

## CASE STUDY

# From 1% to 30%:

The key drivers behind the Philippines' acceleration towards responsible digital payment systems

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BETTER THAN CASH  
ALLIANCE



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## INTRODUCTION

**When the history of digital payments is written, the Philippines will be seen as a wellspring.**

In 2012, it was a founding member of the Better Than Cash Alliance, underlining its commitment to promote digital payments.

Today, it is making leaps toward digitalization at a pace that is both transformative and remarkable. Yet, even recently, the situation was starkly different and tremendous challenges remained. A diagnostic undertaken by Bangko Sentral ng Pilipinas (BSP) in partnership with the Alliance revealed that in 2013 only 1 percent<sup>1</sup> of payments were digital. The diagnostic unearthed three systemic barriers to digitalization: a largely unbanked population, the informal nature of Filipino businesses, and depressed mobile penetration rates.

Fast forward to June 2020, and the Philippines announces it has exceeded its target of 20 percent total digital payments by volume. The share of digital payments increased from 20.1 percent in 2020 to 30.3 percent in 2021.<sup>2</sup> It did this while onboarding more women users than men. How?

Success required a series of strategic decisions by the government and the private sector.

Three decisions were essential:

1. Constant evaluation of progress against transparent targets
2. Proactive policymaking to satisfy evolving needs
3. Institutionalizing data systems and investing in capacity.

As governments globally work to accelerate digitalization as they build back from the COVID-19 pandemic, the Filipino journey confers unique insight.

### Digital payments in the Philippines exceeded targets

From **1%** in 2013 to **30%** in 2021

**And improved onboarding of women**



<sup>1</sup> Forging Pathways to Cash-Lite Society; Status of Digital Payments in the Philippines, BSP, 2021.

<sup>2</sup> Ibid.

