

The Daily Dispatch

Weekly Special Feature

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Banking on a digital remedy in the Philippines

By: Roehl Niño Bautista – Tech in Asia (*Published on January 7, 2022*)



Image credit: Timmy Loen

After finishing her undergraduate degree, Christina Quiambao landed her first job. But to start working as a media writer, she had to sign up for a payroll account with her employer’s designated bank.

“It took quite some time before [the bank was] able to start with the process... Eventually, they told me to come back in a week to get the physical card and activate it,” she tells Tech in Asia.

While this is a typical requirement for new employees in the Philippines, it has been more than a year since the deadly Covid-19 pandemic forced the country into one of the longest lockdowns in the world. Vaccination drives generally prioritized frontliners and health-compromised individuals, while dose availability was an issue.

“I was terrified because I was exposing myself to Covid-19,” adds Quiambao, who was not yet vaccinated at the time.

The difficulty of opening a bank account is one of the reasons why there are 36.9 million unbanked Filipinos – roughly 47% of the country’s adult population – as of the second quarter of 2021.

While 37 banks already incorporated electronic onboarding capabilities as of Q2 2021, some – like the one Quiambao had to sign up with – still required personal appearances to open an account.

The entry of six digital banks in the Philippines is expected to solve this problem, as well as other issues that users encounter at traditional banks in the country.

The Philippines’ central bank, Bangko Sentral ng Pilipinas (BSP), defines a digital bank as an institution offering financial products and services that are “processed end to end through a digital platform and/or electronic channels with no physical branch/sub-branch or branch-lite unit.”

But the path for Philippine digibanks may not be a smooth one.

Challenges ahead

Digital bank executives who spoke to Tech in Asia pointed to the current state of internet connectivity in the Philippines as an issue that’s beyond the control of financial institutions.

Because digibanks don’t have a physical branch, customers can only connect with them online, making it harder for those outside big cities to access their services.

As of January 2021, the country’s internet penetration rate was at 67%, and it ranked sixth among 10 ASEAN countries in terms of internet speed. Given these factors, reaching the unbanked becomes a stretch when digital banks need customers to be online in the first place.

“Telcos also have to up their game and build the infrastructure to make it possible for digital to play in those far-off places,” says Albert Tinio, chief commercial officer

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A telco tower in Camiguin, Philippines. Internet connectivity outside the national capital region still leaves much to be desired, especially in terms of mobile internet stability. Photo credit: 123RF.com

and co-founder of digital bank GoTyme. The company is a partnership between Philippine conglomerate Gokongwei Group and Singapore-headquartered Tyme.

The Philippines' telco space has long been dominated by Globe Telecom and Smart Communications. However, a new player called Dito Telecommunity entered the market in March with the hope of breaking this duopoly.

Globe and Smart are connected to e-wallets GCash and PayMaya, respectively. GCash has teamed up with CIMB Bank, which offers online banking services and has a universal bank license. PayMaya, meanwhile, will launch its digital bank, Maya Bank, in Q1 2022. Maya Bank is under Voyager Innovations, a Philippine tech firm backed by Chinese giant Tencent.

Another hurdle for the sector is how Filipinos tend to hold on to older smartphones, an industry source who requested anonymity tells Tech in Asia. These earlier models, however, can't support apps that need to be frequently updated. Digital banking apps, in particular, often upgrade their platforms to keep transactions secure.

As of 2020, the Philippines had a 72% penetration rate for smartphones, according to a Statista report, though it didn't mention how old the phones are.



Many Filipinos continue to use outdated smartphone models, but these devices can't support digital banking apps that need to be regularly updated. / Photo credit: 123RF.com

Digital banks also have to continue addressing digital hesitancy. Although the number of digital bank account holders is expected to hit 26 million by 2026, there are people like writer Merck Maguddayao who still prefer holding cash over actively transacting online.

"I don't want to put a huge aspect of my life online for security," he tells Tech in Asia.

