

BSP's Thrust on Digital Financial Innovation - A Regulatory Perspective

Rethinking Regulations in the Era of the Fourth
Industrial Revolution (FIRe)

18 January 2019 | 1:00-3:00pm

LYN I. JAVIER

Managing Director

Policy and Specialized Supervision Sub-Sector (PSSS)

BANGKO SENTRAL NG PILIPINAS



THIS PRESENTATION

- 1 Overview of FinTech Landscape in the Philippines**
- 2 Industry Outlook on FinTech**
- 3 BSP Regulatory Framework**
- 4 Next Steps – Future Directions**
- 5 Key Takeaways and Conclusion**



1. THE FINTECH REVOLUTION – WHAT IT MEANS FOR US?

WHAT IS FINANCIAL TECHNOLOGY (FINTECH)?

“Technology-enabled innovation in financial services that could result in new business models, applications, processes or products with associated material effects on the provision of financial services.”¹

Innovative digital solutions are adopted to maximize operational efficiency, enhance customer experience and gain competitive advantage.

¹/FSB, 2017



FINANCIAL INCLUSION

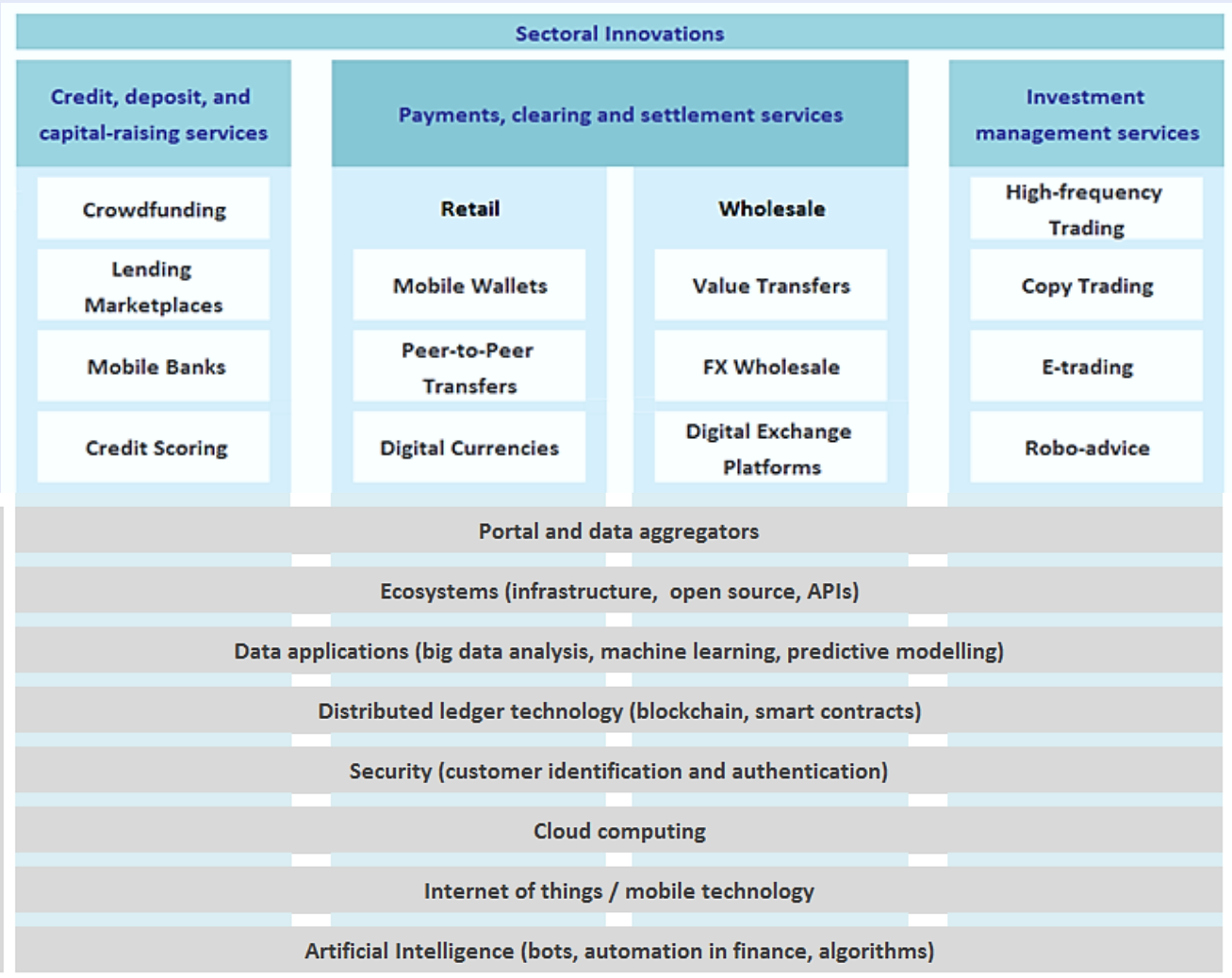
CONSUMER PROTECTION

FINANCIAL SUPERVISION



