

The Provincial Banking Market in the Philippines

August 2010

Conclusions

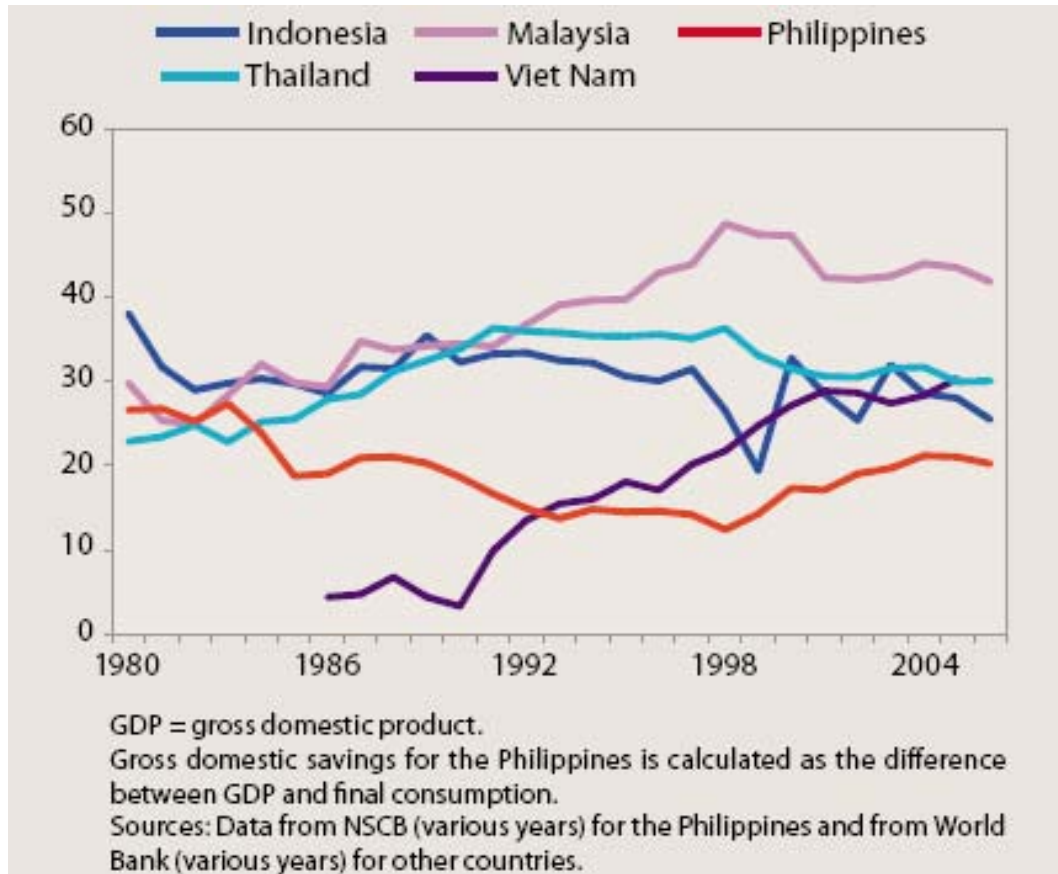
Issues addressed

- **What is the overall situation in Financial Services in the Philippines?**
- **How does the government support the sector?**

- Banking is not well developed in the Philippines: levels of lending and borrowing are low and falling
- As a result, financial services are not well used, especially in poor or remote areas and banking does not create sufficient employment
 - Banks should be serving ~7 million more people
 - ... and lending to create ~7 million additional jobs
- The issue is not a lack of banks, rather low leverage of existing assets
- The BSP recognises the challenges and has defined a number of programs to improve sector performance

