BETTER THAN CASH ALLIANCE | *Empowering People Through Electronic Payments*

Philippines

COUNTRY DIAGNOSTIC

July 2015

Development Results
Focused Research Program

Country Diagnostic: Philippines

by James Hokans, Bankable Frontier Associates


CARD BANK, INC.

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BETTER THAN CASH
ALLIANCE | *Empowering People Through Electronic Payments*

INTRODUCTION TO THE BETTER THAN CASH ALLIANCE

The Better Than Cash Alliance (the Alliance) is a partnership of governments, companies, and international organizations that accelerates the transition from cash to digital payments in order to drive inclusive growth and reduce poverty.

Shifting from cash to digital payments has the potential to improve the lives of low-income people, particularly women, while giving governments, companies and international organizations a more transparent, time- and cost-efficient, and often safer means of making and receiving payments.

We partner with governments, companies, and international organizations that are the key drivers behind the transition to make digital payments widely available by:

1. **Advocating** for the transition from cash to digital payments in a way that advances financial inclusion and promotes responsible digital finance.

2. **Conducting research** and sharing the experience our members to inform strategies for making the transition

3. **Catalyzing** the development of digital payments ecosystems in member countries to reduce costs, increase transparency, advance financial inclusion-- particularly for women-- and drive inclusive growth.

The Alliance's Development Results Focused Research Programme (DRFRP) accelerates the generation and dissemination of knowledge and tools for stakeholders transitioning part of their payments from cash to electronic. The DRFRP has three components: 1) Readiness diagnostics, which compile existing data on the volumes, values, and payment means for each kind of payment made by governments, the private sector, and development community partners, and assess the country's readiness to replace cash payments with electronic payments; 2) Case studies of on-going shifts; and 3) Toolkits to provide practical steps for Alliance stakeholders to plan, measure and implement shifts.

The DRFRP is managed on behalf of the Alliance by a consortium led by BFA, a Boston-based consulting firm, with advice from experts from the World Bank Payments Group and the CGAP Technology Team, as well as local research staff.

PHILIPPINES PROJECT TEAM

The diagnostic process involves desk research and an in-country mission by a team of experts to gather data, assess the incentives of participants in the local payments context, and survey the insights of local Alliance champions and stakeholders. Each diagnostic country team includes local researchers with experience in the payments system and knowledge of relevant institutions and individuals. Content and data in this document are based on information gathered during the third quarter of 2013, and therefore represent data prior to this date.

This report was authored by the Philippines country project team:

- Country Director: James Hokans, BFA
- Country Analyst: Leesa Shrader
- Measurement Expert: Wajiha Ahmed, BFA
- Payments Expert: With advice and input from World Bank
- Country Support: Anatoly "Jing" Gusto

ACKNOWLEDGEMENTS

The diagnostic country team would like to thank Better Than Cash Alliance co-champions at the Department of Budget and Management (DBM) and Bangko Sentral ng Pilipinas (BSP) for their determination and support. We appreciate the time, energy and creative thinking that it takes to assist us to gather payments data and then help us analyze it. We particularly want to thank: Richard E. Moya, Undersecretary and Chief Information Officer, Department of Budget and Management; Gabriel Baleos, Digitization Initiatives Consultant, Department of Budget and Management; Nestor A. Espenilla, Jr., Deputy Governor, Supervision and Examination Sector, Bangko Sentral ng Pilipinas; and Pia Roman Tayag, Head, Inclusive Finance Advocacy Staff, Bangko Sentral ng Pilipinas.

Better Than Cash Alliance Vital Signs

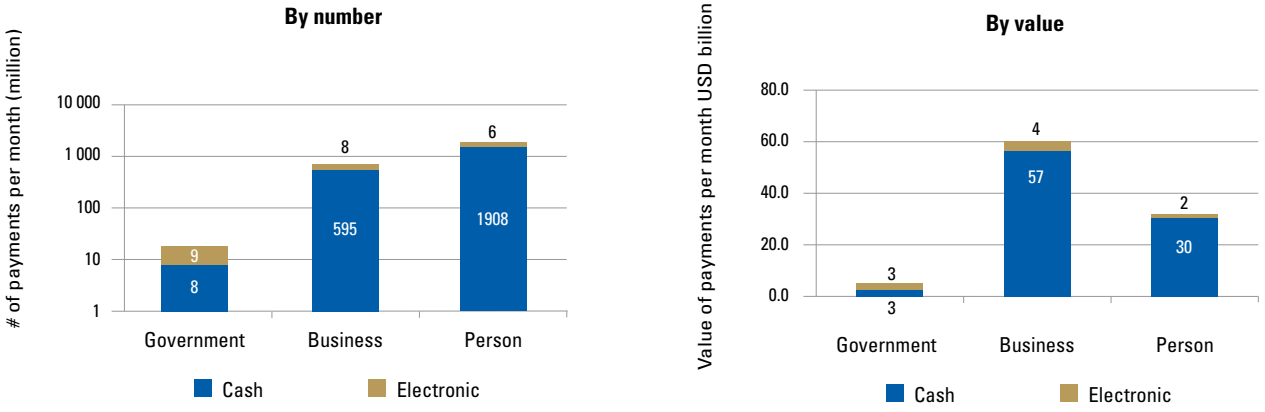
Total # of payments per month	**% payments electronic** (by volume; by value)	**Data Quality Index** (Scale of 5=highest; 1=lowest)
2.539 million	1.03% | 8%	**Quality:** 2.75 | **Availability:** 2.5

Context indicators

Population (World Bank, 2012)	105.7 million	Visa GEAR ranking (0-100)	64.2
World Bank income category	Lower Mid Income	Corruption Perceptions Index (Transparency International, 2012)	Rank: 105/174
% adults with formal account (Findex, 2011)	27%	Mobile penetration - (ITU 2012)	2003: 27% 2012: 107%

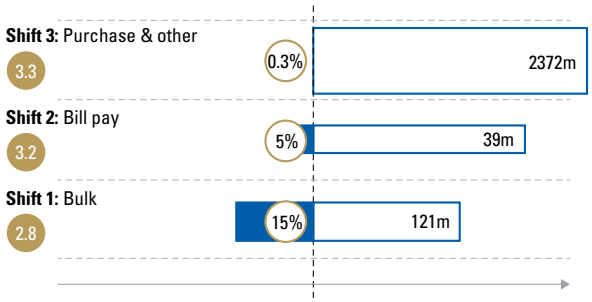
State of the Transition to Digital Payments

Payments by payer per month



The Philippines has yet to transition a majority of its government payments by number or by value: Many are still done in check and cash. The reliance on paper-based payments is even more entrenched for business and individuals.

Trajectories of the shift to electronic payments



The shift to a mainly electronic ('cash-lite') economy typically proceeds through three stages, which can happen concurrently but at different speeds. In the Philippines, the **first shift**, of one-to-many (bulk) payments, has yet to progress significantly, due to the persistence of checks for salary payments and all government payments. The **second shift**, many-to-one (remote bill) payments, is progressing for high value pension and insurance contributions and loan repayments, but not yet for taxes or supplier payments. The **third shift**, one-to-one, including purchases (P2B), has made little progress in either the formal or informal sector and momentum is limited.

Legend: 2.5 *is the trajectory score for the use case connected to each shift; where 1=full shift very likely; 3=slow upward progress; 5=shift unlikely.*
Note: 38% *is % of total number of monthly payments in each shift (shown at end of bar) which are electronic as in 2012.*

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1 Introduction

The Better Than Cash Alliance diagnostic approach

The Better Than Cash Alliance Country Diagnostic is intended to accomplish three things:

1. Measure the baseline state of the shift from cash to digital payments using the best available data;
2. Assess the trajectory of the shift in a way that can inform the country's decisions and priorities; and
3. Recommend case studies and measurement activities to support the development of toolkits for Alliance stakeholders.

These three objectives are achieved in the following ways:

- **Measurement**: The payment grid (shown in Figure 1 below) compiles data on the volumes and values of payments in the country, as well as the proportion of those payments made by electronic means, for payments made by government (G), business (B), individuals (P, for person), and the development community (D). The full grid and accompanying notes on sources and calculations are in an annex to the diagnostic. That annex also includes a description of the Data Quality Index, which rates the quality (completeness and reliability) and availability of payments data in the country. The measurement section in

FIGURE 1 The payment grid: types of payments by payer and payee[1]

PAYER \ PAYEE	Government	Business	Person (Individual)
Government	**G2G** Central government disbursements to local level, Transfers within the central government	**G2B** Supplier payments, Utility payments	**G2P** Welfare programs, Salaries, Pensions
Business	**B2G** Taxes, Fees for licenses and permits, Payments to gov't utilities	**B2B** Supplier payments, Utility payments, Pension contributions	**B2P** Salaries and benefits
Person (Individual)	**P2G** Taxes, Utilities, Debit card payment of taxes, Payments to gov't utilities	**P2B** Utilities, School fees, Credit card payments, Pension contributions, Debit card payment at stores	**P2P** Remittances, Gifts
Development community	**D2G** Taxes[2]	**D2B** Utility payments	**D2P** Cash transfers, Salaries for local employees

the body of the diagnostic (Section IV) presents the headline findings on the remaining pools of cash in the economy.

- **Trajectory:** These sections provide a narrative of the evolution of policy on electronic payments (Section III) and the propensity of the country to shift more payments to electronic means (Section V), through the lens of particular use cases. A payment use case is an application of a certain type of payment instrument, using certain channels, to certain payment accounts. If the policy priorities, infrastructure and market incentives are aligned in regard to a given use case, then shifting to greater use of electronic payments should be easier to accomplish.

The Better Than Cash Alliance whitepaper identified three shifts on the journey to 'cash lite' societies: a bulk payer shift, a shift towards electronic bill payment and finally, a shift for purchases. Figure 2 below shows how a country might progress through these stages; the stages are not necessarily sequential, and multiple shifts may occur simultaneously. In the Philippines, bulk payers (governments and large employers) have not all shifted to electronic payments.

Two use cases are common across all the diagnostics: bulk EFT credits and remote bill payments. The first use case supports the shift between the first and second stages; the second use case supports the shift between the second and third stages. In each country a third use case is chosen for analysis that captures the story of the barriers to shifting the cash pools identified in the payment grid.
In the Philippines, interviews with providers and users revealed major barriers to the adoption of card payments at merchants.

Figure 3 below shows the relationship between the payment grid and the use cases.

