

Access to Finance and AML/CFT Issues: A Close Look at the Case of Electronic Money in the Philippines

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with Technology and Credit Scoring."**

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General Policy Environment :

Access to Finance

- Tiered banking system (i.e. Commercial Banks, Thrift Banks and Rural Banks) to cater to financial service needs of all markets
- Liberalized branching regime to allow for wider branching networks and the servicing of unserved and underserved areas
- Microfinance friendly policy and regulatory environment to serve needs of the previously unbanked entrepreneurial poor

General Policy Environment:

Technology in Financial Service

Delivery

- Recognition of role of regulators to manage the risks associated with electronic banking while not hampering useful innovation and experimentation for increased efficiency and greater access to banking services
- Electronic Commerce Act and the General Banking Law 2000 provides the mandate to create the regulatory framework for e-banking focused on underlying soundness of the banking institution and risk management
- Recent BSP issuances focused on technology risk management and consumer protection (BSP Circulars 511 and 542, 2006)

General Policy Environment:

AML/CFT

- Strengthened AML Regime with the passage of the Anti Money Laundering Act (2001) and the creation of the Anti Money Laundering Council
- BSP's issuance of Circulars (i.e.. No. 251, 253, 258, 259, 333, 495) addresses specific money laundering issues (i.e.. KYC, reporting suspicious transactions, etc.)
- Increased interaction between public (relevant government agencies and supervising authorities) and private sector in the investigation of criminal activities

The Philippine Experience: Balancing Access to Finance and Security

- Electronic/ Mobile banking – tied to a known relationship with a bank.
- Electronic Money – stored value or prepaid product in which a record of the funds or value available to the consumer for multipurpose use is stored on an electronic device in the consumer's possession (Bank for International Settlements, 2004)

Existing Electronic Money Platforms

- Globe Telco “G-Cash” - cash-less and card-less micro payment over a mobile phone/ mobile wallet service using menu-driven interface. May be used to purchase and sell goods and services, micro-finance applications, tax and bill payments, send and receive money person to person, domestic and international remittances
- Smart Telco “Smart Money” – a prepaid cash card used for transactional services linked and controlled by the Smart Communications GSM Mobile phone. It is a MasterCard Electronic Product issued by Banco de Oro (a commercial bank) which has the same functionalities as the G-cash except that it uses a cash card (“Smart Card”).

Current Volumes and Potential Impact

- Volumes for 2006
 - G-cash – Cash In: PhP 786.777 M; Cash Out: (actual encashment, bills payment, purchases) PhP 769.123 M 2006
 - Smart Money (including airtime loads) - Cash In: PhP 50,942 M; Cash Out: PhP 50,835 M
- 43% of Filipinos (36 million) use mobile phones
- Estimate that 90% of rural bank clients have access to mobile phones
- About 500 million short message service (SMS) or “texts” are sent per day
- Mobile phone industry in the Philippines serves all income groups especially low income groups due to distinct industry characteristics (i.e.. calling party pays, pre-paid services, low SMS cost)

[G-cash]

- Process has embedded AML/CFT safeguards:
 - STEP 1: Over the air registration
 - Enter your name, mother's maiden name and PIN
 - STEP 2: Cash in/ Cash out
 - Face to face transaction
 - Verify information given in STEP 1
 - Present 1 valid ID
 - Fill up an application form

[G-cash]

- Cash-in/ Cash-out Centers
 - Banks may register as CI/CO and have to go through certain accreditation standards set by the bankers association with guidance from BSP
 - Non-banks have to register as foreign exchange dealers (FXDs)/money changers (MCs) and/or remittance agents (RAs) as indicated in Circular 471
 - Mandates the necessary customer identification (minimum data and information required), record keeping and reporting of covered transactions and suspicious transactions
 - Mandates the participation in training conducted by the Anti-Money Laundering Council (AMLC) or by any of its recognized or accredited service providers on key AML issues

[G-cash]

- STEP 3: Applications
 - Purchases and P2P transactions
 - Banking transactions (i.e.. microfinance transactions) governed by partnership with banks - were subject to evaluation approval from BSP
 - Remittances

[Globe Telco]

- As a non-bank, Globe uses a subsidiary, G-exchange, which has relationships with multiple banks for its settlements
- Globe has agreed to be examined by the BSP and has adopted BSP suggestions for its operations (i.e.. security considerations, etc.)
- Globe has the internal capacity for the following:
 - Profiling – captures trends on the SIM level on volumes from one account to multiple accounts and from multiple accounts to one account
 - Identify geographical location of profiled account

[Smart Money]

- Process similar to G-cash but with no over the air registration
- Application only at Smart outlets and Banco de Oro (BDO) which do the necessary customer due diligence
- BDO issues a card (PIN enabled) – maximum of 2 cards per person with a maximum load of PhP 50,000/ month (approx USD 1,000)
- Easier for BSP to regulate as BDO is a regulated entity

[Smart Money]

- Applications
 - Wallet to wallet transfer
 - POS Terminal Purchases at all MasterCard establishments.
 - Cash Withdrawal via ATMs
 - Virtual Card and remote purchases
 - Over-the-Air Reloading to top up your Smart Mobile Phone

[Smart Communications, Inc.]

- Smart Communications owns the Smart Money brand, is the infrastructure developer and responsible for sales, marketing and after sales service while BDO is the MasterCard issuer and in charge of settlement with MasterCard and merchants. They are also responsible for merchant acquiring and booking A/P balances and reloading Smart Money.
- BDO is under the supervision and regulation of the BSP and subject to AML/CFT regulations for covered institutions including profiling requirements of Circular 495.
- Smart Communications has the internal capacity for tracking transaction velocity

Other Requirements by the BSP

■ Transaction Caps

- PhP 10,000/ transaction (~USD 200)
- PhP 40,000/ day (~USD 850)
- PhP 100,000/ month (~USD 2000)

■ Regular Reporting

- Separate reports on AMLC
- Operational Status reports to BSP (Quarterly)

■ Examination

- Core Information Technology Supervisory Group (CITSG, BSP) conducts regular/ annual systems review to check on confidentiality, fraud and data integrity

[Key Areas Considered]

- Regulation and requirements should be balanced to increase scale/ access to financial services while maintaining security.
- Key areas of confidentiality, money laundering, risk management should be upheld even with the new modalities
- Consumer Protection is a key area in electronic banking
- Risk and security management requirements as well as regulatory costs should be commensurate to risks involved

[Key Areas Considered]

- Responsiveness to innovation and experimentation is important
- Institutional arrangements are important especially if there are non-bank institutions (I.e. telecommunication companies).
- Private – Public Cooperation and Partnerships are necessary.
- Necessary infrastructure should be in place (i.e.. In the Philippines there is still a need for a payments/ settlements law)



End of Presentation

Thank you.

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