The Philippines has a *low level of domestic saving*

Domestic saving as % of GDP

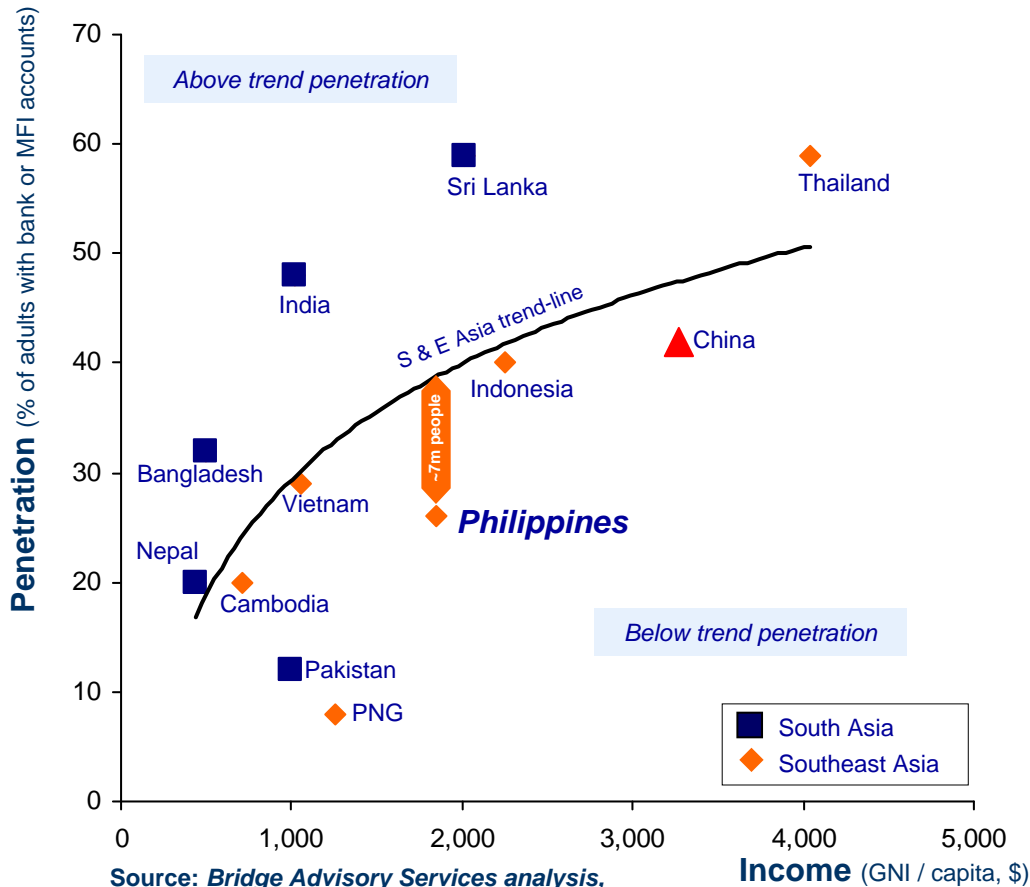


- Since 1980, the Philippines's domestic saving rate has fallen and is now 30% - 50% lower than comparable countries
- *“The Philippines’ low domestic savings rate is likely one of the impediments to the country attaining the high and sustainable growth rates achieved by many of its neighbors in the past several decades”*
 - Asian Development Bank: Critical Development Constraints, Dec 2007

Source: Asian Development Bank

Consumer banking penetration is low

Philippines has considerably lower banking penetration than trend...
 Consumer banking penetration correlation to income