- **Better Than Cash Alliance cases**: Finally, each diagnostic recommends three to five possible case studies of actual shifts implemented by the core Alliance stakeholder groups

FIGURE 2 **Shifts between stages from cash heavy to cash lite**

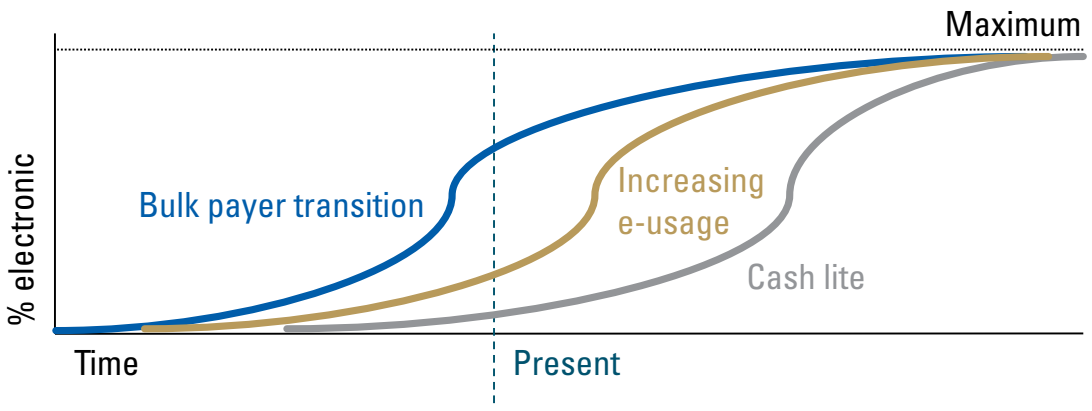


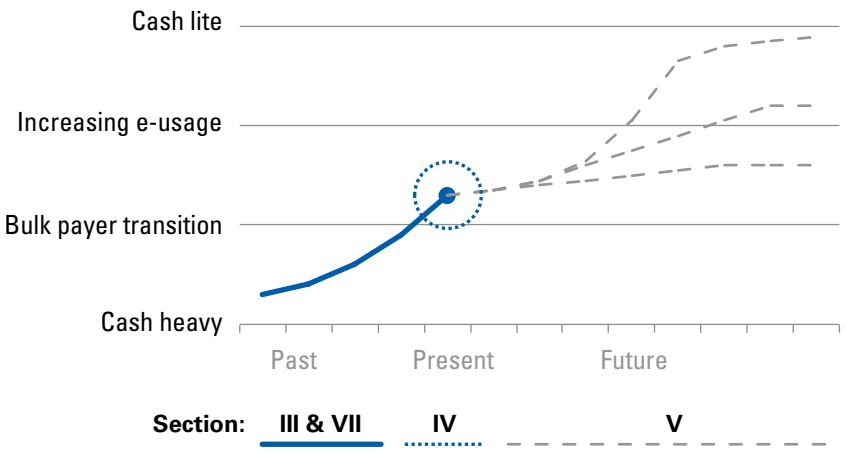
FIGURE 3 Mapping use cases into the payment grid

PAYER \ PAYEE	G	B	P
G		1: Bulk electronic credit 2: Remote bill payment	1: Bulk electronic credit
B	2: Remote bill payment	2: Remote bill payment	1: Bulk electronic credit
P	2: Remote bill payment	2: Remote bill payment 3: Debit card payment at merchants	
D		2: Remote bill payment	

(governments, the private sector, the development community). Case studies document what happened, assess the costs and benefits, and draw lessons for the targeted Better Than Cash Alliance constituency for the Alliance. The recommended cases (Section VII) are based on the potential learning experience for Better Than Cash Alliance, the feasibility of conducting the case study, and fit with use cases of particular importance for the given country.

As Figure 4 below shows, Section IV of this country diagnostic report locates the current status of country along this continuum, and Section V analyzes potential future trajectories based on underlying incentives to provide or adopt relevant payment instruments. Section III traces the evolution of the shift to electronic payments while the cases identified in Section VII highlight specific past attempts — successful or not — to shift.

FIGURE 4 Relation of diagnostic sections to the journey to greater electronic payment



Note: Dotted line around marker for Section IV represents the Data Quality Index.

Key findings: Philippines

Despite some important advances in electronic payments systems over the past two decades, the Philippines remains a heavily paper-dependent (i.e., cash and check) society. The dominance of cash is not surprising considering the country's large unbanked population and the predominance of informal businesses, whose owners, employees and customers transact almost exclusively in cash. This Better Than Cash Alliance diagnostic estimates that Filipinos make about 2.5 billion payments per month, or roughly 64 monthly payments per adult, corresponding to a monthly value of over US$74 billion. But only 1% of these payments is electronic, with cash and checks accounting for the remainder.

Business-to-business payments represent by far the largest pool of cash transactions by value. Businesses and individuals make the highest number of cash payments. The government is the most 'cash-lite' payer, reflecting important strides the government has made in its transition to electronic payments. Overall, approximately 54% of all government-initiated payments (16 million transactions per month), including intra-government payments and government-to-person transfers, are electronic.

The policy push toward electronic payments has probably never been stronger than it is now in the Philippines. In 2010 and 2011, President Benigno Aquino launched a campaign called "The Social Contract: No Corruption, No Poverty," to improve governance and catalyze socio-economic development by promoting transparency and accountability.[2] Private sector players interviewed for this diagnostic perceive a lessening of corruption in government, but they also note that corruption persists in the private sector. A number of signs suggest a readiness and propensity to shift from cash to electronic payments. Successes have been achieved following great effort by Better Than Cash Alliance co-champions; the Department of Budget Management (DBM) and the Bangko Sentral ng Pilipinas (BSP).

Two areas of stalled progress stand out: Government payments to suppliers remain cash-heavy. And few people can, and fewer choose to, pay the government (for taxes or fees) electronically. Many interviewees mentioned that all Filipinos, regardless of income or location, need to interact with and pay government several times per year. This gives government a key opportunity to build trust in electronic payments across the board by encouraging people through policy and practice to make these payments electronically, avoiding long lines and bribes, while improving transparency and efficiency in payment flows. Opportunities are emerging in these areas — including the development of a Treasury Single Account (TSA) — but they are generally impeded by political economy issues and the lack of a clear legal and regulatory framework.

Meanwhile, business and personal payments, which dwarf government payments in number and value, are still overwhelmingly conducted in cash and checks, with strong support for traditional paper-based payment infrastructure. Banks, for example, have developed special check-based products for their large business clients to track and account for Value Added Taxes (VAT) and meet legal requirements of the Commission on

Audit. The big three banks tend to promote strongly intra-bank electronic payments between accounts of their corporate clients and the clients' suppliers and employees. The majority of salaried workers with bank accounts tend to pull cash from ATMs, contributing to "cash churn," rather than making payments directly from electronic methods. Hence the numbers of ATM-initiated, POS-initiated, mobile-initiated and Internet-initiated payments are low.

While some successes in the development of a healthy electronic payment ecosystem are emerging, they are generally limited in scale and scope. The lack of clear legislation and authority to regulate the national payments system is especially problematic. A need exists for a comprehensive strategy among government and key players in the payments industry to expand usage of electronic payments. Taken together, these represent a major roadblock to a larger shift from cash to digital payments. In the words of one payments expert interviewed for this diagnostic, a "low-level equilibrium" has settled over electronic payments.

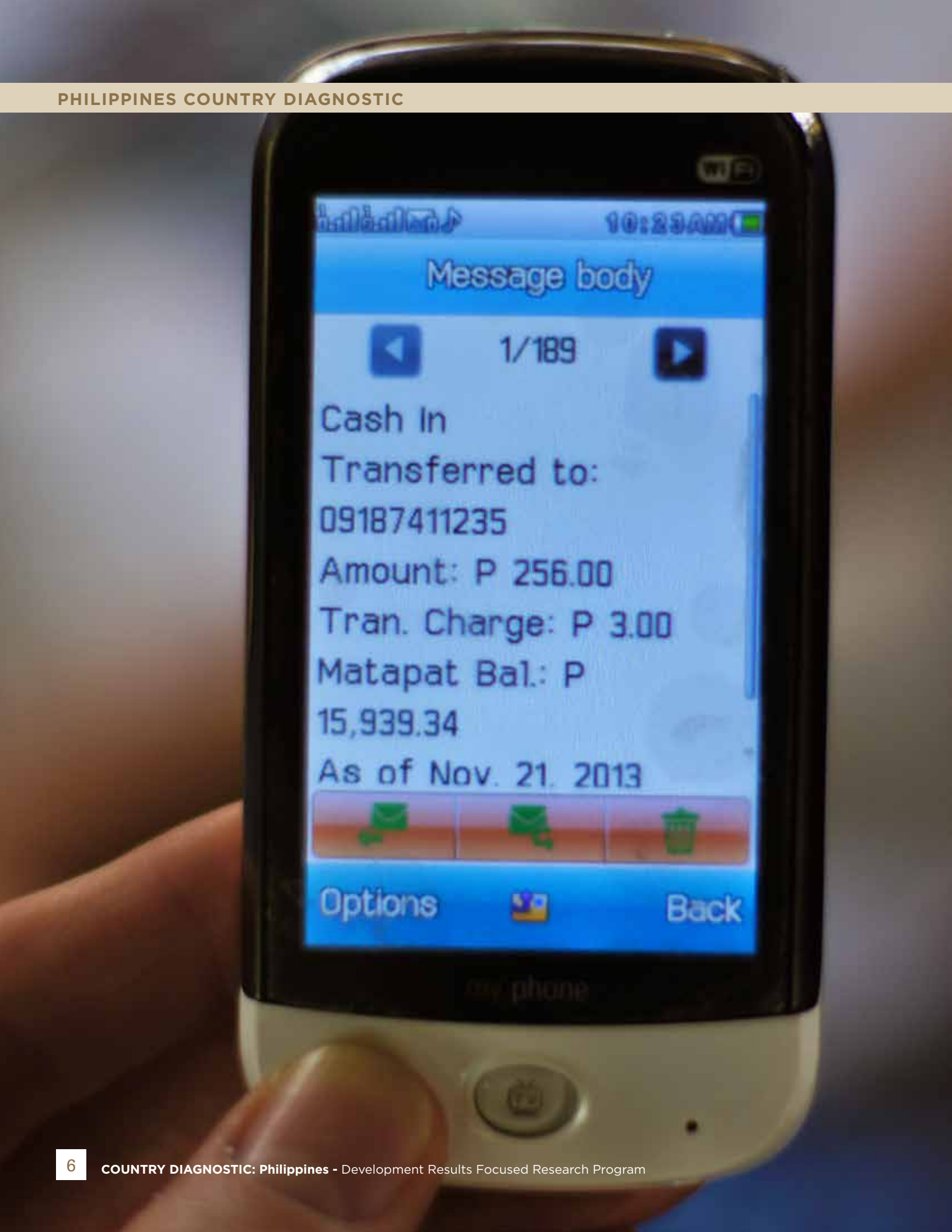
Outline of this report

Section II describes the macroeconomic context for payments in the Philippines and the state of payments infrastructure. Section III presents a chronology of key policy initiatives – by the government and the private sector – which have propelled the shift from cash to electronic payments.

Section IV compiles existing data and calculations to quantify the number and values of payments made in each cell of the payment grid in the Philippines, as well as the percentage of payments made by electronic means. Section V analyses the Filipino payments system's propensity to shift more payments to electronic, through the lens of three specific use cases: mass electronic credits, remote bill payment, and card payments at merchants. Each of these use cases corresponds to one or more of the types of payments categorized in the payment grid.

Section VI draws on the Philippines case to offer insights on the whitepaper's hypothesized sequence of shifts from cash heavy to 'cash lite.' The diagnostic concludes in Section VII with a country plan for additional research which will improve data quality related to the electronic transition: case studies of efforts to shift certain payment types to electronic, and proposed additional measurement activities to better understand the barriers to shift.

Note that this diagnostic constitutes a proposal only for the DRFRP activities of Better Than Cash Alliance in Philippines in 2013-2014. It does not make recommendations for the Philippines to follow since this is outside the scope of an Alliance country diagnostic.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2 Country context

High digital and mobile penetration

The Philippines, a predominantly urban country, comprises a large population and economy dispersed across 7,107 islands. More than 12 million overseas foreign workers (OFWs) stay in touch with friends and family on the Internet, as well as send money home. International remittances are equivalent to 13% of gross domestic product (GDP), and most of these payments are initiated electronically.

