What Next?
Financial inclusion in the Philippines after the E-money revolution.

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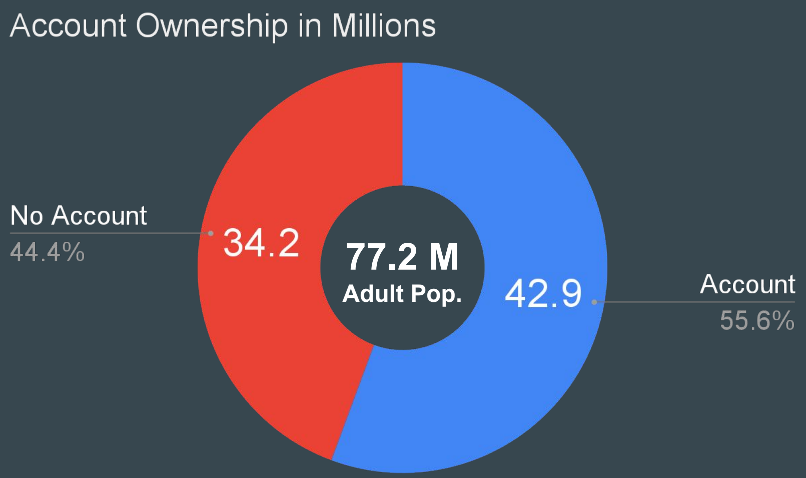
Prepared for:
Fintech Association of the Philippines

Contents

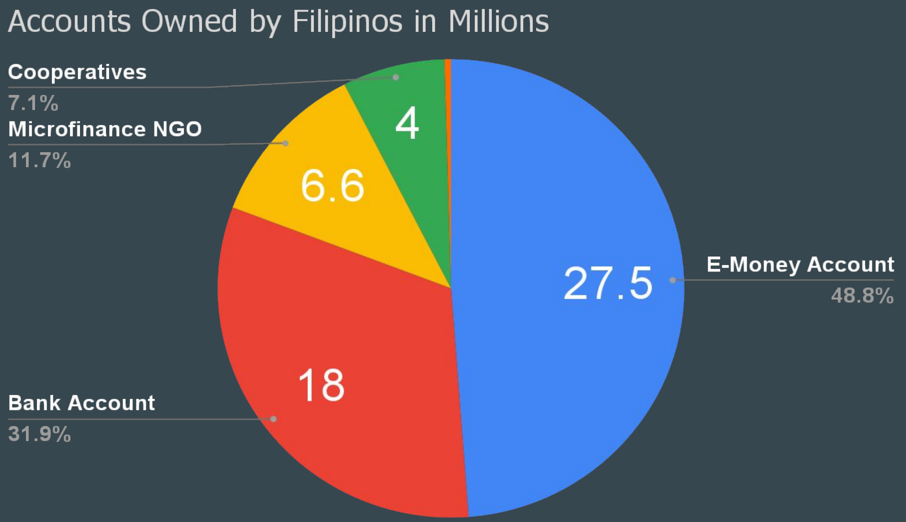
E-money revolution



Account ownership increased from **29%** in 2019 to **56%** in 2021

Driven mostly by e-money account opening

E-money account holders grew **4X** from **8%** in 2019 to **36%** in 2021



E-money accounts now outpace bank accounts:

- E-money Accounts = **48.8%** of account owners
- Bank Accounts = **31.9%** of account owners

With the wider access of e-money services, payments have been more convenient than ever.

Source: BSP Financial Inclusion Survey

Job’s not finished

Deeper services - savings, credit, insurance, investment - require more than e-money services currently offer.

- While payments progress is critical, more powerful financial services still lay beyond reach
- Some strides have been made, ie. GCash’s GScore, GInvest, GSave, GInsure
- Proxy credit solutions address the symptom, not the problem: a lack of open financial data
- Lack of digital identity fidelity limits Filipinos from both opening accounts and accessing loans
- Addressing the identity and financial data accessibility issues will unlock financial service access to millions of underserved

Case Study: GCash

Financial Services expanding under GCash

- GSave - P9 billion
- GInvest - 70% of domestic UITF accounts
- GInsure - 33% of all new insurance policies since 2020
- GCredit - P15 billion loans disbursed

GCash has solved accessibility issues

- Providers are achieving better penetration through GCash
- Insurance providers partner with aggregators to offer their product to a wider market

Limitations

- Lenders need to plug into Gcash or similar aggregator to be "digitized" without building their own digital in-house solution
- Oligopoly effect: only the GCash-like platforms large enough to offer the full vertical can truly benefit. What about the little guy?
- To avoid oligopoly effect, these services/building blocks must be agnostic, universal capabilities
- GScore (Globe’s Credit alternative) is a siloed feature - only uses GCash data, not recognized as a formal credit score

Source: fintech news ph, business world online, gcash help center

There is a gap in digital banking between the Philippines and the Region

McKinsey Insights

“Philippine banks **devote less than 10 percent of their revenues to IT**, compared with an average of about 15 percent among incumbent banks elsewhere in Asia–Pacific, **and digital channels account for just 5 to 15 percent of their revenue**, well below the average of 25 percent for their peers in Asian emerging markets.

