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A special anthology series

Philippines Growth Dialogues



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The Philippines Growth Dialogues is a special anthology of interviews highlighting the opportunities and challenges that are top-of-mind for leaders in the private, public and social sectors in the Philippines today.

Partner foreword

The Philippines is poised for more of the economic growth it has experienced in recent years. In this collection, cross-sector leaders discuss how it can solidify its place as a global economic force.

Over the past decade, the Philippines has experienced exponential economic growth and is currently poised for increased momentum. The Philippines Growth Dialogues is a collection of conversations we have had with CEOs, entrepreneurs, technology leaders, to identify opportunities for the country to solidify its place as a global economic force. Many of the conversations predate the pandemic, but they remain relevant and vital—perhaps more vital than ever.

The COVID-19 pandemic will be remembered not just for the massive impact on lives and livelihoods around the world, but also as a major inflection point in how people live, work, and consume. The outlines of the next normal are crystallising into view, yet much remains to be written. What is certain is that the economic future in the Philippines will belong to the Filipino business leaders who can best anticipate changing demands from consumers, the wider public, and their own employees to drive innovation and growth.

The sweet spot is likely to lie where the transformative power of global trends—especially those that have been accelerated by the COVID-19 crisis—overlap with the unique economic, geographic, and social characteristics that shaped the country's growth. Those forces have remained resilient throughout the pandemic and will continue to be important.

For instance, it's well known that Filipinos are early adopters of technology. The conversations in the Philippines Growth Dialogues explore how technology and innovation will continue to shape the future, such as digital disruption in retail helping the next generation of entrepreneurs create and deliver new products and services in response to rapidly-evolving consumer tastes.

Yet the conversations also describe how Philippine companies have not yet fully embraced the ways in which technology can help them realize their full potential. With the COVID-19 pandemic driving an increasing number of consumers online, digital trends are supercharged. That's creating enormous opportunities for Philippine companies that can leverage advances in technology to respond to changes in behavior to solve problems that are unique to the country.

Inclusiveness and opportunity remain key challenges. The middle class in the Philippines is growing fast, in part on the back of business-process outsourcing (BPO). A massive demographic dividend awaits as the country's youth matures, but prosperity has not been evenly shared. Philippine businesses that can bring more people into the banking system or open access to education, healthcare, and jobs across the archipelago's 7,600 islands will surge ahead.

With massive investment planned across the Philippines in everything from services to transport and urban infrastructure, the time is ripe for innovators to build their businesses as they continue building the country. The COVID-19 crisis has created an environment for businesses and governments that has never been more challenging—but that also means that the future starts now.

This anthology is a living document and we will update it as our conversations with local leaders forge new growth paths and shape a new normal for the Philippines.

COVID-19 has created a challenging environment for businesses and governments, but it also means the future starts now for leaders bold enough to overcome it.

Kristine Romano

Managing Partner, Philippines

McKinsey & Company



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Ray Alimurung



Ray Alimurung, the CEO of Lazada Philippines, discusses retail, digital trends, and digital payments in the Philippines.

About the interviewee:

Ray Alimurung is the CEO of Lazada Philippines and plays an instrumental role in growing the brand's reach across the archipelago. As the company's chief commercial officer from 2016 to 2018, he deepened its partnerships with major global brands. Today, his vision for e-commerce in the Philippines continues to shape the group's strategic direction. He has more than ten years of consumer-internet and e-commerce experience, with prior roles including product and vendor manager at Amazon and CEO of aCommerce Philippines. In a recent conversation with McKinsey, Alimurung revealed his insights on the future of retail, the digital trends that are gaining speed, and the evolution and untapped opportunity of digital payments in the Philippines. An edited version of the discussion follows.

Leapfrog to mobile

What do you think have been the most exciting recent developments in the Philippines, and what is your outlook for the country?

Ray: A development in the Philippines that I find particularly interesting is the leapfrogging of the country to mobile. I have noticed that a lot of Filipinos' first interaction with the internet is through the use of a mobile app. The app and, in turn, the phone have become gateways to the internet for the Philippines, and the implications of this are astounding. This has resulted in the equipment of every citizen with a "supercomputer" more powerful than what was used to land Apollo 11 on the moon.

very encouraging improvements now on Lazada Wallet and other digital forms of payment. This is a stark contrast to my experience in the United States, where cash on delivery was not an existing payment option.

The third development that has caught my interest is what I coin the "democratization of distribution and consumption." I believe digital platforms have leveled the playing field for small businesses to be able to keep pace with big businesses. Digital platforms have lowered business costs significantly. No longer will an entrepreneur need to build all the components needed to run an online store—customer-care teams, tech teams, graphics teams.

"I believe digital platforms have leveled the playing field for small businesses to be able to keep pace with big businesses."

This supercomputer empowers the said citizen with access, and access is not just limited to interconnectivity. Access has a far wider reach of enabling digital inclusion—of giving the citizen access to information. Another implication of technological leapfrogging is the rise of new, innovative business models, such as the application of technology through location-based services.

The second element of interest is the marked progression of e-payments. And for this, I would have to credit our progressive government; we've seen amazing milestones in the last few years. You have chips appearing on ATM cards, automated switches that allow for interconnection with banks, and unified QR codes, as well as the emergence of e-wallets. This can be accounted for by a duality of government progressiveness and private-sector collaboration.

I am personally excited about the prospect of e-payments because Lazada's business is in e-commerce, where close to 80 percent of our orders are cash on delivery, and we have seen

This has been streamlined to user-friendly drag-and-drop features. The gatekeeper, which historically was the retailer, no longer possesses the same amount of leverage over entrepreneurs, as small businesses can now sell their goods and services online.

