

State of Digital Payments in the Philippines

**COUNTRY DIAGNOSTIC  
EXECUTIVE SUMMARY**

# The State of Digital Payments in the Philippines

**DECEMBER 2019**



**BETTER THAN CASH  
ALLIANCE**





## FOREWORD

Our country was one of the first to pioneer digital payments nearly 20 years ago. Recognizing the untapped market potential and the opportunity to foster greater access to financial inclusion, the Bangko Sentral ng Pilipinas (BSP) has worked, hand in hand, with the government and the leaders across financial, retail, and regulatory sectors to boost digital payments.

Over the past three years, since the launch of the first digital payments diagnostic, the Philippines has experienced remarkable progress toward building an inclusive digital payments ecosystem. In 2013, digital payments accounted for only 1% of the country's total transaction volume. In 2018, this follow through diagnostic study showed that the volume of digital payments increased to 10% corresponding to 20% share in the total transaction value. These numbers speak of significant progress and success. I am optimistic that e-payments will gain further momentum as we have laid the necessary building blocks to accelerate innovation and inclusive growth over the next few years.

Notably, Filipino women are ahead of men in the uptake of digital payments, placing us ahead of global standards. The rise of fintech and their solutions are starting to play a transformative role, as we can see from the rapidly-growing adoption of the emerging QR codes for digital transactions. I am confident that the BSP has built a good digital foundation and is well positioned to leverage fintech in increasing the share of digital payments toward a cash-lite Philippines. In line with our commitment to achieve sustainable development, our aim is to provide every Filipino access to digital financial services.

As this study examines both the barriers and the opportunities for innovation, I hope that its valuable insights and recommendations will help to usher in a new age of digital payments for The Philippines. From this point, we continue our journey toward a payment system that works for the benefit of every Filipino. Mabuhay!



**Benjamin E. Diokno**

Governor, Bangko Sentral ng Pilipinas

## CONTEXT AND METHODOLOGY

**The Bangko Sentral ng Pilipinas (BSP) and the Philippine Government recognize digital payments as a policy priority to enable Filipinos to seize the opportunities of the digital revolution.** The Philippines was a global early-mover in digital payments, with the launch of mobile money in 2001. However, as in most countries, the path to widespread adoption and usage has not been straightforward. The first Better Than Cash Alliance diagnostic on the state of digital payments in the Philippines (released in 2015) found that adoption had been limited. The first diagnostic estimated that the share of digital payments in the Philippines was only about 1% by volume (26 million out of 2.5 billion payments per month). Recognizing that digital payments are an enabler and driver of digital transformation, the BSP set a target of driving the share of digital payments to 20% by 2020. The BSP considers that 20% could be the tipping point, after which the country could expect faster growth in digital payments. The BSP further set out a vision for modernizing the retail payment system, pushing a number of significant regulatory reforms. In turn, the Philippine Government has led by example, becoming the most digitized stakeholder in the ecosystem, with 64% of all government transactions carried out digitally.

**This report assesses the developments in the digital payments ecosystem, measures the progress made in the digitization of payments since the previous diagnostic (2015), and identifies opportunities to accelerate the growth of digital payments going forward.** The Better Than Cash Alliance in partnership with the BSP, commissioned this second diagnostic to have an updated overview of the state of digital payments in the Philippines, as of 2018. To do so, (1) data from over 25 sources across 25 payment use-cases were collated and analyzed; (2) interviews were held with over 90 stakeholders across government and the payments industry to validate key assumptions and calculations, and to understand the drivers behind the shifts; and (3) more than 100 publicly available knowledge resources were analyzed. This also surfaced the priority use-cases, barriers, and key initiatives to accelerate growth.

The methodology for computing the share of digital payments in this diagnostic has been updated. The previous diagnostic relied on data points from the period 2010–2013 and a primary survey conducted for business payments in the year 2010. This report has been able to incorporate data that have been made available since then. These include expansive data sets

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## Defining digital payment

Monetary transaction between two parties (individuals, businesses, or government) through a digital payment instrument (such as cards, bank transfer, mobile wallet, etc.) in which both the payer and the payee use an electronic medium.