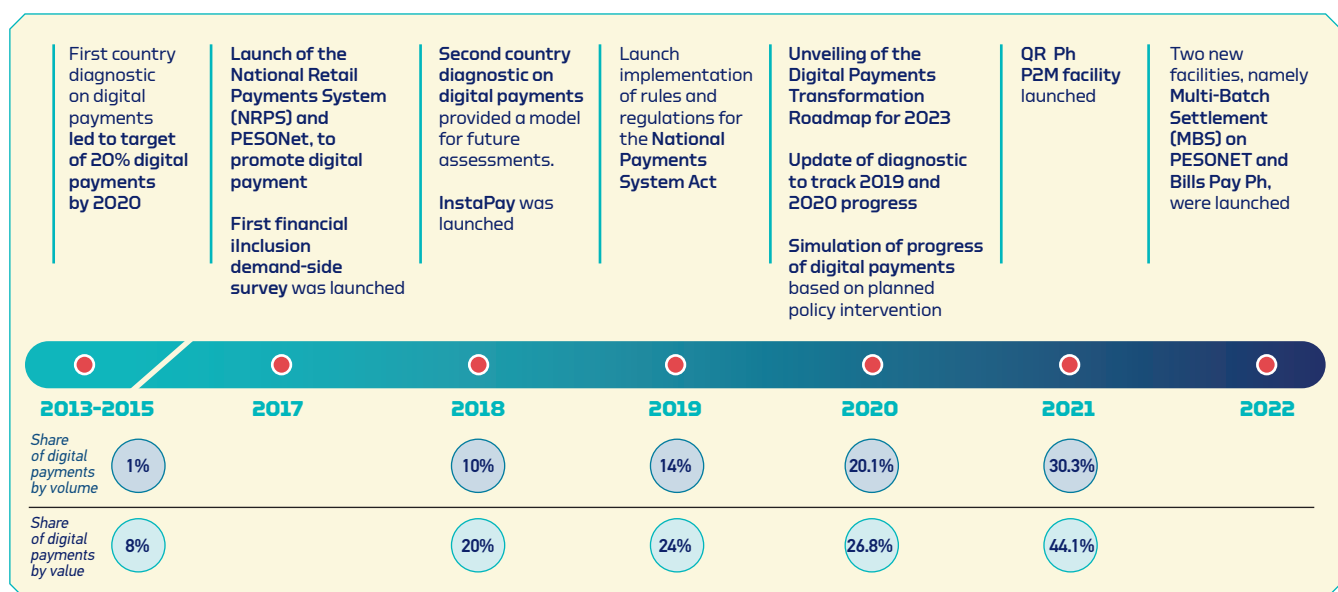




# 1 EVALUATE AGAINST TRANSPARENT TARGETS

Before the **2013 diagnostic**, data that tracked digital payments adoption and usage rates were scarce. Quickly it became clear that digital payments were fundamental to the country's transformation into a digital economy. This demanded a forensic, granular approach to data management. Such a transformation would require dedicated effort and resources. This recognition led to a series of targeted investments into payments infrastructure over the next three years (see **Figure 1**).

**Figure 1.** BSP has progressively increased its commitment to embed critical infrastructure and monitor the growth of digital payments. In progress.



In 2018, the Philippines undertook a second diagnostic with the support of the Alliance to assess its progress. The findings showed significant advancement. The share of digital payments had increased to 10% by volume and 20% by value<sup>3</sup> of the total. This diagnostic also uncovered priority payment use cases for digitalization, identified persistent barriers, and created a model which continues to serve as a baseline for future monitoring. The commitments from various Government agencies and private sector to support BSP's goals and to deliver on the diagnostic recommendations were evident at the **Digital Payments Leaders' Summit** convened by BSP's Governor in 2019.

**Encouraged by this momentum, the Philippines committed publicly to bold targets.** The recommendations of the diagnostic were incorporated into BSP's 'Digital Payments Transformation Roadmap 2020-2023,'<sup>4</sup> which elaborated its vision to reach its target of digital payments by volume at 50 percent and financial inclusion to reach 70 percent by 2023. BSP has since delivered regular updates on the state of digital payments<sup>5</sup> to ensure its approach is informed by current data, so that both public and private stakeholders are aware of the areas where concerted action is required.

## 7 Provide user choice through interoperability

Consumers with either a bank or an e-money account can conveniently transact with anyone in the National Retail Payment System.

QR Ph, a national quick response (QR) code standard, allows person-to-person (P2P) and person-to-merchant (P2M) transfers using QR codes and mobile phones, covering a more intensive user base and empowering micro and small businesses.

<sup>3</sup> BTCA. 2019. *The State of Digital Payments in the Philippines*, New York: Better Than Cash Alliance.

<sup>4</sup> BSP. 2020. *BSP Unveils Digital Payments Transformation Roadmap*, Manila: Bangko Sentral ng Pilipinas. <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5573>.

<sup>5</sup> BTCA. 2021. *State of Digital Payments in the Philippines: Highlights Report 2021*, New York: Better Than Cash Alliance. <https://www.betterthancash.org/explore-resources/state-of-digital-payments-in-the-philippines-highlights-report-2021-edition>.



**BSP forged active partnerships and used its neutrality as an arbitrator to achieve change.** It was instrumental in the creation of the Philippine Payments Management Inc. (PPMI) – a self-governing payments regulatory body that works with BSP-supervised financial institutions to create an interoperable electronic retail payment system in the Philippines. It enabled a wide range of stakeholders to feed into the regulatory process and also hosted regular consultations, workshops, and working groups to deepen understanding of challenges, and stepped in to arbitrate where needed.

**It coordinated with other agencies to underscore the government's leadership in achieving digitalization.**

The Department of Transportation rolled out the Automated Fare Collection System EMV Contactless Pilot Production Testing. This interim operation is geared toward the modernization of public transport in the Philippines through cashless payments in public transport modes. The Department of Social Welfare and Development distributed the second tranche of its Social Amelioration Program through nearly 10 million new transaction accounts. It has also committed to converting the limited-purpose cash cards used for its Pantawid Pamilyang Pilipino Program into full-service transaction accounts. The Bureau of Internal Revenue is piloting its electronic receipts and e-invoicing system to facilitate tax administration and simplify transactions for taxpayers, with the potential to realize US\$20–45 billion in annual savings by encouraging the digitalization of supplier payments.



