


DIGITAL FINANCIAL SERVICES IN THE PHILIPPINES

THOMAS RONNE, UNIVERSITE PARIS-DAUPHINE

Definition

Digital Financial Services (DFS) are financial services delivered through digital channels. DFS providers, like banks, microfinance institutions, mobile operators and third party providers, can use mobile phones, point-of-sale devices or even networks of small-scale agents to offer basic financial services (CGAP, 2017).


Philippine Context

- Literacy Rate: **95%**
 - Economic Growth and an economic transition from agriculture to the service industry
 - High proportion of young people
 - A literate and young population 'hyper engaged' with mobile phones and social medias
 - Annual smartphone connections growth from 2010 to 2014: **75%**
 - Mobile internet adoption reached **62%** of total subscribers in Q3 2014
- 

But...

- Part of the population living under poverty line: **40%** (whom **75%** are in rural areas)
 - In Mindanao, **34%** of municipalities do not have a bank office and **70%** of the population is unbanked
 - In 2012, there are **8.13 commercial bank branches** and **19.31 ATMs** per 100, 000 adults
 - **46%** of commercial bank offices and **30%** of thrift bank offices are located **in the National Capital Region**
 - **Only 2%** of retail payments are electronic transactions
 - **2%** of adults use their phones to pay bills, **12.5%** for receiving money and **7.3%** for sending money
-

Strengths

- The role of the Central Bank and its ‘test and learn’ approach
 - Support of the Government
 - Investors and developers from the Philippines and from abroad
 - The role of mobile operators
 - The ‘texting culture’ and the use of social medias
 - A well-developed microfinance sector
 - Long experience with mobile and agency banking
- 

Weaknesses

- Connectivity issues with 2G, 3G and 4G coverage
 - Liquidity risks and operational risks with the agency banking
 - Not everyone has a mobile phone
 - Many bilateral agreements
 - Low development of Near-Field-Communication and Point-Of-Sale devices
 - Low banking infrastructure
 - High costs of electronic transactions
-

Opportunities

- Regulation from the Bangko Sentral ng Pilipina which eases and accelerates the implementation of DFS (Circular 940, Circular 950, Circular 944, Associate Branch Circular, Basic Deposit Account Circular)
 - Promotion of interoperability across the country by settling electronic platforms in order to improve and facilitate the access to financial services (National Retail Payment System, ACCU Platform, FINTQ)
 - Development of money transfers through the Payment Gateways like EC Pay or Coins.ph
 - Blockchain technology and virtual currency
 - Significant take-up of smart phones
 - Cloud-computing, a new IT infrastructure
 - Market opening, a way to high competition
 - Social medias' arrival as DFS providers
-

Threats

- Some executives, due to a lack of knowledge and/ or mistrust about these new technologies, do not see any benefits and prefer to focus on their current activities
 - Some customers, as they only use cash, have security concerns for their money, do not feel comfortable with new technologies, some of them want to have group meetings and privilege human relationship
 - Feature phones are still dominant compare to smart phones
 - Mobile operators are reluctant to expand their network
 - Companies are reluctant to participate in multilateral agreements
 - Costs to access DFS
 - Leaks and loss of financial and personal data
-

Conclusion

- The microfinance sector can solve financial exclusion by improving the simplicity of their products, the proximity of their branches, the immediacy and the affordability of their services
 - The DFS are a mean to achieve these objectives by making products and services more efficient, more reliable, faster, more user-friendly, more convenient and cheaper
 - Everyone will access transaction accounts to effectuate basic money transfers
 - Know-Your-Customer check will be less strict
 - Alternative scoring algorithms
 - Third-party agents will conduct account registration and carry out loan disbursement, loan repayment and deposit collection
 - Third-party players can provide e-wallet and achieve money transfers
 - Blockchain technology put an end to clearing house and facilitate partnerships in the Philippines and abroad
-

Interpretation

- Early-stage of a business model shift from the banks through an outsourcing strategy
 - A cooperation strategy through different platforms and networks
 - A new model of society with a cashless and a contactless payment environment where people will be able to access financial services at any time through their mobile phone or a cash-agent
 - More competitors will be able to enter into the microfinance market
 - DFS will certainly improve financial inclusion, but is this inclusion will only be reached through money transfers (remittances, bill payments...) or also with banking services?
 - Then, what will be the impact on market saturation, clients' over-indebtedness, and poverty alleviation?
 - And who will carry the risks?
 - Can we consider a change in the balance of power inside the value chain?
 - Who will hold the bank accounts, the digital channels and the data in the coming years?
-