

ENABLING FINANCIAL INCLUSION THROUGH THE CLOUD

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DR. BENJAMIN E. DIOKNO
Governor
As delivered by Deputy Governor
Chuchi G. Fonacier



Good afternoon, ladies and gentlemen.

The Bangko Sentral ng Pilipinas (BSP) is pleased join the Official Monetary and Financial Institutions Forum (OMFIF) and Amazon Web Services (AWS) for the launch of your inaugural report, which highlights the role of cloud technology in financial inclusion.

Financial innovation and its impact on financial inclusion

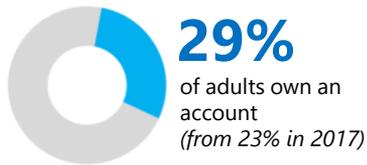


Indeed, cloud technology and related fintech innovations are transforming the design, delivery, and even consumption of financial services.

Fintechs are making financial services more convenient and affordable for existing clients. They are also paving way for more democratized access for those who have long been financially excluded.

Leveraging fintech for financial inclusion

ACCOUNT OWNERSHIP



DRIVERS

(in percentage points)



USE OF ACCOUNT



Share of accountholders who use their account for payments more than doubled

Rise of e-money during lockdown



More than three-fourths (78%) of 7.3 million transaction accounts opened for the government's Social Amelioration Program (SAP) beneficiaries are e-money wallets

7 out of **10** **UNBANKED ADULTS** have a mobile phone



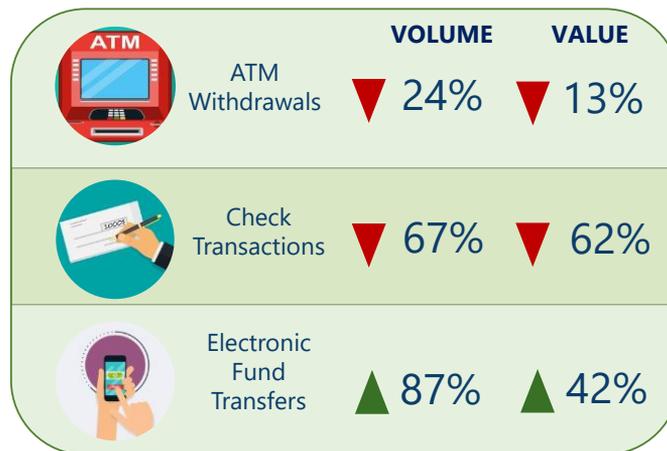
Source: 2019 BSP Financial Inclusion Survey

E-money is an early example of inclusive fintech. It provides a safe, convenient, and affordable payment solution for small-value transactors. Our Financial Inclusion Survey in the Philippines revealed that the growth in account ownership from 23% in 2017 to 29% in 2019 is driven by e-money accounts, which rose from 1% to 8% in the same period.

During this pandemic, e-money has also played a key role in the digital distribution of the government's social amelioration program (SAP) or welfare benefits. In fact, according to our Department of Social Welfare and Development (Ministry of Social Welfare) more than three-fourths (78%) of 7.3 million transaction accounts opened for SAP beneficiaries are e-money wallets.

In the Philippines, 7 out of 10 unbanked Filipino adults have a mobile phone. This presents a huge opportunity for fintechs to reach the unbanked. Their mobile phones can be their means to access digital finance services.

Acceleration in digital payments



*Comparison 76 days before and during ECQ



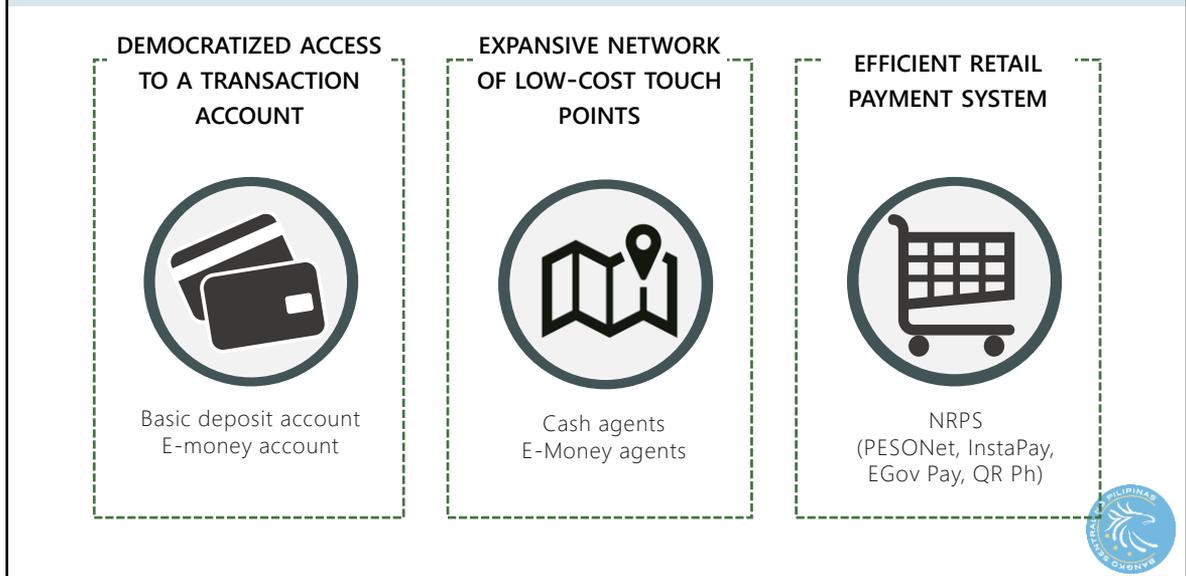
Indeed, the pandemic highlighted the impact of fintech in moving money from one account to another, and in supporting an increasingly digital economy.

