpleto ako sa* requirements—permit, *saka* BIR. *Higit pa sa lima ang* ID *ko. May* account *pa ako dun* (I tried borrowing half a million. I complied with all their requirements. I even have an account with them)." But the assessor thought USD10,000 (PHP500,000) was too big to grant him with.

Hence, the vendors turned to a quicker-disbursing option. But the experience wasn't any better.

"*Dati maraming nagpapa-5-6,* (Before, 5-6 lenders came in scores)" Raul said, referring to loan sharks who approached those in need of quick loans. Some vendors became so dependent that they started building a myth around it. "*Dinadasalan daw yung utang. Ten days bago ka matapos magbayad, kailangan mo na ulit. Tumigil na kaming mangutang* (We heard they'd whisper chants on the money so we'd be dependent on their loans. So we stopped borrowing from them)."

Stripped of myths, Terry Blas, mother of four and a vendor of dressed chicken, also stopped taking out loans from lenders. "*Ang laki ng interes. Yung inutang mong PHP10,000 (USD200), babalik sa kanila ng PHP12,000 (USD240)* (The interest could get unreasonably high. When you get PHP10,000 (USD200), they take PHP12,000(USD240))." But at one point she had no choice but to borrow anyway: "*Pinangungutang ko ang puhunan, pati panganganak* (I had to borrow for capital, and for giving birth, too)."

As loan sharks' terms lacked flexibility, Terry and fellow vendors formed a *paluwagan*. They forked out an agreed amount for everyone to redeem in rotation. A member was assigned to collect and keep the money. The order of *sahod* or cash-outs was determined by raffle.

"*Pero nagkaproblema kami sa humahawak* (The collector was a headache)," she said. "*Imbes na magpasahod ng* Monday, Friday *na naibibigay. Nagamit niyang pamuhunan, eh akala kikitain niya kaagad* (She'd use up the money for her capital, but she wouldn't recoup it easily and that caused delays in our pay-offs)." To avoid further conflict, they decided to stop after a round.

On the other hand, Raul and fellow vendors found themselves putting up a cooperative. It thrived for a couple of years. They invested in quick-earning ventures such as videogame stalls. "*Pero 'yung dibidendo namin, sa papel lang pala lumalaki. Kinukupitan pala kami nung* secretary. *Pag bumibili ng* supplies, *dinadagdagan ng* zero *ang presyo* (But we only yielded returns on paper. The secretary pilfered our money by adding zeroes on the receipts)."

Since then, Raul and fellow vendors in this market

southwest of Quezon City have borrowed from neighborhood lenders who roam around and competed with one another in terms of requirements, payment schedules, and interest.

"*Wala kayong kasulatan. Basta babayaran mo araw-araw, for 100 days,* (The loan isn't written on paper. You just need to pay it in full after 100 days)," Raul said. For vendors, the sky is the credit limit. Helpers can also obtain loans of up to P20,000 provided the vendor verbally agrees to be the guarantor.

The entire process—from vetting potential borrowers to closing the deal itself—involves trust, street

> **The interest could get unreasonably high. When you get USD200 (PHP10,000), they take USD240 (PHP12,000).**
>
> **Terry Blas,**
> **Market Vendor**

smarts, and relationship capital. Lenders occasionally solicited Raul's advice: "*Sisipatin nila yung mga puwestong malakas. Tapos magtatanong: tingin mo maayos magbayad 'yun? Pag sinabi kong, 'Ikaw ang bahala,' ibig sabihin 'wag. Pag nag-alok pa ako maging guarantor, ibig sabihin, good, pautangin mo.* (They would vet potential borrowers in terms of sales. And then they'd ask around. If I hang back and say, 'Your call', that means a no. If I even offered to guarantee it, that's a yes.)"

Raul himself is amazed at how borrowing is a cinch once he gets a lender's trust. "*Kung sabihin ko ngayong umaga, pahiram ako, kalahating milyon. Sasabihin agad nun, 'Sige, kalian?' Pagka-hapon, babalikan na niya 'yung puwesto ko, yayayain na ako sa bangko para mag-withdraw.* (If I tell the lender I'll need half a million, he'll immediately ask when I'll need it. That same afternoon, he'll ask me to come with him and withdraw all of it.)"

For Raul, the convenience informal lending presents trumps the advantages most available formal loans present. For someone who rises at 3 a.m. and heads home at 7 p.m., going to a bank is the least he could find time to, if at all.

The processing time for bank loans is another drawback: "'*Pag umutang ka sa bangko,* (If you get aloan from a bank)" he said, "*hihintayin mo pa ng tatlong linggo, kasi kesyo kailangan ka pang i-CI* (you will have to wait for three weeks as they do CI or Credit Investigation)."

"*Sa three weeks na yun* (In those three weeks)," he added, "*nakahanap na ako ng ibang uutangan. Agaran kasi ang pangangailangan—pag walang puhunan para bukas, wala akong maibebenta* (we've already got hold of the money we need. Our needs are urgent. We need to sell something the next day)."

But Terry, who got a credit card from mall agents three years ago, swore not to return to informal lending after learning she could obtain small loans from it. At times, she also considers part of her credit limit as extended capital: "*Minsan 'pag nagkaubusan ng manok* (When I run out of dressed chicken to sell)," she shared, "*kumukuha ako in bulk sa supermarket. Dahil naka-credit card, next month ko na iisipin ang pambayad* (I run to the nearest supermarket and buy in bulk with my card. That way, I won't have to worry about paying it until the next billing)."

From experience, Raul believes such an option is not for everyone. "*Mahirap ipunin pag buwanan ang bayad. Kasi pag biglang nangangailangan, magagalaw mo. Kapag naman arawan ang bayad, hindi mo na mapapansin kasi kinukuha mo agad sa kita mo* (It's difficult saving up under a monthly schedule because you get to spend it anyway. Daily payments mean taking part of balance out of your daily earnings)."

But that is not to say he is closing doors on formal loans: "*Siguro kung merong kasing-gaan o mas magaan sa options namin ngayon, bakit hindi* (If banks will offer terms are just as friendly as what we have right now, then why not)?"