On the democratization of consumption: the Philippines is one of the leaders in the business-process-outsourcing industry, and if an individual is working from 9:00 p.m. to 6:00 a.m., how are they able to shop in traditional malls limited by stated shopping hours? Online stores have increased not only the options by which a customer can access goods and services but, inevitably and sizably, the range of choices. A customer now has the option to select from the services, products, and quality of their choosing.

With an acceleration of retailers pivoting toward e-commerce, are traditional retail malls a thing of the past?

Ray: In my opinion, social activity in the mall will continue to exist. A lot of people have approached me with the question, is retail—or offline retail—dead? And my response to this is that offline retail will continue to exist in an evolved form. With increasing consumer demand for unique and personalized shopping experiences, retailers will also need to adapt to these changing needs to engage with shoppers.

And we see this pronounced shift in our malls today: the ground-floor stores of malls tend to be experiential, and the retailers running smaller stores with little to no experiential elements for customers are being moved to the higher floors. There is an explosion of “hypermart” or community-center-type models, where the central area of the mall houses a food court, with a supermarket, a hardware store, and an array of stores providing services. I think this format will continue to see growth, as services have yet to witness high e-commerce penetration.

“Offline retail will continue to exist in an evolved form. With increasing consumer demand for unique and personalized shopping experiences, retailers will also need to adapt to these changing needs to engage with shoppers.”

“I believe the driver of (e-payment penetration) would be a confluence of factors, of which two stand out: improving levels of trust and the increasing interconnectivity of e-payment methods.”

cannot connect the payment service with their bank account or the merchant simply does not accept e-payments. I believe bold entry moves by digital banks will pave the way in showing incumbent banks the latent opportunity of e-payments. Leading adopters—digital banks—are focused on obtaining use cases and funding

for the scaling of e-payments and e-accounts. The rest of the banks will then need to follow suit.

Globally, there is an emergence of disruptive, technology-driven trends. What is most exciting for Lazada and for you personally as a consumer?

Ray: One tech trend that has gotten traction is notably artificial intelligence [AI]. AI utilizes algorithms using data to create customized experiences for the consumer. For example, personalization through AI is something that we’ve done at Lazada. When you open your Lazada app, the home page looks different from the one of someone utilizing the same app beside you. And as you browse and purchase, AI computes the data to create a personalized shopping experience. It logs your shopping habits and anticipates what you might want to purchase.

I am compelled to believe that you will also start to see a step change in the use of e-payments, and this will largely be driven by online payments. Today, we at Lazada have retained cash on delivery as a payment method, as it continues to

be the primary mode of payment for e-commerce companies. More so, it was to seek resolution in two prevalent problems: low e-payment penetration and a lack of trust.

A large proportion of consumers do possess a mode for which they have the ability to conduct e-payments—they currently maintain a bank account, a credit card, and maybe an e-wallet—but continue to use cash on delivery. And when asked why, often their response is that it is an issue of trust. But I believe e-payments are the future and will continue to proliferate, and the problem of trust will eventually dissipate with time. E-commerce will then see a huge uptick in the use of e-payments. I believe the driver of this would be a confluence of factors, of which two stand out: improving levels of trust and the increasing interconnectivity of e-payment methods.

This issue of interconnectivity is exacerbated by the fact that people who own bank accounts are not able to pay electronically because either they



Cost and convenience: The name of the game

What do you think are areas of stagnation in the Philippines? And what can be done to uplift the country in these areas?

Ray: Payments is one of the key areas of stagnation for the country. We're doing a lot to drive the adoption of e-payments in a very small subset of the economy. But in the rest of the economy, there is little to no view of even going digital—fast-food restaurants still mandate the use of cash. This underscores the importance of the adoption of e-payments by merchants, as in a hypothetical situation where the customer possesses a mode of which to make e-payments, the customer walks in the door of a retailer, and it only accepts cash. This has to change.

The shift of customers or Filipinos from utilizing cash to going electronic would need to address two main concerns: cost and convenience. On payment-acceptance cost, I am of the opinion today that businesses don't appreciate the true cost of cash—meaning, what it would cost to collect, reconcile, and insure it. This is evident today. When you go into an appliance dealer, they will explicitly tell you on the price tag that payments with cards will incur a higher fee than payments with cash will. Businesses are of the view that there is a higher cost in the processing of an e-payment. If businesses properly understood the cost of cash, they would be able to reflect that cost implication in the cost borne by the customer.



Jaime Ayala, founder of Hybrid Social Solutions and former managing partner of the McKinsey Philippines office, discusses tourism and rural communities in the Philippines.

About the interviewee:

Jaime Ayala is the founder of Hybrid Social Solutions and the chair of Solar Village Foundation and its network partner at Hystra. In recognition of his work in the social-enterprise environment, he was named as the Social Entrepreneur of the Year by the Schwab Foundation for Social Entrepreneurship in 2013 and as the Entrepreneur of the Year and the Social Entrepreneur of the Year, Philippines, by EY in 2012.

Before entering the social-enterprise sphere full time, Jaime worked with Ayala Corporation, where he was senior managing director and the president and CEO of Ayala Land, as well as a trustee of Ayala Foundation. Prior to that, he was the managing partner of the Philippines office at McKinsey. Ayala recently spoke with McKinsey about tourism in the Philippines and the uplifting of rural communities for a more inclusive country. An edited version of the discussion follows.

Jaime Ayala



Leading the charge

What are some recent developments in the Philippines that you're excited about?

Jaime: I am really excited that there has been a pronounced shift to a more sustainable development paradigm. Whether it's companies or government or civil society or even the youth, there has been a lot more focus on climate

sustainability and on inclusiveness. How do we do business to be more inclusive? There has been a lot of effort on using technology to enable more far-flung areas to get access to really important services. So there's been a really pronounced shift, and I see the Philippines as leading the charge globally in this sector.