Source: Bridge Advisory Services analysis, World Bank, CGAP

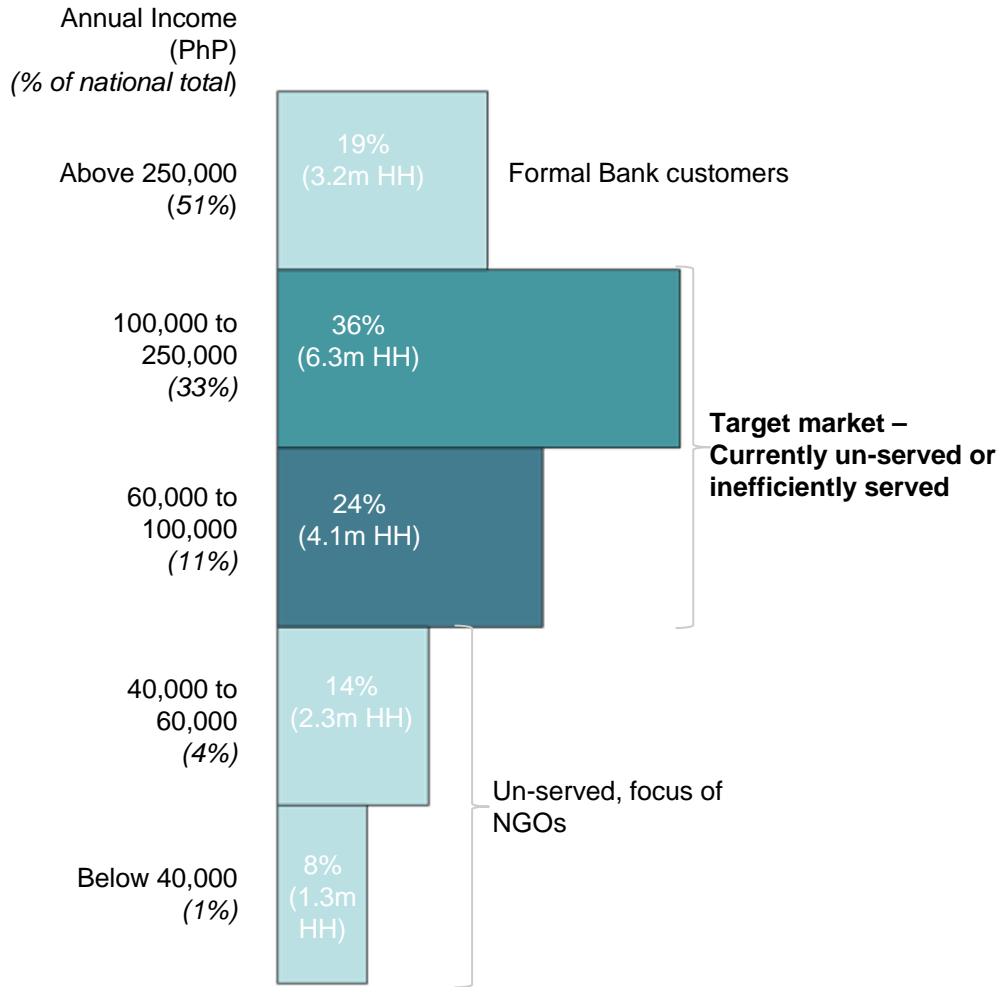
... and banking is more expensive than comparable countries
 Cost of basic retail banking transactions

Product	Philippines	Indonesia
Consumer / low value loans	<ul style="list-style-type: none"> 35% - 50% (MFIs) 60% - 80% (Pawn shops) 	<ul style="list-style-type: none"> 35% - 50% (MFIs)
Domestic transfers (\$100)	<ul style="list-style-type: none"> ~5% of value (pawnshops) 	<ul style="list-style-type: none"> 1% of value (Banks)
SME loans	<ul style="list-style-type: none"> 25 - 35% (Rural Banks) 	<ul style="list-style-type: none"> 15 - 25% (Rural Banks)

66% of households – i.e. most middle & lower class do not have relationships with banks or MFIs
 Lifting usage to 'trend' would provide 7.5m people accounts

The *middle class and poor* are largely 'un-banked'