Written by Rupert Mangilit

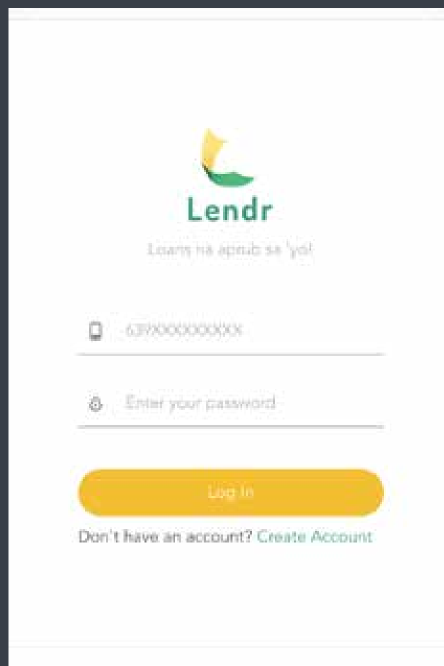
KasamaKA Lendr

Providing the Unbanked Much Needed Capital

By now, the challenges are well understood: the poor and low-income Filipinos find it hard to borrow money from financial institutions because of the complexities of transacting with banks. Lack of money, high interest rates, and inaccessibility of banks are some of the fundamental barriers to borrowing.

Banks note that they have valid reasons to ask for a lot of requirements: it is hard for them to know whether borrowers have the capacity to pay and when they do provide loans, it is difficult to collect payments from clients with limited financial history.

Lendr empowers the average Filipino, who may not have a bank account, to avail of loans from formal financial institutions in order to pay for their basic needs or grab economic opportunities that, without credit, they could not have taken advantage of.



Screengrab from Lendr platform

Lendr is an end-to-end loans origination and management platform that provides consumers with a one-stop shop to view, select, and avail a variety of loan products offered by FINTQ's partner banks and non-bank financial institutions. It is the first and only BSP-approved shared electronic loans origination system under a community cloud deployment model. It has a built-in credit scoring aggregation capability applicable for both banked and unbanked or underserved customers using alternative credit scoring algorithm. This will expedite further the application approval process of Lendr partners, ultimately benefiting the consumers.

Borrowers who diligently pay their loans on time build better credit standing for themselves, introducing them to better loan offers as they become qualified for larger amounts with lower interest rates.

Lendr provides consumers with a one-stop shop to view, select, and avail a variety of products offered by FINTQ's partner banks and non-bank financial institutions.

Sacheting Financial Services for the Unbanked

The big challenge, bankers and consumers agree, is cost. The unbanked people say they cannot simply afford the products. Going to the bank, they add, entails cost because the branches are far from where they live. Bankers, meanwhile, say putting up a branch in a far-flung community is inefficient and costly. The unbanked, they point out, lack enough income to avail of their products. The impasse has resulted in the so-called "inequity of efficiency" in the financial sector, creating the current setup where only the few "bankable" consumers get to access majority of the country's financial resources.

At the same time, however, the unbanked consumers say that if given the chance, they would like to save money or borrow capital from formal financial institutions. Bankers, too, see the opportunity: that if majority of the unbanked are reached, their total resources could be massive. The big challenge is how to bring the banks closer to the unbanked in the archipelagic Philippines.

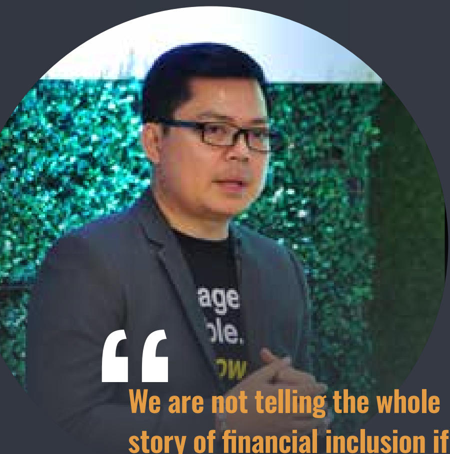
Our research suggests that the unbanked consumers could benefit from financial products that could be sold in sachet-type packs made available via mobile phones and accessible in retail outlets that are more pervasive in hard-to-reach communities. Our research also indicates that to profit from economies of scale, banks could share fixed outlays with their retail outlets and further reduce their cost by working with a platform-as-a-service provider. Our research, in other words, finds that retailizing financial services addresses the fundamental barriers to financial inclusion:

1. **"Sacheting" ensures the affordability of products;**
2. **"Agent banking" overcomes the physical inaccessibility to banks; and,**
3. **Platform technology efficiently spreads cost among banks.**

In the Philippines, FINTQ is set in 2018 to roll out sachet financial services tailored to the needs of the local unbanked and underserved population, bringing sachet deposit product KasamaKA Microsavings, sachet investment product KasamaKA Microinvestment, sachet lending product Lendr, and sachet insurance product KasamaKa Microinsurance. (***See pages 11-12, 30, 45-46, and 49-50 for additional information about FINTQ's sachet financial services.***)

Under its innovative model, FINTQ acts as the "enabler," providing end-to-end service from customer acquisition to a host of services for bank and non-bank financial institutions offering *tingi-tingi* or sacheted products via its platform technologies. FINTQ also takes care of the telco-agnostic distribution network by tapping the 1.2 million airtime load retailers of mobile network operators. The model, according to FINTQ analysis, could greatly reduce operating and capital outlay expenses for financial institutions compared to the organic bank expansion thrust. Ultimately, the sachet model could spark higher uptake of financial products, including Islamic finance (*see sidebar*).

Can sachet financial services expand Islamic finance?



“We are not telling the whole story of financial inclusion if Islamic banking and finance are absent in the equation,” FINTQ Managing Director Lito Villanueva says matter-of-factly.

After all, Muslim Filipinos predominantly live in provinces where financial inclusion is at the lowest across the country.

The available data tells the story of extreme exclusion in Muslim communities. For every 100 families in the ARMM region, 96 families are unbanked, according to our latest study. Unbanked families in ARMM have the lowest income among families in other regions. There's only one bank per 10,000 inhabitants, and the region's residents only receive a measly 0.02% of the country's total loan volume as of June 2017, BSP data shows. The hardship of many Muslim families in accessing formal financial institutions is indeed most extreme.

But dire the realities maybe, the solution is within reach.