His security-related misgivings around online banking aren't unfounded. For example, about 700 account holders of BDO Unibank – one of the country's largest banks – lost nearly US\$1,000 to around US\$3,000 after a series of unauthorized transfers in December.

The BSP said that "a sophisticated fraud technique" was used, with BDO's 10-year-old for-phase out system believed to have been exploited.

While Maguddayao does have a bank account, he prefers using his debit card to withdraw money from machines. The only time he made a digital transaction was when he bought a computer table to help him work from home amid the pandemic.

"If you have easy access to buying stuff online, you might also end up spending more than intended," he adds.

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Photo credit: Pixabay.

GoTyme representatives and the unnamed industry source agreed that having a tangible means of depositing and withdrawing cash would appease the fears of potential digital banking users. Digital banks such as Singapore-based Tonik and institutions like ING that offer digital banking services are addressing this by providing physical cards that can be used at any ATM.

As for GoTyme, it could allow account holders to make deposits and withdrawals at commercial business establishments located at Gokongwei Group properties soon. The Philippine conglomerate has a vast footprint, which includes consumer food and beverage brands, convenience stores, drug stores, malls, and an airline.

The shift to digital also brings some risks for banks, “especially when onboarding customers with no credit record,” says Angus Mackintosh, founder of CrossASEAN Research.

Existing traditional banks that have digital entities might also end up cannibalizing their own customer bases, he adds.

“The idea is to target a different customer base and offer more tailored products such as targeting millennials, or offering buy now, pay later, or targeting micro, small, and medium-sized enterprises which are currently unbanked,” he says. However, traditional players often have difficulty offering such digital-focused services, Mackintosh notes.

But as with many other segments, Covid-19 has changed the digital banking landscape. The pandemic pushed several Filipinos to start using e-wallets, driving the country to have the highest adoption rate in Asia Pacific.

As work-from-home policies pressed people to transact online, the Philippines’ central bank saw digital payments breach 4 trillion pesos (US\$79 billion) in value last year.

That said, it’s “a little bit naive to think that people can immediately go from cash to cashless,” warns GoTyme’s Tinio. “That is a fast transition. You need a step in between,” he notes, adding that this is where digital banking comes in.

Six is not a crowd

In October 2021, the BSP issued digital bank licenses to only six players to monitor how the local banking space would react to this new type of financial institution.

The six entities to get the license include GoTyme, Maya Bank, and Tonik, as well as Overseas Filipino Bank (OFBank), which is under state-owned Land Bank of the Philippines; Union Digital Bank, a subsidiary of UnionBank; and Unobank, a Singapore-based fintech firm.

License grantees are given a year to start operations, though OFBank and Tonik are already offering digital bank services as of writing.



ATM booths at business district in Manila, Philippines / Photo credit: 123RF.com

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Nine other applicants for the license were not approved, as “they had not completed the requirements in time,” according to a BSP statement. The central bank did not name these applicants.

But players in the space feel there is a need for more digital bank operators in the Philippine market.

While the entry of digital banks means more players in the banking space, it is a “misnomer to say it is crowded,” Jojo Malolos, president and CEO of GoTyme, tells Tech in Asia. The executive, who is also a board director of Tyme, adds that the industry has yet to “address the issue of the unbanked.”

Having lots of players also helps to accelerate financial inclusion, says Greg Krasnov, founder and CEO of Tonik Bank. “More digital banks and fintech companies are, in fact, a solution to drive Filipinos to become more financially literate and responsible with their money.”

That said, don’t expect traditional banks to just step aside as those in the space will also form part of the competition, says CrossASEAN Research’s Mackintosh. Long-time players in Indonesia, for example, are “setting up their own standalone digital banks.”

Digital remedy for traditional banking pains

Experts contend that the number of players in the Philippines isn’t the biggest pain point. Instead, it’s the processes that potential banking customers have to go through in order to open an account.