Meanwhile, existing **Philippine fintechs concentrate almost exclusively on payments**, and infrastructure constraints limit their reach. The result is a widening gap between the country’s enormous underbanked population and the expanding range of innovative financial technologies lying just beyond its borders.

The banking penetration rate remains among the lowest in the region, and traditional financial institutions **focus heavily on commercial lending**, leaving a **rapidly growing, increasingly affluent, and digitally savvy population with little access to financial services that meet their needs.**”

Source: McKinsey

- Avg Bank Revenues devoted to IT

  10% Philippines **15%** APAC

- Revenues devoted to digital channels

  5-15% Philippines **25%** APAC

- Fintechs focus on payments
- Banks focus on commercial loans over personal loans
- Resulting in a rapidly growing underserved financial services market

Opportunities in lending rise

Traditional Loans

- 42.8 Million untapped market
- Only 45% or 34.3M adult filipinos were borrowers in 2021 ~
- Banks only account for 4% of formal loans ~ 768,320 loans
- 47% of informal loans were from Friends & Family

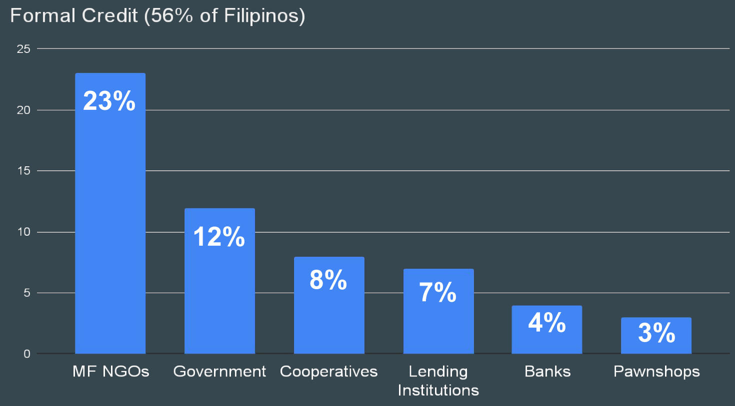
Digital Loans

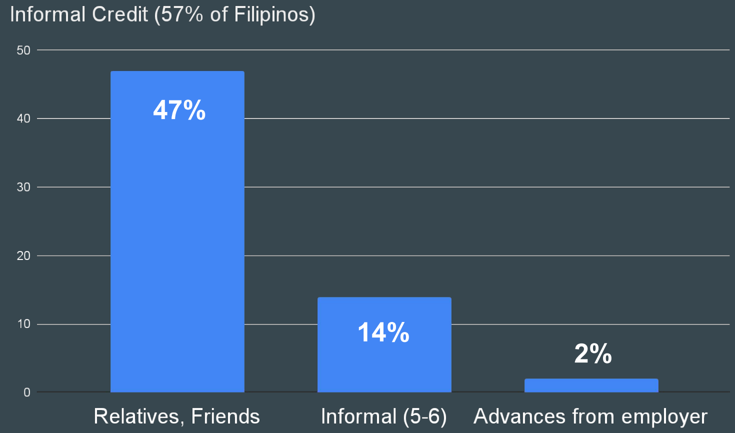
- Digido Digital Lending Analysis:
- 10 most popular lending apps reached a combined total of 14.2 mil. downloads as of December 2022.
- 3.4% of the total Finance downloads across all devices and all platforms.
- Growing, but still a long way to saturation.

While payments have evolved, lending remains stagnant

- Banks offer fixed solutions and are not interested in personalized loans, especially for the growing CDE segments
- Banks are more focused on commercial lending
- Large portion of the market is untapped or engaged in informal loans

