

## **Felipe M Medalla: The current Philippine digital landscape - what's next beyond the digital payments transformation roadmap**

Speech by Mr Felipe M Medalla, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the FinTech Alliance.ph General Membership Meeting, Manila, 29 May 2023.

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It is a fantastic day. Good time to meet old friends that I have not seen for a long time. [FinTech Alliance President] Lito [Villanueva], members of FinTech Alliance.ph, colleagues from government, friends from the banking industry, digital champions, *magandang umaga*.

I have just come from the Philippine Stock Exchange (PSE) where they inaugurated their new trading floor. Even the trading floor is a consequence of digitalization. PSE does not need it anymore because trades have shifted online. The point is, it [digitalization] will affect so many sectors, including the stock market, and it will affect the economy all over the place.

### **The twin goals of the Digital Payments Transformation Roadmap**

The industry is well aware of the targets under our Digital Payments Transformation Roadmap (DPTR) by this year. But what does our vision look like beyond 2023? Of course, we have our twin goals: [First,] more and more retail payments will be digital; our target is 50 percent of retail transactions will be digital. Second, 70 percent of Filipinos have or use a transaction account.

By the way, there is a survey that we conducted on why people do not have [formal] accounts. Surprise, surprise, the biggest answer is: "I have no money."

But there are other things other than that, which we [at the central bank] can address. Indeed, even that other one [concern] can be addressed by very, very targeted programs of the government. A good example is the Pantawid Pamilya [ng Pilipino Program (4Ps)], where poor families who keep their children in school to break the cycle of poverty get direct assistance from the government. Even in that particular case where people have no money, we really have good programs, like the 4Ps.

### **Making good progress on digitalization; e-money as key enablers of higher account ownership**

Of course, we have made good progress [on account ownership]. [As of 2021,] 56 percent of adults own a formal account, equivalent to additional 22 million people onboarded [to the formal financial system]. This [progress] is impossible to imagine without e-money [electronic money]. I do not want to sound biased. So, I will say "GMaya," okay?

By the way, I tried it [opening an e-wallet account] myself. I got a prepaid card, but I actually made a mistake. I have my national ID, but, by mistake, I uploaded my driver's

license. Yet they were able to find out that I am the same person. Of course, they also found out that I have another GCash account. By the way, I have a Maya account as well. I am making sure [that] I am neutral.

I noticed that the two [e-wallet] companies have very, very different strategies. One decided to be bank-neutral, bank-agnostic. The other one decided to have [establish] a digital bank. I was told that one is targeting the consumers; the other is targeting merchants.

This is the nice thing about competition, right? Everyone will have his or her approach, and let us see who will succeed. But one possibility is that both can succeed because they ended up keeping a bit [segment] of the market.

At any rate, we are very happy that because of these [e-wallets], there are many more account holders using transaction accounts for their payment accounts.

Then, more and more people are using PESONet instead of writing checks. But even there is a problem. Sometimes, even in the BSP [Bangko Sentral ng Pilipinas] when I am asking for reimbursement, they ask for a [paper] receipt. Now, of course, what will happen even in that direction is: There will be efforts to make sure that the payment system will actually provide a kind of [paperless] service as it is happening, I think, in the case of EgovPay.

## **Exploring parallel regulatory initiatives alongside the DPTR: digital banks, open finance, regulatory sandbox, and Project CBDC Ph**

Of course, we have other things to be happy about. [We now have] six digital banks.

Looking forward to the future, we also have the idea of an Open Finance Framework. Of course, the key to this is governance and privacy. This will feature an opt-out mechanism, which will allow consumers to withdraw or limit the scope of data that will be shared.

At any rate, our approach [to innovation] is, of course, what we call the "regulatory sandbox." With our test-and-learn approach to innovation and with coordination and constant dialogue with the FinTech Alliance and other [industry] groups, we hope that we will get better and better at regulating innovation and pioneering technologies, without sacrificing controls and the structured environment where potential benefits and risks are clearly demonstrated and balanced.

In addition, of course, we have Project CBDC [Central Bank Digital Currency], which, we think, has very little value added on the retail level. Of course, there are countries that are thinking the other way.

I saw a documentary about China. Literally, there is a picture of the currency in your phone, including the serial number. When you make payments to somebody, that disappears and moves to this phone. Of course, that saves a lot of money in printing. But in countries that are so concerned about privacy, the government will actually know

more about you than your wife. In my case, that is not dangerous; there is nothing to know about me. But for many people, that [privacy issue] is a bit of a concern. So, all of those things have to be addressed.

## **Harnessing regtech and suptech to build the digital capacity of regulators**

We must recognize that we, regulators and bank supervisors, have to catch up with rapidly-evolving technologies. In other words, even the way we regulate has to adapt to it [technology].

The best example of that is our ASTERisC\*, [which stands for] Advance Sup[ervisory] Tech[nology] Engine for Risk-based Compliance. It is a tool that streamlines and automates regulatory supervision, reporting, and compliance. [In doing so,] the tie-up between the BSP and the banks becomes more efficient, precisely because it uses digital technology.

We have other things, like the API-XML [Application Programming Interface-Extensible Markup Language] project, which involves the development of digital tools to improve the speed, quality, and comprehensiveness of regulatory reporting.

In other words, the dream is: Every time a bank itself has an internal report that is relevant to regulation, which is sent to the BSP, we begin to know each bank better and better, and, hopefully, we become even better regulators than we are today.