Income pyramid of the Philippines

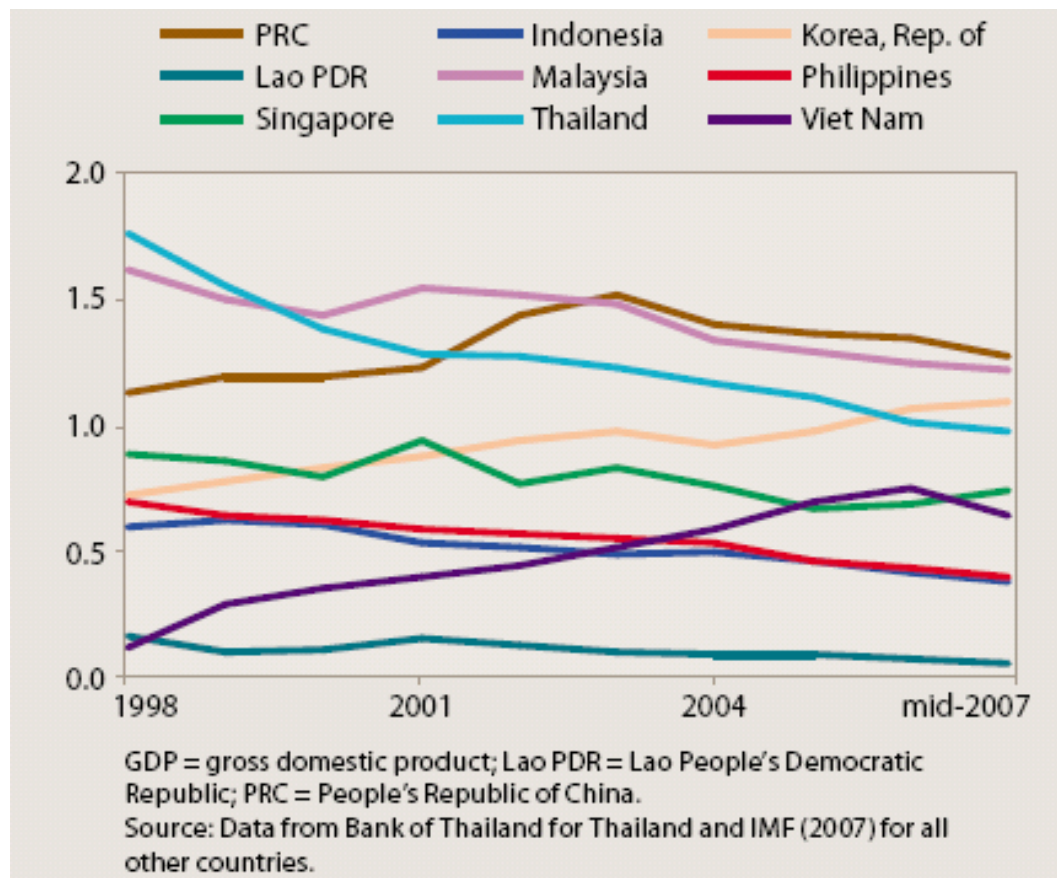


- 2/3 of households in the Philippines do not have bank accounts
- This leaves most of the Middle Class and all of the poor outside the banking system
- Informal savings and borrowing mechanisms replace the banks for these segments

Source: 2006 Household income and expenditure survey
Bridge Advisory Services analysis