Loan Data from BSP Financial Inclusion Survey 2021





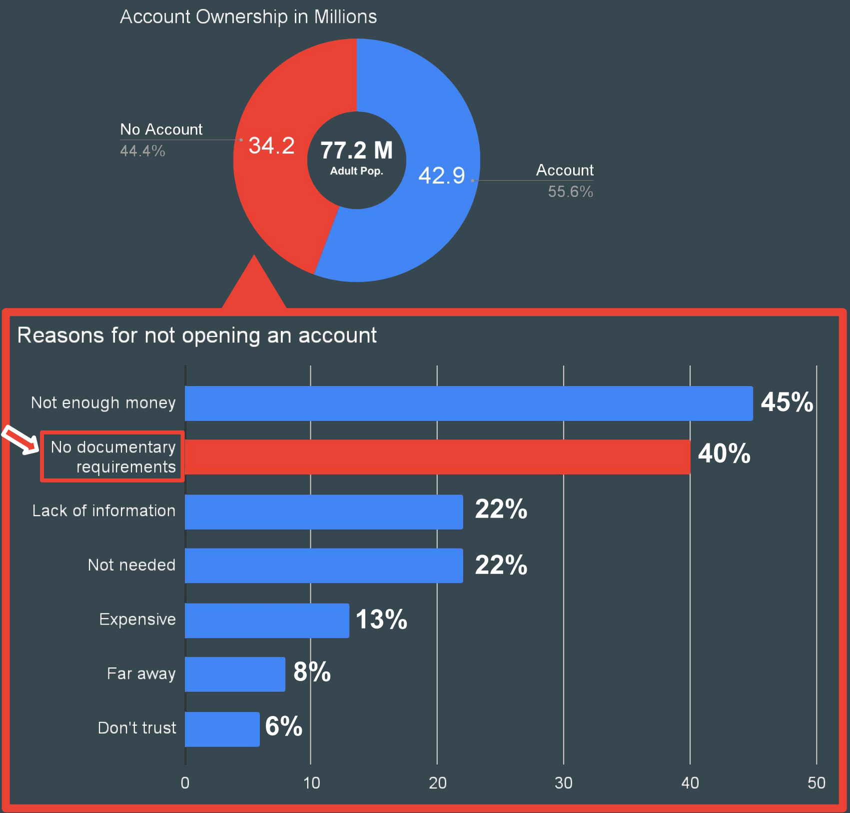
Source: BSP Financial Inclusion Survey, Manila Bulletin

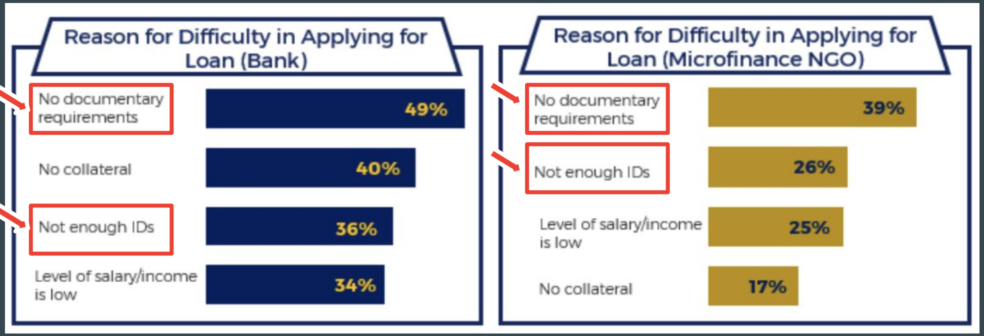
The Philippines' identity crisis impedes inclusion progress

Smart customized loan products can be achieved through holistic credit scoring using both traditional and alternative data.

But credit scoring and universal financial footprint tracking is limited by digital identity pitfalls:

- 40% of Filipinos with no bank account were unable due to lack of ID
- 87.9% of PhilSys registrants did not have either Birth Certificate, Passport, Social Security ID, or a Driver's License
- Leading sources of friction for loan applicants are 1) No documentary requirements and 2) Not enough IDs





Source: BSP Financial Inclusion Survey, PhilSys

MSMEs drove E-commerce growth, but now bottlenecked by loan access

Financial technology growth has come off the backs of MSME growth

Growth of MSMEs

Growth of E-payment & E-Commerce platforms

E-commerce data not fully utilized for credit scoring, limiting loan access for MSMEs despite increased financial activity

MSME's require credit to continue growth

Lack of loan access stifles MSME growth

Where to focus?

1. Addressing Digital Identity
    - Need a widely accessible, standardized ID
    - Streamlined eKYC capabilities
2. Open Data, Data Sovereignty, Alternative Data
    - Allowing the customer to own their data
    - Cross-pollination of data across platforms to provide better financial services
    - Utilize alternative data sources for more holistic credit scoring
    - Loan fraud prevention and more accurate scoring
3. Customer-centric Products
    - Taking advantage of digital identity and open financial data to offer tailored products
    - Ie. Personalized loan products that are both more risk averse and more appropriate to the customer's needs

Financial Inclusion

- Users can borrow at personalized favorable rates from a variety of lenders.
- Providers can score users from a variety of financial and alternative data sources.
- More ways to score means more access for the underserved.
- Better data = better rates and less risk = more business for lenders and more liquidity for borrowers

Ideal e-commerce growth cycle

Financial technology growth has come off the backs of MSME growth

Growth of MSMEs

Growth of E-payment & E-Commerce platforms

GCash

Laz

DATA

Platform data gives 360 degree view of capacity to pay, enabling banks to lower risk and interest rates for MSME borrowers

Institutions offer superior loan products to MSME's

Loan access accelerates MSME growth