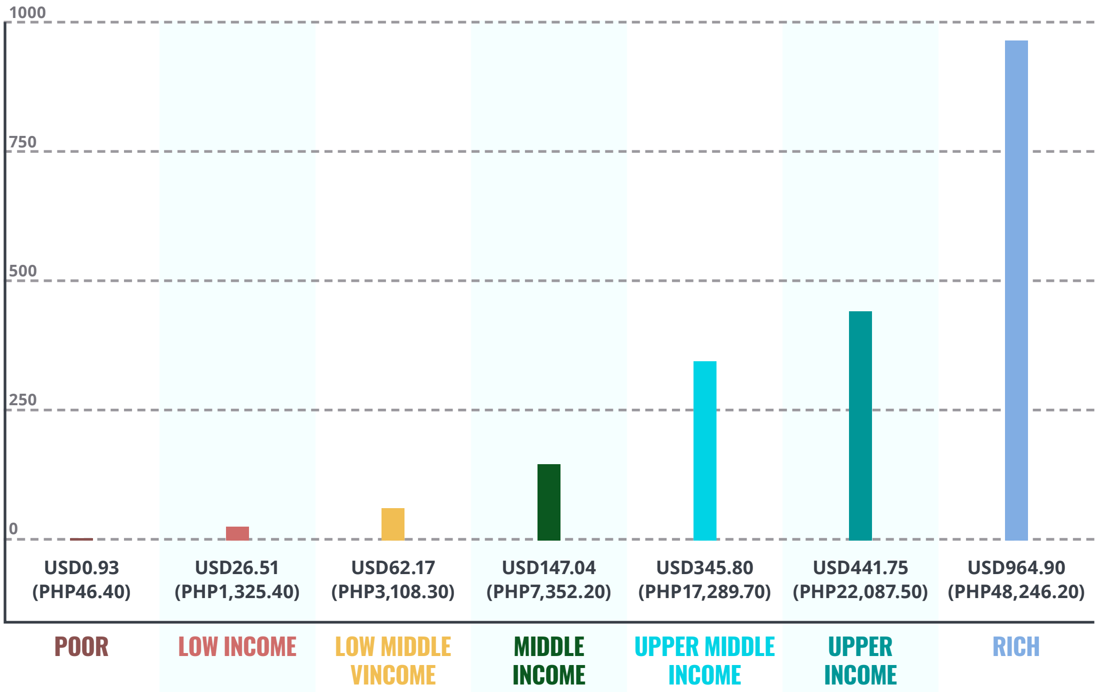
Villanueva believes that Islamic finance and banking could greatly expand financial inclusion in Muslim communities. The first order of business, according to him, is to create a task force whose duty is to establish a Shari'ah-compliant Islamic microfinance framework. The task force could be led by the existing Microfinance NGO Regulatory Council chaired by the Securities and Exchange Commission with the Department of Finance, Department of Trade and Industry and Department of Social Welfare and Development. This was created by Republic Act 10693.

Part of the discussion could center on the feasibility of providing sachet financial services, made available via mobile phones and retail outlets. Our research shows that many of the families in ARMM own mobile phones and have enough housing and durable assets. Their communities are also served more by mSMEs, which can act as bank's cash agents that can conduct transactions on their behalf.

Such sachet financial products should be well integrated into social safety net programs such as conditional cash transfer, as most of the unbanked families in ARMM belong to poor income bracket. These micro products could also be tied to income-building programs like FINTQ's KasamaKA, a grassroots movement which aims to provide additional income to unbanked Filipinos who can successfully refer applicants to avail of Shari'ah-compliant digital financial services in Islamic communities.

“Deploying Shari'ah-compliant Islamic microfinance, initially in Marawi, would be a more meaningful, impactful, and sustainable socioeconomic intervention that could help alleviate poverty and promote peace and development in the region,” Villanueva concludes.

Unbanked Families Have Savings, Which Could Be Tapped for Sachet Financial Services *Ave. Monthly Savings By Income Class*



Sacheting Prices

Unbanked families could afford financial services that could be paid in pocket-friendly amounts. They are more likely willing to make deposit in banks, pay insurance premium, or pay cash loan if the prices are within their means.

Lack of money is the primary challenge, various BSP surveys of Filipinos adults have indicated.

Our study also paints the financial hardship of the poor unbanked families who typically spend more than they earn. On the other hand, unbanked families from low income, lower middle income, and middle income typically accumulate savings, yet their meager income may not be enough to open up or even maintain a savings account, which entails shelling out as high as USD400 (PHP20,000) for commercial banks.

Technology makes all these challenges seem irrelevant. People could transact with banks on their mobile phones, and they could do so in retail outlets like *sari-sari* stores. In the end, the prices of financial products should ideally go down to account for lower capital and operating costs. Lower prices could then induce the unbanked and underserved families to conduct transactions with formal financial institutions.

Poor and Low-Income Banked Families Allocate Resources for Financial Services

Income Classification	Average Monthly Expenditure	Average Monthly Deposit	Ave. Monthly Insurance Disbursement	Ave. Monthly Cash Loan Disbursement
Poor	USD195.42 (PHP9,771.19)	USD8.68 (PHP433.92)	USD2.28 (PHP114.12)	USD 5.24 (PHP 261.83)
Low Income (But Not Poor)	USD286.08 (PHP14,303.95)	USD13.28 (PHP663.80)	USD5.83 (PHP291.71)	USD 7.54 (PHP 376.95)
Lower-Mid Income	USD439.85 (PHP21,992.55)	USD24.63 (PHP1,231.41)	USD13.75 (PHP687.67)	USD 13.10 (PHP 654.77)
Middle Income	USD671.70 (PHP33,585.13)	USD64.71 (PHP3,235.62)	USD28.58 (PHP1,429.24)	USD26.31 (PHP1,315.31)
Upper-Mid Income	USD1,003.63 (PHP50,181.55)	USD185.21 (PHP9,260.53)	USD45.26 (PHP2,263.20)	USD38.82 (PHP1,941.20)
Upper Income (But Not Rich)	USD1,322.01 (PHP66,100.63)	USD251.94 (PHP12,596.78)	USD49.83 (PHP2,491.55)	USD56.45 (PHP2,822.66)
Rich	USD1,657.78 (PHP82,889.16)	USD764.15 (PHP38,207.64)	USD50.17 (PHP2,508.36)	USD59.41 (PHP2,970.65)

Based on the FIES data, our research found that the average monthly savings ranged from about USD26 (PHP1,300) for low-income unbanked families to USD148 (PHP7,400) for middle-income unbanked families in 2015.

Another way to look at which price points low- and moderate-income unbanked families are willing to allocate for financial products is by understanding the expenditure pattern of their banked counterparts. Banked families from low income to middle income backgrounds would spend on financial services from as low as PHP100 to as high as PHP3,000 a month. The price range points to the relative capacity to pay of low- and moderate-income families, indicating on the bigger picture the feasibility of sachet banking in bringing in more unbanked into the mainstream.