BANGKO SENTRAL NG PILIPINAS

1. THE FINTECH MARKET IS BECOMING COMPLEX & INTERLINKED



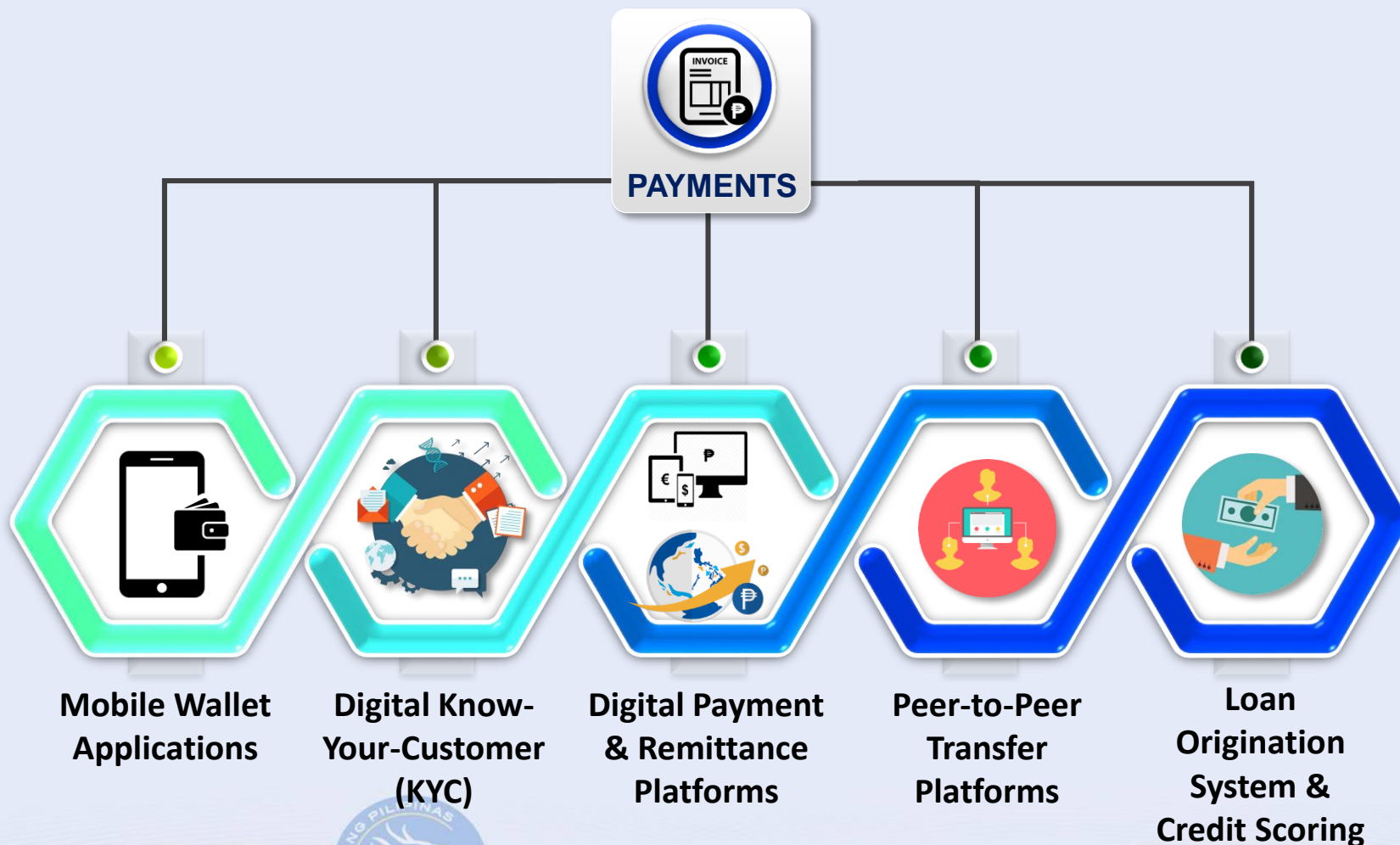
Market Support Services



BANGKO SENTRAL NG PILIPINAS

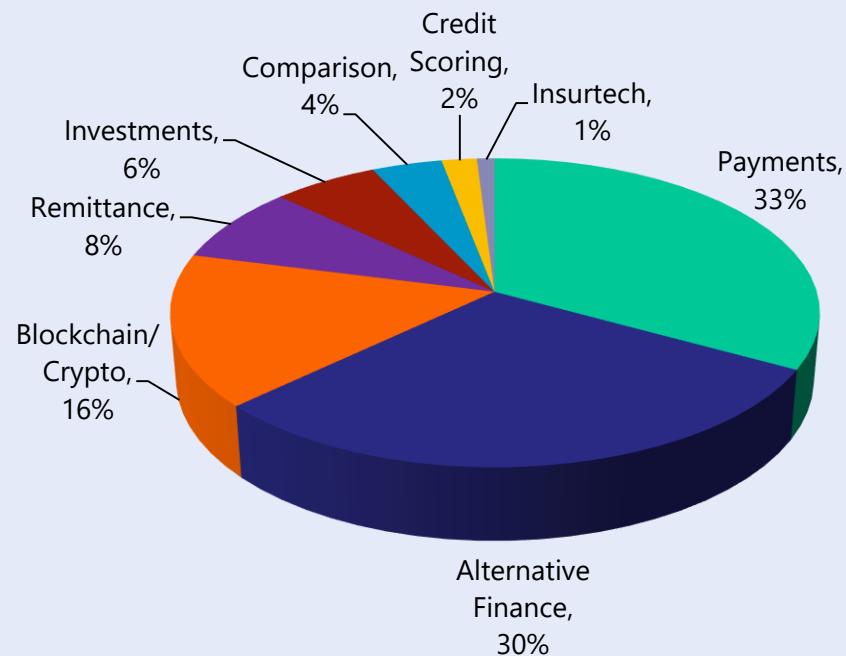
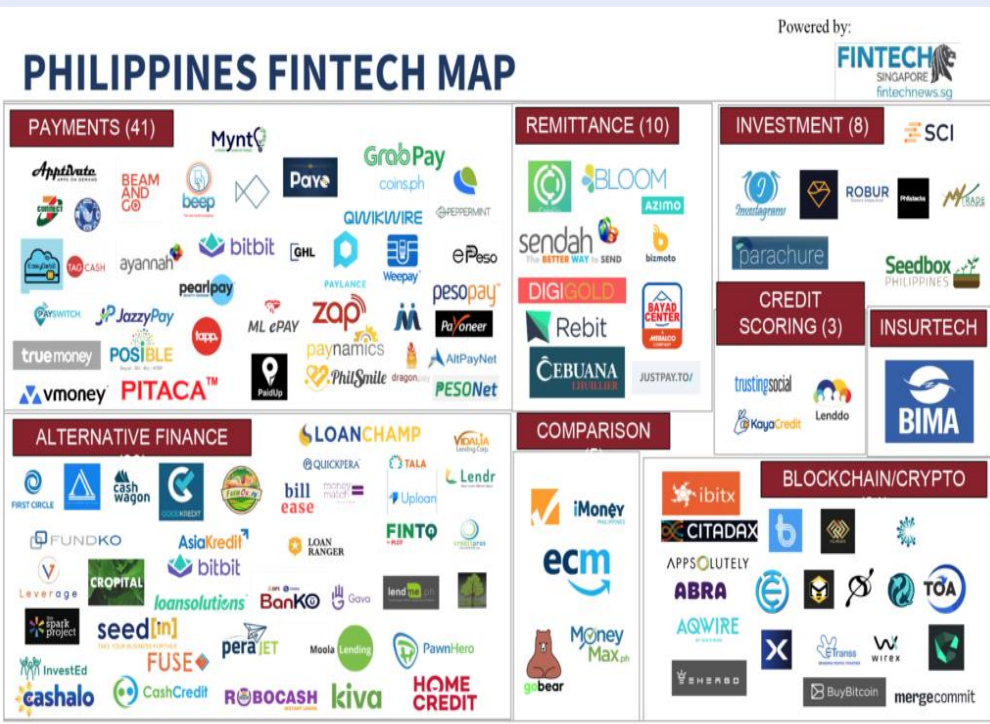
1. FINTECH USE CASES IN THE PHILIPPINES

IMPLICATIONS OF FINTECH USE IN BANKING AND FINANCIAL SERVICES



BANGKO SENTRAL NG PILIPINAS

1. 2018 FINTECH LANDSCAPE IN THE PHILIPPINES



Source: <http://fintechnews.sg/25203/philippines/philippines-fintech-report-2018/>