**FIGURE 1**  
**Use-cases analyzed mapped to the payment grid**

		PAYEE		
PAYER		GOVERNMENT	BUSINESS	PERSONS
	GOVERNMENT	<ul style="list-style-type: none"> <li>• Transfers from national government to LGUs</li> <li>• Social welfare contributions</li> <li>• Common use item procurements</li> </ul>	<ul style="list-style-type: none"> <li>• Procurements and supplier payments</li> <li>• Utilities</li> </ul>	<ul style="list-style-type: none"> <li>• Social welfare contributions</li> <li>• Salaries and wages</li> </ul>
	BUSINESS	<ul style="list-style-type: none"> <li>• National and local taxes</li> <li>• National and local fees</li> <li>• Social welfare contributions</li> </ul>	<ul style="list-style-type: none"> <li>• Supplier payments</li> <li>• Business lending</li> <li>• Interest payments</li> </ul>	<ul style="list-style-type: none"> <li>• Salaries and wages</li> <li>• Social welfare contributions</li> <li>• Consumer lending</li> </ul>
	PERSONS	<ul style="list-style-type: none"> <li>• National and local taxes</li> <li>• Government fees levied for services</li> <li>• Social welfare contributions</li> </ul>	<ul style="list-style-type: none"> <li>• Utilities</li> <li>• Monthly merchant transactions</li> <li>• Interest and loan repayments</li> </ul>	<ul style="list-style-type: none"> <li>• Domestic remittances</li> <li>• International remittances</li> <li>• P2P lending</li> </ul>

**We estimate that there are 470-490 million digital transactions every month in the Philippines. That is nearly **20** times more than the number of monthly digital transactions in 2013.**

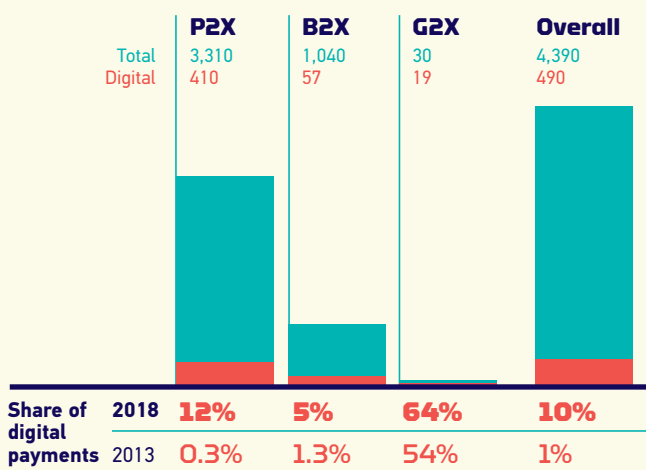
from the Philippine Statistics Authority (PSA), World Bank Global Index, Euromonitor, BSP, and more. Further, several new use-cases were included – utility payments by national agencies, business and consumer lending, interest payments, and person-to-person lending. As a result, the analyses covered a wider base – the total number of transactions in 2018 is estimated to be between 4.6 and 5.8 billion a month (estimated at 2.5 billion in 2013). Despite the wider base, the direction and magnitude of the shift measured in this diagnostic reflects the on-the-ground changes over the past few years.

### FIVE-YEAR SNAPSHOT ON PROGRESS

The Philippines' progress in the last five years is outstanding: We estimate the share of digital payments to be 10% by volume and 20% by value in 2018.<sup>1</sup>

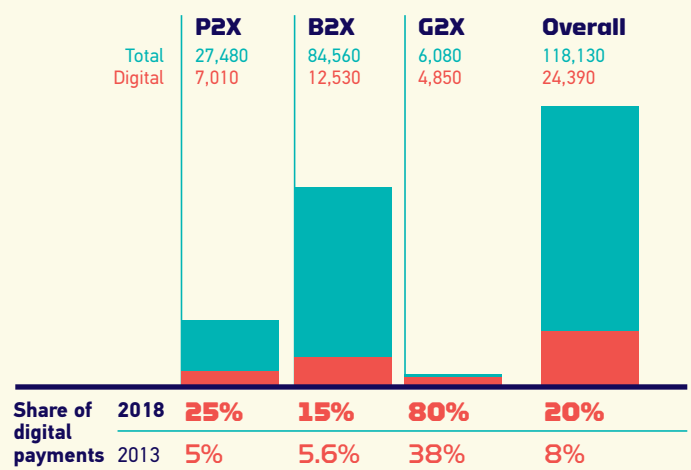
- This translates to about 470–490 million digital payment transactions every month in the Philippines. That is nearly **20 times** the estimated total monthly volume of digital transactions in 2013 (25 million). This phenomenal increase is driven by a surge in digital payments made by individuals (P2X). These increased significantly to 12%, up from less than 1% in 2013.
- Of the 470–490 million digital payments per month in 2018, about 400 million are made by individuals, or 85%. Digital payments made by businesses (B2X) and government (G2X) contribute the rest (12% and 3%, respectively).