However, the data provides evidence that sachet financial services—even as prices are set at PHP100—may not be affordable to unbanked poor families whose savings is more or less below PHP50 or USD1 a month. Efforts at widening financial access to the unbanked poor families should therefore be integrated into the broader income redistribution agenda.

Sari-Sari Stores As Bank Agents

There is a tremendous disincentive for the unbanked to travel kilometers away from their homes just to conduct financial transactions that are beyond their financial capacity. There is also little reward for banks to establish presence in places where transactions are low. In some parts of the world, financial institutions partner with retail outlets such as gas stations and grocery stores to deliver financial services in communities where they have no presence.

This agent banking model has already found success in other parts of the world. Take the case of Brazil. Between 1999 and 2003, the Brazilian government allowed financial institutions to do correspondent banking—and by 2004, every town had access to formal financial services. In Mexico, the government has since 2009 been doing electronic payment transfer through the country's Diconsa stores, which sell food and other basic goods in the poorest communities. Diconsa store owners have forged long-lasting relationships with their customers who trust these outlets to act as agents of banks.[19]

Sachet banking indeed has a wide range of benefits for stakeholders. The unbanked, especially the under-educated and the poor who feel intimidated going to banks, can lessen the cost of travel to the bank. Retail outlets, meanwhile, can increase sales from foot

19 Chaia, Alberto, Schiff, R., Silva, E. 2010. A new idea for the poor. Retrieved from https://www.mckinsey.com/industries/financial-services/our-insights/a-new-idea-in-banking-for-the-poor

traffic, do cross-selling, and earn additional revenues from commissions and incentives of providing bank products and services. Most importantly, banks will no longer consider the unbanked and underserved markets as "unprofitable." Through sachet banking, financial institutions can reach new markets at a low investment and reduce branch congestion by moving some of the non-core transactions (such as bills payment) from the branch to correspondent bank agents.

Agent banking holds the promise in bridging the gap between the banks and the unbanked.

Agent banking holds the promise in bridging the gap between the banks and the unbanked. Across the country, banks are still not found in 36 in every 100 cities and towns. As a result, the country's financial resources are concentrated in wealthy communities. FINTQ's 1st Inclusive Digital Finance Report noted that in low-access provinces, only 34% of the cities and municipalities have a bank presence. In other words, 17% of the population live in low-access provinces, yet the residents only received 0.9% of the total loan transactions and 2.5% of total domestic deposits.

The report provides evidence that shows a sizeable portion of the unbanked and underserved families own a mobile phone. They also live in communities where mSMEs are more pervasive than banks. These patterns are thus telling: banks can potentially bring financial services to the grassroots—even in conflict-torn communities—through alternative channels such as *sari-sari* stores acting as the bank's cash agents. In ARMM, 70% of unbanked families owned a mobile phone, yet there was only one ATM catering to 10,000 families in 2015. Only one bank provided financial services to 10,000 families. On the other hand, there were 107 mSMEs involved in wholesale and retail per 10,000 families.

The regulatory environment has already been laid down for agent banking to flourish. The BSP now allows financial institutions to work with cash agents who can accept and disburse cash on their behalf.[20] Agents can take deposit and withdrawal, fund transfers, bills payment, and payments due to government institutions. They can also perform Know-Your-Customer; collect and forward applications for account opening; accept and forward loan applications; and market, sell, and service insurance products.

20 Bangko Sentral ng Pilipinas. 2017. Circular No. 940, Series of 2017. Retrieved from http://www.bsp.gov.ph/downloads/regulations/attachments/2017/c940.pdf

Banking for Less

Bankers say there are a lot of inherent risks in conducting business especially with people who own less assets and have some unpredictability in their income flow.

For instance, bankers say they are in a blind spot whether borrowers have the capacity to repay loans due to limited track record, limited acceptable collateral, and inadequate financial statements, among other requirements. They also express difficulties in collecting payments from clients with limited financial and personal record.

As a result, private banks are reluctant to lend because of their general aversion to dealing with a larger pool of small-type accounts whose capacity they know little about.

Technology is addressing some of these challenges. Digital technology, in particular mobile phones, has been transforming banking transaction for the 21st century economy. Big data, for one, is providing banks alternative means to assess creditworthiness.

But perhaps one of the most promising technologies is platform technology.

The power of cloud computing has allowed firms to avoid the cost and complexity associated with building and maintaining traditional software and servers. Platform technologies are making operations more cost-efficient by ensuring firms spend less on overhead cost and tap into the economies of scale as fast as possible.

A report by McKinsey noted: "Adopting a cloud-based solution allows a new digital player to scale up its cost structure along with revenues, thus achieving a faster breakeven point."[21]

For instance, FINTQ has already helped disburse over PHP26 billion (USD520 million) in loans in a short period of three years, in part due to its cloud-based platforms authorized by the BSP.

Our research suggests that sachet financial services could reach exponential number of unbanked and underserved with the integration of platform-as-a-service and correspondent banking.

Platform technology reduces operating cost, while agent banking cuts the capital cost for banks. As information is stored digitally, banks could potentially tap big data to establish alternative credit scoring, which could then lessen the transaction cost of information gathering.

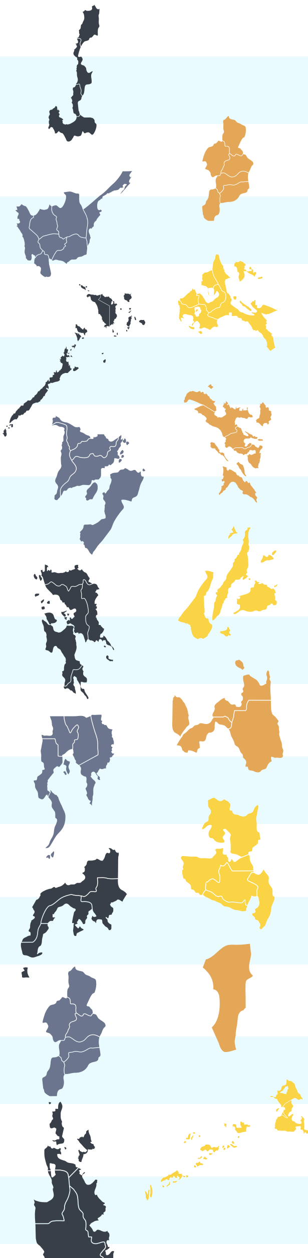
In the Philippines, local banks typically set aside as high as PHP30 million (USD600,000) for capital expenditure and PHP15 million (USD300,000) for operational expenditure per branch, according to FINTQ.

