

Benjamin E Diokno: Continuity, collaboration and a better future

Speech by Mr Benjamin E Diokno, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 1st Fintech Alliance Summit, Manila, 26 March 2019.

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FinTech Alliance Philippines Chairman Lito Villanueva, Fintech Alliance Philippines members, industry partners, fellow Monetary Board Members, Ms. Tess Espenilla and family, colleagues from the BSP, and workers in government, friends from the media, esteemed guests, ladies and gentlemen, good morning.

I am honored to be your keynote speaker during the 1st FinTech¹ Alliance Summit. This is my first time, as BSP Governor, to address the country's leading companies in the financial technology sector.

As such, today is an opportune time to share with you that I FULLY SUPPORT AND WILL CARRY FORWARD OUR FINANCIAL INCLUSION AGENDA so that financial services are made more accessible to a greater number of Filipinos. In fact, I expressed the same during my first press conference as BSP Governor earlier this month. Thus, I am indeed glad that you chose "Inclusion and Digital Transformation" as conference theme because this is truly in line with my policy priorities.

Launch of the Governor Nestor A. Espenilla, Jr. Institute for Growth and National Inclusion, Transformation and Empowerment (IGNITE)

I understand that most of you here had the great opportunity to work closely with my predecessor, the late Nestor A. Espenilla, Jr., who championed financial inclusion and digital transformation.

We are all undoubtedly inspired by the life and work of Gov. Nesting. It is thus fitting that later this morning, we shall witness the launch of the Governor Nestor A. Espenilla, Jr. Institute for Growth and National Inclusion, Transformation, and Empowerment or IGNITE.

IGNITE is a multi-stakeholder, research-based and data-driven advocacy. It is a social transformation platform that leverages on technology to empower financially unserved and underserved Filipinos for more inclusive growth.

I hope that with IGNITE, we can open a world of new possibilities and better opportunities to the financially excluded. As plans are being finalized, let us continue putting our collective energies behind this project, and to push forward our inclusive growth agenda at full speed.

To Ms. Tess Espenilla and family, may you take comfort in knowing that his legacy continues to live—and today it once again speaks to us—urging each and every one of us to do our share to make our society more inclusive. Together, let us leverage on technological innovations to help fuel the financial inclusion movement, just as Gov. Nesting would have wanted.

BSP Approach to Digital Transformation

We pursue inclusion amid a global financial ecosystem that is in a state of digital transformation. Of course, you are all well aware of that—as fintech firms are a big reason for it.

This transformation has completely altered the business landscape and has moved traditional financial institutions to adapt and innovate. Furthermore, increasing consumer demands for better financial products and services have driven digitalization to become a strategic priority for both financial and non-financial corporates. There is no denying it. The digital revolution has

arrived. And it is here to stay.

Digitalization is expected to become an essential aspect of how we do business, almost as a matter of routine. Digital transformation should therefore spur a complete change in mindset to allow for continuous and consistent innovation. We should allow ourselves to think differently, to grow in the midst of change. As H.G. Wells, a futurist English writer, said in his timeless quote, “Adapt or perish, now as ever, is nature’s inexorable imperative.”

Rightfully so, the same applies to financial regulatory authorities. Today’s rapid digital transformation requires not just new regulations but demands fresh and bold approaches. Ladies and gentlemen, I am proud to say that BSP remains a thought leader in this regard.

To note, in its 2018 Global Microscope report, the Economist Intelligence Unit said the BSP “has been ahead of the curve in identifying opportunities and setting guidelines for financial inclusion.”

The research arm of The Economist Group also recognized that BSP’s focus on “creating a digital finance ecosystem has led to the introduction of a sound payments infrastructure that helps various financial sector players to reduce their costs and further their outreach.”

Said recognition is a reflection of BSP’s proactive approach to digital transformation. Needless to say that we support responsible fintechs, given their link to increased efficiencies and greater depth of outreach, which are often considered as pain points of legacy financial institutions. We likewise welcome the growth opportunities brought about by the entry of a growing number of fintech firms into the financial services space.

In light of these developments, the BSP remains committed to establishing a regulatory environment that allows digital transformations to thrive. At the same time, we are mindful of attendant risks and any unintended consequences that technological innovations may bring, especially when it comes to consumer and data protection.

Because of this, a deliberate part of our strategy is to further deepen our financial education and consumer protection initiatives. This balanced regulatory approach is anchored on the core principles of risk-based, proportionate and fair regulation; active multi-stakeholder collaboration; and, consumer protection.

These principles are pragmatically implemented through our flexible “test and learn” approach in dealing with increasing digital transformations in the financial system. This provides an opportunity for fintechs to participate in the financial system thru collaborations with banks and other financial industry players to achieve greater scale, within the regulatory environment established by the BSP.

In addition, we are likewise coordinating and cooperating with other domestic and foreign regulators for possible information sharing and referral system especially focused on fintech firms. The ultimate objective of our regulatory approach to digital transformation is to be aware of risks and employ mitigating actions as needed, but only in a manner that also allows benefits leveraging on these innovations.

