



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 694
Series of 2010

Subject : Amendment of Regulations on the Establishment of Other Banking Offices and Notes to Microfinance

Pursuant to Monetary Board Resolution No. 1382 dated 30 September 2010, the provisions of Section X151 and Subsections X151.6 and X151.12 of the Manual of Regulations for Banks (MORB) are hereby amended, as follows:

Section 1. The provisions of Section X151 on the establishment/relocation/voluntary closure/sale of branches are hereby amended to read as follows:

"Sec. X151. Establishment/Relocation/Voluntary Closure/Sale of Branches. The BSP shall promote and maximize the delivery of efficient and competitive banking services especially to underserved markets and customers through innovative policies. Toward this end, the following are the rules and regulations that shall govern the establishment, relocation, voluntary closure and sale of local branches of domestic banks, including locally-incorporated subsidiaries of foreign banks and the establishment of branches of foreign banks in the Philippines shall continue to be governed by the provisions of Section X105 on liberalized entry and scope of operations of foreign banks and Section X153 on establishment of additional branches of foreign banks.

For purposes of this Section and its Subsections, the following definitions shall apply:

"x x x."

"Other Banking Office" (OBO) shall refer to any permanent office or place of business in the Philippines other than the head office, branch or extension office, which engages in any or all of the following non-transactional banking-related activities:

- (1) Market loans, deposits and other bank products and services;
- (2) Accept loan applications and conduct preliminary credit evaluation as well as perform credit administration support services;
- (3) Host on-site automated teller machines (ATMs);
- (4) Perform customer care services;

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- (5) Perform customer identification process, receive account opening documents and facilitate account activation: *Provided*, that account opening approval and actual opening of deposit accounts shall be done only at the head office/branches/extension offices; and
- (6) Such other non-transactional banking-related activities as may be authorized by the BSP.

An OBO may also be recognized as "microfinance-oriented". A "microfinance-oriented OBO" (MF-OBO)/"micro-banking office" (MBO) shall refer to an OBO that primarily caters to the banking needs and services of microfinance clients and overseas Filipinos (OFs) and their beneficiaries. As contemplated under Appendix 45, "microfinance clients" are micro-credit borrowers and/or micro-depositors.

In addition to the non-transactional banking-related activities and services allowable for regular OBOs, MF-OBOs/MBOs may also engage in any or all of the following limited transactional banking activities and services that enable and facilitate financial inclusion and broader access to financial services:

- (1) Accept micro-deposits including initial deposit and service withdrawals thereof;
- (2) Accept check deposits of microfinance clients for collection and credit to own deposit accounts;
- (3) Disburse/release proceeds of micro-loans and collect loan amortization payments and related charges;
- (4) Present, market, sell and service microinsurance products in accordance with existing regulations;
- (5) Receive/pay-out funds in connection with authorized remittance transactions;
- (6) Act as a cash/money in and cash/money out for electronic money (e-money) transactions;
- (7) Collect premiums/pay out benefits from/to members of social security institutions such as the Government Service Insurance System (GSIS), Social Security System (SSS), Philippine Health Insurance Corporation (PhilHealth), Employees' Compensation Commission (ECC), and other government authorized pension and benefit systems;
- (8) Pay out benefits under government-sponsored conditional cash transfer schemes;
- (9) Accept utilities payments; and
- (10) Purchase foreign currencies up to the maximum equivalent of USD300 per client per day for credit to micro-deposit accounts;

subject to the following conditions:

- a. An MF-OBO/MBO shall only perform the transactional activities it has specifically applied for and had been authorized by the BSP to perform. Subsequent enhancements are likewise subject to prior BSP approval;

- b. The bank shall ensure the timely accounting and proper recording of all financial transactions of its OBOs and observe adequate internal control procedures to ensure the safety of funds and reliability of financial records and reports emanating from all transactions; and
- c. The bank president shall submit within 30 calendar days from the end of a financial year a comprehensive statement under oath that all the bank's OBOs and their activities are duly authorized by the BSP.

