

Benjamin E Diokno: Inclusion and digital transformation - a collaborative approach to regulating fintech

Speech by Mr Benjamin E Diokno, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Finance Executives Breakfast Roundtable, Manila, 11 October 2019.

* * *

Good morning, ladies and gentlemen. It is always a pleasure to engage with key stakeholders of the finance industry as it gives us the opportunity to advance the BSP's advocacies.

In fact, today's theme of "Collaborative Approach to Regulating Fintech" is exactly how we envision the landscape of overseeing the increasingly disruptive, yet, vibrant narrative of Fintech developments.

Over the past couple of years, innovative solutions through technological advancements have transformed the delivery of financial services by offering alternative and far convenient ways of executing financial transactions.

It has empowered the unbanked and underbanked to participate in the economy through easier access to financial services.

Indeed, FinTech players are moving ahead of the curve by developing solutions that aim to expand delivery channels and trim unnecessary processes towards providing greater efficiency and convenience for customers.

We, at the BSP, emphasize our support for such endeavors. We view innovators as enablers of financial services that help us boost our financial inclusion agenda.

The number of FinTech players in the Philippines have gradually been growing in the past three years with most, or around 75% of the total providing payments, alternative financing, and remittance services.

2018, in particular, has been a key period for blockchain and virtual currency.

There has been an increasing amount of BSP Supervised Financial Institutions that have leveraged on FinTech to support their business strategies and manage day-to-day business processes.

This prompted us to craft appropriate regulations to safeguard public interest while fully recognizing that these technological innovations can contribute to a more inclusive and safe financial ecosystem.

Our approach to regulating FinTechs is shaped by three principles,

- (a) first, we ensure that regulation is risk-based, proportionate and fair,
- (b) second, we maintain active multi-stakeholder collaboration,
- (c) and lastly, we ensure that innovations must work for the benefit of consumers, especially the most vulnerable ones.

Guided by these principles, came the rise of our three-lane FinTech roadmap that is crafted to nurture a regulatory environment that allows innovations to flourish, yet still mindful that risks must be effectively managed and that the financial system remains safe and sound.

The first lane refers to Collaborative Engagements. The continuing collaboration with industry players and other financial regulators represents a “whole-of-government approach”, ensuring policy consistency and minimizing, if not fully preventing, regulatory arbitrage.

With this in mind, the BSP openly engages with fintech players and innovators through a flexible “test and learn” environment or the “regulatory sandbox” that enables us to fully understand emerging business models while assessing attendant risks.

I will not dwell on specifics but generally, the framework consists of five important steps commencing from the enabling stance adopted by the BSP during initial engagement with the applicant, guided and clear rules for implementation, until continuing monitoring of matured services.

With such an approach, we are able to timely employ risk-mitigating actions and craft appropriate policies revolving around consumers’ welfare and protection and secure financial system.

The middle lane refers to our Capacity Building initiatives.

In 2018, we established a dedicated Financial Technology Subsector (FTSS) to institutionalize the operational and cyber-resilience of the financial system.

Under FTSS is the Technology Risk and Innovation Supervision Department (TRISD), which is primarily responsible for conducting onsite and offsite IT supervision of regulated entities, as well as maintaining a comprehensive and flexible regulatory framework relating to IT supervision. TRISD is also in charge of cybersecurity surveillance and promoting digital or FinTech innovation through BSP’s regulatory sandbox.

Equally important is the Payment Systems Oversight Department (PSOD) which is mainly responsible for the payments oversight, licensing and policy development for a safe, efficient and reliable national payment system. It espouses on the use of technology as enabler of innovation in payment systems and is the lead in enforcing a holistic payment oversight framework, including the National Retail Payment System.

We are also in the midst of implementing solutions that make use of artificial intelligence and machine learning for regulatory and supervisory processes. These RegTech and SupTech tools aim to augment areas of risk management, regulatory reporting, consumer complaint oversight and regulatory compliance automation.

