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P H I L I P P I N E S I N C .

The Philippines – Canadian comparison/perspective

- The role of the Rural Bank
- Financial Inclusion

“The Philippines”

- Canadian Banker - Ops and payments. Big bank from 1976 – 1989
- A “Farm Boy from the Province” – also worked for 20 years in Canadian credit union system – (RURAL BANK) 1989 – 2011
 - Direct insight into the transition from cash to e payment from a BIG BANK POV
 - Also Executive experience small isolated Canadian community banks transitioned to fully integrated competitive banks
- Warm spot for the success of rural FI’s.
 - Banking system with strong/large banks is essential to a countries success.
 - As important: strong, vibrant and cohesive Rural banking sector.
 - Both sectors must succeed to attain financial inclusion throughout the country
- Overall % of e payment is closely aligned to rise in GDP of a country.
 - Therefore require full participation of rural FI’s.

Background

- Most forms of payment have remained.
- We add – rarely subtract payment methods
 - cash will be with us for a long time.
- Select countries: e-payment overtaken cash payment
 - 20 year+ evolution for these countries to reach 50%+
 - Personally...from cash to epayment and then back to cash.
- If stars alignment, Philippines can reach high e-pmt %.
- Transition has happened Canada, USA, Europe.
 - China has leapfrogged ecommerce due to open design of CUP – acceptance of a standard: QR code
 - HK – adopted their own beep™ - Octopus

Canada

- BIG Banks 5 dominated, 90% + market-share
- Rural banks were seen as the 2nd or 3rd tier
 - Small asset base for most
 - Client base “limited” to local community
 - Restricted access to “BIG BANK” networks/
payment technology
 - No cohesive governance, between rural banks

Philippines

- Philippines has 70 + Million card holders: PIN Debit, Credit card, Debit Card beep™ etc
- Young mobile workforce that covet a solution
- A Rural Bankers association should manage 30+ million clients that are stranded “off-line”.
- 100 Million cash transactions per day
 - significant cost to FI’s and the economy.
- Perfect scenario for adoption

Canada - Transition

Methodically cooperated & planned by BIG 5. Carrot/Stick strategy

- initiated fees for in-branch transactions,
- Penalties/fees for cash transactions especially in-branch.
- reduced number of tellers in the branch
- inexpensive (free) e-payment transactions,
- Encouraged payment service providers to install terminals/ATM's
- Government legislation that enabled competitive banking services for provincial/underserved population
- In Alberta: 150+ credit unions to serve 3 MM /<1 MM rural
 - under capitalized, each an island, no technology, no connectivity to “Interac”, minimal cooperation. (sound familiar?)
- Today – less than 40, all capitalized, all connected to Interac, governance model in place, but still minimal cooperation 😊
- Products/Services now “on-par” with big banks.

What happened (20+ years of Change)

- 100% deposit Guarantee for the rural FI's vs 60K –Big banks
 - initially backed by Government and now self funded
- Creation of central HUB - enabling small banks to connect to Interac network
- Standardizing of banking platform – enabled full range of products/services for even the smallest of banks
- Flexible governance model
- Mergers accelerated: merging of balance sheets to create stronger companies
- Now strong rural FI's offering similar banking products,
- connectivity to all Canadian/global bank ATM's and POS networks, and
- most important – a local bank for local communities

A transition to digital economy and financial inclusion CANNOT happen in the Philippines unless there is a strong Rural banking sector. And this requires good governance support, governmental guidance and most importantly cooperation amongst rural banks.

Similar adoption in Philippines?

- Yes – faster: EG: mobile phone Transition.
 - lesson to learn.
- In Canada, ATM/PIN DEBIT greatest acceptance and fastest growth.
- Over 90% of # of Cdn transactions now electronic
 - +50% value
- Leap from 50 to 80+ % happened with last few technology advances. Flash – QR.
- ASIAN Comparison to Phone Flash= mVISA (India), WECHATPAY, QQPAY (China)

Philippines

- Slow adoption to PIN Debit just like Canada.
- Offshore QR solutions will fill the vacuum.
- Philippine Banks (inc Rural banks) and Telco providers will/must transition to easiest solution: “Phone Flash”/HCE _ Host Card Emulation/QR etc
 - Or risk FINTECH offering this payment technology
- Millennials/consumers – will switch from cash – only if alternative is easier and more convenient

How can transition take place

- *Philippines has similar Banking System : a small number of large national banks (just like Canada) large rural banking community*
- *Strong telecom offering electronic payment PAYMAYA GCASH. Both well established brands focus on ECOM.*
- *A population ready to embrace convenient e-payments*
- **Imagine – All Philippine Banks migrate go to the most convenient, safe & least expensive payment technology on the market today: EMV TAP, PHONE FLASH, QR...HCE, beep™**

Accelerated transition in Philippines?

- Banks/telco providing accounts focusing on electronic payment and allowing free e-transactions
- Banks/telco providing emv tap cards for Credit card/ATM/PIN Debit, beep™ and Phone flash applications for their e-transaction clients.
- Affordable, safe, secure and fast devices that accept all secure EMV, Flash, beep™ payments at: Sari-Sari stores, Jolly-Jeep (street food), Bus Transport, Jeepney's, taxi's, trike's, small food vendors in malls etc.
- B2B infrastructure that enables merchants to utilize funds from consumer transactions to pay for their daily inventory, rentals, etc.

Challenges?

- Numerous studies have the same conclusion: “transition to electronic payments have a direct correlation to number of terminals/acceptance devices available in the market.”
- Canada: 35 MM population = +1 MM terminals.
- Philippines: 110 MM population, 200K terminals
 - 80 - 100 MM Debit/Credit/ATM/beep™ cards
- About 99% of all ATM/PIN debit transactions at ATM
 - Consumers are saying:
 - Not easy to pay with cards
 - Shortage of terminals to accept all card types

Proliferation of terminals/devices, acceleration of QR Code solutions, inclusion of Rural FI's and the right incentives will encourage significant e-pmt growth

Conclusion

Banks have inherent benefit to encourage and reward ANY ADVANCES THAT INCREASE ELECTRONIC PAYMENT THROUGHOUT THE ENTIRE PHILIPPINES – OR
RISK LOOSING CLIENTS

“There go my people. I must rush to catch up, for I am their leader” Mahatma Gandhi.

Millennial’s will transition to more convenient payment methods. **LOCAL Solution**

Require governmental direction that enables Rural banks to compete head to head with BIG banks so rural Filipino’s are included: new payment/banking technologies

- ***If all these aligned then e-payment penetration can reach a tipping point and expect similar growth to what Philippines experienced with mobile phones.***

We encourage all to take time, effort and investment to personally and corporately support any and all efforts to increase the number of financially included Filipino’s.

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