Mobile penetration already exceeds 100%.[3] Manila is often referred to as the "texting capital of the world," and Filipinos are rapidly making the jump to data services, with mobile data representing 45.7% of gross revenues of the total communications sector.[4] The Philippines has 27.7 million people on Facebook, the 8th largest subscribership of any country in the world.

Low levels of financial inclusion

The high level of consumer comfort and use of electronic communications channels suggests a strong potential for electronic financial transactions, particularly mobile phone-initiated payments. But broad-based adoption of electronic payments has yet to occur. For example, the volume of domestic bills, loans and money transfer payments is much larger than the volume of international remittances, but less than 1% of these payments are made electronically.[5]

A key barrier for digital payments is the low levels of financial inclusion, intertwined with the sheer size of the informal sector. Despite the tenacious focus on inclusion by the BSP over the past 15 years, the World Bank reports that fewer than three out of 10 adults have a bank account, while the BSP estimates even fewer.[6] Similarly, only 3% of Filipinos have a credit card and 13% a debit card.[7] Although the number of ATMs and POS devices is growing, their numbers per capita are well behind those in other Southeast Asian countries such as Thailand and Korea. E-commerce makes up less than 1% of total commerce in the Philippines, compared to 4-5% in Thailand, Vietnam and Indonesia, and 10-15% in developed countries.[8] Official estimates of the informal sector of the economy is 35% of GDP, but commercial bankers estimate the informal economy is twice the size of the formal economy, when taking into account "under the table" tax avoidance activities of the well-to-do, on top of the large numbers of the informally employed.

There are also barriers in the formal sector, where competing incentives have stalled the shift to electronic payments. Large companies and their banks combine to require the companies' employees and suppliers to maintain bank accounts at the same banks. Despite more than 25 years of development, Inter-Bank Funds Transfers (IBFTs) today represent less than 1% of all ATM, Internet[16] and mobile-initiated

TABLE 1 Financial and mobile infrastructure and transactions

Cash Handling Points/100,000 Adults		LMIC 2011
Branches[9]	39	8.6
ATMs [10]	18	16.4
Deposit-taking ATMs [11]	0.4	
Agents able to receive deposits [12]	0	
Agents able to receive e-wallet cash-in [13]	19	
POS/100,000 Adults[14]	50	
Mobile-cellular telephone subscriptions per 100 inhabitants [15]	**98**	

Source: LMIC: averages for lower middle income countries from World Development Indicators 2011.

transactions through the main national switches or the domestic inter-bank ACH, the Electronic Peso Clearing System.[17] This arrangement is potentially more inconvenient and costly for employees and suppliers than allowing them to bank where they choose — and have banks compete for their business.

Banks cite high rejection rates, high and unclear pricing by a switch with a near monopoly on ATM- and POs-initiated IBFTs, and confusing messages to payees and payers as key reasons for minimal use of this payment infrastructure by business. Even the largest banks often prefer to transfer large amounts in cash on behalf of corporate clients to avoid high fees and unexpected delays in IBFTs.

Persistent corruption

Electronic payments have the potential to make corruption more difficult to sustain, which is why promoting the shift toward electronic payments is a key component to President Aquino's campaign "The Social Contract: No Corruption, No Poverty," launched in 2010 and 2011.

In a 2012 national survey of Filipino business executives, participants reported that they saw government as less corrupt than in the pre-campaign 2009 survey. In 2012, the proportion of executives who said they were solicited for bribes in the previous year was at a new low of 48%, down from 60% in 2009 and a high of 71% in 2008. Common types of bribe solicitations related to government mentioned in the survey were:

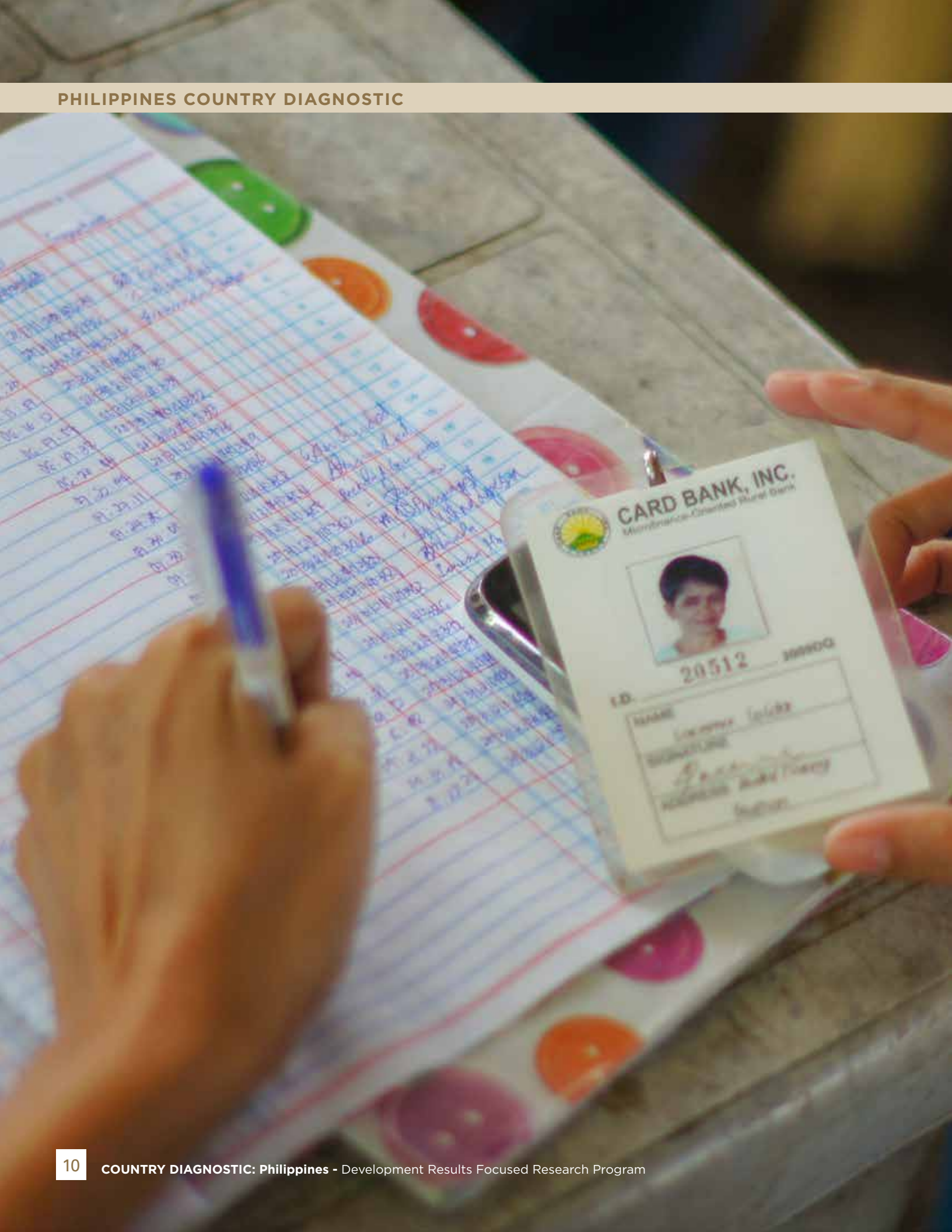
- Getting local government permits /licenses: 30% of respondents;
- Assessment/payment of income taxes, 26%;
- Getting national government permits /licenses, 19%;
- Complying with import regulations /paying import duties, 17%;

- Supplying government with goods/ services, 14%;
- Collecting receivables from government, 13%; and
- Accessing of government incentives, 6%.

Responses to the first three types above were all-time lows since the survey began in 2000; the rest are lows since 2005.

Perceptions of corruption in the private sector, however, showed little improvement. When asked about companies in their own sector, only 45% of executives said that almost all demand receipts for their payments; only 32% said that almost all issue receipts for their revenues; only 20% said that almost all pay taxes honestly; and only 21% said that almost all keep only one set of books.[18]

A key component of the Aquino government's agenda is to rationalize electronic payment flows between government, companies and citizens. Policymakers acknowledge that many public institutions and departments have been weakened by collusive practices and operational inefficiencies that particularly undermine P2G and B2G payments. To address these challenges, DBM has taken a lead role, acting as a "chief information officer," to bring private sector experts into government. And BSP is promoting interoperability and clarity in payment regulation; to level the playing field for banks and financial institutions of all sizes; and to address private sector banking practices that create "silos" of exclusive banking, likely generating high hidden costs to consumers, suppliers and even to the banks themselves.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3 Evolution of policy toward electronic payments

Building the technical and legal infrastructure

Electronic banking made its debut in 1983 when the Bank of the Philippine Islands (BPI) first introduced ATMs in an effort to differentiate the market. (The use of the channel as business driver prevailed for not just ATMs, but point-of-sale (POS) device networks, as well.) ATM operations initially developed under closed-loop and later bi-lateral arrangements. **By 1990, major banking groups had launched three national ATM switches, BancNet, ExpressNet and MegaLink**, each dominated by at least one of the big three banks, Banco de Oro (BDO), BPI and Metrobank, which today control about 60% of bank assets. **In 1992, BPI launched POS devices for credit and debit transactions,** and this was followed closely by other leading banks and ATM networks. Between 1993 and 2006, the three national switches interconnected under bilateral arrangements, while new ATM-initiated products, such as bill payments to utility companies, were introduced first by BPI and then later adopted by the other leading commercial banks.

Today, BancNet is an interbank network connecting the ATM networks of commercial banks and thrifts, and is also the exclusive gateway of China UnionPay. ExpressNet connects the ATM networks of seven major banks and a wide range of specialized financial services providers. ExpressNet recently outsourced the operation of its switch to BancNet. At the end of 2012, BancNet connected 8,178 ATMs and over 17,915 POS terminals, serving 107 members and 2 affiliates.

MegaLink connects the ATMs of 13 member-banks, including BDO, the largest retail bank, with more than 3,000 ATMs nationwide and over 17,000 POS terminals. It also serves e-wallet GCASH and EnCash, a small independent ATM network primarily working with rural banks. All commercial banks are shareholders in either one or all of the ATM networks. Since not all thrift banks qualify to become shareholders, some participate in a network as “subscribers” (i.e., a non-shareholder participant bank).

In June 2000 the landmark Electronic Commerce Act was passed, allowing for electronic payment for goods and services, and requiring the government to develop e-commerce capability.

The law empowered the Department of Trade and Industry (DTI) to supervise the development of e-commerce. According to interviews with DTI, the department is not regularly tracking usage, but there are indications that e-commerce is growing in the informal, online, and small business space, and that its prevalence may be under-reported.[19] The commercial banks and the ATM networks interviewed for this diagnostic reported that e-commerce is not well understood, nor is it trusted due to security issues, or used much in the corporate sector to make inter-bank transfers on behalf of customers.

Wholesale payments: PhilPaSS from 2002

Following the private sector's moves, **over the last decade the BSP made important reforms in the payments system, starting with the introduction of the PhilPaSS real time gross settlement (RTGS) system in 2002**. PhilPaSS is now the wholesale backbone of the national payments system in the Philippines. The system, owned and operated by the BSP, is used to provide reliable settlement services in local currency (PHP) to banking institutions, private and public entities and financial markets, and is considered a systemically important payments system by the BSP. Settlement is performed by debiting and crediting the accounts (known as demand deposit accounts, or DDA) maintained with the BSP by the participating banks on a prefunded basis. All transactions initiated in PhilPaSS are processed and settled on a real-time basis. However, settlements resulting from batch transaction files in other payments systems are made in PhilPaSS on the same day they are transmitted.

