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Philippines late to join digital banking, but change is coming

Digital banking has been slow to arrive in the Philippines—slower, in fact, than almost anywhere in Asia—but a new McKinsey survey suggests pressure for change is building.

A surge in digital banking in Asia in recent years has largely bypassed the Philippines. But a new McKinsey & Company personal financial services survey suggests demand is growing for online banking in the country, and the country may be at an inflection point. This is an opportunity for incumbent banks to strengthen further customer loyalty as well as a chance for new entrants with the right offering to gain a foothold in the market.

The 2014 survey canvassed about 16,000 banking customers across 13 Asian markets, including about 700 consumers in the Philippines. Overall, the survey results showed that Asian consumers are quickly turning to digital banking, propelled by the rapid increase in Internet and smartphone adoption and growth in e-commerce.

The Philippines had the lowest digital-banking penetration of any Asian market we surveyed. Smartphone and Internet usage in the Philippines is similar to elsewhere in developing Asia, but our study found that only 12 percent of Filipino respondents had tried Internet banking, compared with 28 percent in other developing countries of the region.

Use of smartphones to access digital banking also has lagged behind considerably. In the Philippines, 35 percent of digital consumers (defined as consumers who make purchases online) own a smartphone, but only 9 percent of Filipino consumers said they had used a smartphone to bank, compared with 26 percent in developing Asia.

However, change may be coming. Our study indicates substantial latent demand for digital banking in the

Philippines, as well as a willingness to try new banks with the right offers. For example, many financial-services customers in the Philippines are already going online to research banking products. About 40 percent of survey respondents said they had been introduced to credit-card offers online and had also evaluated them online. Life insurance policies also are heavily researched online before customers make purchases in person.

This shift represents an opportunity for entrants. Sixty-five percent of survey respondents said they would consider opening an account with a new bank with the right digital proposition, compared with 56 percent in other emerging markets in Asia. Among this group, more than half the respondents said they would shift some of their savings and time-deposit balances, reflecting, on average, about 30 percent of their total balances.

Incumbent banks in the Philippines will meet the shift to digital banking from strong positions. The survey found that Filipino bank customers are very loyal, with 92 percent of respondents saying they are satisfied with their primary bank (compared with 89 percent for all emerging markets in Asia and 59 percent in developed markets). In addition, 78 percent of the respondents said they would recommend their primary bank to a friend or colleague, compared with 66 percent for all emerging markets in Asia and 39 percent for developed markets. Both metrics have edged higher in the Philippines since our previous survey in 2011.

For both incumbent banks and entrants, the key to taking advantage of the digital opportunity will be to overcome customer concerns about security and complexity. Almost two-thirds of Internet users who haven't tried digital banking said they avoided it because they thought it was unsafe; almost half said it was too complicated.

With digital banking increasing in popularity in other Asian markets, it is only a matter of time before more Filipinos start making the shift. Both incumbent banks and entrants could facilitate—and profit from—the movement to digital by working to allay customer concerns about security and to simplify the online-banking process.

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A copy of the complete analysis from our 2014 survey, *Digital Banking in Asia: What do consumers really want?*, is available at www.mckinsey.com.