Philippines also has low levels of *domestic lending*

Domestic lending as % of GDP



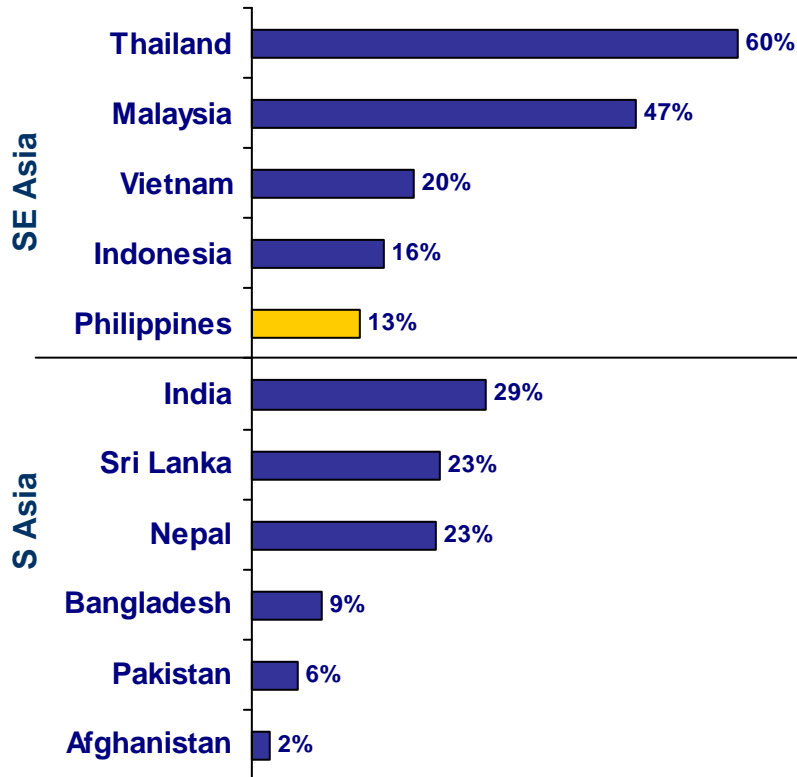
- Despite high levels of liquidity in the banking system, the Philippines has a low level of lending