The variety of services offered by PhilPaSS, initially designed for inter-bank, large-value transactions to manage systemic risk, have since increased. PhilPaSS mainly handles inter-bank payments stemming from the sale and purchase of government securities and the settlement of the peso leg of foreign currency transactions, and it also handles some Treasury payments. However, PhilPass also began handling the settlement of a small share of remittance proceeds from overseas Filipino workers, and it settles the final balances between participants in various retail payment systems. PhilPass also began to be used for customer funds transfers, in particular for companies.

Significantly, **payment experts said that the lack of transparency on the fees charged back to customers by the banks, as well as the lack of awareness of this service by the smaller banks, seems to be hampering the further use of PhilPaSS for large-value, customer-initiated transfers**. Some banks want to put in Straight Through Processing (STP) to make this service viable. According to interviews with industry stakeholders, this an area that could be illuminated by clear authority delegated to the BSP and possibly a consolidation of the switches to improve development and governance, as is being contemplated.

Policy towards financial inclusion

In parallel to these developments in the infrastructure for electronic payments, the Philippines government has directed several policy initiatives to promote financial inclusion. **In 1997 the Philippine government adopted the National Strategy for Microfinance**. The strategy, strongly supported by USAID, the Asian Development Bank and many other donors,

envisions the establishment of a viable and sustainable microfinance market by promoting the role of the private sector in microfinance institution (MFI) development, and a withdrawal by the government from direct participation in implementation of credit and guarantee programs. The Philippines is considered one of the most developed markets for microfinance in Asia, currently reaching around seven million clients.[20] While the microfinance sector has seen on-going growth of microloans and branch outreach, the growth of savings at many regulated MFIs has also been consistent and strong.

Mobile money: Passed by or future channel?

The robust microfinance sector, however, has done little to drive savings and loans clients to use electronic payments, despite the efforts of mobile money actors with the support of the BSP. **In 2000, the BSP issued two general circulars for electronic banking services**, outlining a "test and learn" regulatory approach to mobile money, to promote innovation and a clear understanding of risks. **In 2001 and in 2004, Smart Communications and Globe Telecom became global pioneers in mobile money**, using very different business models. Smart Communications launched Smart Money, a mobile banking partnership with BDO, which is accessible either via mobile phone or a reloadable MasterCard-branded ATM card.
Globe Telecom's GCASH, in contrast, is a telco model that allows clients to load cash on electronic "wallets," that they then use to make payments (via SMS). These mobile money offerings allow users to make purchases, buy airtime, send and receive money transfers, and make bills and loan payments, as well as receive international remittances by loading or transferring money into a mobile money account.

After learning about the risks and issues regarding for mobile money through a series of circulars, the BSP responded to clarify and generalize its positions. In May 2008, the BSP adjusted rules governing valid ID and know-your-customer (KYC) requirements related to e-money, aimed at increasing accessibility, but the KYC rules were difficult to implement and not as consumer friendly as anticipated, especially for GCASH. In March 2009, the BSP allowed other non-bank institutions to issue e-money, providing a framework to supervise issuers, to protect consumers and to promote innovations in fund transfer mechanisms. Moreover, in 2011 the BSP supported and approved the launch of BPI Globe BanKO, a savings and thrift bank that offers a range of savings, e-insurance and microcredit products on the back of the GCASH platform through 3,000 agents across the country.

After more than 10 years of experience, however, **mobile money has not achieved real scale in the Philippines**. Only 3% of all mobile money subscribers (about 500,000 people) actively use one service or the other (used at least once within a 6-month period) — which is less than expected.[21] One survey showed that most Filipinos think mobile money could be convenient, but they do not trust it to actually work. Significant percentages reported they would be more inclined to try it if they could make cross payments from one scheme to another (i.e., if the schemes were inter-connected, which they are not). Respondents also cited the many well-known, cash-based ways to send money that are in the market, including licensed remittance agents like pawnshops and

domestic over-the-counter (OTC) cash transfer services, as well as international services like Western Union and informal methods (e.g., bus drivers). The "double charging" of both cash-in and cash-out on mobile money, weak agent network managers, business case limitations for agents, complexity around agent selection and training, and limited marketing and client education campaigns were all mentioned as slowing adoption of electronic payments.[22]

Globe and Smart Money are both moving forward with new services linked to company payrolls, e-commerce, transfers by government and donors (like the World Food Program (WFP)), bill payments, and other products. Both mobile money schemes are also discussing interconnecting to promote cross-payments and a shared platform of agents and cash-in/cash-out points. This incremental progress is due in part to the entry into the market of BanKO and the concerted efforts of USAID programming.

On the G2P front, in 2011, GCASH became involved in Pantawid Pamilya Conditional Cash Transfer (CCT) Program, a vital component of the Philippine government's poverty alleviation agenda.[23] The Department of Social Welfare (DSWD) worked with state-owned Land Bank, which issued payment cards and piloted with GCASH to distribute CCT grants to 10,000 beneficiaries in three rural areas. The pilot was intended to promote electronic payments with minimal cash handling, but it was scaled back to simple cash-over-counter method. The Land Bank tried to give all beneficiaries a GCASH account, but that proved too difficult because not enough people had phones, or they did not want to change SIM cards. GCASH reverted to cash payments at agents, which caused liquidity problems, so the Land Bank finally settled on using rural banks (originally part of the GCASH offer) as cash-out points. The pilot formed an important first step in attempts to provide government payments to the poor through electronic channels and remote agents.

Smart Money decided to stay away from CCT payouts, but Smart Communication has recently become involved in a potentially innovative P2G effort. Philhealth and Pag-IBIG worked with Smart Money to offer a closed loop, cash-in only product called BayadLoad, enabling the millions of informal domestic workers mandated to make contributions into their social program accounts to make those contributions with airtime. The Social Security System (SSS) is expected to follow suit, along with other players in the P2G and commercial payment spaces, in spite of the high 12% convenience fee paid by consumers (or their employers) for using BayadLoad.

Government policy targeting tax payments and government payments to suppliers

In 2002, the Bureau of Internal Revenue (BIR) launched its Electronic Filing and Payment System, an online platform. Since then, BIR, under the guidance of the International Monetary Fund, has implemented a tiered approach to mandating electronic tax payments, beginning with the largest companies and progressively including companies and individuals as electronic payment capacity has improved.

Low levels of banking penetration have created issues in accessibility for tax

payments, both in terms of paying in and receiving tax refunds. Personal income taxes are paid at bank branches and to BIR field collectors. In 2013, BIR began testing handheld GPS collection units for field staff to track cash-based tax collection in real time in remote locations for the unbanked, in a bid to decrease leakage and increase the number of taxpayers. It was the record-keeping that was electronic, though; the payments were still in cash.

Following the Procurement Reform Act of 2003, which mandated centralized and electronic procurement in government, the Philippines Government Electronic Procurement System (PhilGEPS) launched in 2006. Efforts toward e-procurement for government suppliers have expanded under the Aquino administration. The World Bank reports that an average of P121 billion in infrastructure, equipment, materials, supplies and services now passes through government procurement processes each year, accounting for 15% of the country's annual budget. As of May 2013, 1,829 government agencies (but few local governments, or barangays) and 72,980 suppliers (60% of which are active) were registered with the procurement portal.

PhilGEPS has progressively built up its functionality to include electronic registries, bid notification and a virtual store for bulk purchases of common items, to achieve the vision to become a total provider of e-procurement solutions for government. **Last year, PhilGEPs implemented its electronic payment portal**. Although e-procurement is mandated by law, as of May 2013, only six federal entities made just 92 electronic payments, representing US$330,000.

Notably, the Social Security System (SSS) has recently consulted with the BSP and others the possibility to settle (but not clear) payments to beneficiaries through PhilPaSS. As noted earlier, PhilPaSS is predominantly used for high value single transactions, but with more effective and efficient credit push transfer mechanisms cleared at the banks then settled on PhilPaSS. **SSS disbursements may mark a huge opportunity to promote electronic payments.**

Ambitious initiatives are underway in P2G and G2G

A number of promising initiatives may contribute to **the development of electronic payments in the Philippines, including the Government Integrated Financial Management Information System (GIFMIS)**, which will provide real-time information on government financial transactions, and will also eliminate the duplicative and often conflicting budgetary release, collection and disbursement processes. GIFMIS will rationalize agency bank accounts, removing revenue and expenditure floats from commercial banks and allowing for more efficient reconciliation of bank balances.

With support from the World Bank and other technical assistance providers, DBM is targeting 2014 to fully implement GIFMIS and launch a **Treasury Single Account (TSA)**, which will introduce fundamental changes in cash management operations, as government will have a single account managed by the Treasury. This will provide more reliability and predictability in budget releases, cash programming and financial reporting. In the future, the TSA may also make it easier to set up one or more payment portals for the electronic payment

of millions of small scale P2G payments by the public for government services, such as business and drivers licenses and passports that now often require bribes to facilitate.

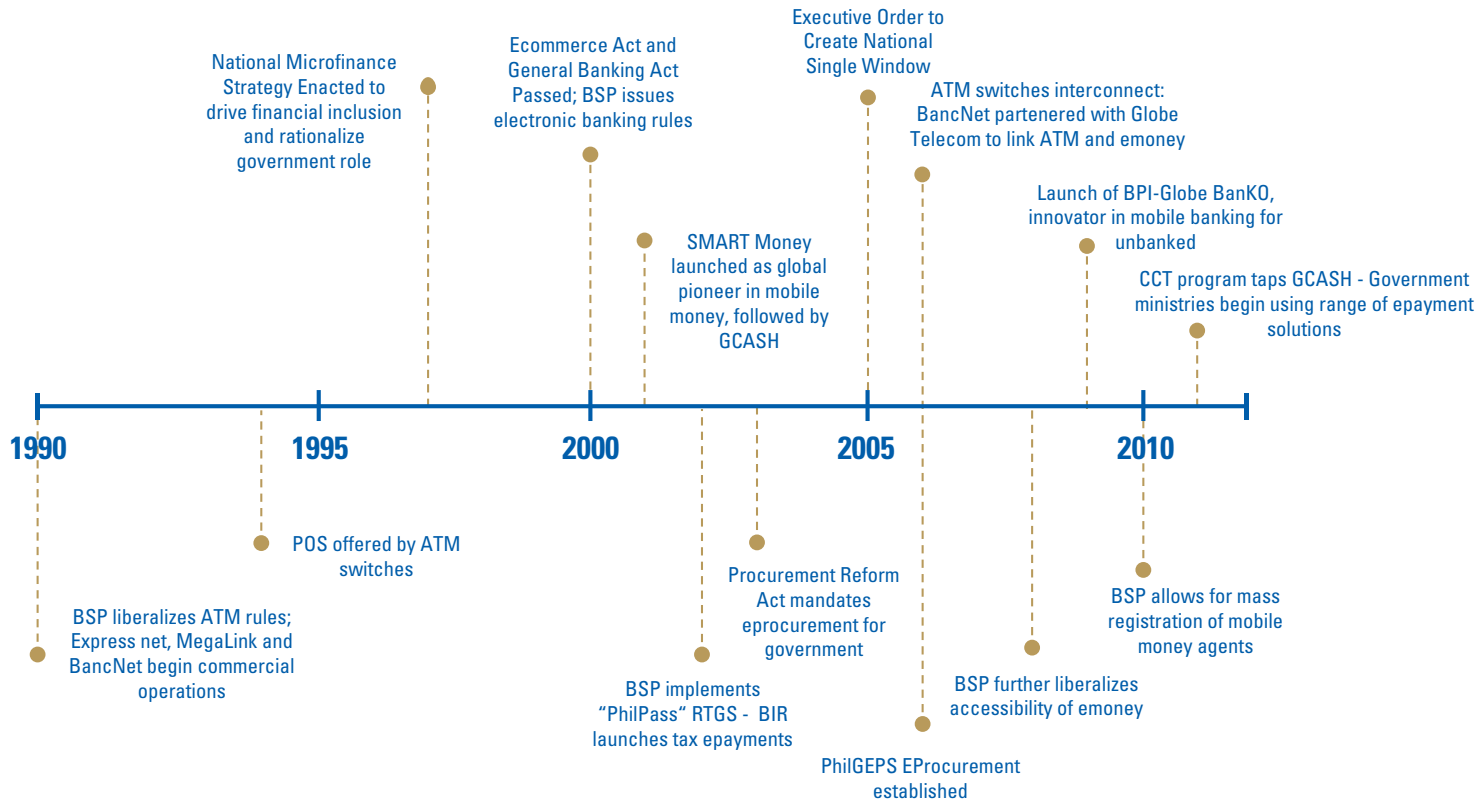
PhilGEPS is also being further enhanced with e-bidding and electronic payment functionalities. Once it is integrated with the soon-to-be-developed TSA, payments will be able to be credited straight to suppliers' accounts.

