

Nestor A Espenilla, Jr: Disruptors, enablers and intended consequences

Message by Mr Nestor A Espenilla, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), during the Peso Net Launch, Manila, 8 November 2017.

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In the September issue of *The Asset*, the cover depicted a caricature of me as a superhero with the blurb labeling me as a disruptor. I can only chuckle gamely at this obvious hyperbole. If there is a disruptor today, it is us, as we move collectively to radically change our fate. For the better.

We know that the things cannot continue on “business as usual” and that great strides to level up, modernize, and innovate should be taken in this fast changing economic landscape.

Today we do just that. We launch the first Automated Clearing House (ACH) under the National Retail Payment System (NRPS). It is wonderfully disruptive to the existing status quo. It is innovative and it is expected to create new markets and add new value. Today, we celebrate a milestone in our shared goal of having a safer, more efficient, affordable, and reliable payment system.

Today, we move closer to our objective of improving the retail payment system and creating a cash-lite economy....

Indeed, we have made significant strides through constant and close dialogue and collaboration with you, our partners our partners in the industry, and with the other government agencies represented here. In a way, we have united as a proud disruptive league of our own.

The Secretary of Finance Carlos Dominguez cannot join us today because he is on his way to Vietnam. His proxy is still on his way. But let me acknowledge him – his strong support for our initiative, and the rest of government, my colleagues in the monetary board ; the Chairman of Philippine Payments Management, Inc. (PPMI), Mr. Justo “Tito” Ortiz, the PPMI Board members, I met all of them yesterday; Mr. Jeffrey Lehrer, Director of the USAID Office of Economic Development and Governance, distinguished guests from the private business sector; let me acknowledge specifically Mr. Domingo Yap, the president of the Filipino – Chinese Chamber of Commerce and Industry, friends from the banking community; many of you here are represented by no less than your president/CEOs. Thank you for your support to this endeavor, our other what we called BSFIs, non-bank electronic money issuers, non-bank regulated entities who are partners of the BSP and the industry as well in this endeavor represented also by your senior officers, ladies and gentlemen, my colleagues from the BSP welcome to the BSP and good afternoon to all of you!

Implementing NRPS

Three (3) years ago (in 2014) there was a survey conducted by the Better Than Cash Alliance. Remember this? And I keep citing this in some of my earlier speeches. The survey revealed that only one percent (1%) of retail payments by volume of transactions are being done electronically! That was in 2014.

The compelling challenge that we all faced was how can this dismal statistic be improved. So we articulated a vision. In December of 2015, the BSP launched the National Retail Payment System or NRPS initiative. Great industry and government collaboration was required to do this. It aimed to create an inter-operable ecosystem allowing seamless electronic fund transfers and payments from one account to another.

Today's event was actually preceded by several singular acts — accomplishments that built upon one another that ultimately comprise the foundation on which the NRPS is built.

Laying the NRPS Foundation: PSMB and PPMI

In March of this year, the Charter of the envisioned Payment System Management Body (PSMB) was signed by the industry players. The interim Board of the PSMB – the Retail Payments Consultative Group, is a distinguished group comprising of the Executive Committee of the Bankers Association of the Philippines.

The PSMB was subsequently incorporated into a legal entity now known as the Philippine Payments Management, Incorporated (PPMI) and this was incorporated last August 30.

The PPMI, the industry-led self-governing body, will assist the Bangko Sentral in overseeing the payments industry while driving innovation and reforms in the payment space.

The PPMI shall play a major role in carrying out NRPS principles.

PESO NET, Another Step Towards the Goal

The pioneer ACH we launch today under the NRPS framework is one of those dynamic and disruptive steps towards our goal. It implements a batch electronic fund transfer (EFT) scheme. The participants have christened it, "The Philippine EFT System and Operations Network"... quite a mouthful but it is shortened to, "PESO Net". And I can see that the logo that they adopted is a combination of green and blue. I don't know what kind of discussion went in behind the color scheme of this PESO Net. I think I share everyone's excitement for this initiative. Through PESO Net, businesses, the government, and even individuals will be able to conveniently perform account-to-account payments and fund transfers.

It will provide an electronic alternative to the still widely used paper-based check system.

PESO Net's Benefits to Business

What's in it for business? PESO Net will enable e-commerce, open up markets and lower the cost of doing business.

As an inclusive platform for electronic fund transfers, business-to-business (B2B) and customer-to-business (C2B) payments will become more convenient. Payments will be settled within the day and at full value. Compare this to the next day clearing for checks.... Plus there is no recipient fee, meaning you get the full amount at the receiving end. With PESONet, business enterprises will be able to manage their liquidity better. This will result in increased economic activities.

It will also be easier for businesses for example to pay salaries. Businesses can simply issue payment instructions to their banks to credit their employees' individual bank accounts even if these are maintained in different banks. For the employees, this means freedom of choice in their banking relationships. That's liberating and truly empowering!

PESO Net's Benefits to the Government and Public

PESO Net will also enable the digitization of government collections and payments. This will be realized through the collaboration with various agencies such as the Department of Finance, the Bureau of the Treasury, Bureau of Internal Revenue, Department of Information and Communications Technology, and the Department of Budget and Management and the Commission on Audit.