We have seen a quantum surge in digital payments during the lockdown. Compared to ATM withdrawals and check transactions which declined by 24% and 67%, respectively; the volume of electronic fund transfers through PESONet and InstaPay climbed by 87%.

Social distancing and online transactions will likely be part of the new economy even if lockdowns are further relaxed. This will support sustained growth in digital payments.

For instance, real-time payment transactions using InstaPay totaled to 29.8 million in October 2020, up by almost 600% from 4.3 million transactions in the same period a year ago.

BSP's framework for digital financial inclusion



The BSP recognizes that technological innovation can accelerate financial inclusion. For over a decade, the BSP has been setting up the regulatory environment for an inclusive digital finance ecosystem.

Broadly speaking, the BSP's framework for digital financial inclusion has three main pillars, namely

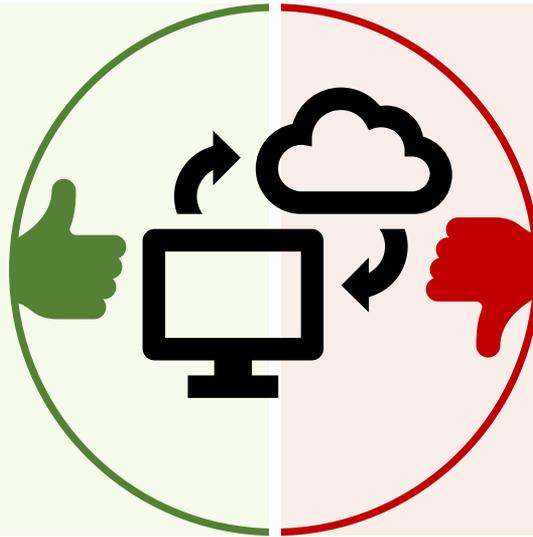
- 1) democratized access to a transaction account;
- 2) expansive network of low-cost touch points; and
- 3) efficient retail payment system.

We have put in place enabling regulations to promote Basic Deposit Account, cash agents, electronic Know-Your-Customer (e-KYC) processes, and interoperability in digital payments.

Our information technology and operational risk management frameworks contemplate digital financial inclusion.

Benefits and challenges of cloud adoption

- Reduce costs
- Improve services
- Expand product offerings to unbanked or underbanked
- Critical access to infrastructure and computational resources



- Potential data loss
- Poor management by service providers
- Service interruption
- Unauthorized access to sensitive data
- Other threats that could result in losses and damage organizational reputations

The BSP follows a ‘test and learn’ approach wherein new solutions such as cloud computing are allowed to operate in a live but contained environment. This regulatory sandbox enables the BSP to gain a better appreciation and understanding of the risks and craft proportionate regulatory response.

This approach also gives financial institutions the opportunity to test the business case of proposed innovations prior to actual launching.

In the Philippines, we have seen how cloud computing has improved the agility of a rural bank to manage its operations and serve clients more effectively. This rural bank is the first local bank that explored the migration of its core banking system to the cloud.

It used to spend nearly half a million pesos (USD 10,000) monthly for connectivity of its branches, an amount that it is now able to substantially reduce by using a cloud-based core banking platform.