**FIGURE 2**  
**Shift in and share of digital payments in the Philippines BY VOLUME**  
Classified by the payer and overall  
All numbers are in millions



Note: Aggressive estimates. All numbers have been rounded to nearest 10.  
Source: Dalberg estimates, The Better Than Cash Alliance Country Diagnostic Philippines (2015)

**FIGURE 3**  
**Shift in and share of digital payments in the Philippines BY VALUE**  
Classified by the payer and overall  
All numbers are in USD millions



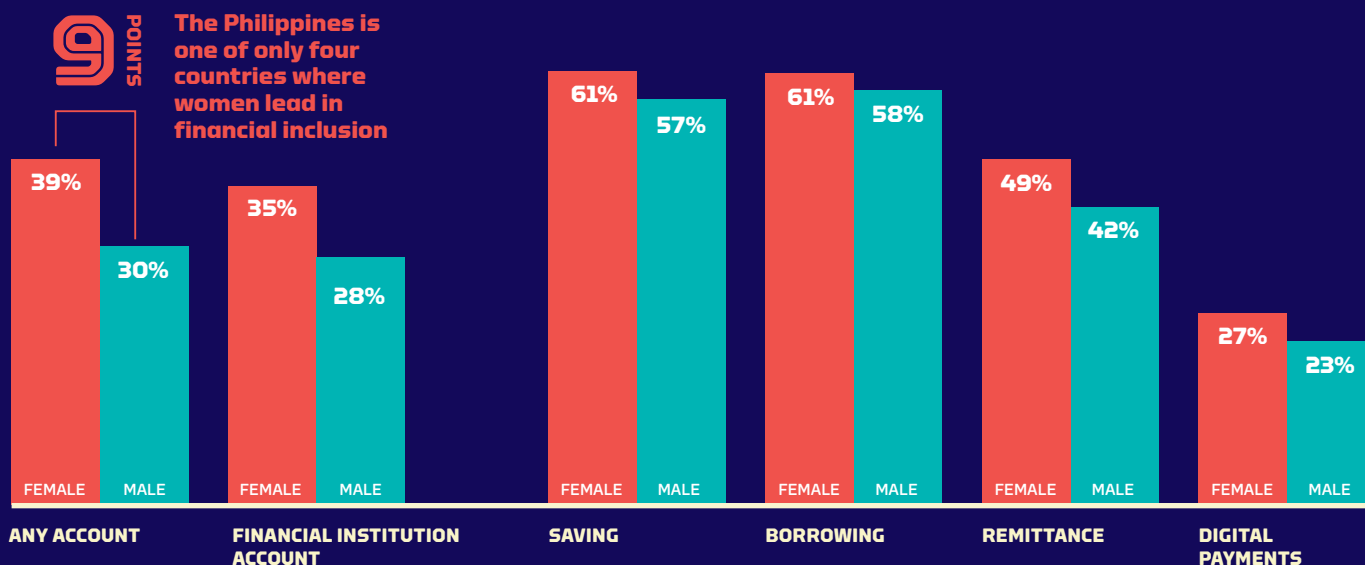
Note: Aggressive estimates. All numbers have been rounded to nearest 10.  
Source: Dalberg estimates, The Better Than Cash Alliance Country Diagnostic Philippines (2015)

# Leading on women's economic participation and access to digital financial services

The Philippines is a global leader when it comes to women's economic participation and addressing the gender gap in the use of digital financial services. While globally women are 2-12 percentage points behind men in account ownership, Filipino women are 9 percentage points ahead. Filipino women are also ahead of men (by 4 percentage points) in the uptake of digital payments.<sup>2</sup>

## ACCOUNT OWNERSHIP

## FINANCIAL ACTIVITY



### Women's access to and use of financial services in the Philippines has established a solid foundation for their economic participation

- A higher proportion of Filipino women hold accounts than men; 39% of adult women hold accounts, as opposed to 30% of adult men.
- Filipino women are more active savers and borrowers than men, through both formal and informal channels; women save more (61% of all adult women) than men (57% of all adult men) through formal or informal channels. Moreover, a larger proportion of women save through formal financial institutions: there is a gap of 4 percentage points.
- More women participate in transactional activities such as remittance, bill payments, and purchases; 49% of all women receive and send domestic remittances, compared to 42% of men. While card ownership is marginally higher for men, more women are making digital transactions.

### The key drivers behind women's favorable rates of access to and use of financial services in the country include:

1. Cultural norms that favor the agency of women in household financial matters<sup>3</sup> and higher financial capability of women.<sup>4</sup>
2. Microfinance institutions that largely cater more to women than other countries.
3. Government transfers that target women.

Further research can help identify actionable learning from the Philippines to improve access to and use of financial services, including digital payments, for other countries.<sup>5</sup>

- Digital payments in the G2X stream have also shown a healthy increase, from 54% in 2013 to 64% in 2018. Thus, **the government has continued to lead the way in digitization.**
- The change in B2X payments has been the slowest (less than 4 percentage points). The B2X payment stream stays the least digital: only 5% of total transactions in 2018 are digital.
- 20% digitization of payments by value translates to approximately USD 2124 billion in payments in 2018, about four times more than the value in 2013 (USD 6 billion). By this measure, the government continues to lead in digitization as well – with about 80% of its payments amount digitized in 2018.