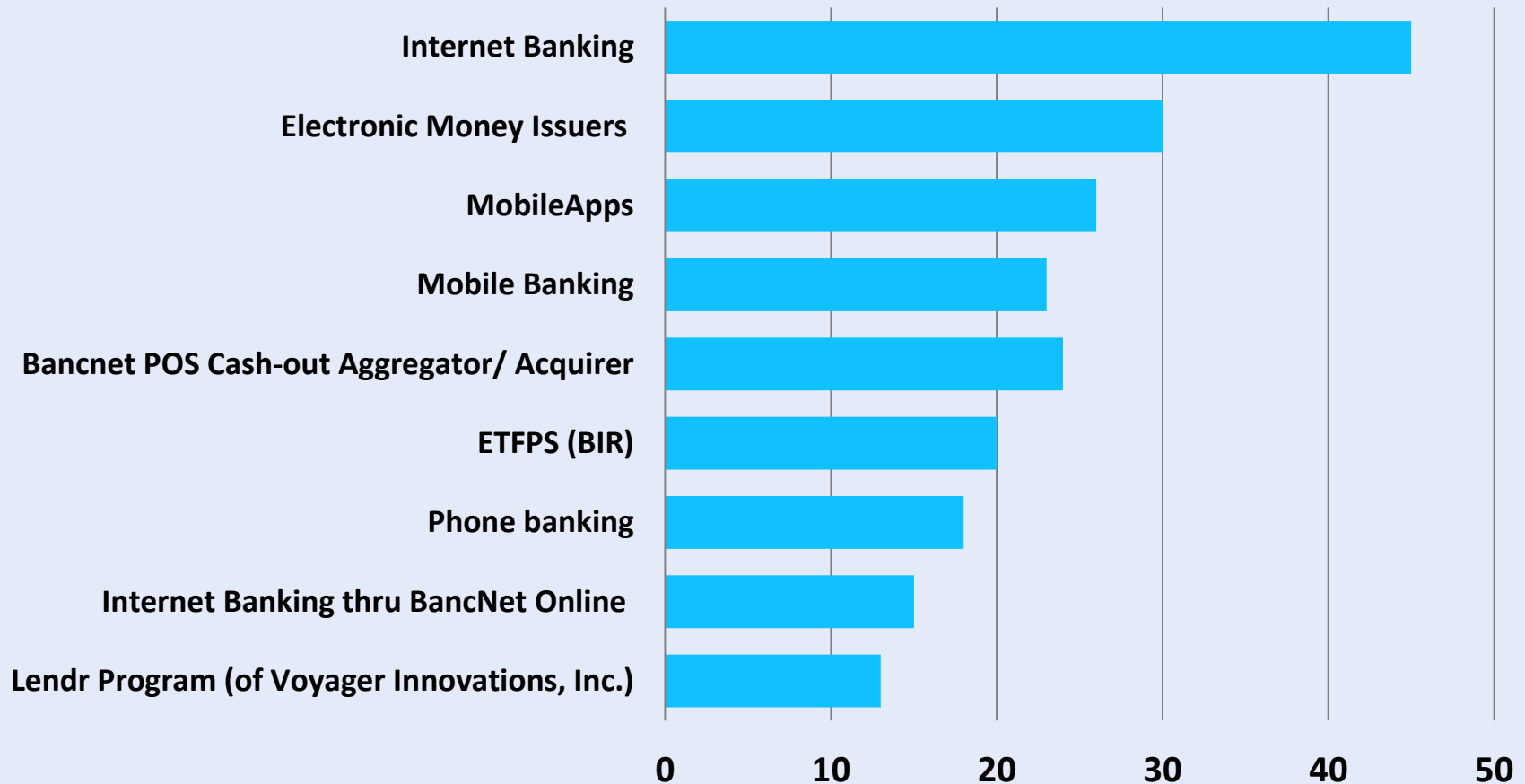


BANGKO SENTRAL NG PILIPINAS

1. SCOPE OF E-BANKING IN THE PHILIPPINES

Approved E-Banking and E-Money Applications

As of End-June 2018

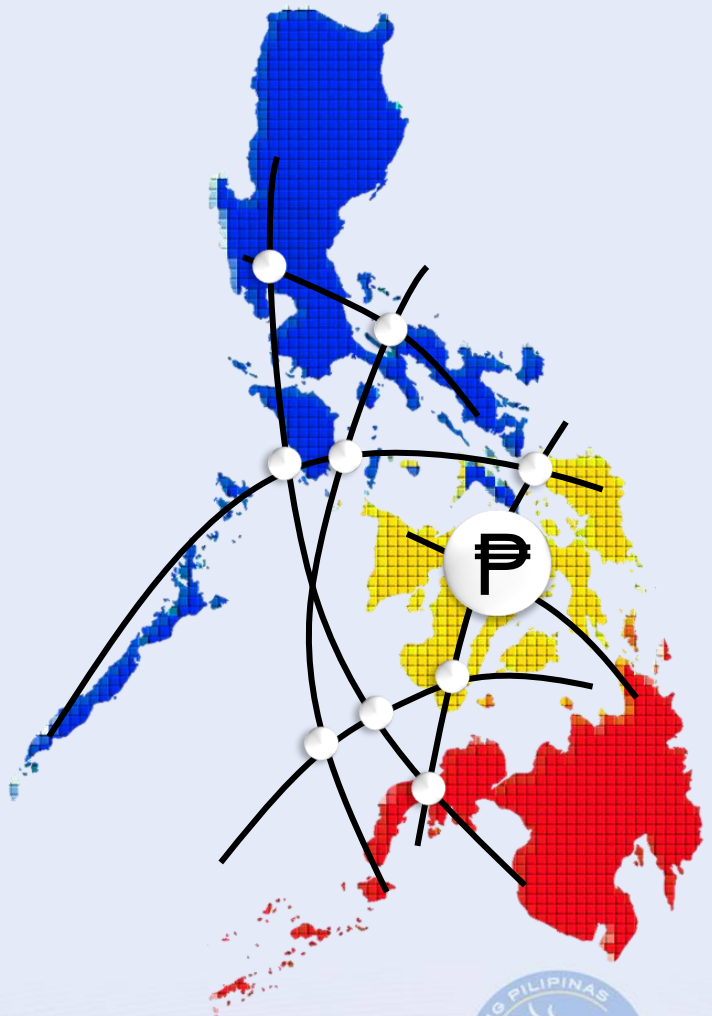


Source: BSP



BANGKO SENTRAL NG PILIPINAS

1. PAVING THE WAY FOR SEAMLESS PAYMENTS HIGHWAY



NRPS Vision:

20% ELECTRONIC PAYMENTS BY 2020

- Remittances
- Goods and Services
- Proceeds of Loans and Investments (interests)
- Electronic Fund Transfers
- Salaries, Allowances, Commissions
- Taxes and Licenses
- Bills Payments
- Debits and Other Credits

AUTOMATED CLEARING HOUSES UNDER NRPS



A batch electronic fund transfer (EFT) credit payment scheme, which can be considered an electronic alternative to the paper-based check system.



A real-time low-value EFT credit push payment scheme for transaction amounts up to P50,000.