With correspondent banking strategy, banks will have to invest anywhere between PHP200 (USD4) and PHP1,250 (USD25) per touchpoint every year, according to an analysis by FINTQ. According to studies, a *sari-sari* store typically caters to about 20 families.

21 Barquin, Sonia & Vinayak, HV. 2016. Building a digital-banking business. Retrieved from https://www.mckinsey.com/industries/financial-services/our-insights/building-a-digital-banking-business

Platform technology reduces operating costs, while agent banking cuts the capital cost for banks.

Unbanked Families Could Be Served By Sachet Banking



Region	% of Families without Bank Deposits but With Mobile Phone	ATMs per 10K Families
Region I *Ilocos Region*	69.0	4.8
Region II *Cagayan Valley*	65.1	3.7
Region III *Central Luzon*	66.7	6.1
Region IVa *CALABARZON*	41.3	7.6
Region IVb *MIMAROPA*	42.0	3.2
Region V *Bicol Region*	60.2	3.4
Region VI *Western Visayas*	58.8	4.6
Region VII *Central Visayas*	63.9	8.6
Region VIII *Eastern Visayas*	62.3	2.5
Region X *Northern Mindanao*	47.5	5.7
Region XI *Southern Mindanao*	59.1	6.0
Region XII *Central Mindanao*	53.4	3.5
Region IX *Western Mindanao*	52.2	3.2
Region XIII *National Capital Region*	36.2	22.9
Region XIV *Cordillera Administrative Region*	60.8	5.8
Region XV *ARMM*	69.4	0.5
Region XVI *CARAGA*	55.7	4.1

* Data pertains to unbanked families without expenditure on insurance and cash loan
** MSMEs involved in wholesale and retail trade

mSMEs** per 10K Families	Banks per 10K Families
184.5	4.8
170.5	3.7
186.0	6.1
179.8	7.6
184.8	3.2
135.4	3.4
158.3	4.6
167.5	8.6
139.9	2.5
213.7	5.7
186.6	6.0
171.1	3.5
213.7	3.2
259.9	22.9
203.1	5.8
102.4	0.5
110.6	4.1

Legend: ■ = 1 ATM/mSME/Bank

Sources: 2015 DTI; 2015 Population; 2015 FIES; 2015 BSP

The Vast Opportunity

To turn the unbanked into semi-banked and seize the big opportunity, a radical shift in thinking is needed. The old business model has in effect excluded the unbanked population whose aggregate incomes have been laid to unproductive use.

The unbanked families may earn less and own less-valuable assets compared to their banked counterparts, but they are an economic powerhouse when they are given the access to formal financial institutions. The new model that holds the most potential is sachet financial services provided via digital technologies. Financial institutions that will bank on the unbanked and underserved will profit from capturing the larger number of small accounts efficiently through correspondent agent banking.

This new model for financial inclusion will benefit the most, families from low income, lower middle income, and middle income backgrounds. They have enough assets and more importantly, they have savings that can be tapped for productive use.

Traditional Bank Expansion	V.S.	Sachet Banking
Capital Outlay: **USD** 300,000 (**PHP** 15 million) to **USD** 600,000 (**PHP** 30 million) per branch		Expand bank's reach in the countryside in a cost-efficient way
Operation Outlay: **USD** 100,000 (**PHP** 5 million) to **USD** 300,000 (**PHP** 15 million) per branch		1.2 million *sari-sari* stores within the telco distribution network. Utilize existing retail infrastructure
Low transaction count and volume insufficient to cover the costs		Low-income clients may feel more comfortable banking at their local store

In summary, the findings show the vast opportunities for formal financial institutions that would adopt sachet financial services such as those offered by FINTQ.

Self-employed, Contractuals Face Tremendous Dangers, yet Remain Uninsured

"S*iguro 'di ko pa oras* (Maybe it's not my time yet)," 42-year-old driver Jessie Cortes said, calling to mind how he narrowly escaped death in an ugly mishap he figured in last October.

"*May bumaba sa (Sitio) Talanay* (in Batasan Hills). After 15 seconds, boom—*nakaranig na ako ng kalabog sa likuran* (Someone alighted an enclave downhill. After 15 seconds, I heard a strong thump. I knew something smacked into my jeep from behind)," he recalled.

A driver lost control of his 22-wheeler as he descended the rolling road. The truck, carrying iron beams for use in a roadwork close by, rammed nine vehicles. Four passengers, aboard a crumpled sedan and a light van, respectively, died in an instant. The motorcycle rider got crushed under the wreckage.

"*Kung di siya nakaiwas…mas malala ang inabot namin at saka ng jeep* (My jeepney could've scrunched up if the driver didn't dodge us)," he said, pointing to the side of the jeepney that bore noticeable patches of iron sheets. "*Nawarat yang gilid na 'yan, kaya pinalitan* (The accident ripped up one side of it)." Despite the extent of the damage, he and all his passengers survived, which can be considered a miracle. "*Nabugbog lang ang paa ko. Pero buti na lang din walang namatay sa amin. Siyaman 'tong jeep na to, saka puno ito n'on* (My knees still hurt, but I'm just glad no one died among my passengers. It was filled to capacity when we were hit)." The passengers only had bumps and bruises here and there, save for one who sustained a fracture on his back.

A driver for 22 years, Jessie has spent seven years plying the Philcoa-San Mateo route, which has gained notoriety for claiming lives. Besides traversing Commonwealth

Avenue, infamously called a killer highway for the sheer volume and magnitude of accidents that took place within its entire stretch, he passes along the winding road which connects Quezon City and San Mateo, Rizal, and where the October accident happened.

But life goes on. "*Kailangan kumayod* (I need to earn some dough)," Jesse said. After all, he has four children, including an infant child, to feed.

Accidents happen regularly, but Jesse shared that he also fears falling ill from the health risks that come with driving: "*Marami sa mga drayber, baga ang tinatamaan sa dami ng alikabok at saka polusyon. Tapos kasabayan namin, mga trak na nagkakarga ng semento* (We share the road with cement trucks. With that, plus too much pollution on the road, it's no surprise that we fall ill from lung disease)," he said. "*Sa ibang araw, uulan sa umaga tapos iinit sa tanghali, kaya pasma ang labas mo* (It doesn't help that the weather changes frequently)."

On that account, Jesse lamented about not having a security blanket: "*Delikado ang pagda-drayber, pero mas delikado kung wala kang mga benefits, insurance* (Driving is dangerous, but the risks are a lot higher without benefits and insurance)."