Given the government's lead in digitization and the remarkable growth in digital P2X payments, digital payments in the Philippines have seen a considerable increase in the past five years as a whole. This growth has been enabled by big changes on two fronts – regulatory reform and industry-led expansion of payment options. This joint effort has laid the foundation that will support the country on its digital payments transformation journey.

**On the regulatory and policy front, two initiatives implemented since the 2015 diagnostic have established a bedrock for payment systems in the country. These are:**

**1. The National Retail Payment System (NRPS), launched in 2015.**

Under the NRPS, the BSP helped create two automated clearing houses (ACH), namely, PESONet, launched in November 2017, and InstaPay, launched in April 2018,<sup>6</sup> that allow fund transfer between any two accounts in the country. Financial institutions are mandated to offer fund transfers through these ACHs, thus enabling interoperability between accounts. By the end of 2018, the measurement period of this study, PESONet and InstaPay had only been operating for a few months. Payment volumes under InstaPay and PESONet make up a small share (0.02%) of all payments but continue to grow month-on-month and offer potential to increase the penetration of digital payments even further. The NRPS also led to the formation in 2017 of an industry-led payment system management body (PSMB) to create high-level policies and rules, and ensure that appropriate dispute resolution and redress mechanisms are available to timely address grievances from the provision of services.<sup>7</sup>

**2. The National Payment Systems Act (NPSA), enacted in 2018.** Under the NPSA, the BSP's regulatory oversight expanded beyond banks and non-bank financial institutions to cover all payment service providers and operators of the payment systems.

**In addition, the BSP has recently adopted a new rule requiring providers to adopt a national QR code payment standard,<sup>8</sup>** which seeks to foster interoperability and competition to help further accelerate the growth in digital payments in the coming years. Low-cost business models and a thriving fintech ecosystem can drive the digitization of high-volume use-cases, such as merchant and transportation payments.



Together, these initiatives represent very substantial steps toward the creation of a competitive industry, which will unlock the next phase of dynamic growth in digital payments.

**At the same time, the banks and fintech have expanded access to payment options for consumers:**

- 1. Increased adoption of payment cards and mobile money by consumers.** Investments by banks and other payment service providers have resulted in 21 million Filipinos owning prepaid and debit cards, up from 12.7 million in 2013.<sup>9</sup> Similarly, mobile money was barely on the horizon in 2013. By 2018, active mobile money accounts had jumped to 5 million, driven by fintech companies and low-cost, QR code-enabled payments.<sup>10</sup> Recent investments by fintech players in customer acquisition have yielded these gains: building awareness, offering incentives and subsidized fees. Purchasing airtime is a popular use of mobile money accounts, as seen in other geographies.<sup>11</sup> Prepaid and debit cards are increasingly used for making payments to merchants.
- 2. Increase in acceptance of digital payments by merchants.** Incumbent banks and fintechs alike are driving acquisition through partnerships with large retailers and chains. Further, acquirers are subsidizing initial setup costs, such as the cost of the point-of-sale (PoS) terminals. This has led to a year-on-year improvement of 19% in merchant acceptance.<sup>12</sup>

The Philippines' overall growth rate in digital payments is estimated to be 27–30%, compared to 25% in emerging Asian countries.<sup>13</sup> **While on a global scale, a gender gap of 2–12% persists across all metrics of engagement, in the Philippines today, a greater proportion of women (27%) transact digitally than men (23%).** This trend is not a one-off; it follows most other metrics of financial and digital inclusion and usage – account ownership (39% women own as opposed to 30% men), paying bills online (12% women vs. 8% men), online purchases (11% women vs. 7% men), and remittances (49% women vs. 42% men).<sup>14</sup> **As a result, the Philippines is not only rapidly catching up on digitization with its peers, the country is actually leading on the digital engagement of women.**

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**In the Philippines today, a greater proportion of women transact digitally than men**





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# THE OPPORTUNITY AHEAD

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**Businesses could save  
USD 20-45  
billion  
annually by  
digitizing supplier  
payments alone.**

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**Fully digitizing social  
payments could save  
the government  
USD 100 million  
annually and result  
in 11 million  
additional accounts.**

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As the Philippines continues on this journey toward becoming a cash-lite economy, five payment use-cases offer the most promise – both in terms of increasing the share of digital payments as well as democratizing the benefits of digital payments: (1) merchant payments, (2) supplier payments by businesses, (3) remittances, (4) utility payments, and (5) social benefit transfers.

