

# RETAIL BANKING FORUM: **MANILA**



Over 60 bankers attended Forum

## Philippine banks open for cooperation rather than competition with FinTechs

The challenge is for banks to achieve the same agility and cost-effectiveness of FinTech companies.

The Asian Banking and Finance Retail Banking Forum kicked off with the Manila leg held last March 9, 2016. More than 60 retail bankers gathered at the Makati Shangri-La to discuss some of the most pertinent trends currently faced by the local retail banking industry. One of the panel discussions was focused on the opportunities and threats posed by mobile banking and non-bank competition.

Non-bank players often referred to as FinTechs are aggressively targeting the 70% of the Philippine population that is currently unbanked, and incumbent banks must keep up to stay ahead of the game.

### Mobile banking and FinTechs

With the proliferation of smartphones in the country, banks are striving to come up with products and services that will make the customers' mobile banking experience more seamless and efficient. According to **Cristina**

**Current estimates of the volume of transaction on on digital payments alone in the Philippines is around USD 4.86 billion.**



**Tan**, managing director, consumer management at Citibank, out of the 100 million population in the Philippines, 44% are internet users and 114% are mobile users, which means there are a lot of people with more than one mobile phone. The Philippines is ranked 29th globally in terms of smartphone penetration with around 40% of the population already using a smartphone. Moreover, 96% of consumers engage in two or more screens at a time.

Tan added that globally, people are digitally connected for 4.5 hours per day on average. But in the Philippines, people spend 6.5 hrs per day, which is significantly higher than the global average. Clearly, the Filipinos are very much into the digital and social media space, and this is one of the platforms that FinTechs are trying to tap.

**Mark Perez**, retail banking head at Metrobank, said that when talking about FinTech, we should not look at

the transactions that are performed over-the-counter (OTC) or digitally. "The challenge is in the digital payments outside our channels. Meaning they do not even go through us to perform a transaction," he added.

Perez noted that current estimates of the volume of transaction on on digital payments alone in the Philippines is around USD 4.86 billion. These are payments not going through the banks and not covered by traditional interchanges such as Visa, Mastercard, or Bancnet. "The expectation is the CAGR for digital payments passing through FinTechs would go up to 20% in the next four years. Clearly you have some diversion of transactions from banking to the digital space," Perez said.

**Eduardo Olbes**, EVP for the wholesale banking segment at Security Bank, said while the largest bank in the Philippines will have

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Panelists share their thoughts on FinTechs

around 800-900 branches, the top three pawnshops in the country will each have around 1,500 physical points of presence.

“There is a lot of cash movement happening outside the point of the banks. Only 30% of Filipinos have bank accounts. The remaining 70% might be intimidated to even enter a bank or they do not enter at all because they do not have deposits to make in the first place. The issue really is: Should we ignore or support that space? I’d say it is a mandate to try and expand the electronic payments solutions to support that space in some way,” Olbes noted.

## Cooperation or competition?

So is it a threat when FinTechs try and tap the 70% of the population that is unbanked? Olbes reckons there could be more room for cooperation rather than competition. He said that most people would agree that electronic money is a cost-effective to platform to use to settle small transactions. But ironically, the same people who most need that may not have access to those services because they don’t deal with the bank.

“We can either turn a blind eye and not serve it or see if we can work with partners who can build a business model around that space,” he added.

While Perez recognizes that performing transactions through FinTechs are a lot cheaper than those coursed through banks, the big challenge for banks is to “achieve the agility and cost-effectiveness that the FinTech companies are able to achieve.”

“If you look at the whole ecosystem,

there is a role that fintech can play without eating everything happening in banking. The areas where the FinTechs are earning from are not the same areas the banks earn from. There is a lot of opportunity to cooperate and work together in order to have a better customer experience,” Perez said.

## Consumer Protection Framework

Another topic discussed at the Forum was the Central Bank of the Philippines’ Circular 857 released in November 2014. The Consumer Protection Framework contains standards of consumer protection in the areas of disclosure and transparency, protection of client information, fair treatment, effective recourse, and financial education. This year, the Central Bank will begin on-site assessments among the banks. But are the banks ready?

“The policies, in terms of its intent, are very much commendable because they address the demands in today’s standards and corporate governance. As a medium-sized bank, it affects us greatly because clearly, if we do not pass the audit, that would disable us to launch new products,” said Miguel Angelo Villa-real, corporate communications head at the Philippine Veterans Bank.

Villa-real shared the results of an informal survey of 13 bankers who answered the question: “Are the banks ready for the financial consumer protection regulations?”

As can be expected, no one answered they are full ready. Majority said that yes, the banks are ready but there are varying degrees of readiness.

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After all, being fully compliant is relative depending on where you stand.

## Consumer education

Patrick Cheng, head of trust at China Bank, said: “It’s a matter of perspective and where you’re coming from. Consumer protection goes hand-in-hand with consumer education. One of the key advocacies now of the Central Bank is financial inclusion with only around 30% of the population having bank accounts. There is a lot more that we can tap and it’s important for the industry as a whole to work together in terms of consumer education to be able to get a more holistic view of consumer protection.”

Cheng added that if there was one area that is hardest for banks to do, it’s in terms of the consumer education and the kind of disclosures. “The rules now are more difficult to understand. A client has to sign rims of documents with disclosures. If I sit down and I am not a lawyer, what is the likelihood of a client signing it when it is more than 10 pages thick? Why can we not put things down to a single or two pages where disclosures are in simpler terms rather than trying to catch every eventuality and writing ten pages about risks?”

Prudence Angelita Kasala, head of financial consumer protection group at the Central Bank of the Philippines, noted that based on their off-site assessments, most of the banks are making adjustments to comply with the framework.

“Based on discussions with the industry, we see that they will have to do this in phases – there will be certain areas they will have to focus on first. Most of the banks are focusing on the compliance with disclosure and transparency,” Kasala said they will start on-site assessments this year.

Benel Lagua, EVP and chief development officer, Development Bank of the Philippines, also spoke about the current trends and challenges in SME lending in the country. Thomas Karakalos, VP - managed services at Diebold and Sujatha Venkatramanan, head of Consulting APAC at Experian also delivered presentations.