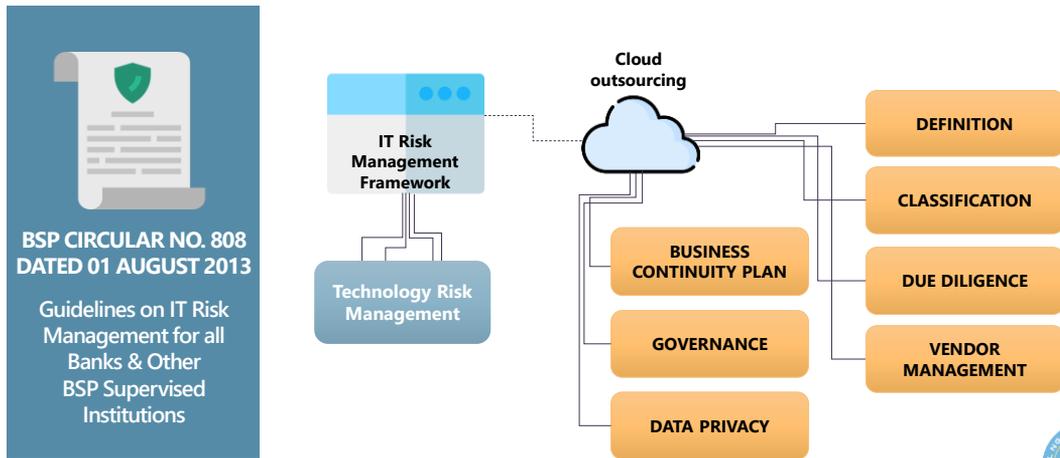
Clearly, cloud computing holds much promise for greater financial inclusion. Cloud-based solutions can help financial institutions to reduce costs, improve services, and expand product offerings to those who are currently unbanked or underbanked.

For rural financial institutions, cloud computing offers critical access to infrastructure and computational resources that would otherwise be out of their reach.

Like all technologies, cloud computing also brings with it areas of concern. These include risks of potential data loss, poor management by service providers, service interruption, unauthorized access to sensitive data, and other cyber threats that could result in financial losses and damaged organizational reputations.

It is thus necessary for financial institutions to diligently adhere to cybersecurity protocols, always thinking and acting several steps ahead in terms of risk management.

Ensuring an enabling regulatory environment



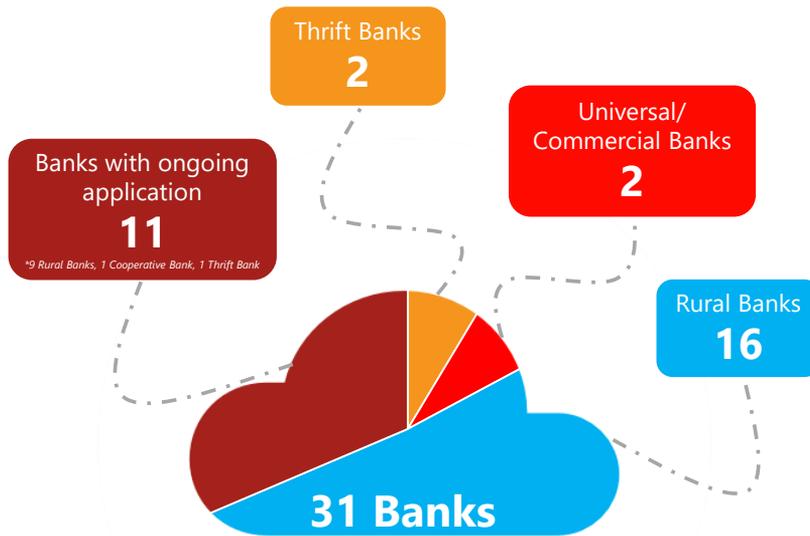
To balance the benefits and fully manage risks, the BSP has enhanced the regulations on technology risk management and cybersecurity controls, which provide clear direction and guidance on the adoption of cloud computing.

Financial institutions are expected to have an effective risk management framework covering areas such as governance, vendor management, data privacy, and business continuity planning, among others.

Flexibility is given to financial institutions to choose from a wide variety of cloud architectures and deployment models. It is important, however, to conduct proper due diligence of cloud service provider, and establish appropriate measures to manage and control risks.

Ultimately, financial institutions are accountable to comply with relevant regulations, and ensure that consumer services are uninterrupted.