These use-cases are key for the following reasons:

**These use-cases account for 97% of all transactions** in the country. Thus, even a small shift toward digital payments in these use-cases could onboard larger numbers of individuals and businesses.

**Access to accounts has opened up opportunities for wider use of digital payments.** One in three Filipinos owns an account. Yet less than 5% of the population regularly<sup>15</sup> makes, and thus gains from, digital payments. Similarly, the proportion of businesses that benefit from digital payments also has great opportunity to grow by targeting some clearly identified challenges. The transition to digital payments should also provide social, economic, and financial benefits, such as broader financial inclusion, poverty reduction, technical innovation, efficiency, and lower costs. The shift to digital payments would also help advance the Sustainable Development Goals.<sup>16</sup>



### **Merchant payments** P2B

Merchant payments form a large majority of payments made – digitally, as well as overall. As of 2018, about 180K merchants and less than 24 million individuals can accept or pay digitally.<sup>17</sup> Despite the large numbers, this represents only about 15% of all merchants and 31% of all Filipino adults who have accounts. The majority of these account holders do not regularly make digital payments. Further, acceptance is close to negligible among Micro, Small and Medium Enterprises (MSMEs), which form the large majority of all merchants. With such a large base and low penetration of the merchant channel, the potential is still sizeable.



### **Supplier payments** B2B

About 1 billion supplier payments are made every month in the Philippines, many by formal businesses.<sup>18</sup> However, less than 2% by volume and 6% by value of these payments are made digitally. Informal businesses, forming about 85% of all supplier payments by volume, rely solely on cash. More importantly, supplier payments come with a larger ticket size per transaction and account for approximately 60% of all payment transaction value. Digitizing this use-case has the benefit of improving business efficiency and perhaps spurring innovation. Given the natural “pull” among businesses to accept digital payments because of lower cash/check handling and processing costs, this is a “low-hanging fruit” for the country to reap.



### **Remittance** P2P

Remittance is defined as a fund transfer from one individual to another individual, either from overseas or domestically. It is estimated that out of the total 120–130 million remittances sent monthly, less than 4% are digital and 80% of all remittances are made over-the-counter (OTC). As a result, Filipinos continue to bear the high cost and the administrative burden of sending remittances through brick-and-mortar branches.<sup>19</sup>



### **Utility payments** P2B

Filipinos make an estimated 65–75 million utility payments every month. However, less than 5% of these payments are made digitally. As with remittances, most utility payments are made OTC in cash, and thus are inconvenient and expensive. In fact, it is reported that the average utility bill payment (USD 10–30) is so small that the cost of conveyance is often higher than the bill amount. The opportunity cost of transacting in cash combined with the regularity of utility payments builds a compelling case for prioritizing this use-case.



### **Social benefits** G2P

The Philippines has a well-established social benefits system. All private and public sector employees are mandatorily registered in social security (Social Security System [SSS] and Government Service Insurance System [GSIS], respectively) as well as home and health insurance and savings programs. In addition, the Philippines has a targeted conditional cash transfer scheme benefiting over 4 million households, among the largest globally. Of all social benefit payments, 45% are made digitally (primarily using cash cards). The remaining 55% of payments not yet digitized presents a real opportunity. Digital transfer of social benefits can be the first step in the digital payments journey for a large number of financially excluded Filipinos. This can potentially have a knock-on effect on other digital payment use-cases.



## USERS FACE REAL BARRIERS TO SHIFT TO DIGITAL PAYMENTS:

**Digital payment solutions remain costly relative to income levels for large segments of the population.** As noted above, the use of digital payments has, indeed, increased substantially over the past few years. And yet, this increase is driven by approximately 15% of the estimated 15–23 million individuals with access to any account. Over half of the account holders continue to prefer cash over digital to make payments within the current incentive structure.<sup>20</sup> The cost of digital payments is often at par, or above the current means (see Figure 4); thus, limiting any financial incentives to shift.

On the contrary, in cases where some financial incentives are present, for example in mobile wallets and closed loop cards, because of cashbacks and rewards on purchases, and no fees, there has been an exponential uptake. Similarly, small merchants perceive the Merchant Discount Rate (MDR) to be very high (which ranges from 2% to 4%). Worse, the MDR is structured such that it disincentivizes small transaction value payments which are often the largest by volume by charging these at the highest rate. Merchant rates are high because acquirer costs are high. Acquirers cite the high cost of onboarding a merchant, which is as much as USD 1000, as a challenge.<sup>21</sup> Additionally, cash and OTC are deeply entrenched, and thus are perceived to be inexpensive and convenient.