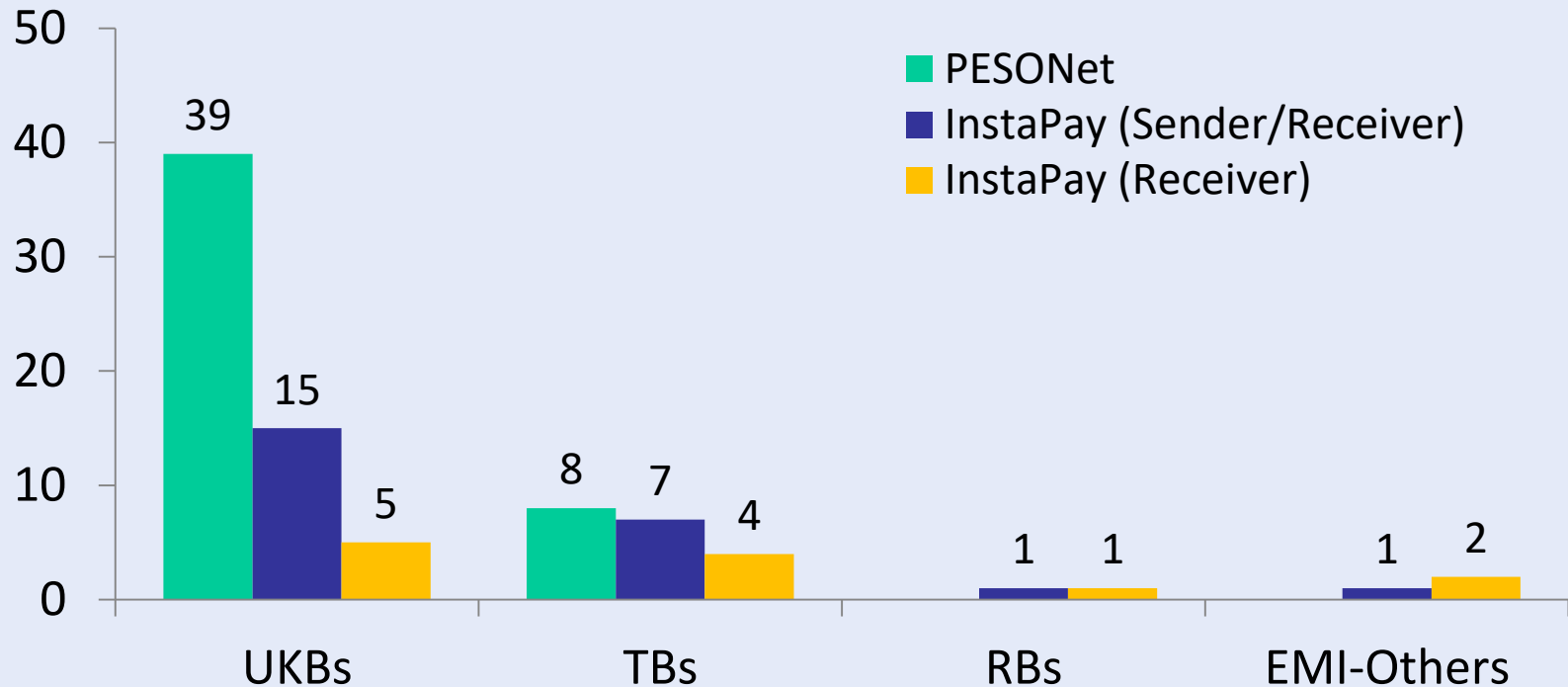
BANGKO SENTRAL NG PILIPINAS

1. EXTENT OF BANK PARTICIPATION

PESONet and InstaPay Participants

as of end-December 2018

No. of Banks



Source: BSP



BANGKO SENTRAL NG PILIPINAS

2. INDUSTRY OUTLOOK

Top 3 Strategic Priorities



Grow the business

Expand client base, invest in technology, and develop new products

U/KBs: 30 out of 42 or 71%



Grow the business

Expand client base, invest in technology, and develop new products

TBs: 45 out of 52 or 87%

R/CBs: 14 out of 20 or 70%



Optimize technology

Digitize operations and customer service, leverage on technology for strategic efficiency

U/KBs: 21 out of 42 or 50%



Protect operations

Manage reputational and operational risks, uphold consumer protection, enhance data/cybersecurity, boost capital

TBs: 24 out of 52 or 46%

R/CBs: 12 out of 20 or 60%



Reinforce the bank

Meet compliance requirements: regulatory, reporting, tax, risk management

U/KBs: 17 out of 42 or 40%



Optimize technology

Digitize operations and customer service, leverage on technology for strategic efficiency