Finally, the planned **National Payroll System** will introduce greater speed and efficiency in government payroll (active and retired), as payments will be debited directly from the Treasury to the individual employee's or retiree's account. With a credit push system that is interoperable and efficient, these employees and retirees could use their accounts to make more electronic payments. The system will also allow DBM to more closely monitor and eliminate alleged "ghost workers" in the military and elsewhere in government.

Payment system milestones

Figure 5 below summarizes the evolution of policy from the government and also private sector initiatives.

FIGURE 5 **Payments System Milestones**



Source: compiled by Better Than Cash Alliance team as part of this diagnostic

Drivers of change in policy and attitudes

The Philippines government is acknowledged as the major driver in the transition toward electronic payments. Government payments are much smaller in volume than private sector payment flows (P2B and B2B). Nevertheless, DBM, local government experts, payment card companies, and related technology providers argue that the next stage to shift from cash to digital lies with the need to successfully enable P2G payments. Regular and trusted usage by the average Filipino to pay electronically for business fees, services and property taxes to local, municipal and national government may create a "tipping point" among businesses and consumers to also use electronic methods for their business and personal payments.

To date, government's promotion of electronic payments has five key drivers:

1 **Revenue collection and spending —** In addition to corporate and personal payments to national government for income taxes, customs duties, health benefits, etc., a wide range of personal payments (P2G) and business payments (B2G) to local government units (LGUs) for property taxes, licenses and permits, are made almost exclusively in cash. USAID and the International Finance Corporation (IFC) are especially focused on improving P2G at LGUs. A third-party technology service provider reported that 14 municipal governments will implement their own Web-based payment portals this year. Many national government departments note significant issues in collections, both because of lack of accessible payment points and leakage. Transparent funding flows are an issue within government (G2G), particularly between national and local government, as well as quasi-governmental institutions such as universities and schools. A new USD$53 million grant from the Millennium Challenge Corporation to the BIR will go toward upgrading systems for the digitization of G2G and P2G payments.

2 **Transparency, efficiency in government and the costs of operations —** Many government departments are constrained by their ability to reach beneficiaries effectively with payments. They also struggle with the notion that electronic payments entail clear added costs, while the costs of cash handling are less measured and understood by beneficiaries and suppliers. **PhilGEPs, the e-procurement system, for example, estimates it has saved 953 million PHP through electronic purchasing services over the past 10 years, primarily in reducing costs of printing and publicizing tenders, but also reducing costs with handling cash at its offices**. More analysis of cash handling costs needs to be undertaken across both the business and government sectors.

3 **Facilitation of social welfare payments and other G2P —** Strong shifts of high profile CCT programs, with their recurrent payment streams, may ultimately become a key driver for electronic payments, as the beneficiaries would have to open bank accounts or mobile money accounts. However, this has not happened widely yet. While one-time payments are most often completed in cash

and check, strong political pressure prevails to avoid predatory practices such as the "rediscounting" of checks, which forces poor people to "sell" checks they receiveto parties that cash them. Companies may be able to develop innovations in products linked to electronic G2P payment systems to increase velocity and get people to leave value in their accounts. The CCT programs were not designed with financial inclusion in mind and interviewees in government did not yet seem to recognize fully the potential for opening stored value accounts for the beneficiaries.

4 Financial inclusion — The BSP has been the main driver of financial inclusion, strongly supporting and articulating the value proposition of electronic payments and the advent of Smart Money, GCASH and later mobile banking innovators like BPI Globe BanKO. The BSP has served as a facilitating bridge between the rural banks, cooperatives and development organizations comprising the microfinance sector, and testing innovative payment methods to increase financial inclusion. The BSP is also cognizant that the low-level participation of Filipinos in the overall finance sector is intertwined with a fragmented national payment environment that it hopes to rectify over the next several years with the participation of the payments industry.

5 The informal sector and economic development — Economic development and growth of the private sector may also be key drivers for electronic payments with government departments, like the Department of Trade and Industry taking the lead in e-commerce. Private sector use of payments has also been facilitated by the development of PhilPass. However, the informal sector, which is nearly 35% of the Philippines economy, is by definition unserved by the payment system [24]. Incentives for formalization could help electronic payment services address microenterprises. B2B payments, which make up the bulk of all payments, are still overwhelmingly in cash and checks. Little progress toward integrating the informal sector into the electronic payment space has been achieved, with a large percentage of the population still unbanked, electronic transfer options limited, and traditional retailers such as sari-sari stores and wet markets only transacting in cash. Some experimental pilots are underway with mobile POS devices (mPOS) devices to lower the cost of accepting debit cards at informal stores.

Looking forward, the industry is anticipating further developments in the e-money space, and the potential to shift from cash to electronic payments is substantial. According to BSP Deputy Governor Nestor Espenilla, "Our vision is to see the rapid development of a widespread, efficient, and low-cost e-money ecosystem that links government, businesses and people efficiently in a 'cash-lite' world of financial transactions. Cash will always be around but it will become increasingly less important in commercial and governmental financial transactions."[25]

4 Current state of transition to electronic payments

Headline indicators

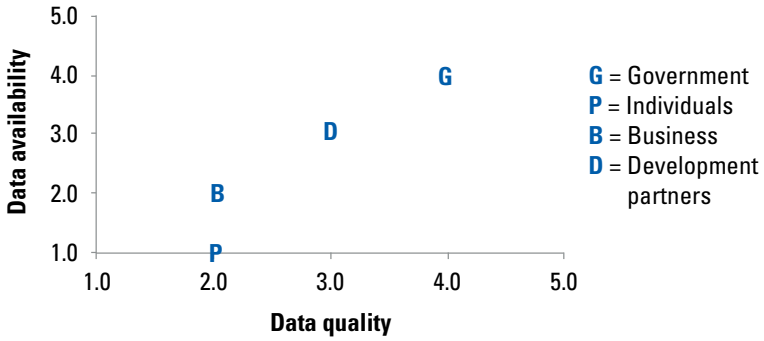
The narrative in the previous two sections comes from a thorough analysis of available data on payments made in the Philippines. This data indicates that the majority of the payments made in the Philippines are made in cash: Just 1% of the 2.5 billion payments that are made every month are through electronic means.

The dominance of cash in the country's payment system is not surprising considering the large unbanked population and the predominance of largely informal businesses, such as multi-purpose "sari sari" stores and fish markets known as "wet-markets" whose customers and owners transact almost exclusively in cash.

Data Quality Index

Quantitatively mapping the payments landscape is a necessary first step to a targeted effort to convert cash to electronic payments. However, with large segments of transactions taking place in cash, aggregate estimates – especially data on payment volumes – are not generally available and need to be constructed from multiple sources. Figure 6 below provides an at-a-glance indication of the quality and availability of the data relating to each payer of the grid, based on the scoring below, and hence the country team's confidence in the overall calculations. In general, in common with many emerging markets, the quality and availability of data relating to government payments (G) is much better than for business (B) or individuals (P) where it is generally lacking and relies on extrapolation based on assumptions from a variety of estimates. DRFRP measurement activities proposed in Section VII will seek to contribute to improving these scores.

FIGURE 6 **Data quality and availability for the Philippines**



Payments data by payer and payee

As Table 2 below shows, the estimated 2.5 billion payments per month correspond to a value of over US$74 billion per month. Individuals and businesses initiate the vast majority of payment volumes (99%) and are overwhelmingly cash-heavy: only 0.3% electronic for individuals, 4% for formal businesses, and close to 0% for informal establishments. Business payouts dominate payment value (76%) and are mostly made using cash and check.

Business-to-business payments (formal and informal) represent the largest pool of cash value for electronic conversion at an estimated US$60 billion.

Table 3 below shows the volume of monthly payments for each payer-payee combination. In the Philippines, most payment transactions occur between individuals and businesses, and between businesses and other businesses.

TABLE 2 Payments by payer in the Philippines[26]

Payer	No. of payments/ month million	% volume electronic	Total value PHP million	Total value US$ million[27]
Government	17	54%	236,436	$5,666
Business	603	1%	2,546,647	$61,120
Individuals	1,914	0.3%	311,605	$7,479
Dev. partners	6	59%	368	$9
Total per month	$2,539	1.03%	3,095,056	$74,273
Total per year	**$30,474**	**1.03%**	**37,140,670**	**$891,279**

TABLE 3 Number of monthly payments by payer and payee type

PAYER	PAYEE: Government	PAYEE: Business	PAYEE: Individuals
Government	4,509,449	796,944	11,959,363
Business	3,286,151	536,500,651	62,801,742
Individuals	779,625	1,893,073,688	19,870,367
Development partners[28]			5,951,087

Table 4 below shows the percentage of payments, by volume, made by electronic means for each of the cells in the payment grid.

Government: Approximately 54% of all government-initiated payments by volume are electronic. The government is therefore the most 'cash-lite' payer in the Philippines, reflecting the important strides it has made in the transition to electronic payments, though it is also equally striking that people are unable to or rarely pay the government electronically. The most important G2G payments, the Internal Revenue Allotments (IRAs) to LGUs, are exclusively electronic. Nearly half of all CCTs, benefits, and pension payments through the Department of Social Welfare (DSWD), the Government Service Insurance System (GSIS), and the SSS are delivered electronically. On the other hand, PhilHealth, the agency tasked with running the country's national health insurance system, continues to rely on checks for all payouts (on average 185,690 a month, with a value of US$34.8 billion per year).

Business: Business-initiated payments are less than 1% electronic by volume. Experts suggest the vast majority of business payments to other establishments are done using cash or check. However, the picture is different by value: While e-filed corporate tax returns represent only 9% of total business payments to the BIR, they represent 71% of all collections by value. This is expected since businesses with "paid-up capital stock of Php10 million and above" (i.e. larger businesses) are required to file regular tax payments electronically while others are not. Most small business payments for taxes and fees continue to be made using cash and check, especially to LGUs in provincial regions.

Individuals: Consumer-initiated payments are the least 'cash-lite,' at 0.3% electronic by volume. This is primarily due to the dominance of cash in payments to businesses. Most people also overwhelmingly use cash to send tax and other payments to the government (6% electronic), and initiate money transfers to other people (3% electronic). An analysis of National Statistics Office (NSO) data suggests that international remittances are the exception, which are 93% electronic.