“I am really excited that there has been a pronounced shift to a more sustainable development paradigm ... there has been a lot more focus on climate sustainability and on inclusiveness.”

Getting organized to distill uniquely positioned strengths

In your view, what are new areas of growth for the country? How can the Philippines expand into new categories it is not yet competing in?

Jaime: I think there's a new area of growth that's not so new, and that's tourism. The Philippines has so much to offer, and tourism has always been there, but somehow the Philippine tourism scene has not kept up with other countries. We are definitely punching beneath our weight. But when people come here, they love it. How do we then grow that?

There are so many specific types of opportunities—for example, African safaris. How about doing sea safaris in the Philippines? But instead of going to see big game, you're going to these remote islands and seeing the flora and fauna both above and below the water. Tourism as food. You don't really hear about Philippine restaurants overseas. And yet when people come here, they love Philippine food.

There's been such a movement in Philippine cuisine, which itself presents a big opportunity. There's so much talent that we have, especially in terms of art and design. Going back thousands of years, if you look at our fabrics, for example, they are exquisite and unique, but our textile industry is dying out. This is a huge opportunity loss, as we've got such a heritage, and we have so much talent. The key is in getting organized so we can really tap into those strengths.

“The key is in getting organized so we can really tap into those strengths.”

Recognizing value chains as powerful institutions

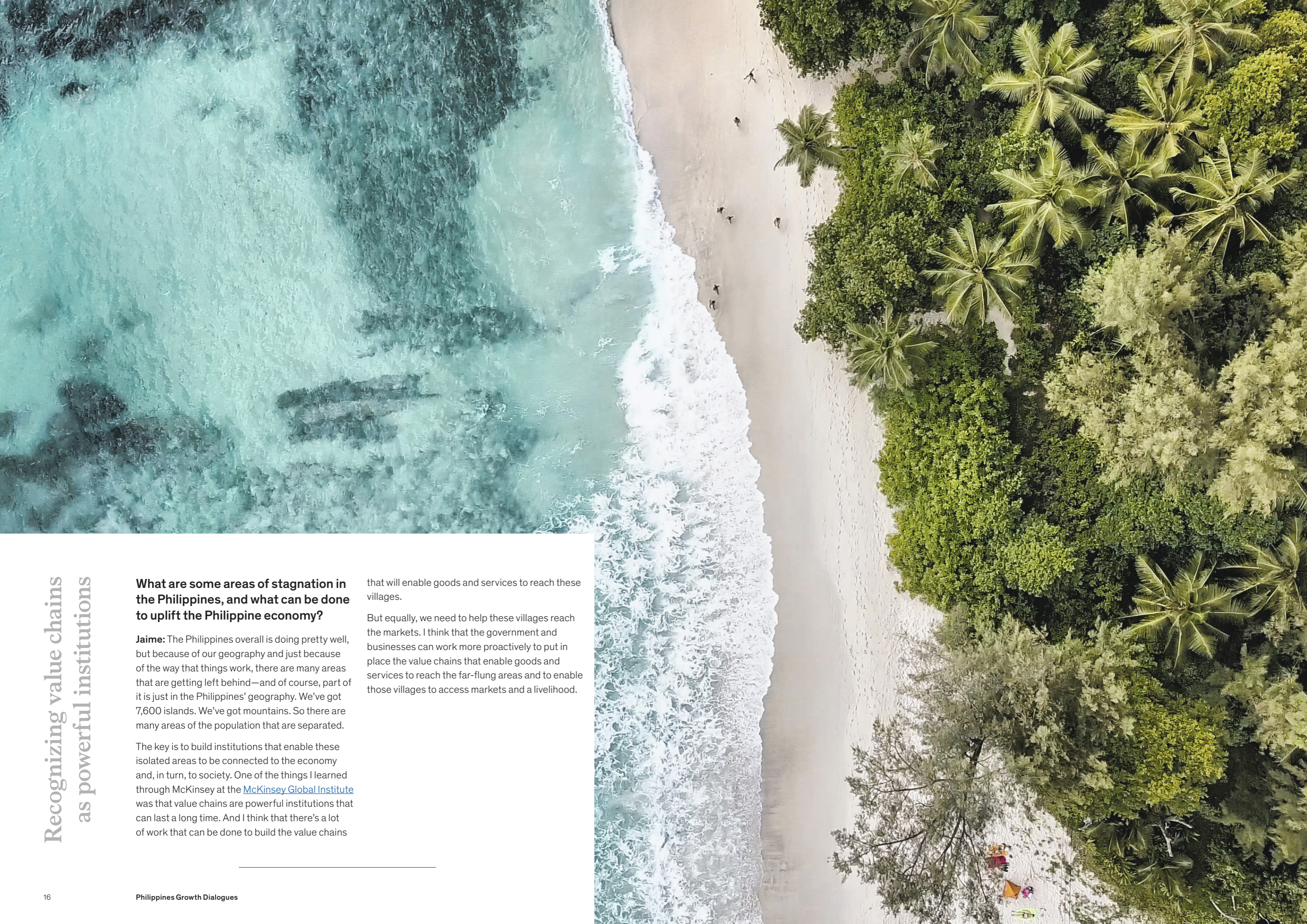
What are some areas of stagnation in the Philippines, and what can be done to uplift the Philippine economy?

Jaime: The Philippines overall is doing pretty well, but because of our geography and just because of the way that things work, there are many areas that are getting left behind—and of course, part of it is just in the Philippines' geography. We've got 7,600 islands. We've got mountains. So there are many areas of the population that are separated.