**Payers see less benefit from shifting when the business processes for their transactions are not entirely digital.** This is particularly relevant for businesses which typically realize savings and efficiency gains from digitizing supplier payments. However, few businesses are willing to digitize payments when the rest of the process still requires the use of paper. For example, businesses still have not embraced the use of electronic Official Receipts (eOR), even though eORs are acceptable under the current regulation.<sup>22</sup>

FIGURE 4  
**Perceived cost of cash/OTC/checks versus digital means paid by the consumer (unless stated otherwise)**

	Average transaction size	Cash/OTC/checks	PESONet/Instapay	Cards	E-wallets
<b>MERCHANT PAYMENTS</b>	Ranges from USD 3.7 to 5.5	Zero*	Zero – USD 2 for InstaPay	2–4% MDR for the merchant	Zero
<b>REMITTANCES</b>	USD 50 for domestic remittances	Zero* – USD 2.5	Zero – USD 2 for InstaPay	N/A	Zero – 2%
<b>UTILITY PAYMENTS</b>	Ranges from USD 10 to 30	Zero*	N/A	4% MDR passed on to the customer for online payments	Less than USD 1
<b>SUPPLIER PAYMENTS</b>	USD 30 to 50 for informal enterprises USD 500+ for formal merchants	Zero* – USD 0.1	Zero – USD 50 per transaction for Pesonet	N/A	N/A

\* The "perceived" cost of cash/OTC/checks to the users does not take into account the costs linked to personnel, transportation, material, and time.



Although some of this resistance can be traced to a natural inertia, some ambiguity remains around the requirements that the eORs must match certain information, such as the location of the payment. Paper receipts are also more widely accepted for auditing and record-keeping, and therefore businesses continue to rely on paper and checks to make payments.

**The lack of trust as well as the absence of convenient recourse mechanisms are also barriers for users to shift to digital payments from cash and cheques.** The willingness to shift is further lowered by a risk of transactions taking too long or failing too often and an absence of a fair and convenient recourse mechanism. Further, anecdotal evidence suggests that perceptions of security risks such as hacking, personal data breaches, and unsafe access deter potential users from using digital payments. If the financial services sector, merchants, and the government all embraced responsible practices, as described in the Responsible Digital Payment Guidelines of the Alliance, concerns around data security, transaction failure rates, fraud, lack of grievance support, and other issues faced by users could be addressed.<sup>23</sup>

**When a value proposition exists, individuals as well as merchants have to be aware.** Nearly half of the population are still unaware of the different e-money platforms.<sup>24</sup> And, those who are aware lack knowledge about the use-cases and the benefits of various digital payment instruments.<sup>25</sup>

The financial services sector and payment service providers must go beyond early adopters and push to include underserved consumers. The promotion of digital payments has been limited, especially for fund transfers by financial institutions. Financial institutions can do more to incentivize digital payments (both inter- and intra-institution) through a combination of marketing and improved user experience.

**Lastly, the country must overcome two foundational issues:**

1. **Financial exclusion.** Two out of three Filipinos are financially excluded, and, thus, do not own a digital wallet or account. This situation limits the number of users who have a digital means to receive social benefits, receive remittance, pay bills, and save formally. As discussed, many Filipino adults are accustomed to cash and do not perceive a need to shift to digital payments. However, beyond perception, there are real barriers to account ownership. The documentary requirements to open an account – compounded by the lack of access to adequate identification – put that threshold out of reach for many.<sup>26</sup>
2. **Poor mobile connectivity.** Despite over 71% of the population subscribing to data services, there are only 16,500 base stations across the country's 7,000 islands, mostly localized in Metro Manila. That is 1.5 4G sites per 10,000 people, 75% lower than the required capacity.<sup>27</sup> Further, the limited infrastructure provides an unreliable and inconsistent experience for consumers, leading to drop-offs. This will remain an issue for the next few years and stakeholders must optimize around this reality, even while smartphone and mobile internet penetration are likely to increase.

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**2 OUT OF 3**  
**Filipinos are**  
**financially excluded,**  
**and, thus, do not**  
**own a digital wallet**  
**or account**



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# RECOMMENDATIONS

Over the past few years, the government and the industry have made notable strides toward laying a strong foundation to accelerate the adoption of digital payments. The regulatory reforms and the policy environment have significantly improved the payment systems in the country. Despite the challenges outlined above, we believe that digital payments will continue to grow. However, to further accelerate growth, all the stakeholders need to work together to improve awareness, ubiquity, convenience, and, most importantly, create compelling reasons for payers to go digital. We list six (6) key recommendations.