Source: Asian Development Bank

Lack of *lending to SMEs* constrains economic development

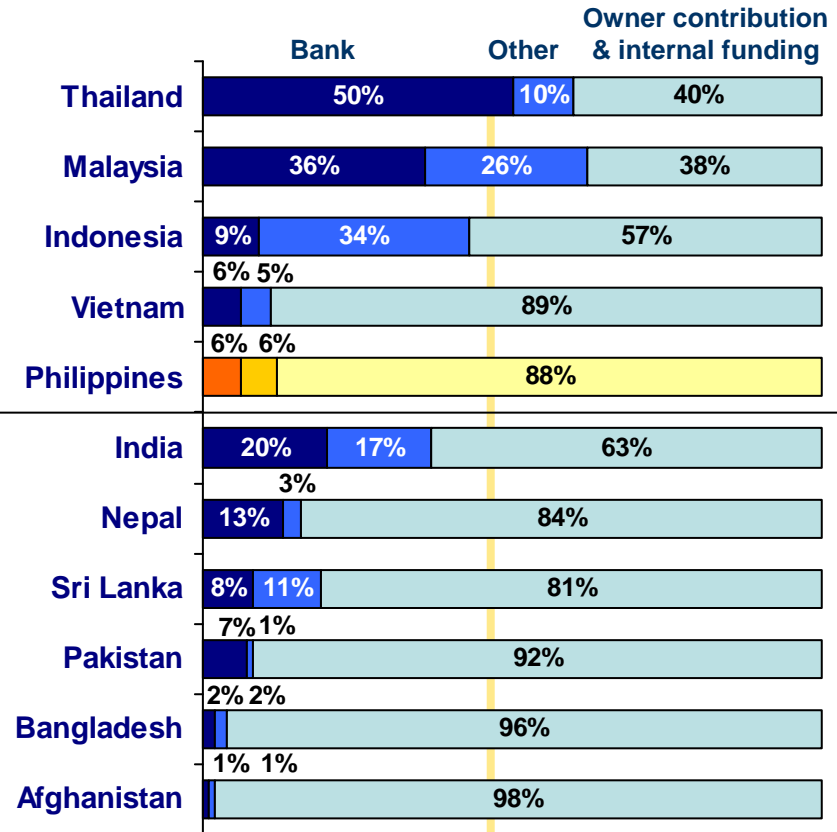
~13% of Filipino SMEs have bank loans

% of small firms using banks to fund investment / working capital



~6% of capital formation funded by banks

Source of funds for Small Enterprises

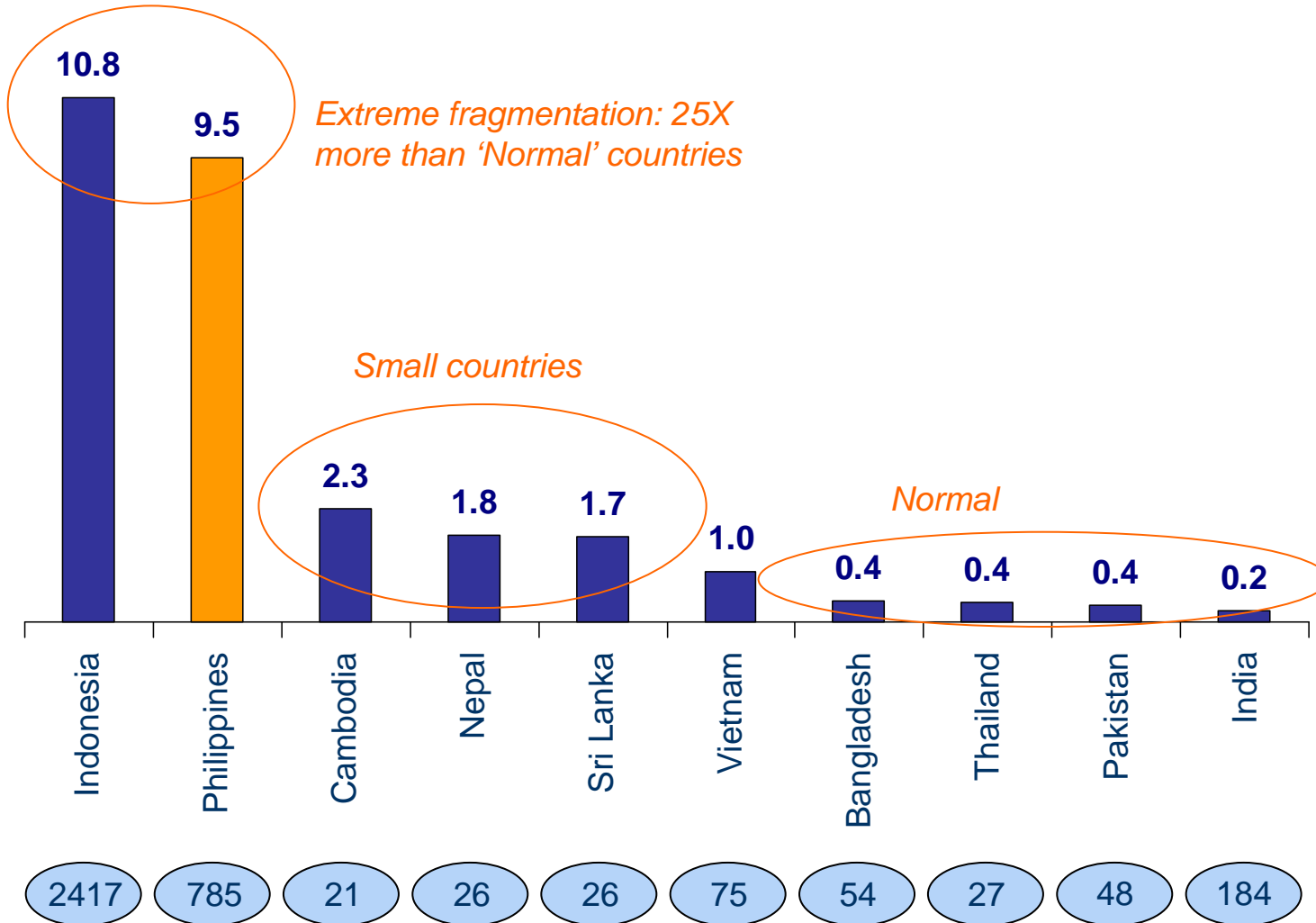


Source: Bridge Advisory Services analysis, World Bank Enterprise Surveys, World Bank data on capital formation, estimates of depreciation and capital intensity in SMEs