Section 2. Subsection X151.6 on establishment of Other Banking Offices is amended to read as follows:

"Subsec. X151.6 Establishment of Other Banking Offices (OBOs). OBOs may be established with prior Monetary Board approval, and subject to compliance with the following:

"x x x

- c. CAMELS composite rating not lower than "3", with Management component score not lower than "3" in the latest examination of the bank;
- d. Not under Prompt Corrective Action (PCA) or under conditions subject to PCA;
- e. No major supervisory concerns on safety and soundness such as those enumerated under Item e of Subsection X151.2 as of the date of application; and
- f. Additional requirements for the establishment of MF-OBOs/MBOs:
 - 1) At least fifty percent (50%) of total transactions generated are with microfinance clients;
 - 2) It shall have a maximum on-site cash limit not exceeding P500,000 per day, commensurate to its level of banking activities;
 - 3) It shall have adequate physical facilities and security arrangements as well as information and transaction support systems appropriate to the level of banking activities undertaken and services offered;
 - 4) It shall be managed by a responsible officer with adequate experience or training in microfinancing activities; and
 - 5) It shall have a manual of operations appropriate to its authorized activities that is periodically reviewed and updated and duly approved by the bank's board of directors.

"x x x.

"OBOs may be established only in areas where the bank is allowed to establish branches as provided under Subsec. X151.4 on branching guidelines.

“Transitory provision. The bank shall declare to the BSP the desired classification (regular or MF-OBO/MBO) of its existing OBOs within 30 calendar days from the effectivity of this Circular; provided that all existing OBOs shall conform to the provisions of this Circular or phase out non-conforming activities within six (6) months from its effectivity; Provided, further, That the president of a bank with an existing OBO covered by this transitory provision shall certify under oath to the BSP within 30 calendar days from the end of the transition period that all existing OBOs conform to the provisions of this Circular.”

Section 3. Subsection X151.12 on sanctions is amended to read as follows:

“Subsec. X151.12 Sanctions.


“1. Any violation of the provisions of Subsecs. X151.1 to X151.11, depending on the materiality or seriousness of the violation, may constitute a ground for considering the same as unsafe and unsound banking practice and may be a ground for cancellation of the franchise and closure of any branch/OBO established herein without prejudice to the imposition of the applicable criminal and administrative sanctions prescribed under Sections 36 and 37, respectively, of R.A. No. 7653; and

“x x x”

Section 4. Appendix 45 (Appendix to Section X361) on the Notes on Microfinance is hereby amended as presented in Annex A of this Circular.

Section 5. Effectivity. This Circular shall take effect fifteen (15) days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


NESTOR A. ESPENILLA, JR.
Officer-In-Charge

14 October 2010

NOTES ON MICROFINANCE
(Appendix to Sec. X361)

A. Definition of Microfinance

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance products to the poor and low-income households, generally for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards.

B. Core Principles for Microfinance

1. The poor need access to a variety of appropriate financial services that are convenient, flexible and reasonably priced.
2. The poor has the capability to repay loans, pay the real cost of loans, generate savings and avail complementary financial services.
3. Microfinance institutions must subscribe to performance standards and best practices to ensure greater outreach and sustainability.
4. In line with the Philippine National Strategy for Microfinance, the government's role is as an enabler (establishing the market-oriented policy and regulatory environment) and not as a direct provider of financial services.
5. Microfinance should become an integral part of the financial sector in order to achieve its full potential of reaching a large number of the poor.
6. Microfinance is an effective tool for poverty alleviation and is a clear testament that market-based solutions are feasible to expand access to financial services toward building a truly inclusive financial system.

C. Characteristics of a Typical Microfinance Client

Characteristics	Distinguishing Features
Type of Client	<ul style="list-style-type: none"> • Low Income but with regular cash flow • Employment in informal sector; low wage bracket • Lack of physical collateral • Closely interlinked household and business activities
Other Market Segments	(1) The landless who are engaged in agricultural work on a seasonal basis and manual laborers in forestry, mining, household industries, construction and transport; requires credit for consumption needs and

	<p>also for acquiring small productive assets, such as livestock.</p> <p>(2) Small and marginal farmers, rural artisans, weavers and those self-employed in the urban informal sector as hawkers, vendors and workers in household micro-enterprises: requires credit for working capital, including a small part for consumption needs. <i>This segment largely comprises the poor but not the poorest.</i></p> <p>(3) Medium farmers/small entrepreneurs who have gone into commercial crops and others who are engaged in dairy and poultry. Among non-farm activities, this segment includes those in villages and slums engaged in processing or manufacturing activity. <i>These persons live barely above the poverty line and also suffer from inadequate access to formal credit.</i></p>
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D. Definition of Microfinance Loans or Micro-credit

Micro-credit are small loans granted to the basic sectors, on the basis of the borrower's cash flow, and other loans granted to the poor and low-income households to enable them to raise their income levels and improve their living standards. These loans are typically unsecured but may also be secured in some cases.