Development community: Of those that provided data, development partners pay 86% of their salary payments electronically. However, they continue to distribute most social welfare payments using cash.

TABLE 4 **Percentage of electronic payments by volume[29]**

PAYER \ PAYEE	Government	Business	Individual
Government	84%	0.07%	46%
Business	50%	0.26%	7%
Individuals	1%	0.53%	2%
Development partners [30]			59%

5 Trajectory of shift: infrastructure and incentives

The legal infrastructure for the NPS is patchwork at present

The Philippines has made important progress in modernizing its national payments system in recent years, although the usage of electronic payments continues to remain low. Two of the most noteworthy actions highlighted earlier were the setting up of the RTGS by the BSP, and the promotion of a regulatory environment that tests and learns from innovative payment products and services. However, the lack of a comprehensive, coordinated strategy among the BSP, DBM and other key players in the payments industry to expand usage of electronic payments, and the absence of a national payments system law, are major roadblocks to a larger shift from cash to digital payments.

The current patchwork of regulations (summarized in Annex F) allows a range of institutions to provide payment services and issue electronic money, and, indirectly allows engagement of agents for provision of payment and other financial services. Notable gaps relate to the lack of explicit powers for the BSP to oversee the national payments system; no uniform guidelines with respect to consumer protection; and lack of explicit equivalence in the level of protection for the interests of payees between checks and direct debits undermining financial intermediaries' trust in debits. Commercial banks cited this last issue as a disincentive for them to promote direct debits.

Some key payment system concepts are also not covered by current laws. In particular, the specific timing of final settlement, especially in case of the insolvency of one or more institutions that participate in the relevant payments arrangement, is not covered. Likewise, there is no recognition of bilateral or multilateral netting arrangements, and there is a lack of clarity on usage of agents for distribution of payment and financial services. Exclusivity agreements are not addressed, and no legislation is in place to address anti-competitive behaviors and conditions to level the playing field for banks of all sizes as well as non-bank financial institutions.

A draft Payment and Settlement Systems Act that would have provided explicit powers to the BSP was prepared and submitted to Congress in 2011. Congress did not act upon it, and it has been

withdrawn. BSP is currently working on a new payments strategy and law. A working group coordinated by the BSP and including other government agencies such as DBM and the Commission on Audits, as well as the commercial banks, is expected to provide input on a new draft national payments act. Past experience suggests the development of a new payment strategy and related law would only be successful with all stakeholders, including the top three commercial banks and the switches, voicing support and making a compelling case to Congress.

Physical infrastructure wand pricing

Retail payments

Five retail payment systems process the vast majority of retail payment transactions in PHP. Two of these systems are operated by the Philippines Clearing House Corporation (PCHC): the Electronic Check Clearing System (ECCS), which processes electronic checks transactions between participating banks; and the Electronic Peso Clearing System (EPCS), which processes electronic credit transfers and direct debits. The other systems are BancNet, Megalink and ExpressNet,[31] which process ATM- and POS-initiated transactions, such as withdrawals, transfers, bill payments and card payments at merchants. The card switches also support IBFTs, among their participating institutions, originating from Internet banking or ATMs, and also support mobile payment transactions initiated on mobile money issued by GCASH. The card switches are interconnected for ATM cash withdrawal and POS payment transactions only.

The usage of checks has remained stable over the last five years. However, total value settled has been increasing modestly at an average of 5% per year during the last five years. BSP is considering, but has not implemented, a credit interbank system that would encourage both low- and high-value retail STP of payments. BSP would then lower item limits on checks, in an effort to reduce volume and incentivize more electronic interbank transactions.

The average value of checks is relatively high at 166 350 PHP, equivalent to about US$3,800. This is an indication that checks are still used extensively for payments between businesses. Government entities in the Philippines also tend to pay vendors and suppliers with checks. Many link the continued use of checks to business and government concerns around formal tax audit requirements, as checks are well accepted by BIR and the Commission on Audit to confirm VAT payments with a written receipt, while records of electronic payment are not always accepted, in practice.

Credit transfers and direct debits

Interbank credit transfers and direct debits are processed primarily in the EPCS. EPCS is an interbank account-to-account fund transfer system that supports bulk, recurring, low-value payment and collection transactions. Net positions are forwarded by PCHC to the BSP for posting to the participant banks' respective DDA accounts through PhilPaSS. The banks' clearing results and inward data files and reports are made available to the participants for downloading and posting the accounts of the beneficiaries/ depositors. As of the end of2011, all 38 universal commercial banks were direct participants in EPCS.

Despite electronic credit transfers and a few direct debits showing a growing trend, their usage is still extremely low when compared to checks. Table 5 below shows total transactions processed in ECCS and EPCS by the PCHC. Although the share of credit transfers and direct debits is growing, it is still less than 1%.

According to interviews with PCHC, banks charge higher fees to their customers for credit transfers and direct debits than for checks, and on credit transfers banks also apply fees to incoming payments. These fees vary per bank and do not incentivize usage. Banking institutions in the Philippines provide electronic banking services, including telephone banking, Internet (desktop) banking and mobile banking. Most banking institutions offer services through their Internet banking facilities, such as account balance summary, request for account statements, funds transfer between own accounts or third-party accounts, bill payments, checkbook request services and even mobile banking registration.

ATMs are also a potentially important channel for credit transfers. Most users of the electronic bill payment system, which allows customers to pay their utility bills electronically, reportedly use the various ATM networks for this purpose. ATMs can also be used for intrabank and some interbank funds transfers.[32]

A wide variety of electronic payment instruments are available. The electronic payment instruments available in the Philippines include credit transfers, direct debits, credit cards, debit cards, prepaid cards and mobile money and other e-money products. BSP recognizes a need to drive POS payments that are cheaper than cost of cash withdrawals at ATMs.

Interbank credit transfers and direct debit collectively are only about 1% of the volume of interbank checks and an even smaller percentage of the value of checks. Payment cards are predominantly used for cash withdrawals. **Though interbank fund transfers are supported from ATMs, mobile and Internet banking through the switches, they contribute to less than 1% of the transaction volume processed by the card switches.**

TABLE 5 **Comparison of the Volume of Transactions Handled by ECCS (checks) and by EPCS (credit transfers and direct debits)**

	2007	% Total	2008	% Total	2009	% Total	2010	% Total
ECCS	179,657,543	99.55	181,040,000	99.5	180,331,000	99.51	181,781,000	99.42
EPCS	803,268	0.45	882,120	0.49	889,572	0.49	1,047,588	0.58
TOTAL PCHC	180,460,811	100	181,922,120	100	181,220,572	100	182,828,588	100

FIGURE 7 Growth of Card Use (in number and value)

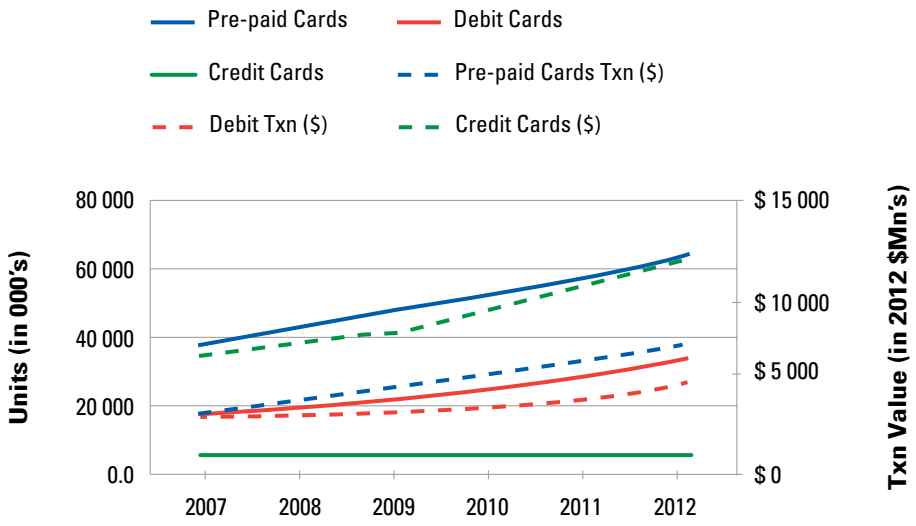


TABLE 6 Growth of Card Use (in number and value)

	2007	2008	2009	2010	2011	2012
Prepaid Cards (in thousands)	36,278	40,884	46,382	50,654	56,684	63,204
Debit Cards (in thousands)	16,974	19,045	21,616	25,334	29,919	35,365
Personal & Commercial Credit Cards (in thousands)	6,076	6,620	6,655	6,776	7,047	7,365
Prepaid Card Txn (in millions)	$2,812	$3,458	$4,303	$5,399	$6,249	$7,022
Debit Txn (in millions)	$2,984	$3,163	$3,400	$3,876	$4,380	$5,168
Credit Card Txn (in millions)	$5,788	$6,833	$7,193	$8,697	$10,105	$11,512

Source: Euromonitor International, January 2013

Trends in payment card numbers and values

Payment cards are issued by the members of each of the networks and can be used in any of the ATM or POS networks, which have been interconnected for ATM cash withdrawal and POS payment transactions since 2006 and 2010, respectively. Fees are generally charged to customers for so-called off-us[33] ATM transactions. According to the BSP, the average fee is PHP 12 (USD$0.30), which is lower than in many other countries – where charges often range from about US$1 to US$3 or even more. If a customer holds his or her account in one of the larger banks and makes an ATM withdrawal in one of the smaller networks, then the charge is higher, at approximately PHP 45 (USD$1.00).

Most cards issued are prepaid or debit cards and a minority is co-branded with Visa or MasterCard. Usage of credit cards is still limited and at present is mostly confined to cross-border transactions (60% by one expert estimate). **According to stakeholders interviewed for this diagnostic, the use of payment cards as a payment instrument (i.e., in POS terminals) is still very low**. In 2012 BancNet and Megalink processed a total of 18.7 million transactions. BSP is experimenting with "cash back" at POS to alleviate ATM demand and get consumers used to making electronic purchases, where the fee for cash back at purchase is cheaper than at ATMs.

Euromonitor reports that the number of debit cards in the market continues to grow at approximately 18% per year; the numbers of prepaid debit cards are growing annually at about half that rate. Interviews suggest that the number of debit transactions is increasing, but not dramatically.

Payment cards are used for some government transfers to individuals. One of the most well-known examples is the CCT program Pantawid Pamilya. DSWD reported at the end of December 2012 that 50% of the recipients of the program and the Modified CCTs received their grants on non-interest bearing Land Bank-issued prepaid proprietary payment cards. Recognizing that ATMs can only dispense fixed amounts of cash, which can prevent beneficiaries from withdrawing their full benefit, the Land Bank has also supported some experimental use of the payment cards at POS machines in Palawan to purchase goods.

Also, in early 2013, five major banks and BancNet began piloting mobile POS devices (mPOS) to increase merchant acceptance of card payments, by putting much lower-cost devices in the hands of small merchants traditionally working only in cash. The use of mPOS, such as the Square device, has taken off in the U.S. and other countries, but not without issues with attendant security and fraud (a major risk). BSP hopes that deeper merchant acceptance, as well as lower merchant discount rates (MDR) on basic goods including food, can help to build the use of electronic payments in the informal sector.

Box 1 Innovative Uses of PrePaid Debit Cards: Leakage Prevention?

Pag-IBIG (or the Home Development Mutual Fund), the state-sponsored mutual provident savings fund, has approximately 12 million members. Pag-IBIG disburses over 2 million short-term "multi-purpose" loans annually. Members can borrow up to 80% of the value of their accumulated benefits at a maximum term of two years. The borrowers can also choose to borrow on re-paid principle every six months on existing loans. Average loan amounts are approximately US$800.