TBs: 19 out of 52 or 37%

R/CBs: 9 out of 20 or 45%

Source: SPRD

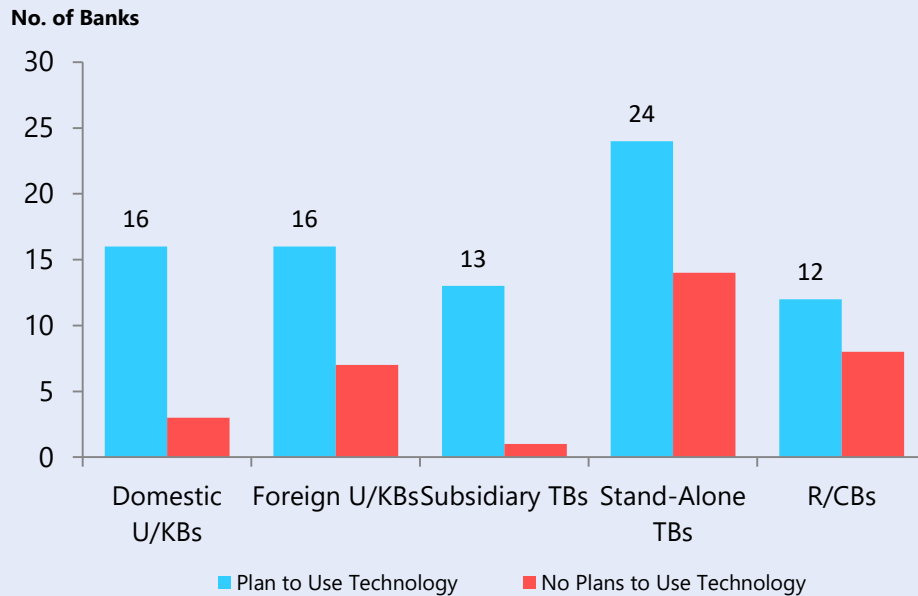


BANGKO SENTRAL NG PILIPINAS

2. USE OF TECHNOLOGY – A MAJOR STRATEGY OVER THE NEXT TWO YEARS

Number of banks that uses mobile phones and other electronic means

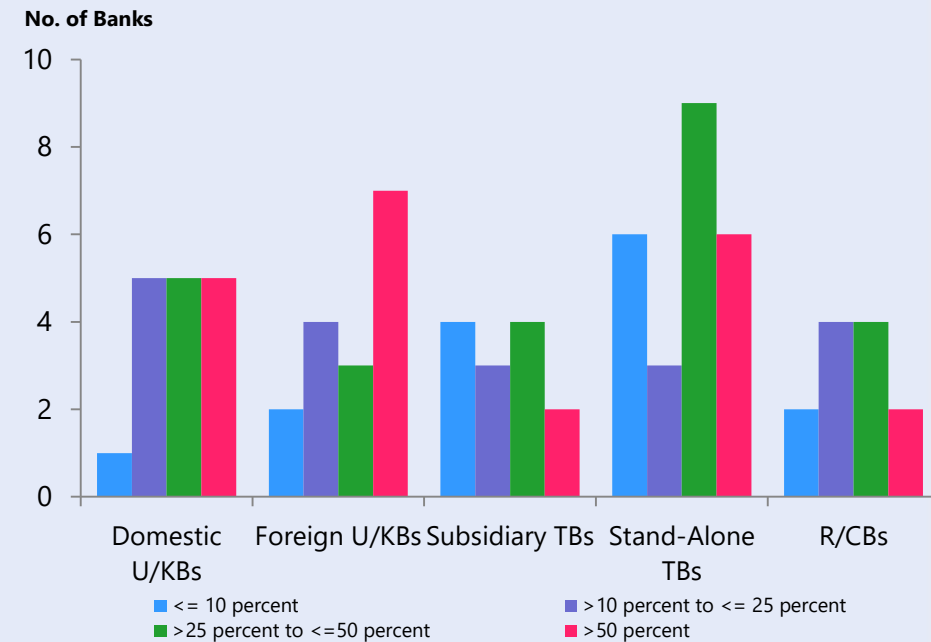
As of First Semester of 2018



Source: SPRD

Percentage of bank transactions that will use technology

As of First Semester of 2018



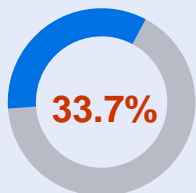
Source: SPRD



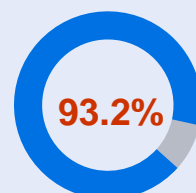
BANGKO SENTRAL NG PILIPINAS

3. FINTECH FOR FINANCIAL INCLUSION

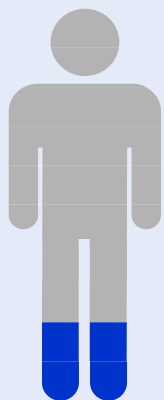
Overall Access Situation



551 out of 1,083 cities and municipalities have no banking office as of 2Q 2018

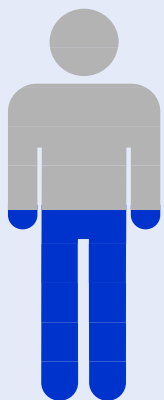


1,523 out of 1,634 cities and municipalities have at least one access point as of 2Q 2018



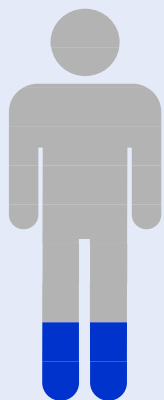
Account Ownership

31.8% of total Filipino adult population have a formal account, a modest improvement from the 2015 estimate of 22%



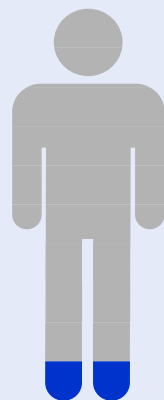
Formal Savings

48.0% of total adult population had savings in 2017, a notable increase from the 43% recorded in 2015



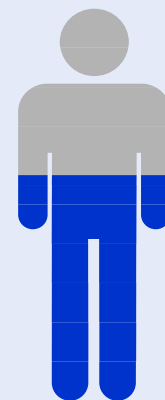
Loan Incidence

22.3% of Filipino adults reported having an outstanding loans in 2017, a substantial decline from the 47.1% in 2015



Payments

18.0% only of Filipino adults with an account use it for payments (or 4% of the total adult population)



Access Points

64.0% or two-thirds of adults who did not use their accounts for payments still prefer cash payment while **20%** are not aware of electronic payment using their account