E. General Features of Microfinance Loans

1. Types of Microfinance Loans

- a. **Microenterprise Loans** – small and short term loans granted to the basic sectors, on the basis of the borrower's cash flow, for their microenterprises and small businesses. The principal amount of a microenterprise loan can be generally pegged at P150,000.
- b. **Housing Microfinance Loans** – loans granted for home improvements, house construction, house and/or lot acquisition, utilizing microfinance principles and methodologies in accordance with existing BSP regulations¹. The maximum principal amount of a housing microfinance loan for house construction and/or lot acquisition is generally pegged at P300,000.
- c. **Micro-Agri Loans** – short term loans granted for farming activities, agri business and agri-related fixed assets, among others, utilizing

¹ Circular 678 dated 06 January 2010

microfinance principles⁶ and methodologies in accordance with existing BSP regulations².

2. Collateralization of Microfinance Loan

Microfinance loans are *typically unsecured*, for relatively short periods of time (up to 365 days) with monthly (or more frequent) amortizations of interest and principal, and often featuring a joint and several guarantee of one (1) or more persons. In some cases, they can also be secured, depending on the capacity of the borrower to offer collaterals acceptable to the policies of the lending institutions.

3. Interest on Microfinance Loans

Global experience has demonstrated that a market-based interest rate regime permits the institution providing microfinance services to become sustainable and able to cover administrative costs, provisions for loan losses and intermediation/funding costs. Global experience continues to validate the proposition that what matters most to the poor and underserved segments is access to financial services rather than their interest-rate cost – most especially because microenterprise and small business borrowers will take a microfinance loan whose repayment periods match the additional cash flows they hope to generate.

Therefore, interest on such microfinance loans shall be reasonable but shall not be lower than the prevailing market rates. This is to enable the *lending institution not only to recover the financial and operational costs incidental to this type of microfinance lending but also to realize some bottom line gains.*

4. Lending Technology

- Prompt approval and disbursement of microloans
- Lack of extensive loan records
- Collateral substitutes; group based guarantees
- Conditional access to further micro-credits
- Information intensive character-based lending linked to cash flow analysis and group-based borrower selection

F. Definition of Microfinance Savings Deposit Accounts or Micro-deposits

Micro-deposits are savings accounts that cater to the needs of the basic sectors, low-income clients and those that are unserved or underserved by the financial system. They are appropriately designed and priced to fit the needs and capacity of this particular market.

² Circular 680 dated 03 February 2010

G. General Features of a Microfinance Savings Deposit Account

1. Minimum maintaining balance not exceeding One Hundred Pesos (P100.00)
2. Not subject to dormancy charges
3. Only for individual microfinance clients whose average daily savings account balance does not exceed Fifteen Thousand Pesos (P15,000.00)

H. Definition of Microinsurance (as defined by Insurance Commission Memorandum Circular 1-2010 dated 29 January 2010)

Microinsurance is an activity providing specific insurance, insurance-like and other similar products and services that meet the needs of the low-income sector for risk protection and relief against distress, misfortune and other contingent events.

The marketing, sale and servicing of microinsurance products by thrift, rural and cooperative banks shall be governed by existing BSP regulations³.

I. General Features of a Microinsurance Product (as provided by Insurance Commission Memorandum Circular 1-2010 dated 29 January 2010)

1. Premiums, contributions, fees or charges are collected/deducted prior to the occurrence of a contingent event. The amount of which shall be computed on a daily basis and does not exceed five percent (5%) of the current daily minimum wage for non-agricultural workers in Metro Manila.
2. Guaranteed benefits are provided upon occurrence of a contingent event. The amount of which is not more than 500 times the daily minimum wage for non-agricultural workers in Metro Manila.

³ Circular 683 dated 23 February 2010