The key is to build institutions that enable these isolated areas to be connected to the economy and, in turn, to society. One of the things I learned through McKinsey at the [McKinsey Global Institute](#) was that value chains are powerful institutions that can last a long time. And I think that there's a lot of work that can be done to build the value chains

that will enable goods and services to reach these villages.

But equally, we need to help these villages reach the markets. I think that the government and businesses can work more proactively to put in place the value chains that enable goods and services to reach the far-flung areas and to enable those villages to access markets and a livelihood.



Mariana Zobel de Ayala

BPI vice president Mariana Zobel de Ayala discusses the Filipino consumer and how technology will be an equalizer for businesses in the Philippines.

About the interviewee:

Mariana Zobel de Ayala is vice president at BPI - Bank of the Philippine Islands - and is responsible for the bank's retail client strategy and analytics. She serves on the boards of directors of BPI's Asset Management and Trust and of several companies under the Ayala umbrella, across Ayala Land, AC Health, and the Ayala Corporation Technology Innovation Venture fund. Her professional experience includes serving as deputy head at Ayala Malls and working at J.P.Morgan Chase. In a recent discussion with McKinsey, Zobel de Ayala talked about consumer insights and her thoughts on technology as a business equalizer in the Philippines. An edited version of the conversation follows.



The tech-forward consumer

What do you think have been the most exciting recent developments in the Philippines? What is your outlook for the country in the next decade?

Mariana: The next decade is going to be particularly interesting for the Philippines. Filipinos are uniquely adaptable as a people, which means that any global changes in technology are, I believe, consumed at a much faster pace. Because of this, growth around technology will have quite a magnified impact on the Filipino consumer—on quality of life, on financial inclusion, and on general access and connectivity—hopefully translating to benefits in education and exposure.

The growth in fintech, tech entertainment, and e-commerce are reflective of the comfort that Filipinos have with this space. The speed of these new opportunities will result in a more empowered consumer with more choice on how and what to consume. This will drive healthy competition for mind share and completeness of product offerings—whether offline or online. Such competition, driven by a more discerning consumer, will result in a better outcome for the country as a whole. I believe this is one of the greatest benefits of technology.

“The speed of these new opportunities (in technology) will result in a more empowered consumer ... This will drive healthy competition for mind share and completeness of product offerings—whether offline or online.”

Uplifting Filipinos through education, infrastructure, and healthcare

What continue to be areas of stagnation in the Philippines? And what more do you think can be done to uplift the country?

Mariana: Inequality—whether in education, financial inclusion, or healthcare—will continue to challenge our growth potential. True progress will come when Filipinos have more control over their destiny—a line I borrowed from my cousin and colleague—and that will only come, in turn, if basic needs are provided at a level that is competitive globally. Investments—whether from the public or private sector—in education, infrastructure, financial services, and healthcare have

massive potential for contributing to our competitiveness as a country and for revealing the true productivity and possibility of the Filipino.

What do you feel are some misconceptions that global players may have about the Philippine market? And what can be done to dispel these?

Mariana: The Philippines has generally been branded as a service-driven market, and we have a fantastic wealth of individuals that are contributing to many sectors in countries other than the

Philippines. I would hope that in the next decade, we'd see a shift in this by finding ways to grow the country's attractiveness and the competitiveness of employment opportunities locally. I believe that a flip in this imbalance—this brain drain—would be an indication of true progress and economic development.



“I would hope that in the next decade, we’d see a shift in (the Philippines being seen as a service-driven market) by finding ways to grow the country’s attractiveness and the competitiveness of employment opportunities locally.”

Digitalization
as an equalizer

What more do you think can be done to help small and medium-size enterprises in the Philippines take advantage of opportunities in your industry?

Mariana: Digitalization has a massive opportunity to serve as an equalizer for the Philippines. It will bring costs down for a lot of opportunities in the financial-services space and in other consumer spaces. That's going to allow for greater access and participation of the Filipino producer and consumer.

Christopher Beshouri



Christopher Beshouri, chief strategy officer of Aboitiz Equity Ventures and Aboitiz Power, talks about the Philippines as a text capital, the country's investment climate, and the need for the transformation of urban mobility.

About the interviewee:

Chris Beshouri is currently the chief strategy officer for Aboitiz Equity Ventures and Aboitiz Power. Prior to joining the Aboitiz Company in the latter half of 2018, he was group president and COO of Vical Development, a diversified conglomerate in the Philippines focused on financial services, property development, and retail. He also sat on the boards of publicly traded businesses in the Philippines. At McKinsey, Beshouri was the managing partner of the Philippines office for eight years and served as the chief of staff for Asia. His professional experience also includes working with the US Department of Treasury as an adjunct professor of finance at Georgetown University. Beshouri recently spoke to McKinsey about tech, investment, and urban mobility in the Philippines. The following is an edited transcript of the discussion.

Being the text capital

What do you think have been the most exciting recent developments in the Philippines, and what is your outlook for the country?

Christopher: In the Philippines, I find the whole tech space quite interesting. The telcos here were much more innovative than was probably apparent to other telcos around the world. The Philippines was the text capital of the universe well before any other countries were really even fully adopting it, and you see a lot of innovation from the telcos. I think people would complain and identify that we have some network issues, but I think they're quite innovative in how they're trying to evolve.

Looking at the venture capital space, I find that quite exciting. I do believe we're a bit behind other markets; but in that respect, it also means you should begin to see a fairly sizable push into this market as models are developed elsewhere and then brought to bear here. Particularly, when you combine that with the fact that the Philippines' middle income is growing and that it's a young economy and country—62 percent are less than 30 years of age—that speaks to a swell of a young consumer class in the country that's going to be tech based. . When you combine the venture capital space with the forces at work in the economy, it looks like it will get pretty interesting.

“The Philippines was the text capital of the universe well before any other countries were really even fully adopting it.”