## 2. PROACTIVE POLICYMAKING

**Informed by diagnostics, BSP uncovered the need for a comprehensive legislative and regulatory framework to encourage digital payments to flourish.** BSP's consequent introduction of the National Retail Payments System (NRPS) framework in 2015 addressed shortfalls in access to digital payment channels. More recently, the National Payments System Act (2018) established BSP's authority to oversee all payment systems, uniting them under a common supervisory framework.

**As the payments industry in the Philippines matured and following the recommendations of the second diagnostic, BSP pivoted to a use-case approach to spur adoption.** Advancing digital payments between individuals (person-to-person) required the introduction of InstaPay, which catered to immediate payments of smaller denominations.

For the person-to-merchant (P2M) use case, BSP brought stakeholders together to create a new interoperable payments scheme via the InstaPay rail called QR Ph, the national standard QR code in the Philippines. It is now introducing multiple new payment solutions that target use-cases of merchant payments and bills payment.

As regulators devise policies to digitalize payments, they encounter challenges in measuring impact. **BSP has prioritized understanding the impact of policies that influence digital payments.** For instance, what would drive the use of standardized QR codes on merchant payments? The Alliance, in partnership with Dalberg, developed a policy simulator with BSP in 2019 to determine which policies should be prioritized, which variables are within their control, which stakeholders to bring on board, and what enabling conditions will be necessary to realize growth.

This simulation exercise led to the prioritization and launch of two new facilities, namely **Multi-Batch Settlement (MBS) on PESONet** and **Bills Pay PH in 2022**.<sup>6</sup>







<sup>6</sup> The Philippine EFT System and Operations Network (PESONet) is a batch electronic fund transfer (EFT) credit payment scheme which will be processed in bulk and cleared at batch intervals. The payee will receive the full value within the same banking day, provided the payment instruction is sent before the cut-off time. This simulation exercise has led to prioritization and launch of two new facilities namely Multi-Batch Settlement (MBS) on PESONet and Bills Pay PH in 2022.

## Box1. Simulating the future

The simulator imitates the impact of policies on digital payments, thus providing regulators with methods to track and monitor efficacy. Considering the channels with which a policy might interact, and the time required for the policy to manifest results, the simulator not only determines the impact of the policy but also identifies constraints that limit adoption of that policy, thus providing regulators with methods to track and monitor efficacy. It also assists in setting realistic expectations for private industry and stakeholders.

The policy simulator assessed the impact of six shortlisted initiatives.

**Figure 2.** The policy simulator for this study was built for the six shortlisted policies based on BSP's near-term priorities and the roadmap developed in the 2018–2019 diagnostic

New payment rails	Enhancements to existing rails	Overarching initiatives
 <p><b>Debit pull ACH:</b></p> <p>The creation of a new debit Automated Clearing House (ACH) would allow consumers and businesses to authorize periodic payments, such as for interest and mortgage payments, to be debited directly from their bank and e-money accounts thus increasing the volume of digital payments.</p>	 <p><b>Adoption of the QR Ph standard:</b></p> <p>The adoption by all payment service providers with QR-enabled payment and financial services of the national QR code standard is expected to encourage person-to-business (P2B), P2M and P2P digital payments, and provide further ease to P2P payments through a unified and interoperable format.</p>	 <p><b>Free micropayments:</b></p> <p>Micropayments carry the potential of digitalizing a wide range of cash-dominant payment use cases. Reducing transaction costs opens up rich possibilities for people to transact digitally and advance progress on financial inclusion.</p>
 <p><b>Bills pay ACH:</b></p> <p>The creation of a new bills payment ACH would allow consumers to pay periodic and recurring payments, such as utility payments, rent, credit card payments, and other periodic or recurring financial obligations.</p>	 <p><b>Enhancement for Egov Pay:</b></p> <p>Enhancing EGov Pay, an online payment portal for government collections and disbursement, by expanding participating banks and billers would increase options for digitizing person-to-government payments.</p>	
	 <p><b>PESONet MBS</b></p> <p>The increased frequency of batch settlement of PESONet transactions facilitates faster crediting of funds to recipients' accounts and enables better management of cash flows. As a result, user experience is further enhanced, and the demand of the business community for shorter clearing intervals is addressed.</p>	