"*Mahalaga ang may insurance* (It pays to get insured)," he said.

"*S'yempre maganda pa rin kung 'yung operator namin ang magbabayad, pero kung mayroon sana na pwede mong hulugan kahit pakonti-konti, para naman hindi sa utang lang at gastusin napupunta ang kinikita namin* (Better if our operator provides us with it, but if we can avail of one for ourselves, with friendly terms, why not?)."

Jessie complained anew of his aching knees, triggered by the merciless holiday traffic, but instead of seeing a doctor or buying medicine for pain, he decided to just sleep on it. "*Gagarahe na ako. May bukas pa* (I'm parking this here now. Tomorrow's another day)," he said, calling it a day.

> **Driving is dangerous, but the risks are a lot higher without benefits and insurance.**
>
> **Jessie Cortes, Jeepney Driver**

Written by Rupert Mangilit

KasamaKA Microinsurance

Sacheting Insurance for At-Risk Workers

For the poor and low-income families who live day by day, getting insurance is the least priority. There are far more important necessities for them to spend on such as food, education, and if they have enough, health. Yet it is the unbanked poor who will mostly benefit from being insured. They are the most exposed to vulnerabilities. The unbanked families do understand the need to get an insurance coverage, but without access to insurance, they cope with the risks by exhausting their savings, borrowing from family and loan sharks, and selling their assets.

The challenge is affordability of most insurance products. In a study, Llanto (2007) noted that uninsured customers who indicate their willingness to get covered emphasize that price should be within their capacity to pay (PHP20-PHP30 a week)*.

There is a need to allow more Filipinos to access these products that are affordable and accessible even in communities where banks are not present.

There are many microinsurance products in the market today. Unfortunately, these products only meet a fraction of the potential market. Microinsurance companies note that serving the unbanked is unprofitable, because it remains extremely difficult to reach far-flung communities.

There is a big opportunity to bring insurance to the vast untapped unbanked population through digital technology. Thus, FINTQ aims to make insurance affordable and available to more Filipinos by tapping the unbanked's most ubiquitous device—the mobile phone.

Insurance companies and brokers are given the digital platform through FINTQ's KasamaKA Microinsurance. They are then linked to a nationwide network of third party providers that can facilitate insurance services on their behalf,

Screengrab from KasamaKA app

even in far-flung communities. Through the KasamaKA platform, customers can access affordable insurance products for as low as PHP10 (USD0.20).

FINTQ is also set to launch a financial literacy drive to educate the unbanked about the importance of insurance in their lives. Given that affordability is a concern, FINTQ also aims to provide free or subsidized insurance to certain individuals and communities in line with its goal to drive financial inclusion among unbanked and underserved Filipinos.

KasamaKA Microinsurance targets majority of the household heads who are self-employed, work for private households, and other informal occupations, who are mostly not covered by insurance. It is estimated that they comprise 15.6 million or 38% of the total working population of the country.

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* *LLanto, G. 2007. Developing Principles for the Regulation of Microinsurance (Philippine Case Study). Retrieved from https://dirp4.pids.gov.ph/ris/dps/pidsdps0726.pdf*

In the Digital Age, Millennials are Unaware About Investments

It was the end of the month, and it was time anew for Emmie, freelance graphic designer, to line up and encash her paycheck from one of her clients. It was a slow day in the bank, in contrast with the mad Christmas rush days ago, which she was glad not to have run into.

"*Buti nga tapos na ang Pasko. Buti rin, mababayaran ako bago makauwi* (I'm glad to get paid just before flying home)," said Emmie. She would be Antique-bound the next day to celebrate New Year's Eve with her family. This has been the drill each holiday season, but someday she hopes to settle in her hometown.

"*Bale may lupa kami dun*," she said, "*Yung lugar namin, nagiging tourism spot na siya*. (It excites me how our town slowly gets noticed as a tourism spot)." Her town Culasi, a world away from the chaos of city life, has increasingly gained attention for its pristine beaches and powdery sandbars. "*Kaya gusto kong magpatayo ng apartment units na pwede mag-cater* to young professionals and their bosses.

> **"Of course I want to learn the basics of investing so I already know the moment I need it.**
>
> **Emmie Albangco, Freelance Graphic Artist**

'Yung ibang units, pwedeng homestay for tourists (If tourism booms, I wish to build apartment units catering to young professionals and their bosses. I can make other units as homestays for tourists)."

Emmie wishes to save up and invest a part of her earnings so she could have sufficient capital for her dream venture. But she admitted her limited knowledge of her financial options is stopping her from achieving her investment goal.

For one, her banking experience has been confined to making it a mere conduit for her clients' payments. "My transactions only revolve around the ATM," she shared as she waited for her turn. "When I need to withdraw and check if my clients have already deposited my paycheck," she said.

Much of her earnings stay in her hands. Although her rule has always been to spend within her means, she would find it difficult to save for big purchases.

"*Takot ako umutang* (I'm afraid of taking out a loan), so if I decide to purchase a laptop, I make sure I have money to pay it in full. *Pero minsan 'di ba pag hawak lang 'yung pera, nagagalaw mo bigla?* (The danger there is when you get to spend what you're supposed to be setting aside.)" It also did not help that transportation and incidental expenses have shot up as more gigs came in. Next thing she knew, she would barely have enough cash to get by until the next paycheck.

Likewise, while she has been earning more comfortably enough than before, Emmie is afraid to take the plunge. Investment options old and new—stocks, bonds, futures, and the like—have remained alien concepts for her. After all, what she would know about investment products are in broad strokes, coming from stories she has read in the news and on social media. While waiting for her turn at the teller, she candidly asked, "What do you think about bitcoin? Is it a sound investment? *Napanood mo na 'tong video sa Twitter? Ang bilis daw kasi ng returns, pero 'legit' ba 'yan?* (Have you seen the Twitter video about bitcoin? I heard it yields huge returns fast, but is it 'legit'?) I wouldn't know."

"Of course I want to learn the basics of investing so I already know the moment I need it," she added. "But if exploring my investment options would take several trips to banks, I don't think I'll have the time for it."

Moments later, the teller finally called Emmie's name and she got her money immediately. She took out a white envelope from her bag where she placed the cash. "*Sana makapagtabi nang konti* (I hope to put some of it aside)," she said while walking her way out of the bank.

