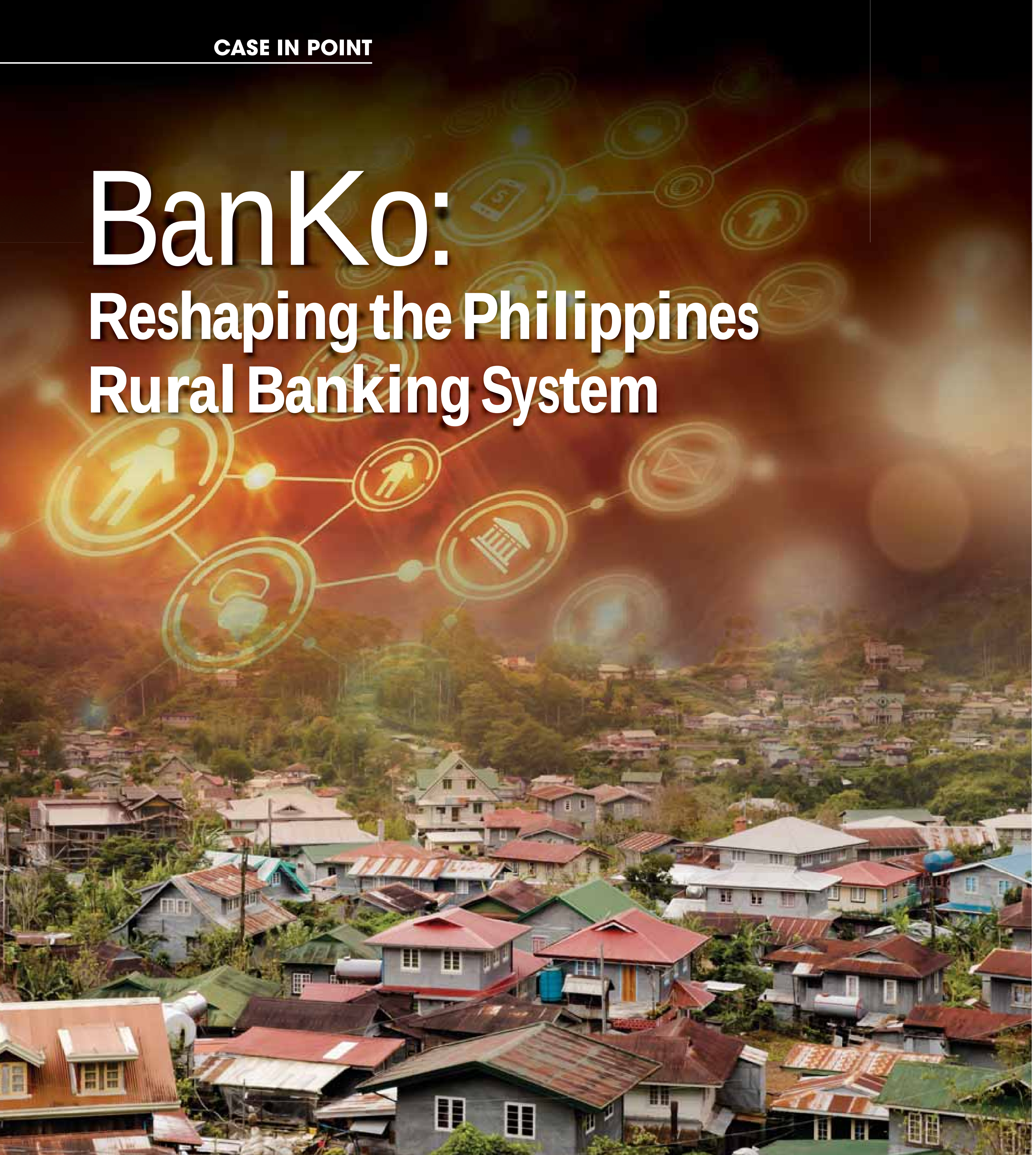
BanKo: Reshaping the Philippines Rural Banking System



Using ecosystem advantage to deliver timely social innovation.