Besides the required personal appearances, people must also have a valid identification card. Unfortunately, traditional banks differ on the type of IDs that they accept, something that experts hope the recently launched national ID system will help address.

However, there are still a whole host of other hurdles, such as the need to make repeat branch visits, present a bunch of required documents, and endure long wait times just to get services like a loan. Often, these pain points are not



Pandemic restrictions rendered once-busy streets empty. / Photo credit:123RF.com

even identified because it has become “routine” for customers, says Tinio. Helping people recognize these issues with commonplace transactions will help them embrace digital banking, he says.

“I’ve honestly never met anyone who woke up one day excited to go to their local bank and stay there for hours, just running their errands and transactions,” added Tonik’s Krasnov.

Digital banks solves this problem because they don’t need brick-and-mortar branches and their processes are digitalized. Customers just need a valid ID and a smartphone to avail of the platforms’ services. This convenience also extends to Filipinos outside the country, as in the case of OFBank.

For Filipinos abroad, “a top priority is sending money to their loved ones and be able to save as well for their future needs,” Leila Martin, president and CEO of OFBank, tells Tech in Asia. These transactions usually need a bank account, which “traditionally would require a physical visit to a bank, go through a lot of documentation, and have at least 500 pesos (US\$10) as initial deposit,” she adds.

Mobile phones are also the main point of contact for digital banks, which bodes well for traditional financial institutions looking at their digital banking arms as virtual extensions of their offline services.

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In GoTyme's case, any branch of Gokongwei-owned convenience store Ministop or pharmacy chain Southstar Drug may be tapped to deliver digital banking services in their respective areas. Ministop and Southstar Drug have more than 500 branches each nationwide. Robinsons Malls, which is also owned by the Gokongwei Group, has 52 locations all over the Philippines as well.

“There is also an issue of the maintaining balance. A lot of Filipinos live on small incomes, but there are usually minimum amounts needed to open and maintain an account with traditional banks,” says the anonymous industry source.

Accounts with 5,000 pesos (US\$98.78) and below in deposits make up 68% of the total number of bank accounts in the country, according to recent BSP figures. This amount is the average minimum balance required by most banks in the country to open and maintain an account.

Considering that the minimum wage in the Philippines is between US\$6.22 to US\$10.6 per day for non-agricultural work, gross monthly salaries would be between US\$124.48 to US\$212.21. This makes it hard for most workers to open and maintain accounts with traditional banks.

As a result, digital and online banking players become viable options for users who are eager to start saving, as they allow new accounts to be opened with zero maintaining balance.

While there are Filipinos like Quiambao who are forced to make at least two trips to a branch just to open an account or people like Maguddayao who are hesitant to transact online, there are also those who are not even eligible to open their own accounts. But thanks to technology, banking may become more convenient in the Philippines.

Currency converted from Philippine peso to US dollar:
US\$1 = 50.61 pesos

Editing by Collin Furtado, Eileen C. Ang, and Jaclyn Tiu

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<https://www.techinasia.com/banking-digital-remedy-philippines>

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TODAY'S TOP NEWS

Foreign reserves slipped to \$108.9b at end of 2021

The gross international reserves settled at \$108.89 billion at the end of December 2021, up \$1.17 billion from the previous month but lower than the end-2020 figure of \$110.11 billion, preliminary data from the Bangko Sentral ng Pilipinas show.

Silangan mine seen yielding \$7b of gold and copper

Philex Mining Corp. said Thursday the Silangan mine may yield nearly \$7 billion in gold and copper sales over 28 years. Philex said in a statement the positive financial assumption pushed the mining firm to pursue the development of the first phase of the project in Surigao del Norte province without a joint venture partner.

DOE assures adequate coal supply for min. 30 days

Coal stock of power generators meet the 30-day minimum inventory level, the Department of Energy said Thursday amid concerns over Indonesia's coal export ban. "Initial picture we have, all of them have met the 30-day requirement. Some of them may extend up to 45 or 50 days," DOE director for power bureau Mario Marasigan said.