## REMITTANCE AND UTILITY PAYMENTS

**Investment in building platforms to enable fast growth in digital remittances and utility payments by Philippine Payments Management Inc. (PPMI), its members, and clearing switch operators (CSOs).**

Building on the rising adoption of InstaPay and PESONet, PPMI along with its members and the CSOs, there is an opportunity to start building solutions on top of these ACHs. For instance, one solution is a common P2P payment interface that is mobile-first and allows transfer of money from any account to any account. The software development kit would be open source so that any payment provider could integrate the white label interface within their mobile ecosystem or use as a standalone app. Further, an interoperable platform connecting banks and non-banks in bill aggregation could be conceptualized over the PESONet. Such platforms could potentially enable all actors – in particular the smaller players such as rural and thrift banks and cooperatives, but also large banks, utility payers, payment centers, and merchants – to offer and push for digital payment options in their businesses.



## MERCHANT PAYMENTS

**Innovation by payment service providers to create a strong value proposition for small merchants.**

Research suggests that offering payment-related services, often referred to globally as Value-Added-Services, is key to improving the value proposition of digital over cash for merchants.<sup>28,29</sup> These services, offered by payment service providers, could include solutions that provide easy-to-access business intelligence and improved access to financial services, especially working capital by providing a credit line based on value of sales. Collection could be automated by deducting a percentage from all sales, giving the perception that the “loan pays itself.”

Offering and scaling Value-Added-Services to merchants is a medium-term solution. In the interim, the digital payments industry needs to work together to create a tiered MDR structure that lowers fees for low-value transactions. This could include charging zero fees for large volume-small margin transactions.



## ACROSS ALL PRIORITIZED USE-CASES

**Build awareness of and trust in digital payments with the leadership of BSP and PPMI.**

As the private sector innovates and continues to drive adoption, the BSP and PPMI<sup>30</sup> can support it by running consumer information campaigns. These campaigns could go beyond the uses and benefits but also point out the risks as well as the safety features of digital payments. Payers must also be made aware of their rights, and the importance of protecting their data and privacy. Further, proactive measures that prevent fraud and improve confidence are needed. These could include PPMI creating a centralized fraud registry for a real-time rating of transaction risk and a consumer redress mechanism.

# 4

## SUPPLIER PAYMENTS

**For supplier payments, build awareness of eOR acceptance and create a digital invoicing system, with the leadership of the Bureau of Internal Revenue.**

The Bureau of Internal Revenue (BIR) would need to lead the work to overcome the lack of awareness of acceptance of eOR among government agencies. The Bureau, supported by various government agencies – such as the Department of Trade and Industries (DTI), the Department of Finance (DoF) and the Department of Budget and Management (DBM), also needs to issue a clarification on whether certain provisions, such as ‘location’, are mandatory for an eOR. For uptake by businesses, DTI and BIR would have to lead the efforts.

Further, a DBM subgroup to lead efforts to digitize invoices – similar to PhilGEPS and the procurement service could support the private sector in creating solutions that better link accounting systems and payment transactions. The solution could be to issue an eOR in response to a successful payment transaction in a manner that also allows for easy reconciliation of the books.

# 5

## SOCIAL BENEFITS

**For payments from and to the government, the established technical working group (TWG) under the Public Finance Management Committee can continue to promote the use of electronic payments across government agencies.**

Different government agencies are at different points in their trajectory to adopt digital payments. The TWG can serve as a discussion platform for coordinated and synchronized decisions among relevant stakeholders. The discussions of the TWG may include allowing the government to contract vendors after conducting due-diligence. This would enable seamless accounting and budgeting for DBM. It would also allow all agencies to weigh in on decisions related to (NRPS) transaction fees for digital payments to suppliers and individuals. There is also an opportunity for the TWG to secure learnings from other countries’ governments, particularly in the ASEAN. This would be an important step toward a unified strategy for the Philippine Government to adopt digital payments.

# 6

## ACROSS ALL PRIORITIZED USE-CASES

**Finally, leverage the rollout of the PhilSys to solve for the foundational challenge of financial exclusion.**

The government is spearheading the rollout of the national ID system – PhilSys. The initiative would benefit from the continued collaboration of BSP with the PSA in identifying priority segments for the new ID system. The BSP and PSA have planned rollout prioritizing the conditional cash transfer program (4Ps), the Social Security Service (SSS), and the Government Social Insurance Service (GSIS), which currently receive payments in cash, cheques, or limited use cash cards. This initiative will help provide much-needed access to identification for those who do not yet have any acceptable form of ID for opening a formal account. The PSA and the BSP can collaborate to leverage the implementation process to invite financial service providers to market opening accounts to these consumers.



**Beyond these initiatives, we recommend that the BSP begin tracking absolute volume of transactions (in addition to % share of digital payments) to allow for easy progress monitoring.** In addition to the diagnostics that monitor the percentage (%) share of digital payments, understanding of the magnitude of progress made must also be widely shared periodically by tracking absolute volume of transactions, as has already been recognized by the BSP. This helps the industry determine when to “press the accelerator down” or recognize and celebrate the successes. The BSP has the opportunity to become the champion and the source of accurate and consistent data on digital payments.

