

## **Amando M Tetangco: The transformation of the Philippine retail payment system**

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the National Retail Payment System (NRPS) Event - Signing of PSMB Charter and ACH Agreements, Manila, 31 March 2017.

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We are pleased that you have joined us this morning to witness two ground-breaking events that will transform the Philippine Retail Payment System to become truly inclusive and eventually serve all payments transactions across the country.

The first is the signing of the Charter of the “Payment System Management Body” or PSMB under the National Retail Payment System framework.

The PSMB is a critical and unique entity that will serve as a strong foundation of a modern, digital retail payment system in the Philippines. It is industry-led, bringing together and organizing all direct clearing participants in all important retail payment systems, into a self-governing body that will assist the BSP in overseeing the national payments system.

As a fine example of public-private partnership, the BSP and the payments industry will work together to promote the sound development of the payment system based on the principles of cooperation, good governance, healthy competition and consumer protection.

The second is the signing of the Expression of Interest to establish and activate within this year two specific Automated Clearing Houses (ACHs) that are being prioritized because of their huge potential to immediately provide digital payment solutions to current payment challenges being encountered by government, by businesses, and by ordinary consumers.

The first ACH will be called “PESO Net” which is a batch electronic fund transfer credit payment scheme. This can be the electronic alternative to the paper-based check system but it will also be more inclusive in terms of participants and users. The PESO Net supports bulk payment transactions of various users. For instance, it will enable companies, including the government, to conveniently pay salaries and invoices to the bank account of choice of their employees and suppliers. Employees and suppliers will therefore no longer be compelled to open and manage several accounts just so they can receive and make payments affordably.

The second ACH will be called “InstaPay”, a real-time low-value push payment scheme for transaction amounts up to P50,000. This is a new retail payment system designed to facilitate small value payments that will be especially useful for paying for toll fees and tickets, and for e-commerce to enable MSMEs.

Payment products can be built on InstaPay that will enable merchants to accept digital payments from both e-money and bank accounts even without a POS. By using digital payments, MSMEs will be able to build a rich digital transaction history which can help establish their creditworthiness and provide them access to credit from formal lending institutions at a price that reflects their good risk profile. This shows that the benefits of using electronic payments especially by MSMEs go beyond convenience and affordability. Electronic payments can even provide greater access to other financial services.

These concrete developments mark a significant milestone in our journey towards modernizing the retail payment system in the country — an accomplishment that would not be possible without the cooperation of the payments industry players with the BSP. We also recognize USAID which has provided the technical assistance for this strategic initiative.

This journey officially began in December 2015 when we launched the National Retail Payment System Project or the NRPS. As a policy framework, the NRPS lays down the principles and necessary elements of our envisioned safe and efficient retail payment system.

Let me just highlight for a moment the concept of efficiency. Efficiency in the retail payments is essentially about speed, convenience and affordability. These are features and requirements that can clearly be supported by a shift to electronic payments. And that is why a key outcome of the NRPS is the increased adoption of electronic retail payments.

When we decided to embark on this journey, we knew from the get-go that we have our work cut out for us. As it stands, the share of electronic payments in the estimated 2.5 billion monthly payment transactions in the country is a measly 1% based on a baseline survey conducted in 2013. We want to bring this to 20% within the next 3 years, or by 2020. Some might think this as quite an ambitious target. And perhaps it is. But realizing how important a shift to electronic payments is for the country, we knew we had to embrace this target and buckle down to achieve it.

So what is at stake? Aside from the considerable cost-savings and productivity that it can generate for businesses, the government and the financial sector at large, a safe and efficient retail payment system can potentially transform the economy by enabling greater financial inclusion. As it facilitates low-cost and convenient transactions, our envisioned retail payment system supports the viable and sustainable delivery of a wide range of financial products that cater to the needs of all users, especially the small-value, high frequency transactors of the low-income segment. A well-designed retail payment system serves as a pillar of an inclusive and expansive digital finance ecosystem – one that is able to meet the diverse needs of all users in a manner that is convenient, sustainable, affordable and reliable.

Just as it is a goal, financial inclusion is also a tool for achieving an efficient retail payment system. As more people participate in this system, greater economies of scale are secured – thereby making the system even more efficient. The unserved market of the payments industry is still huge, considering that based on the latest World Bank Findex report, only 31.3% of adult Filipinos have a transaction account which enables them to participate in the retail payment system. By enabling its user to store funds and use electronic payments, a transaction account can provide the unbanked the means to eventually avail of more sophisticated products, like credit, insurance and investments. Providing a transaction account to the remaining 69% untapped potentially high-volume market therefore presents opportunity for financial service providers to expand their customer base and add new income streams.

Clearly, therefore, we cannot overemphasize the importance of establishing a safe and efficient payment system which the NRPS aims to achieve. The NRPS provides the framework for our deliberate approach to securing the promised gains of modernizing retail payments for the benefit of the consumers, the industry and the economy as a whole. This approach is built on three core principles: interoperability, inclusivity and “coopetition”.

Interoperability is defined as a state in which customers can transfer funds from their own account to any BSP-regulated transaction account using any device. This means that a customer need only maintain one account – whether a bank or an e-money account – to be able to conveniently and affordably transact with anyone in the system.

The inclusivity principle, on the other hand, demands that all qualified financial service providers must be able to effectively participate in the system – regardless of their size and type of transaction accounts offered. This fosters greater competition and spurs innovation to better support the diverse needs of the consumers.

The third core principle espoused by NRPS is “coopetition” – a portmanteau (combination) for “cooperation” and “competition”. NRPS promotes both cooperation and competition in the

industry. The industry is expected to cooperate in matters that directly impact on our shared objectives of system efficiency and resilience. This includes clearing and settlement rules and standards, industry governance and risk management. Product features such as end-user fees, delivery channels and customer service fall outside the cooperative sphere and will be used as basis of competition.

The formation of the PSMB and the PESO Net and InstaPay ACHs essentially sets in motion the operationalization of these NRPS principles. The PSMB serves as the industry-level cooperation and governance body composed of qualified banks and e-money issuers. By organizing as a formal body, participants can effectively identify and drive strategic initiatives to promote the efficiency and resilience of the system and promote the sustained growth of the industry.

The multilateral ACHs, on the other hand, lays down the clearing and participation rules for a particular payment stream to facilitate electronic fund transfers among its participants. Payment streams that are covered by a multilateral ACH promotes greater efficiency, better risk management and interoperability compared to those that are covered by separate bilateral agreements as currently practiced.

Our journey towards a modern retail payment systems is just beginning but we can take pride in the significant progress we have made thus far.

We couldn't have gotten to this point if not for the willingness of the key stakeholders present here today to collaborate, dialogue, and commit to the NRPS vision.

And so let me conclude by expressing our deep appreciation for your support to the NRPS. With the same commitment and cooperation, we shall move forward with the full implementation of the NRPS and realize its vision of establishing a safe and efficient retail payment system in the country, a vision of a highly digital financial system in the Philippines that serves the interest of all financial consumers.

Mabuhay po tayong lahat!