### When designing the policy simulator tool, four design principles were followed:

- Backwards compatibility with the Alliance's country diagnostic framework:** Given BSP's investment in updating the diagnostic to monitor the state of payments frequently, the diagnostic tool was designed to be synchronized within this framework.
- Flexibility to tweak variables:** The simulator offers the flexibility to allow for changes to the assumptions used and their requisite inputs.
- Ease of usage:** The tool was accompanied by a user guide and set up in a way that allowed the core BSP team to use, update, and tweak the tool appropriately.
- Tailored for multiple audiences:** From management teams to data collection and analysis teams, the tool can be used by each to glean insights to drive workstreams.

**Impact pathways are defined as the steps tracing policy launch to uptake among users.** Definition of these pathways is crucial, as they enable accurate estimation. Pathways help by identifying key assumptions and inputs that need to be accounted for when estimating the impact of a policy. They also provide a logical understanding of challenges regulators need to account for when designing policies.

## Box1. Simulating the future (continued)

Figure 3. Policy impact pathway for adoption of QR Ph—a national QR code standard—for P2B transactions

## POLICY IMPACT PATHWAY

Creation of a  
standardized  
QR code

Developed by PPMI, QR Ph allows **interoperable payments through the InstaPay ACH** for P2P and P2M transactions.

Adoption amongst  
financial institutions

While all payment service providers (PSPs) are required to adopt QR Ph, not all PSPs are participants yet or have both sender and receiver capabilities. PSPs must adopt solutions to the code's **product flow for interactions between persons and merchants, develop an integration approach for interoperability, and address security risks.**

Adoption  
amongst users

Interoperable QR-enabled transactions will appeal to **micro and small merchants and consumers seeking an alternative to traditional card and cash payments for retail purchases.** Additional drivers include smartphone, internet, and account penetration, and merchant onboarding efforts by PSPs.

## Net impact



The net impact will be an **increase in the volume of digital payments.**

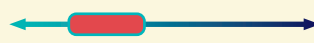
## ASSUMPTIONS

1. QR code use involves little to no additional investment by merchants, and does not suffer from technical, functional, or pricing issues.
2. QR Ph provides a static QR code for both merchants and customers and requires the use of a smartphone with internet connectivity.
3. Adoption rates for both merchants and consumers will resemble an S-curve powered by network effects.

## CHANNELS

Cash or  
cheques

## InstaPay

Prepaid and  
debit cards

## Credit cards



## USE CASES

	G	B	P	From
G				
B				
P				
From				

The policy simulator works as a problem-solving tool. It can help determine which policies the stakeholders should put their weight behind, which variables are in their control, which to track, which stakeholders to bring onboard as a priority and what enabling conditions will be needed to see the growth modeled in the simulator. This process can help make regulators more data-driven and support the development of data systems to do so more sustainably.





## 3. INSTITUTIONALIZING DATA SYSTEMS AND INVESTING IN CAPACITY

**Continuous measurement of progress requires the aggregation of differentiated data streams.** BSP deliberately monitors payments data from several sources. For instance, data on merchant transactions are spread over e-money transactions, credit card transactions, and the national financial inclusion survey. Access to data from entities outside of BSP's regulatory aegis is critical for a comprehensive overview of the state of payments in the country. Collating sources pose challenges. It requires additional bandwidth and often delays monitoring.