This includes a chatbot, an automated complaint-handling system which uses predictive analytics to address consumer concerns and an API that automates the collection, processing, and analysis of data from supervised institutions. Supervised entities that cannot immediately migrate to the API-based reporting can use the FI portal in submission of their reports.

All of these are aimed at streamlining our manual-intensive processes, thereby enhancing the timeliness and quality of our risk-based decision-making and financial system supervision.

The third and final lane refers to Commensurate Regulations.

Consistent with the supervisory objectives of the BSP, we apply the same approach to FinTech by considering the soundness of the individual institution, the landscape of the financial system, and the risk peculiarities in individual operations.

This ensures that we promote a level playing field for the new entrants and that we will not hamper the innovation with unwarranted and excessive compliance requirements.

Some of our recent key issuances include:

(a) Circular No. 1022 which updated rules for validating client identity by accepting the PhilSys ID and allowing the use of technology-aided know-your-customer processes to capture and record personal customer data as well as conduct virtualized face-to-face contact or interview.

(b) Circular No. 1033 on the streamlined the process of securing licenses to engage in Electronic Payments and Financial Services, doing away with the tedious approval process of requiring conditional and final approval.

(c) Circular No. 1039 on the simplified the documentary or registration requirements for Money Service Businesses and pawnshops operators.

Finally, in accordance with the BSP's authority under Republic Act No. 11127 or the National Payment Systems Act to oversee payment systems in the Philippines, the BSP issued Circular 1049 to provide for a streamlined registration that aims to facilitate and encourage compliance of all concerned entities, particularly those previously unregulated non-financial institutions unfamiliar with regulatory compliance.

Soon, a new Manual of Regulations for Payment Systems (MORPS) will be prepared to consolidate all relevant BSP issuances. The manual will be a product of extensive consultations among private and public stakeholders in the payments industry. It will also be part of the phased-in implementation of the NPSA that prioritizes the creation of a baseline inventory of all OPS.

We also have the National Retail Payment System (NRPS) which leverages on the principles of interoperability, inclusiveness and "coopetition".

The NRPS, and the payment ecosystem that is envisioned to arise from it, is positioned to be a platform for FinTech innovations where industry players can utilize FinTech solutions and provide services within an organized, commercially-viable and efficient retail payment system.

Notwithstanding all of these developments, we recognize that the FinTech narrative goes beyond just the BSP. In fact, more pioneering solutions are cutting across regimes of different regulators of the financial sector.

This is why in the 3rd quarter of last year, the Financial Sector Forum, composed of four financial regulators in the country, namely the Securities and Exchange Commission (SEC), the Insurance Commission (IC), the Philippine Deposit Insurance Corporation (PDIC) and the BSP, formed a FinTech Committee aimed at harmonizing regulatory responses to FinTech innovation in the financial sector.

Among the priority agenda that the FSF-Fintech Committee undertook was identifying the numerous Fintech use cases and the scope of authorities of each regulators. Through clear understanding and increased collaboration, financial regulators can quickly anticipate changes, assess technological trends across different sectors, and optimize the potential of digital innovations to provide more convenient, and efficient financial services.

The cross-cutting nature of FinTech developments has also magnified the importance of shifting to activity-based regulations. Likewise, I am pleased to share that the FSF-Fintech Committee is in the initial stages of crafting a Cooperative Oversight Framework which will institutionalize our collaboration and clarify regulations to all supervised and would be supervised entities.

But again ladies and gentlemen, we are just one side of this financial equation and we need your support in striking the balance of ensuring that regulatory and supervisory frameworks are in tune with emerging trends and developments.

We hope that you can actively help us shape this narrative into something that is desirable, safe, sustainable, inclusive and rewarding for all stakeholders, most especially the Filipino people.

As we move forward in this collaboration, I hope that we all keep the benefit of the Filipino people in mind.

Thank you for the opportunity and I am looking forward to engaging conversations with all of you.

Needless to say that the BSP, as your partner in promoting financial innovation and inclusion, will remain dedicated and committed in supporting beneficial FinTech innovations through an enabling policy and regulatory environment.

Thank you and I wish everyone a fruitful conference.