

Benjamin E Diokno: The age of digital banking

Welcome message by Mr Benjamin E Diokno, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), during the BSP webinar on "The age of digital banking", 20 July 2021.

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A pleasant day to everyone! I welcome all of you to this timely and aptly titled webinar "The Age of Digital Banking".

Indeed, all aspects of our lives are advancing at such a rapid pace and I'm proud to say that banking or the broader digital financial industry is easily keeping in step.

As such, this event is an excellent opportunity to understand, work together, and see the digital revolution from different lenses.

And we are fortunate to have distinguished industry leaders and subject matter experts who will share with us their thoughts on the acceleration of digital financial services.

But first, allow me to share with you the country's digital payments landscape based on the 2019 update and 2020 preview on Philippine digital payments conducted by the Better Than Cash Alliance or "BTCA" in partnership with the BSP.

In terms of the total volume of payments in the country, 17 percent was made digitally in the first half of 2020, as compared with 10 percent in 2018. Consumer payments make up 78 percent of the 4.6 billion monthly payments, followed by corporate payments at 21 percent.

Consistent with the previous diagnostics, the government continues to lead the way in digitization with some 87 percent or P319 billion equivalent of payments by the government (G2X) already in digital form, up from 64 percent in 2018.

The same is followed by payments made by people (P2X) and businesses (B2X) at 35 percent and 15 percent, respectively.

It is also noteworthy that the volume of digital merchant payments significantly grew by 66 percent since 2018.

Essentially, this increase pushed the strong upward trend in the overall volume of merchant payments driven by electronic fund transfers and the heightened usage of prepaid cards.

Fully aware of the potential of the Philippine market, the BSP launched in 2020 the Digital Payments Transformation Roadmap.

The roadmap is a blueprint for the development of an efficient, inclusive, safe and secure digital payments ecosystem that supports the diverse needs and capabilities of individuals and firms alike.

In this journey, two strategic outcomes are emphasized. First is the goal to convert at least 50 percent of the total volume of retail payments into digital form.

And second is the availability of varied innovative and responsive digital financial products and services.

In parallel, the roadmap also aims to onboard at least 70 percent of Filipino adults to the financial system through the ownership and use of a transaction account.

Over time, the increased usage of transaction accounts will enable Filipinos to build financial profiles that further unlock access to more complex financial services.

According to a World Bank article entitled “Digital Financial Services” published in April 2020, access to affordable financial services is critical for poverty reduction and economic growth.

Countries with deeper, more developed financial systems enjoy higher economic growth and larger reductions in poverty and income inequality. Fintech-enabled Digital Financial Services (DFS), have the potential to lower costs, increase speed, security and transparency and allow for more tailored financial services that serve the poor.

DFS also enable a fast and secure way for governments to reach vulnerable people with social transfers and other forms of financial assistance, especially during times when transportation and movement around the country are unsafe or restricted.

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We also see the recent issuance of the digital banking framework as an integral building block in promoting an enabling regulatory environment that fosters responsible innovation, promotes cyber resilience and contributes towards advancing the digitalization of the financial sector.

It is for this reason that a specific classification for digital banks has been defined.

Due to their digital-centric business model, the operation of these banks should be underpinned by sound digital governance, robust, secure and resilient technology infrastructure, and effective data management strategy and practices.

This is balanced with the recognition that digital banks are subjected to the same set of risks and threats with elevated risks to IT, cyber security, and AML risks.

Therefore, the BSP’s existing standards on corporate governance, risk management, compliance, internal control and audit, and reporting governance, among others, shall apply.

This digital banking framework is particularly relevant as billions of people affected by the COVID-19 pandemic are driving a “historic and dramatic shift in consumer behavior” – according to the latest research from PricewaterhouseCoopers or PwC.

The consulting and accounting firm’s June 2021 Global Consumer Insights Pulse Survey also reported a strong shift to online shopping as people were first confined by lockdowns, and continued to work-from-home.

Other significant finding from the report that may change the business models of companies is that consumers do not think they’ll go back to their old ways of shopping once the pandemic is over.

In the Philippines, the study conducted by Visa also showed that around 70 percent of Filipinos who used digital payment channels during the lockdown will likely continue to do so.

Since the release of the regulatory framework for digital banks in December 2020, a number of

proponents have expressed interest and actual intent to apply for a digital banking license in the country.

As of June 2021, the Monetary Board (MB) has approved the applications of four (4) banks.

The MB approval refers to the first of the three-stage licensing framework of the BSP on the establishment of banks.

On March 25, 2021, the MB approved the first application which is from the Overseas Filipino Bank (OFBank) seeking to convert its banking license from a thrift bank to a digital bank.

On June 3, 2021, the MB approved the applications of (1) Tonik Digital Bank, Inc., for conversion of its rural banking license to a digital bank license, and (2) UNObank, Inc. for the establishment of a new digital bank.

Then on July 15, 2021, the MB approved the application of Union Digital Bank, a wholly own subsidiary of UBP.

With the framework's promising benefits, we must also be cognizant of its attendant challenges and risks.

Data privacy concerns, money laundering, and electronic frauds are among the issues that can undermine the confidence in this policy initiative.

We therefore expect that the key stakeholders particularly the financial institutions, to adopt adequate measures and controls to manage such risks.

Foremost of which is the conduct of an effective information campaign to ensure that consumers are aware of the risks and how they can perform their transactions securely.

Consumers must also be aware of the available mechanisms that can promote consumer protection.

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inclusivity.

We are living in exciting times and we each have a role to play. Let this initiative be just one of many more opportunities for us to work together to truly provide better ways of serving our constituents whenever they require and wherever they are.

Be at the comforts of their homes, in the office, in digital devices, or who knows tomorrow even from outer space!

Thank you and a pleasant day to all of you.