**Consequently, BSP launched, in 2020, a data collection framework, the *Electronic Payments and Financial Services ('EPFS') Monthly Report*, which provides a more frequent and focused view of the state of payments.** This requires BSP-supervised financial institutions to provide comprehensive data on retail digital payments in the Philippines, covering all priority cases and indicators. In parallel, BSP will be pioneering a lighter reporting requirement (an EPFS 'lite') that reduces monthly compliance costs for financial institutions, to encourage frequent dataset updates.

**Finally, BSP has built internal capacity to collate and analyze payment datasets to inform policymaking.** BSP has invested in a data team responsible for monitoring digital payments and liaising with public and private stakeholders to monitor and forecast the impact of selected policies.



### Box2. Optimizing data collection

**BSP held three ambitions when optimizing its most comprehensive report, the 'EPFS'.**

- 1. Restrict data requests to those indicators necessary for updating the diagnostic model and tracking overall performance. To achieve this, channel coverage was streamlined.** Twelve transaction channels (such as transactions through automated teller machines, mobile apps, and point of sale terminals) were consolidated into two overarching categories: 'on-us' and 'off-us' transactions for retail and corporate customers.
- 2. Ensure comprehensive coverage of the volume and value of digital payments transactions.**
- 3. Keep monthly compliance costs for BSP-supervised financial institutions to a minimum.** Remove tracking of use cases and cash-based channels. Abolish separate reporting requirements for paper-based transactions to prioritize the collection of relevant data only.

This newly efficient format tracks overall digital payments volume and value, growth rates, and disaggregated data by transaction instrument monthly. It simplifies the process of computing the percentage of digital payments adoption in the country and improves simulation accuracy.

**Despite these changes, gender-disaggregated data can only be partially tracked in the short term.** The Philippines is one of the few countries where women outperform men across a range of financial inclusion indicators. However, **only approximately one in two Filipino women are financially included.**<sup>7</sup> An even smaller fraction transacts digitally. While all available lead indicators (account and e-money account ownership, savings, and credit access) suggest that such a gap is unlikely to exist, the extent of the actual gender gap in digital payments remains unknown. Similarly, data on women's usage levels across priority use cases—such as wage payments, government-to-person (G2P) transfers, online purchases, QR code usage, InstaPay usage, among others—are unavailable. However, utility payments, ecommerce, and remittances can be tracked.

<sup>7</sup> BSP 2021. National Financial Inclusion Survey.  
<https://www.bsp.gov.ph/Inclusive%20Finance/Financial%20Inclusion%20Reports%20and%20Publications/2021/2021FISToplineReport.pdf>

## TAKEAWAYS FOR ASPIRING GOVERNMENTS

Although the Philippines' journey is rendered unique by national circumstances, emergent lessons can be applied by aspiring actors as they seek to achieve responsible and inclusive digitalization of payments.

Impressive strides over the past decade suggest championing the multi-stakeholder approach to drive digital payment adoption:

1. **Build consensus across government and enlist private sector champions** that deliver on the national vision for increasing digitalization of payments and commit to being publicly assessed against targets. The formation of PPMI is a good example of consensus-building and championship to achieve a more accessible and competitive payments system in the Philippines.
2. **Invest in data-driven policymaking early on with the right incentives in place.** Ensure that this team is involved not only in the execution of the diagnostic but also in its design. Stipulating burdensome data requirements for providers can discourage support, which cripples diagnostic oversight. Harmonizing data requests and focusing exclusively on priority indicators will incentivize the industry to boost compliance.
3. **Be intentional about the subject and cadence of tracking.** For instance, electing to focus on total digital payments volume (and value) presents a compelling snapshot of the progress of digitalization. Yet it is equally important to ensure that the growth is inclusive and **responsible**. A more nuanced set of indicators focused on the affordability of digital payments, redressal mechanisms, and the tracking of gender-disaggregated data across marginalized segments can capture emergent trends much earlier.



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**The Better Than Cash Alliance** is a United Nations-based partnership of governments, companies, and international organizations that accelerates the transition from cash to responsible digital payments to advance the Sustainable Development Goals.

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