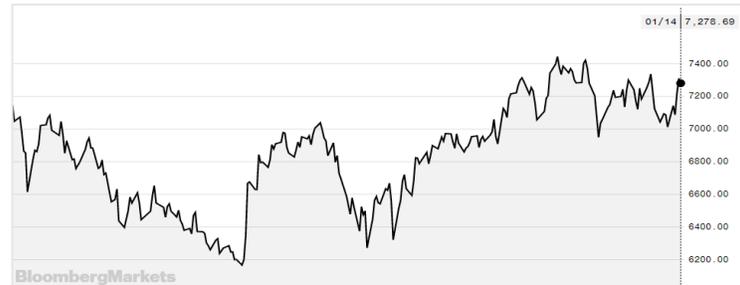
ERC approves NGCP-SMGCP deal

The Energy Regulatory Commission granted a provisional authority to National Grid Corp. of the Philippines and SMCGP Philippines Energy Storage Co. Ltd. on their ancillary services procurement agreement.

Cebu Landmasters reports higher sales

Property developer Cebu Landmasters Inc. said Thursday reservation sales in 2021 reached P16.5 billion, up 16 percent from P14.25 billion in 2020 on sustained demand for housing projects. CLI said in a disclosure to the stock exchange it launched 3,865 units in 2021 with total sales value of P18 billion.

Philippine Stock Market Update



Previous Close:

7,307.75

Open:

7,281.45

52-Week Range:

6,080.94 - 7,475.75

1 Yr Return:

1.90%

YTD Return:

2.22%

Source:

Bloomberg

Foreign Exchange

As of January 13, 2022

US Dollar	Philippine Peso
1	51.12

BVAL Reference Rates

As of January 13, 2022

Tenor	Rate
1Y	1.498
3Y	3.011
5Y	4.144
7Y	4.685
10Y	4.817
20Y	5.011

Daily Quote

"Far and away the best prize that life has to offer is the chance to work hard at work worth doing."

-- Theodore Roosevelt

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MORE LOCAL NEWS

LRT Cavite Extension hits progress rate of 61%

The Department of Transportation said Thursday the Light Rail Transit Line-1 Cavite Extension Project is near completion after almost 20 years. Transportation Secretary Arthur Tugade said the overall progress rate of the project reached 61.60 percent as of November 2021.

PLDT installs more 5G sites in Cavite

Philippine Long Distance Telephone Co. (PLDT) and wireless arm, Smart Communications Inc. (Smart), are expanding their reach in Cavite to deliver improved customer experience in the provinces. To date, 87 percent of Cavite's cities and towns already have Smart 5G.

Banking stocks push PSEi higher

The benchmark Philippine Stock Exchange Index (PSEi) extended gains through Thursday after large banking stocks pushed higher. The PSEi ended the session up 1.28 percent, or 92.62 points, to 7,307.75 while the broader all shares index added 1.05 percent, or 40.2 points, to 3,870.11.

Figaro group to grow stores by 50% at end-2022

Using fresh ammunition from its ongoing initial public offering (IPO), restaurant chain operator Figaro Coffee Group (FCG) expects to end this year with about 150 stores across all brands, increasing further to 300 by end-2029.

UK think tank sees 6.7% PH GDP growth in Q4 2021

Reinvigorated domestic demand, as shown by strong imports increase last November amid further economic reopening, likely boosted gross domestic product (GDP) in the fourth quarter of 2021 by 6.7 percent year-on-year, UK-based think tank Pantheon Macroeconomics said on Wednesday (Jan 12).

Meralco lowers rates in January 2022

Manila Electric Company (Meralco) reduced power rates for January, as lower generation charges dragged down overall costs. Power rates will go down by P0.0746 per kilowatt hour to P9.7027 per kWh. This is equivalent to a reduction of around P15 in the total bill of residential customers consuming 200 kWh.