By Peter Williamson and Havovi Joshi

In 2009, eight out of ten Filipinos did not have access to a bank. A few informal moneylenders provided about 40 percent of small-scale business lending in the market, at interest rates that could touch around 240 percent per annum. Additionally, the population living in 40 percent of the Philippines' municipalities did not have easy access to a physical bank branch. It was then that the Ayala Group, the oldest business house and one of the largest conglomerates in the country, identified and explored an opportunity to develop a business model capable of meeting the needs of the unbanked in the Philippines.

The senior management of the Ayala Group and its subsidiary companies, Globe Telecom (Globe) and the Bank of the Philippine Islands (BPI), understood intuitively that there were synergies that could be enjoyed in the Ayala ecosystem. Globe had a product, GCash, which was basically a micropayment service that transformed a mobile phone into a virtual wallet. 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. Resources were combined, resulting in the formation of the new bank, known as BPI Globe BanKo (BanKo).

From genesis to innovation

BanKo, the Philippines' first mobile phone-based microfinance savings bank, was first conceived in 2007 when Jaime Augusto Zobel de Ayala, the chairman of Ayala Corporation, came up with the idea of leveraging mobile money to address the challenge of financial exclusion, one of the key social problems in the Philippines. Established in 2009, BanKo's cumulative customer base had reached 966,000 customers by October 2014—putting it well on track to achieve its stated mission of building a business by 'banking the unbanked'.

The bank's mandate to promote financial inclusion by leveraging its combined assets in banking and telecommunications was originally carried out through a joint venture among three partners. The Ayala Corporation, which held a 20 percent share, was the oldest business house and one of the largest conglomerates in the Philippines with a track record in leading innovation and identifying disruptive trends in telecommunications and utilities. The second partner, Globe Telecom, an Ayala subsidiary and a major provider of telecommunications services in the country, held a 40 percent share, while the third, the Bank of the Philippine Islands, the oldest operating bank in Southeast Asia, also held a 40 percent share.

BanKo is acknowledged as a game changer, with its ecosystem conveying an exceptionally strong value proposition to the community that included gaining access to financial products, particularly microloans, allowing account holders to improve their living conditions, build small businesses, or address emergencies. At the time, incoming BanKo President and CEO, John Rubio, emphasised the new bank's intention to provide access to its services, especially credit, at any time and in the most efficient and convenient ways. An initial short-term goal of one million account holders was set. Access, he said, would take place by leveraging key strategic partnerships with organisations and institutions, "that share in our vision of promoting financial inclusion, and giving access to people who need it most."

BanKo aimed to ensure that its services were available throughout the community and were well integrated with the daily routines and realities of target customers' lives. This enabled the bank to meet its service aspirations to the community while remaining commercially viable, creating an altogether new business model in the process. It proved beneficial not only for the bank's internal and external partners, but also provided a social good for the wider community.

It first sought to build a large retail operation and an organisation that would serve individual and small business customers with a mobile phone-based, microfinance-focused savings bank, providing the delivery of a range of banking services supported by a network of partner outlets (refer to Figure 1).

Ayala Innovation

The Ayala Group strongly believed in developing innovations that were disruptive, and sought market impact by being affordable, accessible, simple, and/or convenient for a significantly wider population. It managed its various innovation initiatives through its Group Innovation Council. The Group also recognised that given its size, it may not be nimble and agile enough to see through truly disruptive innovations, an acknowledgement that has seen it hive off units into smaller and separate start-up entities like BanKo. This strategy provides start-ups with a safe space to run and grow with such innovative experiments.

"There is a consciousness of disruption and change," says Minette Navarrete, a member of the Ayala Group Innovation Council who serves on the managing committee of Globe Telecom.[1] The Council, a dedicated innovations group, led transformational initiatives across the new bank, leveraging on-going learning from its partners. As the new bank had the backing of Ayala's resources and experience, it could more easily and decisively enter a new industry than a start-up or smaller competitor.

> Ayala Group recognised that given its size, it may not be nimble and agile enough to see through truly disruptive innovations.

Business model

BanKo aimed to offer financial inclusion through affordable banking catering to the base of the pyramid, with the bank providing a platform for a range of value-added services, including paying utility bills and receiving remittances from abroad (refer to Figure 2).

The new bank's revenue streams were drawn primarily from the interest it received on different retail loan products such as value chain loans and multipurpose loans. And while there were transaction commissions from bill payments, prepaid load purchases, and remittances, these (and also other sources of income such as ATM card revenues) were at a very low margin.

BanKo's cost structure aimed at containing costs and ensuring profitability by keeping capital costs low with a high proportion of variable costs, and an efficient spend on technology, premises, and marketing. Management expenses too were kept low, with a small core management team of only nine key staff, rigorous tracking of performance, and a culture of equality, engagement and drive engendered among bank employees.

The commercial pillars

BanKo's business operations were based on three key commercial pillars: access to savings accounts, access to credit, and an extensive partner outlet network:

ACCESS TO SAVINGS ACCOUNTS

BanKo's vision was to provide a bank account for every Filipino, wherever they may be located. To open an account, a minimum deposit of only PHP 50 (US$1.1[2]) was set, with a minimal requirement of just one valid identity card. To ensure convenience in making deposits and withdrawing cash, the bank set up mobile booths that were run in busy areas such as markets, schools and town squares. And rather than waiting for customers to open accounts, the sales teams went directly to the community, partnered with retail outlets and formed strategic partnerships with organisations to acquire depositors in groups.

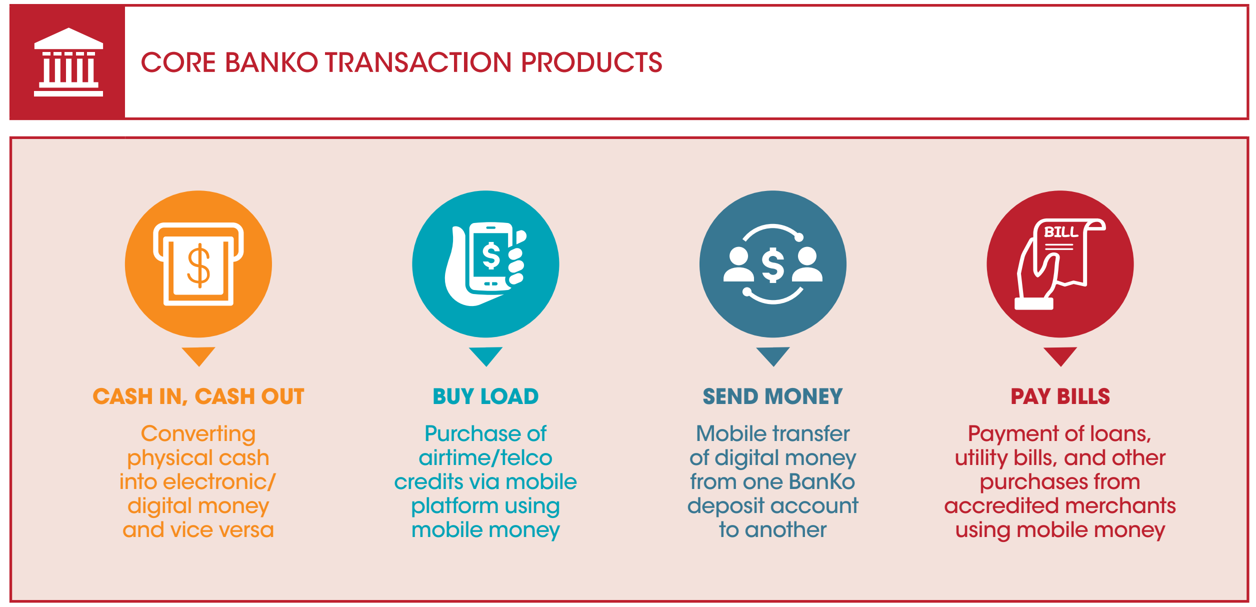


FIGURE 1 Source: BanKo

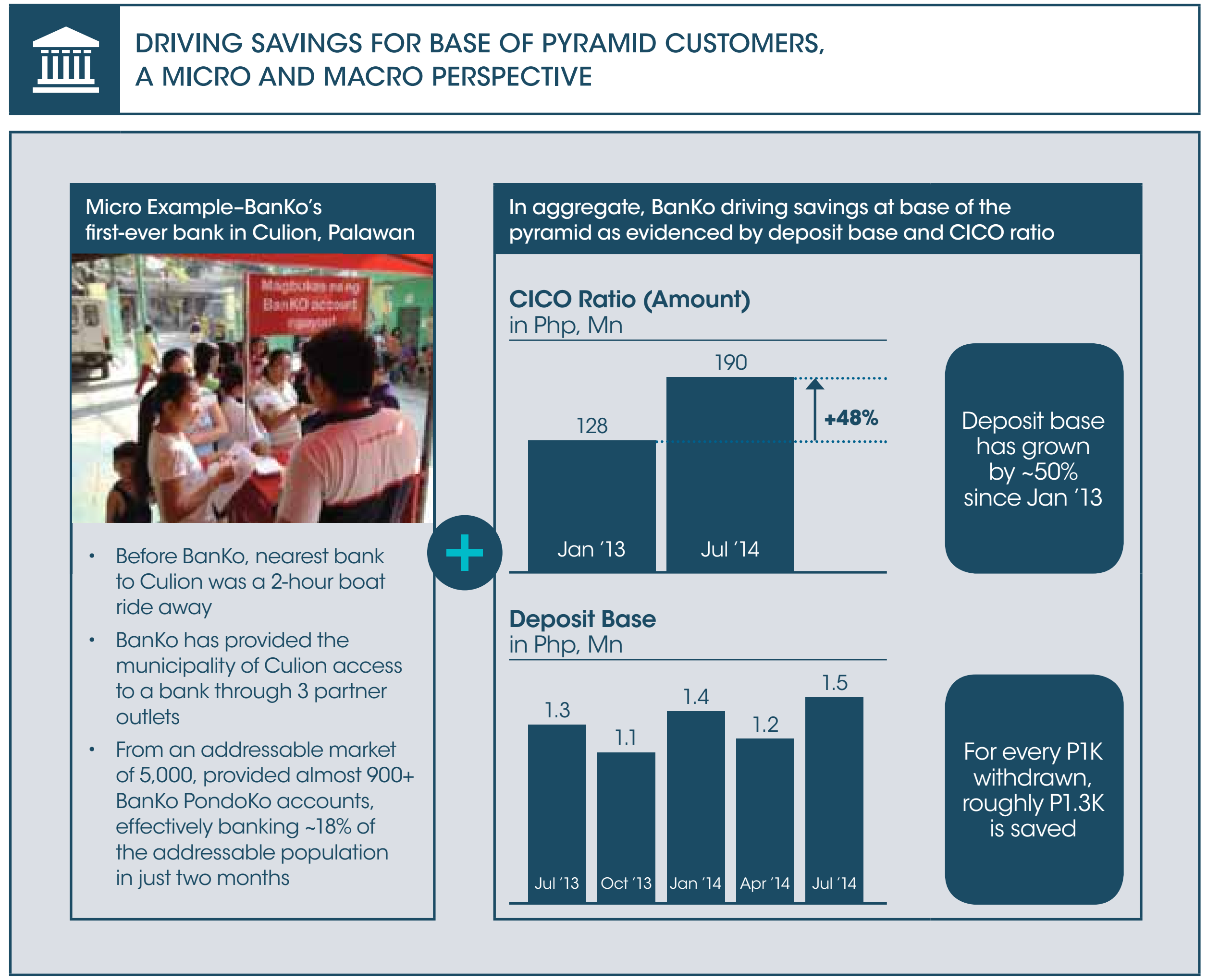


FIGURE 2 Source: BanKo

The core transaction services offered included remitting money, paying bills and converting physical cash to electronic cash and vice-versa. By the end of 2014, BanKo had grown its total cumulative customer base by 108 percent. As the number of depositors grew, the transaction volume and value also increased, which was important given the typically low average balance held by each depositor. By July 2014, the deposit base had grown by about 50 percent over the previous year. Of the customer's digital wallet, one third was cashed out, another third was used for transactions, and the remaining third was kept as savings.

ACCESS TO CREDIT

Under the second pillar, the bank's retail loans business offered three key product lines: value chain loans, commercial loans and consumer loans. Leveraging its strong distributor partnerships with leading fast moving consumer goods companies (FMCGs), BanKo could offer value chain loans that were able to provide additional working capital for sari-sari retailers, the mom-and-pop stores of the Philippines. By mid-2014, this yielded 12 value chain loan partner principals, tapping into over 600,000 sari-sari stores. Value chain loan payments were credited directly to the distributors' accounts. But while distributors earned a commission on referrals for the bank's multipurpose loans from each available amount, value chain loans themselves did not entitle them to a commission. This reflected a mutual objective to provide financial assistance to retailers that would then pave the way for them to achieve higher turnover and a more sustainable business.

The bank also offered commercial and consumer loans to microfinance institutions, such as rural banks, NGOs and cooperatives in the form of wholesale institutional loans and capability-building developmental loans.

At the same time, BanKo facilitated Globe's business by providing pre-approved credit lines to Globe's top retailers, thus expanding their business. It also funded one percent of all Globe's monthly prepaid sales, a portfolio worth PHP 100 million (US$2.23 million[3]) as of July 2014. This was expected to grow as the depth and breadth of offerings was expanded.

ACCESS TO AN EXTENSIVE PARTNER OUTLET NETWORK

While acquiring deposits and providing credit are always key to any bank's commercial operations, it was with the third pillar that BanKo truly distinguished itself from a traditional banking model. It was clear the bank could not achieve its goals and deliver the services it offered without attracting an extensive network of suppliers and partners into its ecosystem, notwithstanding its strong partners from within the Ayala Group and their in-house capabilities. However, synergising an ecosystem with different partners, each with their own interests to protect, required not only leadership and a building of trust among the parties, but also a clear articulation of the value the partnership brought to each party.

Building an ecosystem advantage

BanKo needed partners to gain access to customers and scale up its operations, without investing in more outlets. These partners included social media providers, governments, cooperatives and aid agencies. The external partners, or Business Partner Outlets (BPOs) were a critical link in bringing banking services to the financially excluded communities. Along with a sound selection of outlets and partners, BanKo needed to develop a clear value proposition, and it had to find a solution to the lack of user credit history.

ARTICULATING A CLEAR VALUE PROPOSITION

The bank offered a clear value proposition to its partner outlets. It enabled BPOs to expand their business by becoming an end-to-end financial services provider that received commissions and incentives from remittances/deposits. There was almost no cost to joining the system and no ongoing costs thereafter. All that the BPOs needed was a mobile phone (which they could also use for other services such as telecom retail), and to confirm there were sufficient funds in their digital wallets to carry out transactions. They had an opportunity to cross-sell products, so their core business could benefit from the partnership. As an indirect benefit, the range of potential consumers could also be expanded. There were no franchising fees; and resources were allocated for accreditation, training and signage/merchandising. BanKo's business development specialists were on hand and starter kits were made available to help acquire customers, monitor transactions, and to assist BPOs to kick-start their own BanKo business.

Initially, the bank approached major chains of pawnshops and drugstores in the Philippines and then partnered with the FMCG distributors like Nestlé, Procter & Gamble and Unilever as value chain loan partner principals. In May 2014, BanKo partnered with Puregold, one of the biggest retailers and wholesalers in the Philippines, which had the largest membership base among owners of sari-sari stores. BanKo provided a member-based credit line that could only be used with Puregold and would provide retailers with access to working capital.

Overcoming the lack of credit history

The bank also used its partnership capability to provide an innovative solution to overcome the lack of credit history among potential borrowers, and enable the loan portfolio to be scaled up, as well as expand its consumer loan business further, by partnering with start-up company Lenddo. Together, they piloted consumer loans using 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 (refer to Figure 3).

SELECTION OF OUTLETS

As business grew, the focus turned to expanding the number of suitable outlets in unbanked municipalities, aimed at fulfilling the overall objective of providing every Filipino access to a bank within ten minutes' travelling time from their home.

This saw strategic partnerships forged with organisations to acquire depositors in groups. They included cooperatives in hard-to-reach barangays (villages), which also became partner outlets providing the community with access to formal banking services. Partnerships extended to local governments in Pulilan, Bulacan and Quezon City, where BanKo offered its disbursements facility for salaries, allowances and stipends of government employees, teachers and students. For instance, customers in Pulilan Water district were able to pay their water bills using their BanKo accounts.

The bank also partnered with 25 aid agencies such as the USAID and World Vision, providing financial and mobile solutions to help them meet the organisational and social challenges of

CONSUMER LOANS AND THE CUSTOMER JOURNEY

1 Product Details

- Fixed PHP 2,500 loan
- Payable in 13 weeks at 2.75% int/month
- Weekly payable is PHP 208.35

2 Use of Big Data for innovative credit scoring

A) Use of Facebook data (e.g. post scoring) and social network mapping

B) Use of telco data like ARPU, reload rate, reload amount, and usage

C) Use of BanKo data ADB, transaction velocity, etc.

3 Fully-automated customer journey—loan approval within the hour

FIGURE 3

Source: BanKo

their target group of individuals. In 2014, it facilitated emergency cash transfers through international aid agencies Mercy Corps and Goal International to citizens hit by Typhoon Yolanda (Haiyan).

SELECTION OF PARTNERS

The criteria for the selection of BPOs included the BPO's ability to serve the market and having the inherent liquidity to complete a minimum number of BanKo transactions. Once they became partners, the BPOs were trained and accredited to conduct customer identification for account opening applications, and perform cash-in and cash-out transactions. By 2014, there were a total of 3,415 BPOs.

Overcoming the paradox of 'free riders'

Ecosystems are susceptible to risks where the network architecture established by the lead firm creates value for participants but fails to capture value for itself. To overcome this risk, the BanKo ecosystem delineated very clear deliverables and responsibilities for its partners.

For instance, pinpointing clear and timely added value to its partner outlets was a key deliverable. The outlets could expand without having to shoulder fees as new products and customers entered the business. At the same time, the bank fostered its relations with its customer base, even the unbanked, to try out its simple, convenient and inexpensive offerings.

Second, the structuring of differentiated partner roles was essential to achieving the benefits of specialisation and focus for individual partners, as well as the promotion of cooperation over competition. Trust and cooperation followed integration with the partners' core businesses. Most did not view the bank as a competitor. Even pawnshops, which could otherwise feel threatened by BanKo, regarded the partnership as a means of evolving by exploring new financial services.

Other factors included the ability to stimulate complementary investments, which enabled BanKo to amplify the impact of its investment and create potential for increasing returns to scale. The continuous training given to partners supported the need for higher return on investment by pushing for innovative practices, while the reduction in transaction costs minimised an important cost disadvantage relative to vertically integrated structures.

The BanKo model also placed great emphasis on active monitoring, sharing of knowledge and adaptive feedback. It worked with its partners on mutual business development, and provided access to information not publicly available.

A defining factor in the bank's success has been the concept of service in its broadest sense. The bank's long-term goal of reaching out to as many Filipinos as possible by bringing banking right into their communities is now fully sustainable. At the same time, its focus on ecosystem advantage also provides a sound business model—ripe for replication—and one that could also prove transformational in other countries with a similar demographic and a large proportion of unbanked communities.

Peter Williamson
is Professor of International Management at Judge Business School, University of Cambridge

Havovi Joshi
is Head, Communications & Dissemination at the Centre for Management Practice, Singapore Management University

References

1 Ayala, "Ayala, Ateneo partner for innovation, ascribe success to continuous transformation", 2013.
2 US$1 = PHP 44.8 as at March 24, 2015.
3 Ibid.