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BANKING THE UNBANKED IN THE PHILIPPINES

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The Ayala Group brought together two of its subsidiaries, Globe Telecom and Bank of the Philippines Island, to bring banking services to 80 percent of the country

In 2009, eight out of ten Filipinos did not have access to a bank. Informal moneylenders provided some 40 percent of small-scale business lending in the market, at interest rates that could touch around 240 percent per annum. The population living in 40 percent of the Philippines' municipalities did not have easy access to a physical bank branch.

Later that year, one of country's largest conglomerates, the Ayala Group, set up BPI Globe BankO ("BankO") to address that issue. By releasing the latent synergy between two of its subsidiary companies, Globe Telecom and Bank of the Philippines Island (BPI), Ayala brought financial inclusion to millions previously unbanked.

"Globe had a product, GCash, which was basically a micro payment service that transformed a mobile phone into a virtual wallet," explains **Minette Navarrete**, Managing Committee of Globe Telecom and member of the Ayala Group Innovation Council. "But the GCash license could not be used for any other banking activities. And while BPI had the banking license, it did not have the reach or access of Globe.

"So recognising that microfinance was a large emerging segment in the Philippines, a strategic decision was taken to leverage the combined resources of Globe and BPI to set up BankO, thereby promoting financial inclusion in the Philippines."

LOW DEPOSITS, HIGH REACH

Many of BankKO's potential customers earned around 3,000 Pesos (about US\$60 as of May 2017) monthly, and their financial footprint was beyond the reach of third-party data suppliers. They also had no credit history, and as such BankKO had to work out how to make its banking services available to throughout the communities where they lived.

With a minimum deposit of only 50 Pesos (about US\$1) BankKO would provide a platform that offered, among other services, the following: paying utility bills, buying prepaid load, transferring money using their mobile phones, cashless shopping using their BankKO ATM cards, and receiving remittances from abroad. It could also act as a secure conduit for all kinds of disbursements ranging from the salaries, allowances and stipends of government employees, teachers and scholars, to emergency cash transfers for disaster victims.

To deliver this value proposition, BankKO envisaged the need for an extensive ecosystem comprising over one million users and a multiplicity of partners including thousands of partner outlets, national and local governments, aid agencies, consumer goods companies (such as Nestlé and Unilever) and their distributors.

To reach the maximum number of potential customers, BankKO set up mobile booths in markets, schools and town squares. It also partnered with retail outlets, such as pawnshops and drug stores; over 116,000 depositors had been acquired and serviced through such channels. BankKO also had strategic partnerships with utility companies to acquire depositors in groups.

BankKO was a commercial entity, and therefore had to generate profits. Through three key loan products – value chain loans, commercial loans and consumer loans – it recorded an eight-percent monthly growth in the nine months ending September 2014 to log a 116-million peso portfolio.

BankKO offered value chain loans to provide additional working capital for neighbourhood retail stores known as sari-sari stores. By partnering fast moving consumer goods (FMCG) giants such as Nestlé, Proctor & Gamble and Unilever, over 600,000 sari-sari stores were brought into the fold. FMCG distributors had accumulated data on the small retailers purchasing behaviour that could provide insights into the growth and resilience of their businesses.

To expand the consumer loan business further, BankKO had entered into a partnership with start-up company Lenddo, to pilot consumer loans using so-called "Big Data" approaches that included using Facebook profiles to compute a credit score. This was the first of its kind in the world, and resulted in a fully-automated customer experience, in which loan approvals were received within an hour.

LOOKING AHEAD

BankKO's initial partnership with the major chains of pawnshops and drugstores created over 3,000 BankKO Partner Outlets (BPOs) by September 2014, and planned to reach 4,000 by the year-end. BankKO's president and chief executive officer, **John Rubio** elaborates:

"Initially, the distribution of outlets were targeted based on 'who knew who'. There are basically six large pawn shops – we approached each one, and one of them agreed. Similarly there are three large drug stores, and one signed up. So there wasn't much strategic choice made initially from a location perspective. The problem with that is that given the Philippines has around 7000 islands – the majority of partner outlets were in Metro Manila – defeating our purpose of opening partner outlets throughout the country."

Looking ahead, he adds:

“We are looking at dramatic growth and there is nothing stopping us. When we look at the number of ‘unbanked’ Filipinos, there is no reason why we can’t have, say, six million customers by 2016. We also see a significant growth from a loans perspective to become really profitable as that is where the margins are. Then we want to grow partner outlets to maybe 10,000 in number, so that there is a partner outlet in every municipality. So when I look at our business, I believe there is an opportunity for BankO to really disrupt the traditional banking space. And if you look at comparable products in other countries, such as bKash in Bangladesh, we should be disrupting that too.”

However, several issues stand out: How can BankO find and identify partners to expanding the partner network? What would BankO need to do to further develop their capabilities to enable its ecosystem, and with it, its own business, to grow and prosper? Could BankO’s business model be replicated in other markets in Southeast Asia or even in India, and if so, how fast would BankO need to move before others came to create and dominate these markets?

This is an adapted version of the [SMU Case Writing Initiative](#) case, “Bpi Globe Banko: Reshaping The Philippines Rural Banking System”, which won in the Integrating the Innovation Pipelines category in the 2016 EFMD Case Writing Competition. To see the full case, please click on the following link: https://ink.library.smu.edu.sg/cases_coll_all/149/

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