Credit card fraud in PH up 21% since pandemic

Credit card firms urged telecommunication companies and regulators to address credit card fraud stemming from SIM card swap schemes, as incidents rose 21% amid the coronavirus pandemic.

Haus Talk eyes commercial and condo spaces

Haus Talk Inc., a residential property developer set to list on the Philippine Stock Exchange, plans to venture into high-end housing, condominium and commercial developments to diversify its portfolio, a top executive said Wednesday.

FDI to accelerate economic recovery

Opening up more sectors to FDI (foreign direct investment), including firms owned by other governments, will accelerate the country's economic recovery, speakers told a forum on Thursday. Henry Lim Bon Liong, president of FFCCCII, highlighted the need to make the Philippines more globally competitive.

PH banking system stable – BSP

The country's banking system was stable amid the global pandemic, the Bangko Sentral ng Pilipinas (BSP) highlighted on Thursday. BSP Governor Benjamin Diokno said the local banking system has "remained sound" despite the pandemic.

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TODAY'S TOP ASIAN NEWS

Evergrande snags payment extension

China Evergrande Group has secured a crucial approval from onshore bond holders to delay payments on one of its bonds, as other cash-strapped developers also scrambled to negotiate new terms with creditors to avoid defaults.

Sg's GIC set to manage extra \$185b in reserves

Singapore's sovereign wealth fund GIC is poised to get a massive influx of new funds to manage after the city-state changed the way the central bank transfers excess foreign currency reserves to the firm.

Novo Tellus lodges prospectus for \$150m Spac listing

Another special purpose acquisition company (Spac) has lodged a preliminary prospectus with the Monetary Authority of Singapore (MAS) for a listing on the Singapore Exchange (SGX). Novo Tellus Alpha Acquisition, a Spac backed by Singapore-based Novo Tellus Capital Partners, filed its prospectus on Thursday (Jan 13)

Shopee plans sales events as it ramps up strategy

E-commerce platform Shopee is pulling out all the stops to capture a greater market share this year. The company, owned by Singapore-based Sea, plans to launch more shopping events for the luxury segment and invest deeper in advertising, regarded as a key monetisation strategy for the group.

Tech to ship hydrogen ready by 2025: Hyundai unit

KOREA Shipbuilding & Offshore Engineering (KSOE) expects to have the technology to transport hydrogen by ship by 2025, an executive said, targeting a breakthrough in supplying a fuel touted by supporters as offering a major source of clean energy.

TODAY'S TOP GLOBAL NEWS

Facebook faces \$4.2b UK class action

Social media giant Facebook, now known as Meta Platforms, faces a £2.3 billion (\$4.2 billion) class-action lawsuit in Britain over allegations it abused its market dominance by exploiting the personal data of 44 million users.

Visa to test central bank digital currencies

Visa joined its rival Mastercard in offering central banks a way to test retail applications for digital currencies they might issue. The card payment provider will begin piloting a programme this spring with ConsenSys after discussions with roughly 30 central banks about goals related to government-backed digital currencies.

UOB snares Citi's consumer biz in 4 Asean markets

UOB UOB: U11 +1.13% has agreed to acquire Citigroup's consumer banking businesses comprising its unsecured and secured lending portfolios, wealth management and retail deposit businesses in Indonesia, Malaysia, Thailand and Vietnam.

ABC invests \$15m in Indian home healthcare provider

ABC World Asia, an impact private equity (PE) fund backed by Temasek, has made a US\$15 million equity investment in the Series B round of an out-of-hospital care provider, Healthcare at Home India (HCAH).

Sesto Robotics taps into Europe with \$5.7m funding

AUTONOMOUS technology startup Sesto Robotics has pocketed US\$5.7 million funding from the investment arm of Enterprise Singapore Seeds Capital, venture capital fund manager Trive and German-based machinery equipment group World Trading Innovation (WTI).