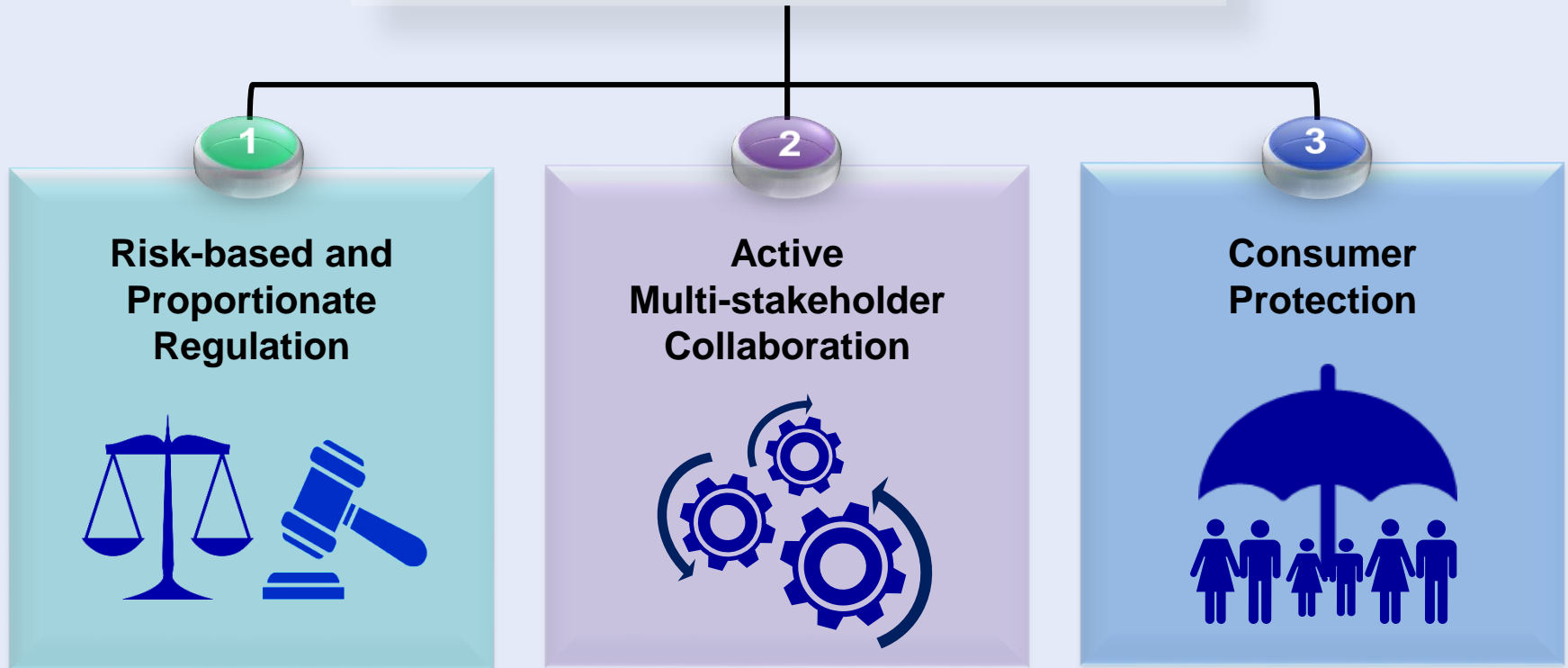
Bank Branches (**70%**), ATMs (**61%**) & pawnshops (**52%**) remains the most popular financial access touch points in terms of awareness, accessibility, & usage



BANGKO SENTRAL NG PILIPINAS

3. BSP CORE PRINCIPLES TO FINTECH INNOVATION

RESPONSIBLE FINTECH INNOVATION



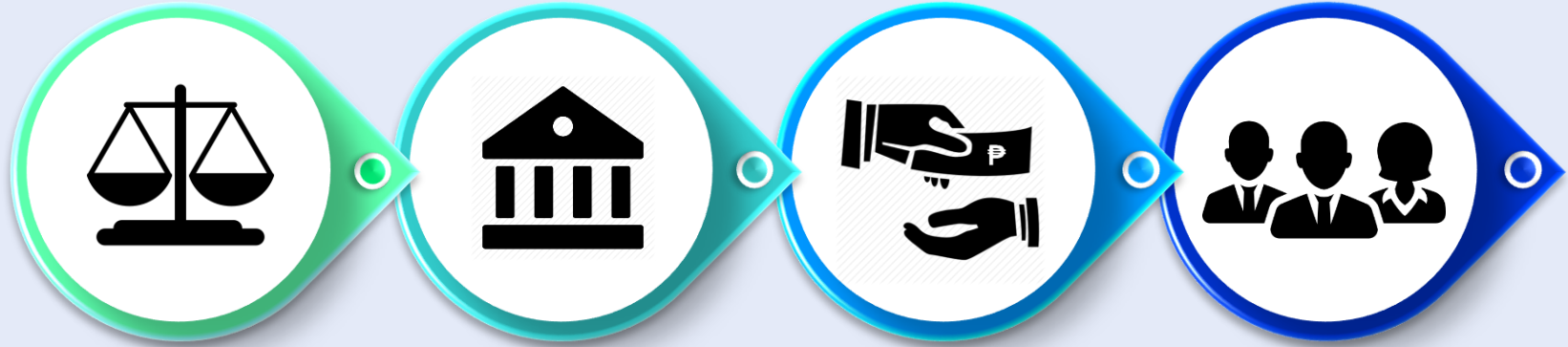
BANGKO SENTRAL NG PILIPINAS

3. THE BSP REGULATORY SANDBOX



BANGKO SENTRAL NG PILIPINAS

3. BSP REGULATORY STRATEGIES



01

**Practice
Proportionality**

02

**Monitor Impact
to Banks/
Financial
Institutions**

03

**Recognize and
Monitor
Non-Bank
Participation**


04


**Coordinate and
Cooperate with
other
Regulators**





BANGKO SENTRAL NG PILIPINAS

3. ENHANCEMENT TO SUPERVISORY/REGULATORY FRAMEWORK

 **1** On-going “test and learn” pilot activities

 **2** Strengthening Regulatory Framework

 **3** Exploring RegTech Solutions

 **4** Operationalization of the National Retail Payment System (NRPS)

 **5** Continuing Market Surveillance on Crowdfunding

 **6** Creation of Fintech Sub-sector

 **7** Active Multi-sectoral and Regional Collaborative Engagements



3. STRENGTHENING REGULATORY FRAMEWORK

1 [BSP Circular 940](#)

Adoption of Guidelines Allowing the Use of Cash Agents

2 [BSP Circular 942](#)

Enhanced Regulatory Framework for Pawnshops & Money Service Business

3 [BSP Circular 944](#)

Adoption of Guidelines on Virtual Currency (VC) Exchanges

4 [BSP Circular 949](#)

Adoption of Guidelines on Social Media Risk Management

8 [BSP Circular 982](#)

Enhanced Guidelines on Information Security Management

7 [BSP Circular 958](#)

