The E-money Platform: Opportunities for Digital Payments
Outline of Presentation

I. What does the BSP do?
II. What is financial inclusion?
III. Finance + technology = e-money
IV. Regulatory environment for e-money
V. Benefits and uses of e-money
VI. Private sector initiatives to promote e-money
VII. Opportunities for local governments
VIII. Vision for digital financial inclusion
What does the BSP do?

• Primary Responsibilities:
  – Maintain price stability conducive to a balanced and sustainable economic growth
  – Preserve safety and soundness of the banking system

• Financial Inclusion Advocacy:
  – Microfinance and access to finance for the unbanked
  – Consumer protection
  – Financial education
  – Advocacy programs
  – Financial inclusion measurement
What is financial inclusion?

- A state wherein there is **effective access** to a **wide range of financial services** for all Filipinos

**“Effective access”** - financial services are appropriately designed, of **good quality**, **relevant** for actual **use**, and **beneficial** to the target market

**“Wide range of financial services”** - full set of basic services (**savings, credit, payments or remittance, insurance**) for different market segments, especially the **unbanked**
Why is it important?

- Access to financial services **empowers the poor to manage their finances** and **reduce their vulnerability to financial distress, debt and poverty**
- Inclusive finance supports **broad-based economic development** that can contribute to **inclusive growth** in the country
- Illustrative example: **microfinance loans**

**Microfinance Institution**

- Provides other services (e.g., deposit, insurance) aside from loans

**LENDS**

- Small amounts
- Simple requirements
- Typically unsecured

**PAYS**

- Frequent amortizations
- Payment based on cash flow and client capacity to pay

**Benefits**

- Money into business
- Profit
- Increase in household income
- Improved quality of life
- Provides other services (e.g., deposit, insurance) aside from loans

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**Bangko Sentral ng Pilipinas**
Financial inclusion is a government agenda

• Government vision for the financial sector:

“A regionally responsive, development-oriented and inclusive financial system which provides for the evolving needs of its diverse public” and supports inclusive growth (Philippine Development Plan 2011-2016)

• BSP supports the PDP objective by providing an enabling policy and regulatory environment conducive for the development of an inclusive financial system
BSP vision for an inclusive financial system

• Presence of a wide range of financial services that serve different market segments
• Financial services are appropriately designed, priced and tailor-fitted to market need
• Presence of a wide variety of strong, sound and duly authorized financial institutions utilizing innovative delivery channels
• Effective interface of bank and non-bank products and delivery channels
• Use of technology and innovation to reach the financially excluded
• Adequately educated and protected citizenry confident to make well-informed financial decisions
• Comprehensive and robust financial inclusion data and measurement
Access to finance remains a challenge

- 37% of the 1,634 cities and municipalities do not have a banking office.
- Archipelagic barriers pose a large challenge to financial access.
- 43% of the total number of deposit accounts.
- 68% of the total amount of deposits are concentrated in NCR.
- 2 out of 10 Filipino households have a deposit account.
- 10.5% of adults had a loan in a formal financial institution in the past year.
Technology provides opportunities...

- Over 100 million mobile phone subscribers, projected to grow annually by 3.5%
- Billions of texts sent per day
- 36 out of 100 people use the internet

- Large % of unbanked has a mobile phone, of which 60% keep some form of savings, 13% borrow from informal providers
- In 2012 alone, OFWs remitted US$ 21.4 billion to their beneficiaries, upward trend is evident
Finance + technology = e-money

• What is electronic money?
  – Monetary value that is digitally stored in a designated electronic account, and may be remotely accessed through an instrument or device such as mobile phone or prepaid card
  – By definition, an e-money account is not construed as a deposit, it may not earn interest, and is not covered by deposit insurance
  – Created by banks or duly authorized non-bank e-money issuers, in accordance with BSP regulations
  – Stored value is electronically transferable to other electronic wallets or deposit accounts
  – Convertible to/from physical cash in authorized non-traditional cash-in/cash-out agent networks (e.g. airtime load outlets, accredited retail stores)
  – Acceptable as payment for goods or services by participating merchants
Regulatory environment for e-money