In the last three years, the BSP has been preparing the groundwork for an expanded digital finance ecosystem, one marked by diversity of players responding to the varying needs of businesses and individuals, especially those that have been traditionally unserved.

We issued rules to open up the electronic payment rails to more players, (Cir. 980 and 1000); provided guidelines on virtual currency exchanges as an emerging alternative remittance business model (Cir. 942 and 944); allowed banks to exponentially expand reach by tapping ubiquitous retail outlets as cash agents (Cir. 940); and provided greater clarity on customer onboarding for low-risk clients who need formal financial services but lack conventional

identification documentation (Cir. 950 and 1022).

BSP Legislative Advocacies Bearing Fruit

While these issuances have helped create an enabling environment for innovations to flourish, BSP recognizes that ushering the country to a new era of digital transformation and inclusive growth requires new regulatory tools. With the commitment and perseverance of my predecessors as well as the support of our lawmakers and the National Government, our legislative advocacies have borne fruit with the passage of the landmark laws for the financial system.

In October 2018, Republic Act (RA) No. 11127, or the National Payment Systems Act (NPSA) was signed into law. The NPSA is a comprehensive legal framework supporting the twin objectives of maintaining a payment system necessary to control systemic risk and providing an environment conducive to sustainable growth.

It fosters a level playing field for all participants under a single overarching legal and regulatory framework. This will bring about greater efficiencies, foster digital innovations and promote “coopetition”— a combination for cooperation and competition – in the financial services industry.

To cope with all these rapid technological changes, there is clearly a need to make BSP more capable, efficient, agile, stakeholder-oriented and future-ready. We, therefore, cannot overemphasize the critical importance of the amendments to the BSP Charter with the signing of RA No. 11211 just last month.

The new BSP Charter embodies a package of reforms that places central banking in the Philippines at the forefront of modern central banking, improves the BSP’s corporate viability, and enhances its capacity to craft proactive policies amid rising interlinkages in the financial markets and the broader economy.

Under our new Charter, the BSP shall continue fostering price and financial stability, with a clear view that our efforts are ultimately aimed at enhancing the economic wellbeing of Filipinos.

BSP is also working closely with the Philippine Statistics Authority and other government agencies on the successful implementation of the Philippine Identification System, as provided under RA No. 11055 signed by the President in August 2018.

PhilSys aims to provide every Filipino a unique and verifiable digital ID and is envisioned to be a platform for innovations in consumer service delivery. With PhilSys, all Filipinos can have the tools to meaningfully participate in the gains of an increasingly digitalized economy.

We believe that with these regulatory and legislative initiatives, the requisite foundation for digital transformation has been put in place to support industry players called to respond to the needs of Filipino consumers.

Collaborating and Innovating with Purpose

Whether you are a market pioneer or a startup, Financial service providers must recognize that tapping into the latest technology will not be enough; greater collaboration and more meaningful partnerships present the best path towards financial inclusion and inclusive growth.

Strategic partnerships between agile fintechs and experienced financial institutions in the shared financial space will help unlock doors to new, untapped possibilities. Greater collaboration is therefore needed to help scale innovative products and solutions and enable it to reach previously uncharted territories.

While this remains easier said than done, the life-changing impact of technology—especially for

those living in underserved and unserved communities—should be reason enough to drive greater and more meaningful collaboration among firms.

As we commend its promised benefits, let us not forget that innovation is not the end-goal, but a means to an end. We must innovate with a purpose to serve the common good and with customer-centricity as a guiding principle.

Digital innovations should drive inclusivity, improve customer experience, and deliver real welfare-enhancing benefits for all Filipinos. Only then can we truly say that technology-enabled innovations have delivered on their promises.

Conclusion: A Challenge to Provide a Better Future

As I come to the end of my talk, I would like to share with you my philosophy that has served me well in my decades-long career as a public servant. And since you will be talking about inclusion and digital transformation extensively later today, I think you will also find wisdom in the Oath of the Athenian City State. I chanced upon it when I went to Syracuse University for my Ph.D. It is a powerful oath of citizenship, engraved prominently in the dignified beauty of the foyer of Maxwell Hall, housing the Maxwell School of Citizenship and Public Affairs. It reads:

“We will ever strive for the ideals and sacred things of the city, both alone and with many; we will unceasingly seek to quicken the sense of public duty; we will revere and obey the city’s laws; we will transmit this City not only, not less, but greater and more beautiful than it was transmitted to us.”

Though I left Syracuse University in 1981, what I learned at Maxwell remains vital to my life. I saw the words as transcending generations and an appeal to the conscience of every citizen, of our joint responsibility to spend a lifetime to lift the people around us. To take on the challenge to transmit our country, the Philippines, “not only less, but greater, better and more beautiful than it was transmitted to us.”

Whatever you do, you do it for the person who comes after you. Gov. Nesting had done his part.

Now, the world is your (digital) playground. Go transform it! Together, let us provide our fellow Filipinos a better future!

Maraming salamat at mabuhay ang Pilipinas!

¹ Fintech (financial technology) refers to the integration of finance and technology in a manner that drives the transformation or disruption of the traditional processes in financial service delivery. New business models driven by fintech can create new risks in different segments of the financial system, or accentuate some existing risks.