Pag-IBIG's treasury department and the housing fund members experienced massive problems with checks being lost, delayed or subjected to predatory practices, such as the "rediscounting" of checks, leading to a substantial loss for the members. After years of complaints from staff and members, Pag-IBIG sought to introduce an electronic payment solution as an alternative to checks.

In 2012, after months of seeking support from the Commission on Audit, the Department of Finance granted a Letter of Instruction enabling Pag-IBIG to open a bank account at Citibank. Normally, Pag-IBIG would have been legally required to work only with a state-owned bank to develop a prepaid card product.

Citibank received permission from the BSP to outsource KYC to Pag-IBIG. Citibank's prepaid card system offers instant issuance capability, enabling Pag-IBIG to distribute Visa-branded debit cards immediately on site during the loan application process. Citibank is integrating with Pag-IBIG Funds' in-house system, so that cardholder information as well as the amounts to be loaded into each card are automatically interfaced into Citibank's back-end systems, thereby increasing security and reducing manual processes.

When the card is loaded, the cardholder is notified instantly through SMS, after which they can proceed to access the funds immediately at any Visa or MasterCard POS terminal, or by withdrawing cash at ATMs. Pag-IBIG members can inquire about their card balances and transaction history by calling Citibank's customer service telephone line or by accessing the information online. As a value-added benefit, Citibank, in partnership with Visa, has arranged for discount coupons to be included in the card envelopes, so members can enjoy discounts at selected partner merchants (such as hardware stores where members may buy building materials). Each prepaid card issued costs Pag-IBIG 75 PHP.

The adoption has been very strong, reaching 43,000 in the first three months, as of March 31, 2013. Early data shows that 89% of the members cashed out at least a portion of their loans at ATMS, while 11% transacted at merchants. Visa is able to assist Pag-IBIG to monitor where the members transact and can help restrict the cards' usage to prevent non-housing purchases if desired by Pag-IBIG. Following the launch, the Land Bank offered Pag-IBIG free payment cards, but Pag-IBIG found the features of the Citibank system and card are preferred by members.

Relevant use cases

Better Than Cash Alliance country diagnostics seek to assess the trajectory of the shift to electronic payment, through the lens of particular payment use cases which are particularly relevant to the stage of the journey of the country. This section explains the current state and momentum of the shift to electronic payments in certain cells of the payment grid.

The use cases selected for analysis provide a general view of the forces driving the shift in the Philippines today:

A. Mass electronic credit (or bulk payments)

B. Remote bill payment (or bulk payment collection)

C. Debit card payments at merchants

These use cases (color coded as per the footnote) apply to the different cells of the payment grid as highlighted in Figure 8 below.

Note that mobile payments were not isolated as one of the key use cases because of their low level of adoption, but because of their importance in the Philippines, this use case is further discussed in Annex E.

FIGURE 8 **Use cases and payment types**

Recipient

Entity making the payment	G	B	P
G	**G2G** Central government disbursements to local level	**G2B** Supplier payments, Utility payments, Social security contributions	**G2P** Welfare programs, Salaries, Pensions
B	**B2G** Taxes, Fees for licenses and permits	**B2B** Supplier payments, Utility payments, Social security contributions	**B2P** Salaries and benefits
P	**P2G** Taxes, Utilities, Debit card payment of taxes	**P2B** Utilities, School fees, Credit card payments, Social security contributions, Debit card payment at stores	**P2P** Remittances, Gifts
D	**D2G** Taxes	**D2B** Utility payments	**D2P** Cash transfers

Note:
Mass electronic credit (or bulk payments);
Remote bill payment (or bulk payment collection);
Debit card payments at merchants.

Table 7 below presents a high-level review of the availability and costs of electronic payments for each of the three use cases.

Table 7 Overview of use cases

	Bulk payers (G, B, D)	Non-bulk payers (P, B)	
Use case defined	**A. Mass electronic credit**	**B.Remote bill payments**	**C.Card payment at merchant**
(a) Store of value from/to which payment is made	From and to any regulated electronic account	From any regulated electronic account to biller (G or B)	Regulated deposit account with debit card
(b) Payment instrument category	Credit transfer, batch	Credit transfer, direct debit	Authorized in real time against balance
(b1) Transaction type	Internet, ECPC/ACH, ATM, mobile, POS	ATM, mobile, Internet, POS, bill payment centers	Card, POS, mobile
(c) Channel used to initiate and authorize	Yes, financial institutions only	Yes, both financial institutions and non-financial providers	Yes
Time to credit value received	Same day on intra-bank transfers, next day (t +1) on inter-bank	Same day on intra-bank; day if interbank (t + 1); Typically 3 to 5 days in non-banks	T+1
% of all accounts which can use this instrument from any bank	Primarily BancNet, members and ECPC for not on us inter-bank; estimate 90%	100%	% of bank accounts with debit cards ~96%

	Bulk payers (G, B, D)	Non-bulk payers (P, B)	
Use case defined	**A. Mass electronic credit**	**B.Remote bill payments**	**C.Card payment at merchant**
Indicative cost range per average tx size	Government : $.30 -$1.10	Free for users; biller pays 2-3% commission for bills collected in cash	1.5%-5% MDR 0-.5% for customer
As % of average tx amount	Government 2.6% 0.06% for switch, but variable high for bank customers	2.5 % commission	5%

The remainder of this section is a rating of the trajectory for a further shift to electronic payments in these use cases. In each case, several factors are assessed: the overall country environment and conditions to promote shift; the interest of service providers; and incentives from different user groups to use this instrument. The detailed underlying ratings can be found in Annex D.

The factors that generate the ratings vary somewhat by the use case, but each is rated according to the categories in Table 8 below. Note that these scores give a current sense of expected trajectory in the absence of any changes.

TABLE 8 Use case ratings

Rating	Conditions & incentives are such that it is:
1	Highly likely to support a full shift
2	Possible to achieve a full shift
3	Likely to lead to slow incremental progress
4	Likely to drift without clear upward
5	Unlikely to move at all

Use case A: Mass electronic credits

Use case assessment:

2.8

Possible to shift but may take time.

Mass electronic credits refers to the disbursement of funds from one entity to multiple individuals or firms through a single payment transaction (one-to-many). The most common examples of this use case are:

- Salary payments (G2P, B2P)
- Conditional Cash Transfers, other government/social programs or subsidies (G2P)
- Supplier payments (B2P, G2B)
- Payment of pensions (G2P)
- Disbursement of fiscal resources from federal government to state-level and municipal level governments (G2G)

The key findings of the analysis of this use case are:

- Regulatory conditions do not fully support the shift of bulk payments to electronic for the private and public sector. National Payroll System and TSA have not been implemented, affecting G2P. The extent at which the shift has already happened on CCTs, increased or improved infrastructure to process electronic payments, especially the availability of ATMs and agents in rural areas, has not occurred.
- Credit push mechanisms are not efficient or effective, according to small banks and BSP.
- The advantages of distributing bulk payments to employees across banks and providers are not evident for large businesses. For smaller businesses, the costs perceived in formalization continue to incentivize smaller businesses to remain informal. The lack of National Payments Act means an unstable environment and lack of common standards for B2P and B2B.
- People do not seem opposed to receiving payments through bank accounts, but not enough Filipinos have bank accounts. The continued perception of risk associated with debit cards is not likely to build the demand for this shift, but some employers and employees are using prepaid debit cards in innovative ways, and big retailers like SM, Tao and Coca-Cola are trying to promote the use of debit cards by businesses and individuals.
- Two important barriers seem to prevent a further shift: Driving the trust of individuals in the formal banking sector and the capacity of established infrastructure, especially agent channels, is not growing. Addressing these barriers would increase the demand for further shift of bulk payments to electronic.

Use case B: Remote bill and services payments

Use case assessment:

3.2

Upward drift likely

Remote bill payments are typified by a firm, such as a utility company (like Meralco), issuing individual invoices massively to a number of customers (individuals or

organizations), and customers paying through some pre-defined infrastructure. This use case, which includes both government and business as the payee, can be considered many-to-one. Both banks and non-financial companies offer the ability to collect payments in cash. Banks, however, also offer the option of paying electronically (by charging an existing bank account). Ultimately, individuals and businesses are free to choose which mechanism they use to pay.

Some examples of this use case are:

- Collection of taxes (P2G, B2G)
- Utility payments (P2B, B2B, D2B, G2B)
- Collection of school fees (P2B)
- Credit card payments (P2B
- Social security contributions (G2B, P2B, B2B)

In the Philippines utilities are commercially oriented companies, so utility bill payments are not different than any other private business collecting payments for goods or services. The definition above also includes collection of taxes and social security contributions, since both of these involve large-scale collection of money that is due at end of specific time periods. All of these cases involve "many-to-one" payments transactions.

The key findings of the analysis of this use case are:

- With exception that business are able to pay their income taxes and social security payments electronically, low financial inclusion is a key factor limiting the demand to make electronic payments to the government or utility providers.
- A variety of providers, such as Bayad Centers, SM payment centers and OTC deposits into biller accounts at branches, have offered cash-based remote payments with broad coverage and low cost. And this service is offered as part of a broad portfolio of services, making it difficult for financial institutions and mobile money schemes to compete with their electronic-based payments. High-end customers in main commercial banks use Internet banking.
- The BSP is aware of the benefits in promoting a shift to electronic, but has few plans for promoting this change until a National Payments Act and strategy are in place. Left as-is, the limiting factor for increasing use of electronic payments is the penetration of banking accounts and mobile wallets.
- Billers use diversified large networks for collecting bills, which would not necessarily pass on savings to customers if they transition to electronic. Even if there was a significant shift to electronic, billers may believe they are less likely to profit from the benefits.
- Widespread, convenient, cost-free payments infrastructure is available for cash-based bill pay, while electronic payments are only available for a fraction of the population (those who already have a bank account, access to the Internet or mobile money). For those who have the option, cash payments often feel more secure, convenient and cost effective due to the lack of fees. These conditions create disincentives to migrate to electronic.

Use case C: Card payments at merchants

Use case assessment:

3.3

Upward drift likely

Individuals that choose to pay for goods or services at a store using a debit card, instead of paying with cash offer another interesting use case. This considers specifically the debit card, since as a payment instrument it substitutes cash on a one-to-one basis. Debit card purchases exercise the value of money previously in a stored value account at a regulated institution. Credit cards are not considered under this use case, since most credit card purchases exercise the value of a credit line where the only means for disbursement is the card. The choice of paying with a credit card does not necessarily reflect the choice of replacing cash with electronic transactions. The one exception is in the case of travel advances for senior military officials. DBM made the argument with the BSP that the government would always pay its credit card bills on time, so the business credit card enables government to monitor unusual expenses and limit public corruption as well as corruption instigated by the private sector.

The key findings of the analysis of this use case are:

- Existing interchange rate variability and lack of transparency tends to limit the attractiveness of the acquiring business models for banks. Existing market conditions make it costly to acquire low-end merchants and the value proposition of debit cards as a payment instrument – as opposed to a means to withdraw cash – will remain low.
- Given the limited demand for using debit cards for payments, merchants don't see the need to accept card payments, and the costs associated to acquire a system seem to easily outweigh the benefits for merchants.
- Despite the broad and growing issuance of debit cards, people perceive cards as means to have access to their cash. There is low value proposition of cards as payment instrument given limited size of acceptance network.

