E-money and E-banking in the Philippines

Core Information Technology Specialist Group
Bangko Sentral ng Pilipinas (BSP)
Presentation Outline

1. **Background and Enabling Environment to E-Money**
2. **E-money Mechanics**
3. **Philippine Experience on E-money**
4. **E-Money and E-Banking Regulation**
5. **Other Related Regulations**
Current Scenario

90M Population

26% of Filipinos have access to formal financial channels

10M Overseas Filipino Workers send remittances regularly

More than 60% of the population have mobile phones

1.5B text messages/day

610 out of 1635 municipalities do not have banks

99% mobile phone coverage

Philippine MAP
Financial Services via Mobile Phones

- Reach the bankable but un-banked segment
- Provide increased CONVENIENCE at LOWER COST
Enabling Environment to E-Money

1. Allow non-banks to offer mobile money
2. Remittance Agents allowed to perform Cash-In/Cash-Out
3. Simplification of requirements for KYC
4. Formalized guidelines on issuance of electronic money
5. Competitive business models allowed to be tested
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Electronic Money

Definition:

Monetary value as represented by a claim on its issuer, that is –

a. Electronically stored in an instrument or device;

b. Issued against receipt of funds of an amount not lesser in value than the monetary value issued;

c. Accepted as a means of payment by persons other than the issuer;

d. Withdrawable in cash or cash equivalent; and

e. Issued in accordance with BSP Circular No. 649 dated 9 March 2009
Electronic Money

Basic Features

- Redeemable at Face Value
- Not a Deposit
- Compliant with AMLA
- Total accumulated cash value not to exceed P100 thousand/month
Types of E-Money

Prepaid Cash Cards

Electronic Wallet
Benefits to Users

- Reduced travel time & cost
- Reduced risk
- Convenient
- Time saving
- Increased sales
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Flexibility to Different Models

Smart Money - Normal Challenge

➤ In 2004, BSP approved this as e-banking product of Banco de Oro subject to existing regulations on electronic banking (X701 of the MORB) and outsourcing (X162.2 of the MORB)

G-cash - Harder Challenge

➤ In 2005, BSP approved the product of GXI (a Non-bank)

   ● Consumer Protection, AML/ CFT issues
   ● Safety and soundness of the e-money product
   ● GXI fully cooperated with BSP in designing its business model to achieve market acceptance
   ● GXI registered with BSP as a “remittance agent”
Approaches to Mobile Commerce

- Bank-Centric or the Bank-led model
- Telco-Centric or the Nonbank-led model
Approaches to Mobile Commerce

Bank-Led

- The bank has the primary relationship with the account holders
- Telco operates and maintains the technology
- Usually requires the user to have an account with the bank that is not treated as a deposit but an electronic money (e-money)
- The bank is the E-money Issuer (EMI)
- Telco’s agents serve as cash in-cash out centers
Bank-led Model
Registering to the Smart Money

1. User goes to the Smart Wireless Center to register (name, address, number) and present valid ID.

2. User will receive the Smart money card.

3. User can convert actual cash to electronic money in MIMO centers.
Approaches to Mobile Commerce

Telco-Centric/Nonbank-Led

- Telco has a subsidiary which operates the e-money business
- Said Telco subsidiary has the primary relationship with the account holders
- Said Telco subsidiary is the E-money Issuer (EMI)
- Bank participation limited to “clearing”
- Banks serve as cash-in/-out agents of the EMI along with the EMI’s agents
Nonbank-led Model

GLOBE TELECOM → GXChange → GLOBE CASH → Settlement Banks

Rural Bankers Association of the Philippines

TEXT-A-PAYMENT
Available Here!
Registering to the G-cash Service

1. User will register in the system by sending an SMS of key information (name, address, number).

2. User will receive a reference no. as acknowledgement.

3. User can go to any Cash In center to convert actual cash to electronic money.

4. After verification, the e-money will be registered on the mobile phone with a reference number.
Cash IN

ATMs

BANKS

Mobile Phones

OUTLETS & Accredited Partners
Cash OUT

ATMs

OUTLETS & Accredited Partners

BANKS
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Overview of Supervisory Framework

Technology Risk Management
(Sec. X176 MORB)

Outsourcing/Insourcing
(Sec. X162 MORB)

Consumer Protection
(Sec. X705 MORB)

Business Continuity Management

E-Banking
(Sec. X701 MORB)

E-Money
(Circular 649)

Money Transfer Registration
(Sec. 4511N MORNBFI)

Banks/NBFIs

Non-banks
BSP Circular No. 649
9 March 2009

Guidelines governing the issuance of electronic money (e-money) and the operations of electronic money issuers (EMI) in the Philippines
Classification and Approval Process

- **EMI-Banks** - Sections X701 and X169 of the MORB
- **EMI-NBFI** - Section X701 of the MORB, Section 4190Q/S/P/N of the MORNBFI
- **EMI-Others** - Section 4511N of the MORNBFI
EMI- Banks
Section X701 of the Manual of Regulations for Banks (MORB)
Approval Process

1. Application
2. Conditional Approval
3. Submission of Documentary Requirements
4. Monetary Board Approval
5. Launch
Conditional Approval

- Description of banking services to be offered

- Certification by Bank President or its equivalent that Bank has:
  - Adequate risk management process / Security policies and procedures / System testing prior to implementation / Business continuity plan on electronic banking channels and systems.

- Satisfactory financial condition, CAMELS rating of “3” and overall risk assessment of generally acceptable

- Compliance with BSP rules and regulations
Conditions for Final Approval

- Continuing risk management oversight;
- Adequate security controls (CIA);
- Consumer protection;
- AML compliance;
- Advance BSP notification;
EMI - Others
Section 5 of Circular 649
Additional Provisions for EMI-Others

(Section 5 of Circular 649)

- Stock corporation
- Paid-up capital of P100 million
- Engage in e-money issuance and incidental business
- Shall not engage in the extension of credit
- 100% liquidity cover
- BSP access to systems and databases
Requirements for all EMIIs
Section 4 of Circular 649
Minimum risk management systems and controls to include:

- Internal controls
- Properly designed and tested computer systems
- Appropriate security policies and measures
- Business continuity and recovery plans
- Audit function
- Compliance to AMLA regulations
Consumer Protection
(Section 4 of Circular 649)

- Adequate disclosure requirement
- Redress mechanism to address complaints
- Clear identification of issuer
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Outsourcing of Services by EMIs (Cir 704)

- Follow procedures under X162 MORB
- Certification by the Bank President that a due diligence review had been conducted
- Consumer protection
- Pro-forma contract with EMNSP
Other Provisions of Circular 704

- Accreditation process of CICO agents
- AML trainings and re-trainings every 2 years
- Annual operational and financial review
- Segregation of records/transactions of different EMI parents
- Documented and tested BCP with no significant findings
Other Related Regulations

- **Sections X162 of the MORB- Outsourcing of Technology Systems and Processes**

- **Section 4511N of the MORNBFI (Cir No. 471)**
  - provides rules and regulations for the registration and operations of foreign exchange dealers/money changers and remittance agents
  - opens up opportunity for non-bank providers
Circular No. 511 (Technology Risk Management)
- Risk Management focus on operational, compliance, reputation and strategic risks associated with tech-related products

Circular No. 542 (Consumer Protection for E-Banking)
- Consumer Protection focus on Board Oversight and Internal Controls on security, authentication, customer origination/verification, monitoring and reporting, disclosure and complaint resolution
Other Related Regulations

Circular No. 564 - Guidelines governing valid IDs

Circular No. 606 - Insourcing of services by a bank
End of Presentation.

Website:

www.bsp.gov.ph