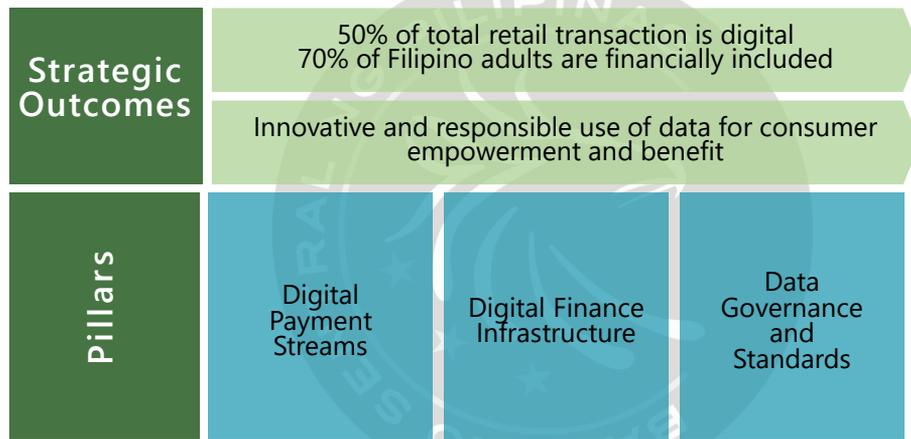
Cloud banking and counting...



Guided by the enhanced frameworks, and learning from the sandbox, there are now 20 banks already using cloud-based technology for core banking, with 11 additional ongoing applications.

Majority of them are rural banks which now only need to incur operating expenses commensurate to their operations rather than allot huge capital for IT investments.

Digital Payment Transformation Roadmap



Just last month, the BSP released its Digital Payments Transformation Roadmap 2020-2023. The Roadmap is a package of inter-related initiatives that harness the mutually reinforcing relationship between digital payments and financial inclusion.

As such, the main goals are 1) to convert 50% of the total volume of retail payments into digital form and 2) to onboard 70% of Filipino adults to the formal financial system.

The Roadmap calls for responsive and enabling regulations to promote digitalization.

Allow me to cite two forthcoming policies that will foster greater innovation, competition, and dynamism in the financial sector, benefiting both consumers and small businesses.

Forthcoming policies to promote digitalization



Framework on establishment of Digital Banks



Adoption of Open Banking



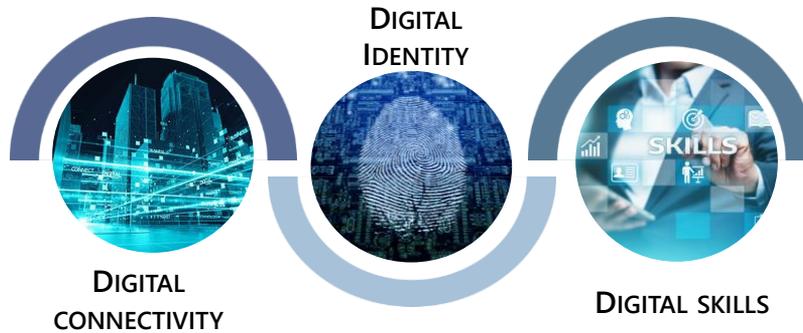
First is the framework on the establishment of digital banks which is currently in the finalization stage. The digital banking license aims to give digital banks a distinct classification from existing banking licenses.

Digital banks will offer end-to-end digital experience to financial consumers through a digital platform and other electronic channels. They do not have physical branches but they may tap third party entities as agents.

Second is the adoption of open banking that will encourage sharing of information among banks and non-bank financial institutions.

The draft policy document expands open banking to 'open finance' and adopts the principles of consent-driven data portability, interoperability, and collaborative partnerships among incumbent financial institutions and new third party players.

Critical enablers



The Roadmap also recognizes the critical enablers to boost digital payments and financial inclusion. These include digital connectivity, digital ID, and digital skills.

Making fast internet connection affordable and widely available is crucial for digital financial services to flourish. Under the National Strategy for Financial Inclusion, the BSP is leading the push for inclusive access to satellite technology. Satellite broadband is seen as the fastest and most cost-efficient means to provide internet connection to unserved and underserved areas.

We are also implementing a Digital Connectivity Assessment Survey among financial service providers (FSPs). The survey aims to assess specific internet connectivity challenges and their impact on strategies and service delivery of FSPs.

Financial inclusion is also a priority use case of the Philippine ID System (PhilSys). The BSP is directing efforts to operationalize the PhilSys e-KYC and authentication facility which will enable FSPs to onboard clients digitally.

Last but not least, the BSP is implementing a Digital Literacy Program to build trust in and promote usage of digital financial services, and protect consumers from usage errors and cyber vulnerabilities.

In case there are consumer complaints, we have a chatbot called “BOB” (BSP Online Buddy) which is now fully deployed to give the public a more accessible platform to reach out to the BSP.



Ladies and gentlemen. Much still needs to be done to reap the full potential of cloud computing and other digital technologies for financial inclusion.

As we prepare for the post-COVID-19 era, we need to future-proof financial services by prudent use of technology, at the same time, ensure that every financial consumer also benefits.

Let us work together to build a new digital economy that leaves no one behind.

Thank you and good afternoon.