Imagine a significant increase in person-to-government (P2G) payments! Taxes, fees, and other

obligations will be paid more efficiently through the retail payment network! While this is already being partially implemented by some providers, with PESO Net, we foresee greater and wider government agency participation. Increased government-to-person (G2P) and government-to-government (G2G) payments will lead to more efficient budget administration and will make it easier for citizens and businesses to do business with government.

Convenience to businesses, government, the public is the most obvious and foreseeable benefit of PESO Net.

Foreseen and Intended Gains from Promoting Electronic Payments

Yes, foreseeable consequences are important. But in evaluating government action, wise analysts are always keen to identify the unintended consequences of public policy. These indirect, unintended consequences or unanticipated effects may be positive or negative. But these can be very powerful.

The french economist Frederic Bastiat wrote, "...the bad economist confines himself to the visible effects, the good economist takes into account both the effect that can be seen and those effects that must be foreseen."

With the launch of PESO Net (and other ACHs of the NRPS down the road) we in the Bangko Sentral foresee not just the direct and practical consequences to businesses, the government and the public. We see beyond the immediate result of having affordable, fast and efficient payments.

We anticipate (and are very excited about) several other benefits. These are: First, increased innovation of financial services; Second, lowered costs for businesses and for government; Third, faster economic development from accelerated velocity of payments; and Fourth, greater financial inclusion.

Increased Innovation

We envision that with the launch of PESO Net and other ACHs, innovation in the delivery of financial services will thrive. With an efficient retail payments infrastructure, we predict that various services will emerge in response to the rapidly evolving needs of financial consumers. This is how markets work and it is wonderful. The self-interest of disciplined and prudent market players will eventually lead to ingenuity ultimately promoting public welfare!

We look forward to the emergence of new competitive space where service innovation is encouraged. New business models, technologies, industry wide collaborations and partnerships will be developed.

Lowered Costs

Innovation and a greater competitive space can lower payment system costs.

The use of electronic payments will also lead to the reduced usage of cash. To businesses, payment system providers such as banks, and the government, this translates to cost savings since cash handling and cash services entail security, transport, overhead, and other incidental costs.

Economic Development

Greater efficiencies in electronic channels will also bring about an accelerated velocity of payments. This will increase economic activities.

When payment beneficiaries are enabled to quickly obtain the liquidity that they need, they are

able to pursue productive activities at a faster rate.

Financial Inclusion

Perhaps the result of increased electronic payments usage that I personally look forward to the most is of course greater financial inclusion. This is actually what triggered us to move in this direction.

Studies show that 98 percent of unbanked Filipinos can be banked through electronic channels. Mobile phones, especially smart phones, of which the country has a very high penetration rate, can be particularly used for this purpose.

Enabling Regulations

For all these reasons, the BSP is pushing NRPS forward. Our task is to enable you – industry players, stakeholders, payment service providers and end users, to actively participate in the NRPS. We do this through policy formulation and regulations.

Keeping our financial stability mandate in mind, we have issued regulations to encourage the growth of financial innovations including those linked to payments.

Recently, the Monetary Board approved the NRPS Framework, now issued as BSP Circular 980. This framework sets out the overarching principles that will govern the retail payment system. The objective is to achieve greater interoperability among payment participants so that a wide range of electronically-accessible payment products and services can be made available anytime, at the least possible cost.

In support of electronic payments, the BSP will also continue to work with other government agencies in developing a biometric foundational ID system to enable access to government and financial services.

Another upcoming regulation pertains to the offering of Basic Deposit Accounts or BDAs which will further support client on-boarding. Designed as a low cost, low friction account, everyone can now aspire to have a transaction account that connects him or her to the digital financial ecosystem that the NRPS is creating.

In order to protect our emergent digital financial infrastructure, we are likewise updating our technology risk management guidelines to improve the resilience of BSP-Supervised Financial Institutions against cyber-attacks.

The Monetary Board recently approved the issuance of updated cybersecurity guidelines. Payment systems continue to face increasing security threats and industry players need to step up.

The string of regulations to improve technology risk management, together with consumer protection, even as we enable, digital payments are collectively aimed toward creating a stable environment for financial services and innovation.

Marketing, Collaboration and Cooperation are Key

As we offer PESO Net, communication to customers could be a challenge, because people are simply not familiar or used to electronic payments. Every good product or service needs to be promoted. To reach a truly inclusive market, banks and non-banks must understand and connect to their target customers. You have to go out of your way to bring this to the people. Messages that will appeal to their experiences and needs must be crafted. Through effective and sincere communication, customers can be convinced to participate in the formal financial system as we build a critical mass of users. The network effects will draw in even more participants.

It is through these sustained efforts that we can bring about a payment ecosystem that we can all be proud about... an ecosystem that is a symbol of digital ingenuity. In this regard, we are all disrupters and enablers.

On the part of the BSP, we remain strongly committed to creating an enabling and supportive environment for our shared vision to come into full fruition.

We look forward to working with all of you as we take our leap to bring about a safe, efficient, reliable, and affordable retail payment system supportive of inclusive growth.

Congratulations to all of us!

Mabuhay ang PESO Net! Mabuhay ang NRPS. Mabuhay ang Pilipinas. Salamat po.