

Felipe M Medalla: Setting the future and next steps for open finance

Speech by Mr Felipe M Medalla, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Bangko Sentral ng Pilipinas, World Bank, and International Finance Corporation's joint event on Open Finance, Manila, 21 June 2023.

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To Paramita Dasgupta [of the International Finance Corporation], Maria Lourdes Jocelyn Pineda [of the Open Finance Oversight Committee–Transition Group], fellow members of the Monetary Board, friends from the banking industry, and colleagues, good morning.

Thank you for joining us in this event, themed "Philippine Financial Sector Resilience Strategy: Open Finance-Driving Digitalization and Cybersecurity."

The promise of open finance

To put it very simply, what are the gates? The gates, of course, are more competition and the other is data-sharing, which will actually improve our ability to assess borrowing capacity and so on and so forth.

At the center of all this is the consumer, the individual owning the data. It is a two-way thing, right? There are times when you [the bank] have good information on the clients. Of course, you do not want to share it with others. This is what is happening in a lot of closed systems.

So, how do you get the benefit of both? More competition, more data-sharing.

Recognizing the risks: cybersecurity risks threaten trust and confidence in the system

If you think people are already afraid of the current system because of all of these [cybersecurity risks] that can happen, you share your OTP [one-time password] with somebody, and then, all of a sudden, you lost 100,000.

By the way, some of the people I know who lost money are very smart. They are just too busy. I know a thoracic surgeon who was so busy and so trusting that he shared his OTP and lost 200,000. These are some concerns that have to be addressed.

Of course, you should also be able to say what happens when things go wrong—accountability. I have a good example. I will not name the company, but it has been in the news. [For] some account holders [of an electronic wallet (e-wallet)], their money was transferred to bank accounts [under two banks]. What happened? Accountability, when things go wrong, is also extremely important. [Maintaining] the level of the trust of the public so that when some things go wrong, they will be addressed properly and quickly.

But, as we discussed in a meeting prior to this, it is not a question of yes or no; it is a question of when. It is also a question of what are the parts that could come ahead of the others.

For instance, we can start by stopping the practice in the Philippines where you are a captive of the banker of your employer. Just give the employee the choice [to choose his own payroll account]. After all, with PESONet, that should not be too difficult. I was quite surprised [when I learned] that most employees actually do not have [traditional] bank accounts-I will not mention the name of the company-but have a "GMaya" [e-wallet account instead].

The importance of governance structures and regulation

Building on a transport analogy, the "rails" lead the doors of data, made possible by APIs [application programming interfaces]. But said rails can only be built with the consent of the customer or the owners of the data.

I should emphasize if the customer wants it shared, his bank cannot refuse. That is the other side. If I have a very good borrower, why would I want other banks to know that he is a good borrower? It is not just an API or a technology story, it is a governance story as well.

These are the things that we are doing: capacity building, collaborative engagements, and, of course, commensurate regulations.

As I said, there are-I look at regulations in two ways: One is before it [crisis] happens, and the other one is after it happens. When things go wrong, that is the most important part. People trust that things will be corrected, and you will not need lawyers to pay for it.

Revised roadmap takes readiness into account

As part of our phased and incremental approach to open finance, we have adopted a more feasible timeline for the Philippine open finance journey-from three years to, now, seven years. The revised roadmap is anchored on the Bangko Sentral ng Pilipinas (BSP)'s digitalization and sustainability agenda.

Hopefully, 98 percent of the things are done before the sixth year. This takes into account the current level of maturity and infrastructure, the readiness of the financial sector, requirements for capacity building, and complexities in promoting collaborative engagements.

By the way, there are many things that will not happen. Suppose I need a surgeon. What I do is I call my sister who is a doctor, and she calls her friends to find a doctor. In this particular case, when things are very idiosyncratic and the level of trust is extremely important, openness is achieved by word of mouth, relationships, or you, trusting somebody to refer you to somebody properly.

Therefore, we cannot avoid these issues. Are we ready? An even more important question [is]: Is the regulator ready?

As you can see, one big problem in open finance is: Are you really sure that this is the same person that you are lending to? Does this person have a good record?

Next stage of the open finance journey

There are several stages of the pilot. The pilot preparation phase is where standard definitions happen.

During the infrastructure preparation phase, participants prepare their respective infrastructure. In some cases, some infrastructures are common to share, or what we economists refer to as "public goods."

In the pilot testing phase, participants-which will either be banks, EMIs [electronic money institutions], or payment system operators-are expected to exchange data among themselves via APIs.

The pilot implementation will focus on the following use cases: statement sharing or account aggregation, account opening, and e-KYC [electronic Know-Your-Customer]. Is it not wonderful if data about your good record of always paying your electricity bill on time, your water bill on time, all of those things will clearly show that you are a low-risk borrower and, therefore, deserves low-interest rates?

Now, of course, as we all economists know, when you cannot tell the difference, you charge everybody the same risk and hope that the risks will cover defaults. The problem with that system is that you are scared of somebody willing to accept a higher rate because he is more desperate. Therefore, you are left with the guy that nobody wants, and the risks are even higher. Maybe, I should charge even more than what is being charged.

I think, the credit card business is littered with such examples. The less-skilled players get the "dregs." Despite the fact that they are charging more, they are losing more money.

Closing message

In closing, this is a very, very attractive future, but we all have to realize that it is not easy. Many things have to be done.

At the same time, the fact that it will take seven years should not paralyze us. We have to think, "Well, what are the things that could be done sooner?"

With that, you can rest assured that the BSP will continue to strive for a regulatory environment that promotes the right balance of innovation, competition, and consumer protection. We also remain committed to establishing robust frameworks that protect the interest of all stakeholders.

With Open Finance Ph, we take a big step in unlocking equal access to financial services for all Filipinos toward building a cyber-resilient and open digital economy.

Maraming salamat, at mabuhay ang ating bansang Pilipinas