**Widened range of products**
- Microdeposit
- Microenterprise loan
- Microfinance plus
- Micro-agri loan
- Housing microfinance
- Microinsurance

**Expanded virtual reach**
- E-money issuers
- E-money network service providers
- Technology-driven business models

**Expanded physical network**
- Liberalized bank branching
- Micro banking offices

**Liberalized customer on-boarding**
- Updated anti-money laundering rules
- Outsourcing rules

**Enhanced consumer protection framework**
- Revised rules for Truth in Lending Act
- Market conduct regulation
- Consumer assistance mechanism

**BSP Regulations**
The e-money ecosystem

- 112 banks with electronic banking operations (internet and/or mobile-based)
- 54 of these are rural banks which provide mobile-based e-money services
- 24 e-money issuers (banks)
- 3 e-money issuers (non-banks/others)
- Over 15,000 cash-in/cash-out agents
- About 8 million active e-money subscribers
- 188 million e-money transactions (total of inflow and outflow)
- PhP 308 billion e-money inflow and PhP 305 billion outflow

Data as of end 2012
Benefits of e-money

• For transacting clients:
  – Safety
  – Convenience
  – Time savings
  – Speedy value transfers

• For e-money issuers or providers:
  – Add value to financial services (e.g. text-a-deposit, text-a-payment)
  – Enhance ability to reach new clients
  – More efficient service delivery
  – Lower operating costs
  – Ability to leverage on extensive telco and other non-bank agent networks
Benefits of e-money

• Increased competition that results to lower cost of services
• Illustrative example: **domestic remittance**

<table>
<thead>
<tr>
<th>Amount for remittance: PhP 1,500</th>
<th>Telco Subsidiary</th>
<th>Pawnshop</th>
<th>Remittance Company</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remittance fee</td>
<td>PhP 11</td>
<td>PhP 80</td>
<td>PhP 120</td>
<td>PhP 150</td>
</tr>
<tr>
<td>% of PhP 1,500</td>
<td><strong>0.7 %</strong></td>
<td>5 %</td>
<td>8 %</td>
<td>10 %</td>
</tr>
</tbody>
</table>

*Note: Costs are indicative market rates (e.g. average cost charged by at least 2 providers)*
Government use of e-money

• Enabling government to people (G2P) transfers
  – Delivery of benefits for beneficiaries of the DSWD Pantawid Pamilyang Pilipino Program (4Ps)
  – Digitization of major government processes
    ✓ National Payroll System
    ✓ Government Electronic Procurement System
    ✓ Government Electronic Payment and Collection System

• Enabling people to government (P2G) transfers
  – Payments for government services e.g. NBI clearance
Public-private sector partnerships

• Better Than Cash Alliance (BTCA)
  – A group of governments, development organizations, and private businesses committed to promote digital, cashless transactions
  – The Philippine government, thru DBM, is a member of BTCA
  – The BSP supports the objectives of BTCA

• Scaling Innovations for Mobile Money (SIMM)
  – A project supported by the United States Agency for International Development
  – Promotes rapid adoption of mobile money to facilitate deepening of financial inclusion
  – Works with selected LGUs to enhance their capacity to digitize transactions (e.g. payroll distribution, payments of services)
  – Also works with selected MFIs and NGOs
  – The BSP supports the objectives of SIMM
Some opportunities for LGUs, NGOs

- Opportunities
  - Payroll thru mobile-based e-money or e-banking
  - Digital payments to suppliers (e.g. purchase of goods/services)
  - Digital payments from the general public (e.g. permit fees, local taxes, other service charges)

- Benefits of digital government/business transactions
  - Cashless contact minimizes leakages/fraud
  - Transparency of government/business transactions is promoted
  - Digital recording and monitoring reduces manual errors
  - Efficiency in the provision of services is improved
  - Reputation is enhanced due to better public perception
Thank you.

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