Lifting the level of externally funded capital in Filipino SMEs to 50% (from 12% today) would generate ~7m additional jobs

The lack of effective financial service provision is not due to a lack of banks

Banks per million people

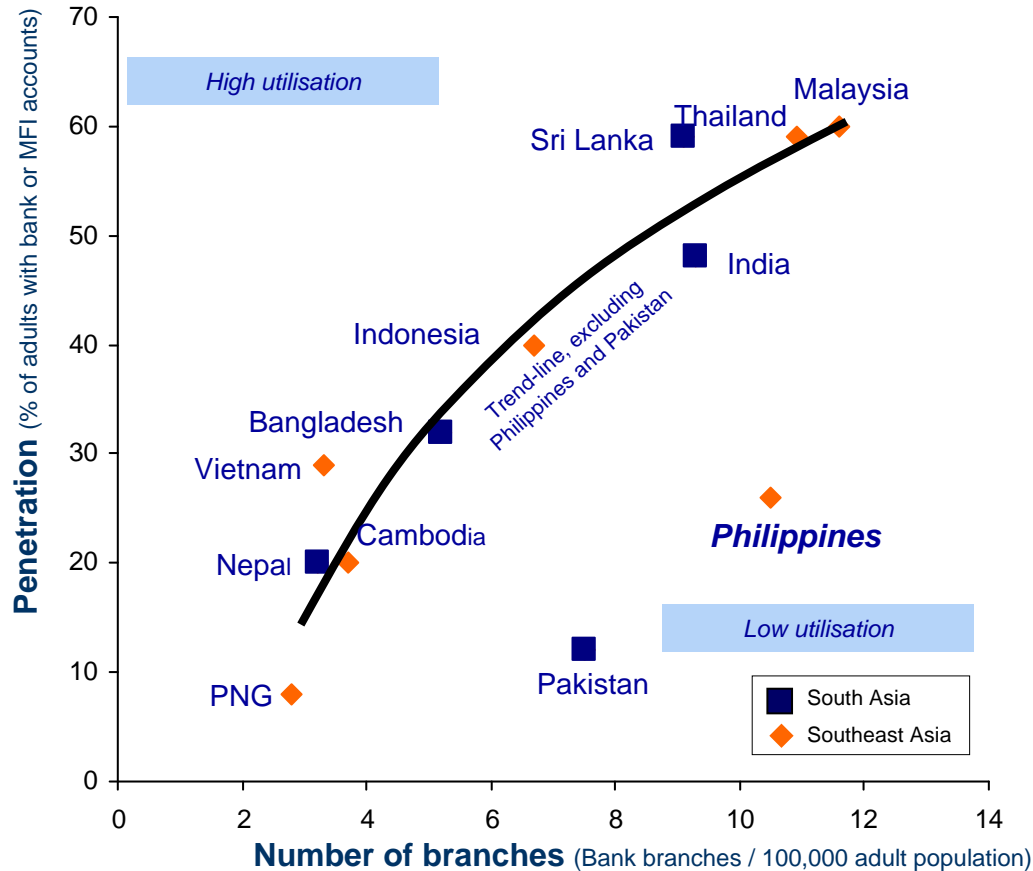


Source: Bridge Advisory Services analysis

... nor a lack of bank branches: rather the problem is that the *industry's assets are poorly utilised*

The Philippines has a large number of branches, but their utilisation is low

Correlation of penetration to number of branches



Source: Bridge Advisory Services analysis, CGAP, World Bank

- The Philippines has as many bank branches per person as Thailand or Sri Lanka...
- ... and 1.5x more branches than Indonesia
- Issue is the utilization of these branches, especially in rural areas
- Challenge is to increase the utilization of this infrastructure...
- ... not to build more infrastructure

There remains significant opportunity in the market, both from *increased lending and improved efficiency*

