

## **Nestor A Espenilla, Jr: Thrive not just survive**

Speech by Mr Nestor A Espenilla, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 39th National Conference of Employers "The Future is Now: Survive, Compete and Grow Amidst Radical Changes in Labor and Employment Policies", Manila, 18 April 2018.

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Atty. Antonio H. Abad Jr., Governor of the Employers' Confederation of the Philippines, Former Director-General of National Economic and Development Authority Dr. Dante Canlas, distinguished guests, ladies and gentlemen, good afternoon.

I am glad to be part of the 39th National Conference of Employers, especially given your theme which is quite compelling. It is bristling with a sense of urgency! Yes indeed, "the future" as we envisioned it (even as we could not then imagine it!) — as it only existed in sci-fi movies — is happening. It arrived yesterday and the days, and the weeks, months and years before that! It keeps arriving and growing at an exponential rate.

The swift, sweeping and continuously unfolding changes redefining how businesses are conducted and how we relate to each other are both precursors and products of the fourth industrial revolution.

Every day, technical advances, digital innovations and artificial intelligence redefine our needs and wants... our way of doing things... what was before considered as "hi-tech" are becoming mundane, ordinary, usual... Disruptions to the economic and financial landscape are the new normal.

And I refer not only to disruptions caused by digital technologies. There are also challenges presented by regionalization and globalization. We are faced with the increasing interconnectedness of markets.

There are the demographic demands of a growing millennial population and other dynamics. And we – local industries, businesses and regulators — must constantly keep up. But is survival the goal? Or shall we endeavour to thrive?

Concern is raised that these disruptions will aggravate inequalities among nations. Will we be able to cope? To compete? I believe we will.

### **Technological innovations and the finance industry**

Significant technological innovations are currently shaping the Philippine finance industry. These translate to improvements in speed, convenience, efficiency and accessibility of value transfers. Technological innovations in the finance industry [commonly referred to as financial technology (fintech)], such as cloud-based solutions and application programming interfaces, are flexible and cost-effective. These allow for interaction between two or more online connected services. Mobile smartphones are game changers. They have led to important changes in the payments system as well as in the behavior of market agents.

An industry report puts the number of fintech startups in the country at 60 players in 2017. Mobile payment and alternative finance firms dominate with 26 and 17 players, respectively. The transaction value of the fintech market in the Philippines is estimated to amount to US\$5.7 billion in 2018. It is expected to grow at an annual rate of 16.4 percent. By 2022, the fintech market in the country is projected to amount to US\$10.5 billion. Digital payments account for the largest share of the market at 98.9 percent. This translated to an estimated total transaction value of US\$4.6 billion in 2017. Most of these digital payments are in the form of digital commerce.

Meanwhile, the alternative finance market is estimated to have raised a total amount of US\$0.2 million in 2016 and US\$0.7 million in 2017.

Start-up businesses are adopting financial technological innovations to improve their customers' payments experience. These fintech businesses lower costs by employing different business models that involve fewer entities.

### **Leveraging on fintech innovations**

How can we take advantage of these fintech innovations to promote more inclusive growth in the Philippines? For one, the Philippine government recognizes the huge potential of fintech services to lower remittance costs for the country's over 10 million migrant workers. Transaction costs for remitting US\$200 currently average at 7.1 percent of transaction amount globally. This can drop to as low as 2 percent. Aside from lower remittance charges, the Philippine government is likewise seeking to facilitate for overseas Filipinos (OFs) other online-based banking and financial management services.

Fintech innovations can also help drive financial inclusion as access and usage of financial services continue to be limited. The World Bank estimates that only 31.3 percent of the Philippine adult population has bank accounts. Estimates show that the country's GDP could increase by more than 14 percent if the financial inclusion gap was closed. An important part of this solution is digital enablement. Digital applications and related regulatory initiatives are expected to boost Philippine GDP by about 3 percent. They may yield an increase of about 11 percent in the incomes of the population segment earning less than US\$2 per day.

The widespread use of mobile phones can provide for a broader reach of these financial services. Additionally, rapid development of peer-to-peer (P2P) lending could complement the role performed by traditional finance. Provided such lending platforms are properly managed and regulated, this could lead to a more resilient network and positively contribute to the diversification of risk across the financial system.

### **BSP's response to fintech**

On its part, the BSP has established a regulatory environment that fosters innovations while ensuring that risks are effectively managed. It has continuously monitored fintech developments. It has developed a balanced regulatory approach anchored on three pillars: 1) risk-based and proportionate regulation; 2) active multi-stakeholder collaboration; and 3) consumer protection.

These principles are pragmatically implemented through the BSP's flexible "test and learn" approach to financial innovations. This is also referred to as "regulatory sandbox" which provides an opportunity for innovators to participate in the financial system as players in their own right or as partners of more traditional players like banks. This approach has been proven useful since it enables the BSP to strike the right balance between innovation and safety while providing economic benefits to the banking public.

The BSP also continues its market surveillance on crowd funding activities in the country to determine if regulatory action is warranted. We are likewise regulating transactions in digital currencies. On 9 February 2017, we issued a circular that established a regulatory framework for virtual currency (VC)-based payments and remittance transactions. Under this framework, VC exchanges are classified as remittance and transfer companies (RTCs). As such, they are subject to the basic requirements for RTCs. Hence, this promotes a level regulatory playing field for financial service providers performing similar services.

We have launched a major initiative called the National Retail Payment System or the NRPS, a policy and regulatory framework for institutionalizing retail digital payments in the country. Our goal is to drive the usage of electronic payments from around 1 percent to at least 20 percent by

2020. We are working hand-in-hand with the industry to realize this. Already we launched PESONET last November 2017. We will soon launch INSTAPAY on April 23, 2018. Both PESONET and INSTAPAY are inter-operable payment systems that enable safe, efficient and affordable account-to-account payments transactions between and among businesses, consumers, and government.

Moreover, to allow us to regulate more effectively, we will also coordinate and cooperate with other regulators here and abroad. This is because fintech market players include non-financial firms that operate across borders. We are specifically exploring a possible information sharing and referral system specifically focused on fintechs.

The BSP is also piloting RegTech solutions to strengthen our own risk-based regulatory and supervisory activities. The BSP partnered with RegTech for Regulators Accelerator (R2A), a pioneering project that provides technical assistance for financial sector regulators to develop and test the next generation of digital supervision tools and techniques.

Ladies and gentlemen, we, in the Bangko Sentral, encourage you, distinguished members of ECOP, not only to adjust to financial technology, but to leverage on its opportunities. Our goal is not just to survive but to thrive.

The democratization of technology enables efficiencies and scale in financial service delivery. Mobile devices are cheaper and now within many's reach. Social media is pervasive. Rather than a hindrance, digital technology is fast becoming a strategy enabler. Moreover, with rapid digital innovation, new business models and market players will continue to emerge, changing the nature of competition.

Digital innovations may also be applied to organizational strategy to improve culture and human resource skills. The Fourth Industrial Revolution has the potential to empower individuals and communities and bring about new opportunities for economic and social development.

While leveraging on technology will involve financial and investment commitment, cost-effective approaches such as outsourcing and cloud-based services may be explored. To drive down the cost of IT requirements, strategic industry partnerships, and market utility arrangements can also be considered.

We in the Bangko Sentral assure that we shall remain committed to fostering an enabling macroeconomic environment, so that you, our stakeholders – industry players can make the first and necessary steps in our shared digital transformation journey so we will not only survive but thrive and enjoy sustained economic growth over the medium to long term.

Thank you and mabuhay ang Pilipinas!