Adoption of Multi-Factor Authentication Measures for High Risk Transactions & Sensitive Communications

6 [BSP Circular 951](#)

Adoption of Guidelines on Business Continuity Management

5 [BSP Circular 950](#)

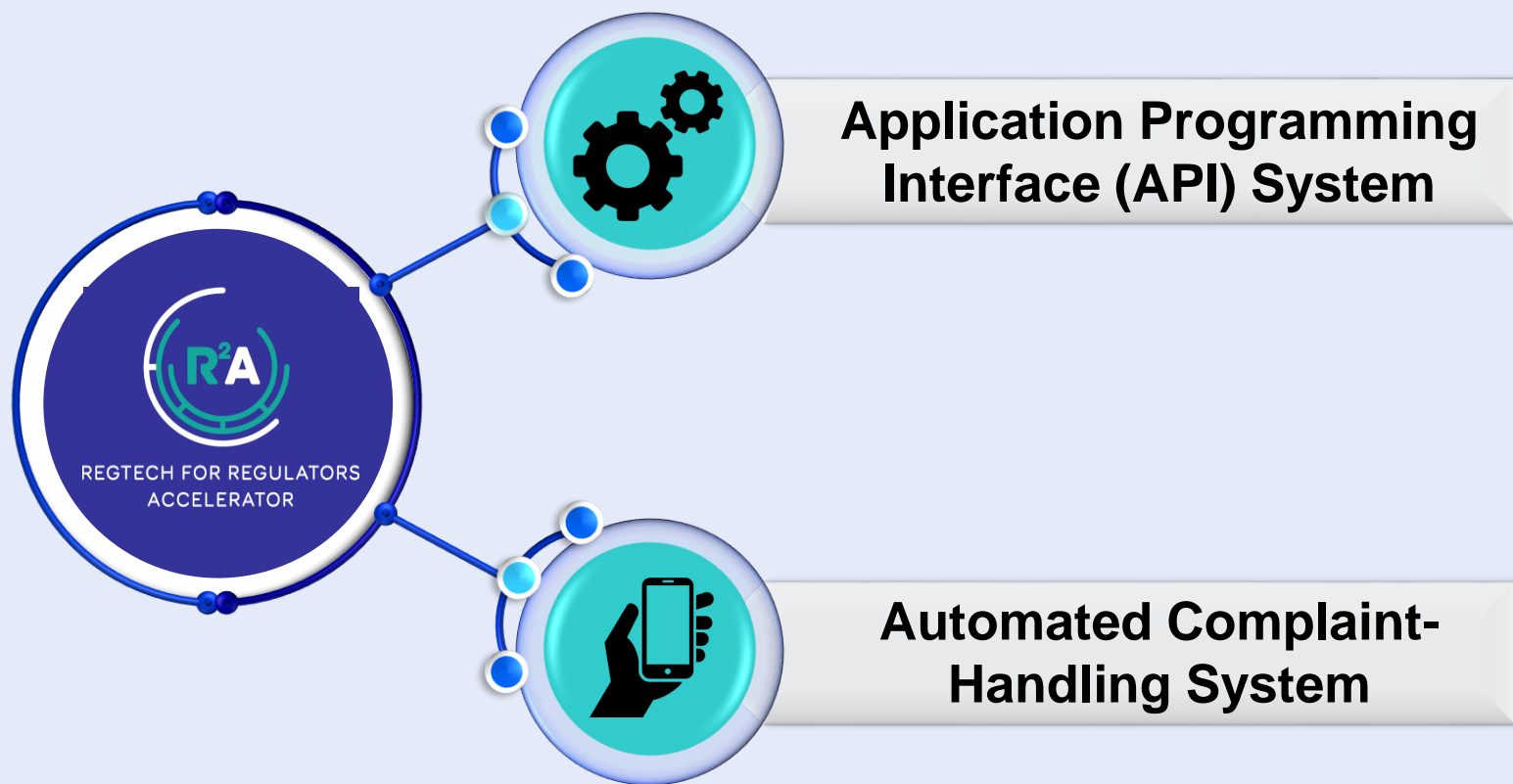
Implementation of Risk-based Know-Your-Customer (KYC) Rules



BANGKO SENTRAL NG PILIPINAS

4. NEXT STEPS – FUTURE DIRECTIONS

ONGOING AND PLANNED FINTECH INITIATIVES



BANGKO SENTRAL NG PILIPINAS

4. NEXT STEPS - OTHER INITIATIVES



Continuing Market Surveillance on Crowdfunding

Monitoring industry developments on crowdfunding and peer-to-peer lending



Creation of Fintech Sub-sector

Establishment of a regulatory sub-sector to serve as primary contact point for fintech firms



Active Multi-sectoral and Regional Collaborative Engagements

- Membership in various information sharing fora
- BSP-MAS Fintech Cooperation Agreement



BANGKO SENTRAL NG PILIPINAS



5. KEY TAKEAWAYS



Financial technology is shaping future landscape of the Philippine banking system. Technology can be leveraged for greater reach and inclusiveness



The BSP adopts an open and flexible approach to financial innovation



The BSP stands ready to provide an enabling and forward-looking regulatory environment to stay abreast of emerging trends and developments



BANGKO SENTRAL NG PILIPINAS

BSP's Thrust on Digital Financial Innovation - A Regulatory Perspective

Rethinking Regulations in the Era of the Fourth
Industrial Revolution (FIRe)

18 January 2019 | 1:00-3:00pm

LYN I. JAVIER

Managing Director

Policy and Specialized Supervision Sub-Sector (PSSS)

BANGKO SENTRAL NG PILIPINAS