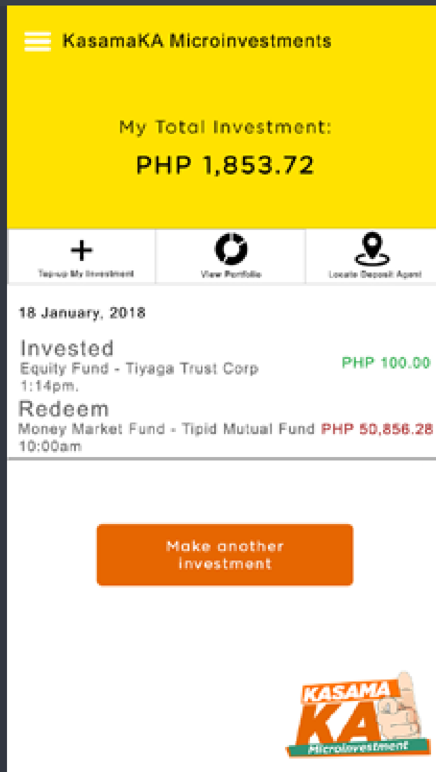
KasamaKA Microinvestment

Enabling Millennials to Grow their Money

Financial investments look unappealing to many Filipinos, especially the poor and low-income families who live on a day-to-day basis. Based on the 2015 FIES, only an estimated 1% of the families have earned profit from their investments. It is thus no wonder why investment products such as mutual funds or UITFs (unit investment trust fund) are only available to Filipinos who are comfortable transacting with banks and have available disposable income.

There are a number of reasons why making an investment is not widespread. Only individuals with bank accounts are more likely to fulfill the current requirements of financial institutions to open an investment account, leaving out the majority of the population. The product is not cheap: minimum entry fees range between USD100 (PHP5,000) and USD200 (PHP10,000). More importantly, the unbanked Filipinos are less aware about the benefits of making financial investments.

Eventually, the product will function as a "financial advisor" that can provide pieces of investment advice to customers.



Screengrab from KasamaKa app

Against this backdrop, there is a need to allow more Filipinos to access these products that are affordable and accessible even in communities where banks are not present. Fortunately, such financial products can be "sacheted" and can now be provided and accessed through digital platforms with the introduction of FINTQ's KasamaKA Microinvestment in the market. It's the country's first digital investments marketplace.

Through the platform, FINTQ partners with financial institutions that offer pooled trust funds, known as UITFs, and link them with retail outlets that can correspond with customers on their behalf. KasamaKA Microinvestment allows customers to invest in UITFs for as low as USD1 (PHP50). Eventually, the product will function as a "financial advisor" that can provide pieces of investment advice to customers.

KasamaKA Microinvestment helps the unbanked and underserved Filipinos by providing convenient options for spending their extra income and by building a culture of investing.

Conclusion:

The Moral and Economic Imperative of Sachet Banking

A radical strategy is necessary to bring in more of the unbanked into the mainstream financial sector, and our research has shown that sachet financial services could drive financial inclusion to scale in the shortest possible period of time.

Our findings indicate that the critical requirements for sachet financial services have already been established. The Philippine government has made financial inclusion a main development agenda, laying down the groundwork for agent banking, among other regulations. The Philippines has a progressive regulatory environment under the BSP. The distribution infrastructure for bringing sachet financial services has reached the far-flung communities where mSMEs involved in wholesale and retail are more pervasive than banks. Majority of the unbanked and underserved families are more likely to own a mobile phone than hold a bank account.

Culturally, Filipinos, in particular those coming from low- and moderate-income segments, have long trusted their neighborhood *sari-sari* stores as their retail touchpoint of choice. They have grown accustomed to buying in sachets, as well as sending or receiving their money from these ubiquitous outlets. Filipinos are also increasingly becoming tech savvy, as about 60% of the population is online.

To further strengthen this sachet model, we propose the following measures:

The agenda is a huge undertaking that requires the strong collaboration of all stakeholders—from bankers to FinTechs, from regulators to development partners, and from families to individuals.

Retail financial services could become the basic deposit account

Sacheted savings accounts could serve as the main entry point of the vast unbanked families to the formal financial institutions. To make this happen, regulators and regulations should ensure that the unbanked can easily open up an account through mobile technology and agent banking. The account, which offers the bare minimum, should also impose low requirements and low fees that are pegged at their income levels.

Financial services meant for poor families should be tied to income-raising programs

Our research shows that majority of poor families are unbanked. They typically spend more than they earn and own less assets—their economic condition thus frustrates their attempts at accessing formal financial institutions. Nevertheless, we found that a sizeable portion of the unbanked poor families own mobile phones and a modest number of assets, which could become the basis for extending retail financial services that offer the bare minimum. At the same time, our research also finds that a few banked families coming from the poor segment have reported deposits in banks in small amounts, indicating the price points that this market can afford given their meager income.

The available evidence thus shows that the unbanked poor could transform into “semi-banked” when they are able to access retail or sacheted financial services that are tied to some income-raising programs such as the government’s conditional cash transfer program or income-generating programs such as FINTQ’s KasamaKA. (*see pages 11-12, 30, 45-48*)

More microfinance institutions, thrift and rural/cooperative banks should participate in FinTech.

Digital financial products currently available in the local market tend to be offered by universal and commercial banks. As such, it is the underserved families—in particular, middle income families—that are more likely to avail of such products, unfortunately leaving the vast unbanked population still without financial access.

There is therefore a need to encourage microfinance institutions, thrift, rural and cooperative banks to bring in their financial products via FinTech platforms. Their affordable financial products are, after all, suitable to turn into sachet forms and are more accessible to the larger unbanked population, given their greater presence in the countryside.

Sachet services should be made available for feature phones.

While the Internet and smartphone penetration is increasing, majority of the unbanked families are still on feature phones. Thus, sachet financial services should be made available through feature phones by enabling text-based features, similar to the features of electronic money remittance services such as Smart Padala. A practical approach would be to enable *sari-sari* stores with a smartphone or desktop that can be utilized for enrolling the unbanked families.

> **Finally, financial inclusion is not only the government's job nor the private sector's task alone. The agenda is a huge undertaking that requires the strong collaboration of all stakeholders—from bankers to FinTechs, from regulators to development partners, and from families to individuals. Ultimately, these synergies should be built on mutual trust and must leverage on each other's strengths in order to move the agenda at tremendous scale.**

KasamaKA in Action

FINTQ, the country's pioneer in financial technology with the widest digital footprint, has led a nationwide grassroots movement aimed at bringing more unbanked and underserved into the formal financial system.