Unlocking latent potential

What can the Philippines do to be more globally competitive? Are there insights from other countries that are applicable for the Philippine economy?

Christopher: From an investment perspective, you need clear rules: you have to have clear rules of engagement in interaction and operations in industries and sectors. If you don't have clear rules of engagement—and enforce those rules—you introduce enormous amounts of uncertainty for investors. And I'm not talking about small amounts; I'm talking about billions of dollars of investment. If I'm uncertain about whether these rules are going to be enforced, then I'm going to hesitate to put the capital on the ground in the first place.

I think the investment climate looks good, especially with factors in the near term—for example, with interest rates, this makes money inexpensive to raise. With the program around infrastructure, you are going to see an enormous

amount of fiscal impetus and stimulus being pumped into the economy. Not only does this effect expenditure, but this enables growth. So when an infrastructure program is implemented, you're going to put the country on a trajectory to capture a lot of the hidden potential that's in the economy.



Reinvigorating
small businesses

What can the public and private sectors do to encourage entrepreneurship and develop a dynamic start-up ecosystem in the Philippines?

Christopher: Well, maybe I can take that question slightly differently: What could we be doing to help promote the small-and medium-size enterprises (SME), the small business community?

One of the things UBP—Union Bank of the Philippines—is doing, which I find really compelling, is that they’re setting up a model by which they can support smaller rural banks who may be either deficient in deposits or deficient in loan opportunities. They work with them to develop loan products or develop deposit products to be able to better serve the communities in which they’re operating—which tends to be small business. This would help them put the credit-underwriting engine in place and be able to more effectively and more efficiently price loans and assess credit risk.

In the larger context of financial inclusion, the biggest constraint on small businesses is that they have trouble getting access to credit because of a lack of information. Some small businesses operate in communities where there are credit constraints. With UBP as an example, by being able to work with a dozen—or three dozen—smaller banks in an area to provide them the overall technology layer, as well as the access to the settlement and clearing system and access to surplus funds, or to buy off their loans and give them funds to continue lending, you could have a significant impact on the availability of credit through that model. This pertains not to the ground level of individual small business units [SBUs] but more so on the critical enablers of SBUs—which would include credit.

“In the larger context of financial inclusion, the biggest constraint on small businesses is that they have trouble getting access to credit because of a lack of information.”

Transforming
urban mobility

What integral component of economic development should the Philippines prioritize to spur growth?

Christopher: Transportation issues: urban planning—how we lay out our cities—is an incredibly important topic. If you get off on the wrong direction, you have a very difficult time reversing field. If a city is not laid out in an intelligent manner; if the basic grid isn’t present; if you don’t have the ability to move people, product, inputs, and raw materials and bring fresh produce out of Baguio or materials from the ports and airports and move them around relatively easily; and if you can’t get people who are looking for employment into the areas where the jobs are and get them out again, you have an enormous amount of inefficiency. You lose enormous amounts of productivity and you create large disincentives to work, let alone to invest.

And if you’re setting up an operational-logistics operation and you have to be too far south or too far north, or if you’re setting up a farm and moving that product or even setting up renewables, the further you are from the transmission grid, the more you have to put in place. We’ve got a lot of growth, but we continue to have transport-congestion issues, and as a continued influx of people come into the cities, transportation is key.

J.V. Emmanuel “Jocot” de Dios



J. V. Emmanuel “Jocot” De Dios, former CEO of General Electric Philippines and current CEO of Prime Metro BMD, shares his insights on embracing digital disruption and the energy transition.

About the interviewee:

J. V. Emmanuel A. ‘Jocot’ De Dios is the CEO of Prime Metro BMD, a growing infrastructure-development and general-construction company in the Philippines. With nearly three decades of experience in the energy and infrastructure sectors, he has served as the CEO of General Electric Philippines, managed General Electric’s government-affairs team for Asia–Pacific, and served as undersecretary of the Philippine Department of Energy, where he led the planning and downstream oil bureaus and was appointed chairman of PNOG Exploration. De Dios recently spoke with McKinsey about the Philippines embracing the current digital disruption and the global energy transition. An edited version of the conversation follows.

The digital shift and rising importance of social media

What do you think have been the most notable business and social developments in the Philippines recently?

Jocot: The all-pervasive digital revolution and social media, as they stand today, have an outsize impact on the economy. It affects our businesses in a way that no other development in the last decade has.

I think in terms of the Philippines’ growth outlook, we’re still a little behind that of our Southeast Asian counterparts—I use the presence of a start-up ecosystem as my benchmark. The Philippines is behind that of Indonesia, Vietnam, and even Thailand. We are 107 million Filipinos strong and

have a lot of great talent and smart people. And as the world shifts to digital, we need to keep pace with global benchmarks to stay ahead.

Social media has enabled interconnectedness at a reach that we have not witnessed before. But the downside of social media is the issue of what is now termed as “fake news.” This has implications in business, politics, and social developments at an immeasurable scale.

Lead from the top

How can the Philippines remain globally competitive?

Jocot: Embrace the digital disruption; embrace digital transformation. A digital-transformation strategy needs to be driven from the top—the boardroom—so don’t shy away from aspects of this digital disruption that you have yet to comprehend. True leaders will rise to the occasion to humbly say, “I don’t understand it.” We have to take this inevitable digital disruption by its horns and implement it across our businesses.

At General Electric, we have a digital strategy for power, and we are looking into preventive maintenance. There needs to be a commitment from the leadership bench to do this, digital or otherwise.

**“Embrace the digital disruption
A digital-transformation strategy
needs to be driven from the top.”**

Renewables will dominate power markets

There is an undeniable, global energy transition. How is the Philippines faring in the shift to renewables?

Jocot: Renewables compose about 29 percent of our installed capacity in the Philippines. As a country, I believe that we have exceeded the renewable-energy goals set by the government, so it seems we are on track. But we have a ways to go. We will see an increasing interest in renewables from advocates, businesses, and governments as renewable portfolio standards replace feed-in-tariff allowances and feed-in tariffs.

This will hopefully encourage more developers of renewable sources of energy, and I believe there is an emerging trend for more developers to throw in their hats—though we will see challenges with biomass. Biomass's value proposition is one that is a little tricky because if the idea is to minimize or lower emissions, feedstock gathering to generate power from biomass sources might actually cause more emissions than what biomass was intended to save.



What is the outlook for the energy industry in the next decade? How can we future-proof the energy industry for future generations?

Jocot: It's a tricky situation. You want to have healthy reserves and prices that are affordable. There's a common misconception that the Electric Power Industry Reform Act pushes prices down. The Philippines has one of the highest electricity prices in the region due to the fact that a large proportion of it is unsubsidized. Take a power bill in the Philippines as an example: a large portion of the price is allocated for taxes. As a country, our energy needs to be more affordable and stable, with price fluctuations that businesses and manufacturers can deal with. What they cannot deal with is disruptions to their manufacturing processes—particularly for the semiconductor industry, which is a primary exporter for the Philippines.

Our geography makes the situation more complex, as we are an archipelago of 7,000 islands. Indonesia, with 17,000 islands, has a similar problem. Indonesia has a reserve margin of 27.5 percent, but in West Java, which boasts more than 50 percent of the country's energy consumption, the reserve margin is 12 percent. This evidently illustrates that the focal point for the Philippine energy sector should not lie in generation alone but in a dual approach that includes a transmission strategy. We need a more robust and concerted transmission grid to tackle issues such as congestion, for a failure to connect to the grid will result in the inability to build viable power plants. You need to first consider building a transmission line or a substation. Energy, as it is, is not really sexy. But unfortunately, growth will require a safe reserve margin to safeguard against short-term shortages.

“The focal point for the Philippine energy sector should not lie in generation alone but in a dual approach that includes a transmission strategy.”

Where do you think the opportunities live for the Philippines? Which new areas of growth can the country tap into?

Jocot: Our long-standing strengths have been our workforce and overseas Filipino workers. With the advent of artificial intelligence, some may say traditional outsourcing models may become obsolete. I personally feel very strongly that in order to work through this disruption and survive, we need to invest in transforming the business-process-outsourcing industry into one that is primarily focused on knowledge-process outsourcing. We need to rethink and reimagine how we position ourselves vis-à-vis technology as machines get smarter.

I believe there are great opportunities in healthcare. Thailand has jumped on the medical-tourism bandwagon, while in the Philippines, we have hospital-ready destinations for groups that remain as untapped opportunities that I think the Philippines could really leverage on.

Manufacturing provides a solid foundation for any economy. I sit on the board of the Philippine chapter of the American Chamber of Commerce and am part of the energy committee. Something I am constantly hearing from my counterparts in the manufacturing committee is their relentless drive to boost the sector here in the Philippines.

Another area the Philippines should look into is advancing our agriculture sector, which is a large contributor to our economy. We need to rethink our entire approach to agriculture.

And last, but certainly not least, we need to set up a start-up ecosystem to boost innovation, as we are trailing far behind our regional neighbors.



Suraj Moraje



Suraj Moraje, former senior partner at McKinsey and managing partner of its Philippines office, talks about how the Philippines can leverage global trends to stay ahead.

About the interviewee:

Suraj Moraje, the CEO of Qness Corp, is a tenured professional with more than 20 years of global business experience. A former senior partner of McKinsey and managing partner of its office in the Philippines, he played an instrumental role in establishing the firm's Technology, Media & Telecommunications Practice work in Africa. Moraje recently talked with McKinsey about what sets the Philippine economy apart from the rest of the world and how the country can maintain its success by using current global trends. An edited version of the discussion follows.

Distinctively Philippine

What do you think is a distinctly Philippine mark in the country's economy?

Suraj: There are three things about the Philippine economy that make it quite special. One is the preponderance of family-owned businesses. It's a huge strength because family-owned businesses can take a much longer-term view on the investments they make. If the Philippines was to develop a longer-term strategy on where it wants to play, compared to many other economies, the ability to actually deliver on that strategy would be high. And we've seen it—for example, in how we got the business-process-outsourcing sector going all those years ago, with a little bit of focus and investments from the businesses.

The second thing that I have always found very quirky about the Philippine economy is the

strength of the consumer. I mean, it's a well-known fact that 70 percent of the GDP is driven by consumption. But beyond that, Filipino consumers are very, very innovative. They're happy to try new things, but the exposure of Filipino consumers to the global economy makes them quite cutting edge in their tastes and preferences. And it provides consumer companies—specifically food companies—an edge. I think food companies that do well in the Philippines can do well anywhere in the world.

The third thing is the concentration of the economy in one city: 60, 70 percent of our GDP is in one city. That allows us to experiment a lot faster because if you introduce your product, you can reach a large share of the spend quite quickly, and you can do many things faster than in other countries.

“(The preponderance of family-owned businesses in the Philippines is) a huge strength because family-owned businesses can take a much longer-term view on the investments they make.”

Economic development plan 2.0

What continue to be areas of stagnation? And what can be done to uplift the Philippines?

Suraj: There are three things that the Philippines should focus on. One thing I do feel starkly in the Philippines is that our banking infrastructure needs to accelerate. When I say “banking infrastructure,” I mean the ability to do instantaneous payments, to tie customers to formal IDs, and to have common know-your-customer services across financial institutions. The acceleration of the Philippines' banking structure will allow much greater access to credit and take out a lot of the transaction costs of the economy.

The second thing that would be important for the Philippines is to develop a consolidated, national economic-development plan. And by that, I mean answering questions: “Which sectors do we believe this country can be globally competitive

in? For each of those sectors, which parts of the country do we want to grow those sectors in?”

I think regionalization is a great idea, especially since we have a lot of large islands that possibly are not being put to the best economic use today. So can we make an economic-development plan in line with those trends and in line with these geographies to give our industry, our talent, some visibility into where you want to go in the next 20 years. I think that will drive much more purposeful investments.

The third thing is the formalization and skill development of our labor base. I do think that we run the risk of falling behind on adoption of technology on skills because such a large part of the base is in the informal sector, where they are not getting enough access to training and development. This tends to fall in the area of community action.

“The acceleration of the Philippines’ banking structure will allow much greater access to credit and take out a lot of the transaction costs of the economy.”

We need to define the sectors of importance, be they agriculture, elements of manufacturing, or—not forgetting that we have large service industries—retail or banking. We need to define the skills we need to build on and then set up the relevant vocational universities. In some countries in the world, governments subsidize the delivery of education through vocational universities.

So have that dialogue and say, “What is it we want to develop, and how do we accelerate it?” I think, to some extent, labor reform will be important, as well.



Technological leapfrogging
to stay ahead

What new trends are surfacing globally, and how can the Philippines leverage them?

Suraj: There are three trends the Philippines should look closely at. One is the trend of technology. Everyone’s talking about automation and data, but figuring out what technology means for us as a country and how we’re going to use technology are going to be critical. How do we use technology in speeding up infrastructure rollouts and bringing down the cost of infrastructure? How do we use technology in bringing down transaction costs and friction costs in the economy?

The second thing is thinking about how we build out the consumer and food sector in a more purposeful way. The consumer sector in Asia is growing as urbanization accelerates and incomes go up. There’s just much more consumption. And thinking through how we as a country take advantage of consumerization in the neighborhood—and more globally—is important. That will then help us figure out what kinds of agriculture we want to promote and what kinds of supply chains and free-trade agreements we need. I think it will help us inform some of those things.

The third thing: as you know, we’re seeing globalization as we’ve known it being disrupted in quite a significant way over the last couple of years. And we need to think, what is the Philippines’s position in all of this? What could be the Philippines’s role in a disruptive global supply chain, where goods are coming from a broader set of countries and where maybe more goods are moving nearshore rather than offshore? Where do we want to play in that game?

“What could be the Philippines’ role in a disruptive global supply chain ...Where do we want to play in that game?”

Jeffrey Staples

Jeffrey Staples, MD, COO of Metro Pacific Hospital Holdings, talks about health technology and the new frontier of healthcare innovation: ecosystems.

About the interviewee:

Jeffrey Staples is a health-system executive with nearly 20 years of experience in turnaround management and organizational leadership in China, the Middle East, and Southeast Asia across a variety of organizations, including acute-care hospitals, academic medical centers, and ambulatory-care centers. Before beginning his work as the COO at Metro Pacific Hospital Holdings, he held the role of COO at United Family Healthcare, one of the largest integrated private healthcare service providers in China, and was CEO of Sheikh Khalifa Medical City in Abu Dhabi. Dr. Staples and McKinsey recently discussed his views on the acceleration of health technology in the Philippines and the role of ecosystems in healthcare innovation. An edited version of the conversation follows.



An ecosystem-based model of care

With the increasing reliance on digital technologies in light of the mass adoption of remote working practices, what are your thoughts of linking up healthcare to a digital ecosystem? What are some of the key challenges that providers might face?

Jeffrey: When building a healthcare ecosystem, I think the first thing you have to consider is access to care. And when you think about access to care, you need to consider patient wants and patient habits. On primary care, patients generally don't want to travel very far for it. What they are really looking for is convenience of care.

In the event that the individual has a condition that is advanced, difficult to manage, or requires specific expertise, if they're able to, they are then willing to travel much further to seek a consultation. This is where advanced tertiary care and quaternary care comes in. You need true centers of excellence with the ability to house significant patient volumes and significant clinical expertise. People are then more likely to travel to the centers, with the potential to fly across the country or even halfway around the world.

You would want to have the major referral centers—the major tertiary and quaternary centers in the Philippines—act as the referral centers for the satellite hospitals, which are the

Digital health technology in the fast lane

What emerging healthcare trends can the Philippines leverage?

Jeffrey: Two of the biggest trends in healthcare right now are the shifting demographics to an aging population—where you have an older populace with an increased potential in developing chronic diseases and thus requiring additional access to care—and the big push toward the digitalization of healthcare.

The digitalization of healthcare comprises more than just electronic medical records. It includes integrating systems and providing more convenient access to patients—particularly in the time of COVID-19, where people are afraid to go to the hospital or see the doctor. There is still a need to follow up with their doctors. Patients still retain their health problems, and they need a way to access the system that precludes them from physically having to enter a hospital or see their healthcare provider face to face.

The big push right now in the digitalization of healthcare is in telemedicine consultations.

This enables one to obtain a consultation, but true telemedicine is more holistic and comprehensive. It includes a diagnosis, the prescription of medication, and the ordering of lab tests and X-rays, beyond “teleconsultation.” This is where everything is moving right now—and quite quickly.

You hear a lot about digitalization, telemedicine and teleconsultation in places where there's a mature primary-care network. The digitalization of medicine may put primary-care networks under pressure as patients preferentially access telemedicine consultations rather than entering their primary-care clinics. In places where the primary-care network is less mature and less developed, patients have an increased reluctance to enter hospitals. Thus, there is ample opportunity for primary-care networks to decongest hospitals, increase convenience to patients, and allow patients alternative options to physically entering hospitals. This needs to be integrated with telemedicine.