**Whereas some recommendations can be worked on in the short term by stakeholders on their own, others will require the BSP, government agencies, and private sector to work together.** So far, the BSP has been enterprising and instrumental in coordinating efforts across various stakeholders and platforms. The BSP must continue to play that pivotal role by charting out a common Action Plan and coordinating the efforts of various government agencies and private-sector actors.

**Sustaining the momentum toward digital payments by adopting these recommendations will have an outsized impact for the stakeholders. By our estimates, these actions could result in:**

**1. USD 20-45 billion in annual savings from digitizing supplier payments.**

Previous studies have found that e-invoicing and digitizing supplier payments produce cost savings of up to 4-8% of the transaction amount. We estimate that the formal sector in the Philippines makes payments worth approximately USD 44.9 billion monthly. This translates into savings worth USD 1.8 billion monthly, or USD 21.5 billion annually.

**2. USD 0.1 billion in annual savings on G2P payments.** Previous studies that mapped the cost of a G2P payment estimate that the cost of cash is 1.5%, higher than that of digital means (estimated at 0.7%).<sup>31</sup> Of the USD 2.6 billion in G2P payments per month, over USD 1 billion is paid non-digitally. This translates to annual savings of USD 100 million for the government in G2P payments alone.

**3. 11 million in additional accounts from digitizing government welfare payments and 86.5 million additional monthly digital transactions from the unbanked.** We estimate that digitizing welfare payments and converting cash cards to basic accounts, would provide up to 11 million individuals with their first digital store of value. Assuming that these newly banked consumers comprise half of the number of transactions of those who are currently banked in a month, this is equivalent to nearly 86.5 million additional digital transactions.<sup>32</sup>

## The Better Than Cash Alliance Research Series

**Our case study and country diagnostic series seeks to highlight specific examples of shifts from cash to digital payments by governments, companies, and international organizations. Each case study and country diagnostic aims to provide insights for a wide audience on the factors that have helped or hindered the digitization process, and also present key results and benefits of the transition away from cash. We hope that readers will be able to adapt the lessons from these cases to their own contexts and local conditions.**

## Acknowledgements

This report would not have been possible without the contribution of the Bangko Sentral ng Pilipinas (BSP), various agencies of the Government of the Philippines, the broader financial services industry, and the global experts who informed the framing, research, and analysis.

We want to extend our sincerest gratitude to the BSP. We especially thank Governor Benjamin E. Diokno for his remarkable leadership in pushing this study forward. We would also like to thank Deputy Governor Chuchi G. Fonancier for her kind guidance. Likewise, we deeply appreciate the impressive determination of Managing Directors Vicente T. De Villa III and Pia Bernadette Roman Tayag, to go the extra mile in order to facilitate the diagnostic study. Of course, we particularly acknowledge the indispensable contributions of the Payment System Oversight Department (PSOD) under the leadership of Director Raymond O. Estioko, to the success of this study. Moreover, we wish to thank Deputy Director Mary Rose A. Contreras of the PSOD for making herself always available to attend to our requests. Finally, we would like to thank Ms. Maria Christina S. Masangkay and the rest of the PSOD team for their generous assistance throughout the study.

This report benefitted from the strategic guidance of Dr. Ruth Goodwin-Groen, Managing Director of the Better Than Cash Alliance. Camilo Tellez-Merchán was an equal member of the team, joining us in the field country missions, and helping gather data. In addition, we are grateful to Angela Corbalán for supporting in stakeholder engagement, including developing advocacy messages on the results of this assessment.

We are also thankful for the thorough technical review and the thoughtful insights shared by Kelly Hattel, Senior Financial Sector Specialist at the Asian Development Bank, and Nilima Ramteke, Senior Financial Sector Specialist at the World Bank. The team would also like to express its sincere appreciation to the members of the Editorial and Publications Committee of the Alliance. Their guidance, steering, and insights helped significantly improve this report.

The Alliance would like to thank Dalberg, a critical technical partner commissioned by the Better Than Cash Alliance (the “Alliance”) to help conduct the diagnostic study – particularly Malavika Bambawale, Swetha Totapally and Vineet Bhandari, technical authors of this report. The Alliance also thanks Akanksha Agarwal and Devvart Poddar, who contributed with their insights, research, analysis, and writing to the diagnostic study.



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## About The Better Than Cash Alliance

The Better Than Cash Alliance is a partnership of governments, companies, and international organizations that accelerates the transition from cash to digital payments to help achieve the Sustainable Development Goals. Based at the United Nations, the Alliance has over 75 members, works closely with other global organizations, and is an implementing partner for the G20 Global Partnership for Financial Inclusion.

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ISBN 978-1-946173-33-1



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