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Since the launch of KasamaKA last year, more stakeholders — from regulators to enterprises, from NGOs to development partners, and from families to individuals — have joined the movement for financial inclusion.

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11

1 KasamaKA Financial Inclusion Caravan in Argao, Cebu **2.** KasamaKA rollout with Liga ng mga Barangay **3 & 4** KasamaKA showcase of digital-enabled *sari-sari* store and financial inclusion caravan truck with Empoy and Osep **5** KasamaKA launch with BSP Gov. Nestor A. Espenilla Jr. and SEC Chairperson Teresita J. Herbosa **6** KasamaKA Kapit-Bisig with key sectors at the BSP Assembly Hall on September 6, 2017 **7** KasamaKA collaboration with Rural Bankers Association of the Philippines (RBAP) led by RBAP President Gino Gabriento **8** KasamaKA collaboration to promote digital mSME lending with Department of Trade and Industry Sec. Ramon Lopez **9** KasamaKA caravan in Tarlac with Moncada Mayor Estelita M. Aquino **10** KasamaKA caravan in Davao del Norte with Braulio E. Dujali Mayor Leah Moral **11** KasamaKA with cooperatives and basic sector representatives

FINTQ Partners

NGOs and People's Organizations

Union of Local Authorities of the Philippines
League of Provinces
League of Cities
League of Municipalities
Liga ng mga Barangay
Chamber of Thrift Banks
Rural Bankers Association of the Philippines
Microfinance Council of the Philippines
Hapinoy
Urban Poor Associates
Urban Poor for Livelihood Training
Sikap Buhay Entrepreneurship and Cooperative Office
Katipunan ng Mamamayan ng Bagong Pilipinas Foundation, Inc.
Pambansang Kilusan ng mga Samahang Magsasaka (PAKISAMA)
Gawad Kalinga
Homer Foundation, Inc.
Magsaysay Multipurpose Cooperative
OFW Credit Cooperative
Filipino Initiated Livelihood Organization Credit Cooperative (FILO)
Alliance of Philippine Partners in Enterprise Development, Inc. (APPEND)
Kapandesal Multipurpose Cooperative
Samana-Fa Multipurpose Cooperative
Philippine Association of Stores and Carinderia Owners
Baclaran Vendors Development Cooperative
Bagong Pag-asa ng Maynila Vendors Association
ENFANCE Foundation Inc.
Simbayanan ni Maria Multi-purpose Cooperative
Philippine Trade & General Workers Organization
ERDA Foundation Inc. (Educational Research & Development Assistance)
Philippine Public School Teachers Association
Philippine Business for Social Progress
PLDT-Smart Foundation

International Development Agencies and Private Sector

United States Agency for International Development (USAID)
Oxfam
World Food Programme
United Nations Development Programme
UN Office for Coordination for Humanitarian Affairs
Global SME Finance
World Bank
International Finance Corporation
Asian Development Bank
Mobile Ecosystem Forum (MEF)
Child & Youth Finance International
Consultative Group to Assist the Poor (CGAP)
GSMA
International Committee of the Red Cross
Visa
PLDT
Smart Communications
TNT
Cignal
Ailleron
Geniusto
Meralco
Maynilad
Bayad Center
First Pacific Leadership Academy
Philex Mining
Grab
United Laboratories (Unilab)
Ritemed
Metro Pacific Investment Corporation
Financial Executives of the Philippines
FINEX LoanPinas
Philippine Disaster Resilience Foundation
Philippie Retailers Association
GoNegosyo
TATA Philippines
Pro-Friends
MyPhone
OLX
Apple
Multisys Corporation
Navigate Global
Shop Japan
Novatti
Asian Banking and Finance
The Asset
Bloomberg Philippines
The Asian Banker
International Banker
Economist Intelligence Unit (The Economist)
The Financial Times
Lafferty
COOPHub
OFW Credit COOP

Government and Regulators

Bangko Sentral ng Pilipinas
Securities and Exchange Commission
Insurance Commission
National Privacy Commission
National Telecommunications Commission
Credit Information Corporation
Anti Money Laundering Council
Department of Budget and Management
Department of Finance
Department of Education
Department of Trade and Industry
Department of the Interior and Local Government
Department of Social Welfare and Development
National Anti-Poverty Commission
Department of Agriculture
Department of Agrarian Reform
Agricultural Guarantee Fund Pool
Overseas Workers Welfare Administration
Philippine Overseas Employment Administration
Social Security System
Philippine Health Insurance Corporation
Philippine Statistics Authority
Home Development Mutual Fund (Pag-IBIG Fund)
Government Service Insurance System
DBP Data Center, Inc.

Banking, Financial Services and Insurance Industry

Land Bank of the Philippines
Development Bank of the Philippines
Philippine National Bank
PNB Savings Bank
Chinabank Savings Bank
EastWest Bank
Union Bank of the Philippines
Philippine Bank of Communication
Maybank Philippines
RCBC Savings Bank
Producers Bank
Camalig Bank
Cebuana Lhuillier Rural Bank
CIMB
Asia United Bank
Citibank
Philippine Business Bank
Insular Savings Bank
Bank of Makati
CARD SME Bank
CARD Bank
Rizal Bank, Inc.
Veterans Bank
Chinatrust Banking Corporation
PR Savings Bank
Bank of Commerce
Robinsons Bank
Pawnhero
First Circle
Algo Leasing & Finance
Asialink Finance Corp.
JK Capital Finance
Radiowealth Finance
Esquire Financing Inc.
Cash Credit
MCC Money Shops
Fundline Finance Corporation
World Partners Finance
Encore Leasing and Finance Corp
Macondray Finance
Home Credit
Gotuaco Del Rosario Insurance Brokerage
Malayan Insurance
MicroInsurance
Bankers Assurance Corp.
Sun Life Financial Philippines
PhilCare
Atram Asset Management
Seedbox Philippines
TransUnion
CIBI
Compuscan
CRIF
FinScore
Dun & Bradstreet
PayMaya Philippines
Metrobank Card Corp.
Wealth Bank
CVM Pawnshop
Macondray Finance
Filidian Bank
Rizal MicroBank
Rural Bank of Digos
United Coconut Planters Bank
BDO Unibank, Inc.
Bank of the Philippine Islands
BPI Family Savings Bank

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FINTQnologies Corp.

Launchpad Bldg., Reliance cor. Sheridan Sts., Mandaluyong City 1550 Philippines

info@fintq.com

www.fintq.com
www.lendr.com.ph
www.kasamaka.com

@lendrph