Of course, there is great importance in PhilSys [Philippine Identification System], which will enable consumers to have easier access and utilization of innovative and digital financial products and services.

## **Expanding QR payments within and beyond ASEAN**

The adoption of the QR [quick response] standard [is also seen to help]. By the way, we are now talking about a QR standard that is, at the very least, parts of it are interoperable with the rest of Southeast Asia, beginning, of course, with Singapore, Thailand, Indonesia, and Malaysia.

But lo and behold, I look at what GCash is doing, and they are already ahead on the cross-border [front]. If you have a GCash account, you can make remittance much easier using your phone.

Of course, the goal is for a citizen of every ASEAN [Association of Southeast Asian Nations] country-with his phone-to make a payment everywhere, at least, in the ASEAN-5 and, eventually, the whole of ASEAN. I think, the ASEAN-5 target is, maybe, two to three years from now. Of course, Singaporeans will always say, "The use case, it has to be practical." Hopefully, of course, this will be profitable in at least several countries.

Of course, our own goal within the Philippines is that we can make payments to tricycle drivers, sidewalk vendors, or even beggars using our cellphone.

Many banks are very cooperative. Again, I will not say which bank because I might sound like a bank advertiser. One bank is saying, "No fees for transactions." We suggested 500. What they are doing is 1,000; no fees for anything below 1,000.

## **But even amid digitalization push, cash will remain**

My own personal experience is that cash is faster [for certain transactions] because you have to take your phone out [with e-wallets]. Then, your GMaya has logged you out. So, you have to log in. If you put out cash, that is it. So, it is hard to beat cash.

The point, though, is that, maybe, that is the difficult part from the point of view of the consumer. But from the point of view of the merchant, he has to do a lot more things if you pay cash.

Indeed, what I remember when I was a graduate student, when I was paying rent, they refused to accept cash. The only payment they will accept from me-and this was a long time ago; many of you were not born yet-the only payment they will accept from me was a check. I am sure the merchants have the same problem when everybody is paying cash.

I think, the contest will be on the merchants, [that is] how to encourage consumers not to use cash. Of course, they can give all sorts of incentives, like if you do this, you make this payment, they give you points and so on and so forth.

I think, eventually, the [payments via] phone would start to dominate. What we see in the future, which we have probably already seen in some countries, like Norway and Sweden, where cash has been so marginalized but never total out [of the system]. The government had to say, "It is illegal to refuse cash."

Of course, we are very far from that because there are many islands in the Philippines that do not have a cellphone signal. But in those economies that are highly modernized, [that is closer to reality].

By the way, in one economy I know, your traffic ticket fine is higher if your income is higher. That is how good the data system is. The theory there is, of course, very simple: A rich person will be discouraged less by a 50-dollar fine for violating traffic than a poor person. So, if you make the traffic fines proportional to income, it will be more effective. Can you imagine the data requirements to just issue the traffic tickets? In those countries, it is already happening. We may never get to that stage, but, clearly, in a big part of the economy, we are moving in that direction.

My own vision for many parts of the country where people do not have cellphones or the [mobile] signal is terrible, cash will still be king. That is why our own forecast is that as the economy grows, demand for cash actually grows despite digitalization.

Of course, this is a debate within the BSP itself: If we are moving to Clark, how big should the printing press be? One view is that there should be very small note print works because digitalization will reduce demand for cash. The other view is my view: As [e-money] transfers become easier, then the last-mile [transactions] in many places

will actually still be cash. Therefore, cash and digital payments are actually complementary to some extent. Therefore, the BSP plant in New Clark City should have sufficient notes printing capacity.

Of course, I can be wrong. But my view is, you can make two errors: One is to have a small plant [built], and it turns out you need a big one. The other one is to have a big plant [built] rather than a small one. I felt that the second error is the least costly error. You can make two errors: not send your wife flowers on Valentine's day or insure yourself by ordering the flowers in advance. Every married person knows which error is more dangerous.

## **Readying buffers in preparation for an uncertain future**

By the way, that is how I, personally, approach risk management: What are the consequences of the errors? Which error should we try to avoid by having buffers?

Central banking is like that. For all we know, we may not need our forex [foreign exchange] reserves. For all we know, our forex reserves may be much larger than we really need. But since we do not know, we would have to build reserves and prepare for the worst.

My favorite example is in the Bible, which is seven fat cows and seven lean cows. That was the dream of Joseph. Of course, that was just a saying. The business cycle can be as long as 14 years. Therefore, your needs could be bigger. Of course, if we have dreamt of two fat cows and two lean cows, it will be a very different business cycle, right?

## **Fintechs as partners, collaborators in responsible digital innovation and development**

Let me now go back to you, our partners. Fintech [financial technology] players will be our collaborators and also major drivers of the digital shift.

Of course, what I know from experience is that, often, there are industries where the current players may not be the dominant future players. What is important, of course, is regardless of who is doing it in the end, it is all better for the economy and the consumers.

In that kind of uncertain world, the BSP will remain supportive of responsible digital financial innovations. While we do not dismiss the risks, I would rather emphasize all the good things that can happen.

Of course, there is so much money [to be made] from scamming and cheating. We must always cooperate. We must have campaigns.

With that, I thank you for inviting me to your general membership meeting. I look forward to future collaboration with FinTech Alliance.ph.

*Maraming salamat po, at mabuhay po tayong lahat.*