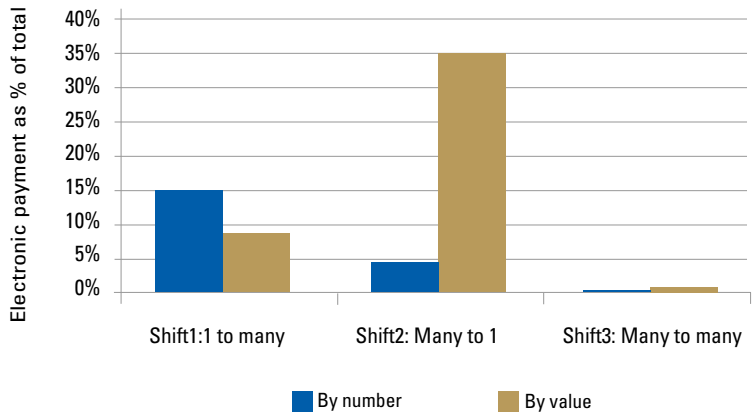
6 Lessons about sequencing and prioritizing the shift

Status of the journey

In general, the Philippines is at a relatively early stage of the journey towards pervasive electronic payments. As Figure 9 below shows, the first shift (bulk, or one-to-many payments, going electronic) is the most advanced by proportion of payments already electronic (15%), whereas the second and, especially, third shifts have much further to go. In large part because of the value and proportion of B2G payments made electronically, the proportion of value associated with the second shift is higher, although still a minority at 35% of the possible total.

The Philippines therefore fits the general profile of the journey sketched in Section I (Figure 2). As the trajectory associated with the payment use cases shows, there is some momentum behind the upward trends generally observed, however there is still a long way to go.

Figure 9 **Status of the shifts – Philippines by number and value**



Source of data: See Annex B, Table B4

The government has led the shift so far but has further to go

In the Philippines, the government has taken a clear lead in promoting electronic payments, reflected in the earlier findings that nearly 57% of government payments are electronic. DBM's broad vision around e-governance, electronic payments and e-commerce as a driver both of government accountability and economic growth has supported this policy direction. This shift of G2P, G2B and G2G payments to electronic is already significant, but still faces major challenges to shift further. For example, full implementation of electronic procurement through PhilGEPs has been ongoing for more than ten years and still has not reached optimum usage levels, especially by local government units in paying business suppliers.

Though currently only 1% electronic, P2G payments offer a real opportunity to engage the average Filipino in electronic payments and reduce corruption in both the public and private sectors. The Philippines provides an important story for those governments and countries that want to promote accountability and reduce corruption. The efforts to implement GIFMIS and establish a TSA, Web payment portals, a National Payroll System, and a strengthened BIR have been extraordinary. But these ambitious initiatives sometimes appear stymied by a wide range of factors, including slow and bureaucratic Congress and vested interests at some commercial banks to hold onto government float.

New private initiatives are underway following efforts that failed to drive usage

This diagnostic also identified important steps underway toward greater interconnection within the electronic payment industry, facilitated and encouraged by the BSP. Big commercial banks, ATM and POS networks and mobile money schemes expressed optimism that the commercial impetus for interoperability is increasingly compelling. If this occurs, it will likely accelerate the shift from cash to electronic payments in the near future. P2B and B2B payments comprise the bulk of all payments that are now made almost exclusively in cash and checks. This space is the domain of banks and national payment infrastructure and can likely only be tackled by the BSP and the payments industry.

Financial sector and business barriers to shifting

Accounting and audit trails linked to paper checks are well entrenched in both regulation and common commercial practice. Legal protections for checks have been historically strong, but are weakening. There is much lower acceptance now of personal checks, potentially driving individual users toward electronic payments if they were more prevalent and the pricing transparent. Some large corporate retailers have conducted studies on cash handling costs in their businesses and have implemented customer education campaigns to encourage their customers to use their debit cards. An important priority would be to investigate the success of these promotional campaigns and to analyze choices by customers, both men and women.

A standard business practice of some large-scale employers is to require suppliers to utilize the same bank as they do for all transfers to reduce time and bank fees. However, the costs associated with suppliers maintaining multiple accounts is not incorporated into this decision-making

process, nor is the cost of banks managing dormant accounts.

Lack of appropriate banking product offers for the unbanked. With only around a quarter of Filipinos holding a bank account, a key barrier for the growth of electronic payments is financial inclusion. Most banks offer high-cost account products with high barriers to entry for mass market, including maintaining balances and ID requirements. New innovators in this space, including BPI-Globe BanKO and MBank, may be leaders in drawing more of the general population's money out of mattresses and into the electronic banking world.

Despite robust support from the BSP, mobile money and mobile-initiated IBFTs have not been fully successful for a range of reasons. The ongoing discussion on interconnection between the two schemes is encouraging. Globe's renewed involvement in the management of BPI Globe BanKO may also result in speeding up interconnection with Smart Money. **EMIs have not been successful in building pervasive 'bridges to cash,' particularly those enabling cash deposits to electronic instruments at agents**. Indeed, over 95% of Smart Money transactions comprise cash-out transactions at ATMs. Without trusted networks of encashment agents, the mobile money value proposition has failed to take root. Understanding the business case of agents is a priority as a growing interest in an agnostic, shared platform of cash-in and cash-out points is emerging at both schemes.

Development partners as experimenters

With only 27% of the adult population banked, a significant challenge for development agencies is reaching low-income beneficiaries with payments. Development institutions must assess bank accessibility, both in terms of branches and ATMs. Most often, bank branch locations are not always suitable and alternatives must be sought.

Development institutions (such as WFP) noted that they struggle to determine which forms of electronic payment are accessible and affordable. Geographic coverage varies significantly between payment providers that seek to offer services to development organizations. Selection of electronic payment providers often hinges on their ability to effectively reach clients in remote areas, sometimes requiring the need to contract multiple parties, pay widely varying regimes of fees and utilize multiple electronic payment modalities, **increasing cost and complexity related to electronic payment options.**

Individuals as informed consumers

For individuals, weak uptake of electronic payments is driven by a lack of trust, **lack of certainty and concerns around fraud and high fees,** as well as lack of clear recourse mechanisms, according to our interviews with a number of service providers and retailers. Testing these assumptions and how they impact the behavior of both men and women is priority.

The perceived high cost and risks of ecommerce, linked to fraud, hacking and high merchant discount rates (MDR) for electronic payments, and probably other impediments, require deeper study. The card payment industry is beginning to assess domestic purchasing at merchants and notes a high need for client education and confidence-building activity.

7 Proposed DRFRP approach in the philippines

Potential case studies

Case 1
Audience:
GOVERNMENT
Use case:
#2: REMOTE BILL PAY (MANY-TO-ONE)
Outcome:
SUCCESS
Access to data:
VERY LIKELY

The Better Than Cash Alliance diagnostic for the Philippines identified several specific initiatives to shift from cash to electronic payments that could generate lessons for Alliance stakeholders during the DRFRP program in 2013/14.

1. DBM: Policy Lessons in Promoting Transparency for P2G

This case study would focus on the policy environment and the journey of DBM as the government's CIO to improve government accountability and in particular, to service the P2G needs of Filipinos. This case study would be of interest to any government administrations seeking to promote transparency. The focus would be on DBM's policy successes across government in improving tax collections and fees payments, the setting up of the TSA through which all payments, including payroll, would flow and the role DBM has played in aligning interests in favor of reducing private and public sector corruption.

Case 2
Audience:
BUSINESS
Use case:
IBFTs
Outcome:
FAILURE
Access to data:
VERY LIKELY

2. Challenges in Inter-Bank Fund Transfers (IBFTs)

The BSP works with the private banks and seeks to promote a greater level of IBFTs which allow for real-time transfers between accounts (but are currently only 1% of all transactions through switches). Businesses, including small businesses, making cross-payments from their bank accounts to accounts of other businesses in other banks would be the focus of this case study. The case would calculate the costs borne by suppliers to maintain multiple accounts across banks for the purpose of receiving

and making inter-bank payments. To do so, the researchers will also look at pricing on ATM, mobile and Internet-initiated electronic payments that some suppliers are undertaking. The data developed should feed into the BSP's efforts to create an effective and efficient national payments system.

Case 3
Audience:
BUSINESS
Use case:
#3: CARD PAYMENT AT MERCHANTS
Outcome:
FAILURE
Access to data:
LIKELY

3. The Efforts of a Large Corporate Retail Operation to Go Electronic

This case study would examine the efforts of a large Filipino corporate retail operation to educate store consumers to use debit cards in its food and non-food department stores. About 8% of all transactions at this large retail operation are electronic, and the stores have implemented special promotions to consumers to try to encourage greater usage of debit cards. This study would include intercept questionnaires of men and women buyers in the store and results from focus groups with shoppers to explore why consumers use or do not use an electronic method. The research would also include a gender analysis.

Additional measurement activities

The diagnostic team recommends the additional measurement activities in Table 9 below. The diagnostic revealed that the P2B transaction type contributes significantly to the aggregate volume of payments, but has the lowest DQI. Therefore, better information on consumer payment frequency and consumer payment method preferences would strengthen overall estimates (activities 1, 2 and 3). Given that the 2010 BFA Domestic Payments Study found that 68% of users of both formal and informal payment service providers are women, an emphasis on the gender dimension of cash usage will be key (activities 1 and 2).

More research on the number of supplier payments per business would help improve estimates as well. At the request of the diagnostic team, the NSO has agreed to add three questions to the 2012 Philippines Input-Output Business Survey that tackle payment volumes to suppliers, degree of electronic payment usage in B2B, and an attempt to understand the low take-up of electronic methods for B2B. However, the results will not be revealed in time for the Better Than Cash Alliance DRFP. Therefore, we recommend a smaller study on the costs of maintaining multiple bank accounts for supplier payments (activity 4). This would also support an additional case study on the challenges of IBFTs, as requested by the BSP.

Table 9 Potential additional measurement activities

Activity	What would be measured	Measurement approach	Estimated cost, time and recommended agency
1. Electronic vs. cash payments: the intangible costs and benefits to women and men	Do women experience cash and electronic payment methods differently than men do? I.e., in regards to safety, ease of travel, privacy, ease of use? Quantify P2B purchases for both women and men. Add-ons will focus on the payment of school fees in particular.	National survey	Cost of $8,000 to add 10 questions to the Social Weather Stations' quarterly survey of consumers. Survey to be implemented in January 2014. Results to be expected in February/March 2014. Implementing agency: Social Weather Stations.
2. Electronic vs. cash payments: the intangible costs and benefits to women vs men	Conduct a qualitative study using focus groups on the propensity for women and men to shift to the use of more electronic payments.	Focus group discussions	Cost of $25,000. FGD to be implemented October 2013. Results to be expected in December 2013. Implementing agency: SEDPI.
3. Intercept surveys of consumers at major hypermarket	A major Philippines retailer has invested time and money for debit card campaigns that have not gained traction: From a sample of customers: 1. Analyze customer usage of several of payment methods, with an emphasis on debit cards and mandatory payroll accounts; 2. Record payment frequency and average amounts.	Intercept surveys at the hypermarket	Cost of $10,000. Survey to be implemented October-November 2013. Results to be expected in December 2013. Implementing agency: BFA with independent consultants.
4. Cost-of-cash analysis for supplier payments	Conduct an analysis of the costs of maintaining multiple bank accounts to receive and send supplier payments. Sample to be derived from supplier information of a major bank.	Electronic survey	Cost of $5,000. To be implemented October-November 2013. