



BSP Issues Guidelines on the Establishment of Digital Banks

December 29, 2020

The Bangko Sentral ng Pilipinas (BSP, the Central Bank of the Philippines) has issued Circular No. 1105, Series of 2020¹ (Digital Bank Circular) dated December 2, 2020 to provide guidelines on the establishment of digital banks. This circular took effect on December 23, 2020 and was promulgated pursuant to the Monetary Board's authority under Section 3.2(g) of the General Banking Law of 2000 to create other classes of banks. The circular is in addition to Monetary Board Resolution No. 1536 dated November 26, 2020 on the inclusion of "Digital Banks" as a distinct classification of banks and the corresponding guidelines for their establishment.

1. Digital Bank

A digital bank is defined under Section 102 of the Manual of Regulations for Banks (MORB) as a bank that "offers financial products and services that are processed end-to-end through a digital platform and/or electronic channels with no physical branch/sub-branch or branch-lite unit offering financial products and services."²

Section 101 of the MORB has been amended by the Digital Bank Circular to include digital banks under the classification of banks.

Digital banks are still required to maintain a principal/head office in the Philippines, which shall house the offices of its management and other support operations and serve as the main point of contact for stakeholders, including the BSP and other regulators.³ A digital bank is subject to the prudential requirements set out by the BSP, including corporate governance and risk management, particularly on information technology and cybersecurity, outsourcing, consumer protection and anti-money laundering and combating the financing of terrorism, as provided under existing regulations.⁴

¹ Please see <https://www.bsp.gov.ph/Regulations/Issuances/2020/c1105.pdf> for reference.

² Digital Bank Circular, Section 1.

³ Digital Bank Circular, Section 1.

⁴ Digital Bank Circular, Section 1.

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A digital bank may perform any or all of the following services: (a) grant loans, whether secured or unsecured; (b) accept savings and time deposits, including basic deposit accounts under Section 213 of the MORB; (c) accept foreign currency deposits under Republic Act No. 6426, as amended; (d) invest in readily marketable bonds and other debt securities, commercial papers, and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions; (e) act as correspondent for other financial institutions; (f) act as collection agent for non-government entities; (g) issue electronic money products subject to the guidelines provided under Section 702 of the MORB; (h) issue credit cards; (i) buy and sell foreign exchange; and (j) present, market, sell and service microinsurance products subject to the guidelines provided under Section 113-B of the MORB.⁵

A digital bank may perform activities not covered under the foregoing enumerations, subject to prior approval from the Monetary Board.⁶

2. Requirements to Set up a Digital Bank

A capital of at least PhP1 billion⁷ is required to set up a digital bank. Only a bank that is licensed to operate as a digital bank may represent itself to the public as such in connection with its registered business name.⁸

The Digital Banking Circular amends Section 102 of the MORB to include the establishment of digital banks and updates the lists of documentary requirements to establish a new bank under Appendices 2 (Application Requirements for the Entry of Foreign Banks) and 33 (Basic Guidelines in Establishing Banks),⁹ as applicable, of the MORB.¹⁰

The application fee for a new domestic digital bank is at PhP250,000 while the license fee is PhP12.5 million.¹¹

The Digital Bank Circular also amends Section 122 of the MORB on the limitations of stock holdings in a single bank to include restrictions on ownership of shares of stocks in digital banks.¹² Section 373 of the MORB has been amended to subject digital banks to limitations on investment in the equities of financial allied undertakings.¹³

⁵ Digital Bank Circular, Section 2.

⁶ Digital Bank Circular, Section 2.

⁷ Digital Bank Circular, Section 1.

⁸ Digital Bank Circular, Section 1.

⁹ Appendix 2 of the MORB, as amended, provides for the documentary requirements in the case of a foreign bank applicant. Appendix 33 of the MORB, as amended, is attached as Annex A of the Digital Bank Circular. It provides for the basic guidelines on establishing banks, as well as, the additional requirements for applicant banks, including those specific to digital banks.

¹⁰ Digital Bank Circular, Section 1.

¹¹ Digital Bank Circular, Section 1.

¹² Digital Bank Circular, Section 3.

¹³ Digital Bank Circular, Section 4.

3. Conversion to a Digital Bank

An existing bank may apply for conversion to a digital bank, subject to compliance with the requirements for a digital bank and the submission of an acceptable plan which shall address how the transition to a digital bank shall be managed.¹⁴

An existing bank converting to a digital bank is given three years from the approval by the Monetary Board of its application to meet the minimum capital requirement and implement the transition plan, including the divestment or closure of branches or branch lite units.¹⁵ An existing bank with up to 60% of its voting stock held by a foreign individual or non-bank corporation may retain or reduce its stockholding. But once reduced, it shall not be increased thereafter beyond 40% of the voting stock.

Upon receipt of the notice of the Monetary Board's approval of its application, the bank will no longer be allowed to engage or renew transactions under authorities not associated with those allowed for a digital bank.¹⁶ Within six months from such the date of its receipt of a notice, the bank has to phase-out all inherent powers and activities under special authorities not normally associated with a digital bank and submit its amended Articles of Incorporation and By-Laws.¹⁷

The bank may only start its operations as a digital bank after all of the following: (a) approval by the Securities and Exchange Commission of the amendments to its Articles of Incorporation and By-Laws, (b) compliance with all other conditions for approval of conversion, and (c) issuance by the BSP of a Certificate of Authority to Operate.¹⁸

SyCipLaw's Banking, Finance and Securities Department

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¹⁴ Digital Bank Circular, Section 6.

¹⁵ Digital Bank Circular, Section 6.

¹⁶ Digital Bank Circular, Section 6.

¹⁷ Digital Bank Circular, Section 6.

¹⁸ Digital Bank Circular, Section 6.

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