“There is ample opportunity for primary-care networks to decongest hospitals, increase convenience to patients, and allow patients alternative options to physically entering hospitals.”

“When you think about access to care, you need to consider patient wants and patient habits.”

secondary and smaller tertiary hospitals. And then, the secondary and tertiary hospitals can act as referral centers for the primary-care networks.

All this, in theory, can be integrated through digital health technology—telemedicine,

teleconsultations, electronic medical records, an integrated system to share X-rays and films, and even a shared laboratory. But the ecosystem has to first consider the convenience of care to patients—the extent that they are willing to travel—and then how to integrate it.



Critical care in the future of healthcare

The pandemic has resulted in healthcare providers reimagining and reshaping how healthcare is delivered. What are some changes you expect to see in the industry?

Jeffrey: COVID-19 has spurred the recognition of the need to strengthen the public-private partnership and to strengthen, encourage, and accelerate the development of the private sector. Government facilities now recognize that they cannot do everything by themselves. The patient volume and the load of critical patients can overwhelm healthcare systems, particularly if they're focused in public hospitals. The government should look at the private sector as being a critical partner in care where they can provide essential services that the government system cannot.

If you're looking at the evolution of the healthcare landscape, governments will need to support the growth of the healthcare-insurance landscape, both public and private, with an emphasis on the achievement of universal coverage. That could be public coverage or private coverage or a mixture thereof, with varied gradations of coverage, basic coverage for public insurance, and different levels of private coverage, premiums, and reimbursements. This will help the private healthcare system evolve much more quickly and robustly.

If the virus continues to spread, which it probably will over the next year or two, then the pressure on intensive-care units will unlikely subside. The seasonality of influenza already puts intensive-care systems under immense pressure. Hospitals are going to need to have fungibility or easily expandable intensive-care systems. They will need to have more ventilators, more critical-care physicians, and more critical-care nurses.

And if COVID-19 does turn into a seasonal virus and is potentially more active in the winter months like the flu is, then we can expect more critically ill patients for an extended period of time into the future—maybe in perpetuity, if we don't have an effective vaccine that will suppress the virus. In addition to the development of the public-private partnership and of insurance and a universal payer system, we need to develop our critical-care infrastructure for the forthcoming 12 months, 12 years, 20 years, 50 years—it really is hard to say.

Isabelle Yap

Isabelle Yap, a leader at EastWest Bank, discusses banking in the digital age, support for small and medium-size enterprises through loans, and cybersecurity.

About the interviewee:

Isabelle Yap is a senior assistant vice president, special-projects officer, and executive director at EastWest Bank. As a former consultant at McKinsey, she has experience in serving multiple clients across the Philippine region, and she was part of the Management Associate program at Singtel, one of Asia's leading telcos. A digital native, Yap brings in new perspectives and new ways of engaging with customers. She helped spearhead the launch of Komo, a digital banking service under EastWest Bank, and serves as chair for f(dev), the digital-venture builder and innovation factory of Filinvest Development. She recently spoke with McKinsey about the rise of banking in the digital age, support for small and medium-size enterprises (SMEs) through loans, and the critical but often-overlooked topic of cybersecurity. An edited version of the discussion follows.



Banking for the digital age

Have there been recent developments in the banking industry that excite you?

Isabelle: In Southeast Asia, the average age is about 24, and that's the youngest in the region. If you couple that with an increased rate of consumption, we will see that these young consumers will fuel the economy moving forward. There's a lot of components and drivers that continue to grow, which will ensure Philippines' trajectory in having a bright future.

A big trend that we've been seeing is the rise of digital banking in the Philippines. One interesting development was entries by multiple entrants in

the digital-banking space. And that is something relatively new in the country. The other emergence we've seen is the rise of fintech players, particularly wallets, payments, and gateways. These types of entries put a lot of pressure on Philippine banks today. It prompts traditional banks to rethink: "What is our value proposition to our customers? How can we constantly update and keep our products and services fresh to best serve our customers?"

“(The rise of digital banking) prompts traditional banks to rethink: ‘What is our value proposition to our customers? How can we constantly update and keep our products and services fresh to best serve our customers?’”

Unlocking growth in small and medium-size enterprises

What should be the role of banks in helping SMEs take advantage of global opportunities?

Isabelle: A critical enabler would be for banks to extend loans to SMEs to enable them to grow their products and services and eventually become successful businesses. There are, however, challenges in the underwriting of these SMEs due to a lack of data and the potential instability in their businesses. But I think this is a great source for banks to obtain data. This would allow financial institutions to formulate a scorecard that could help manage future potential risks and to acquire the data to learn more about the nature of these businesses over time.

For this to be implemented, banks need to build a model to sustainably issue these lending services to SMEs. This access to loans will uplift not only SMEs but the Filipino consumer, as well, by extending personal loans—unsecured or secured. Microlending to SMEs will equip them with the levers and the opportunities to grow their businesses, as well as help uplift the Filipino economy as a whole.



Applying a customer-centric approach to cybersecurity

How should banks invest to cope with the rising threat of cybercrimes?

Isabelle: Banks are always at risk of cyberattacks because of the nature of the data and the information that they hold. Banks need to continue to invest in information security, whether it's technologies or tools to be able to protect themselves from cyberattacks.

Apart from this, they also need to constantly update their information-security programs.

This includes awareness programs for employees and investments in the human capital who constantly update these policies. The problem is that technology in this area evolves quite quickly, and so banks need to keep step with the changes, especially with security matters. Investing in cybersecurity protects not only the banks themselves but their customers.

“Investing in cybersecurity protects not only the banks themselves but their customers.”


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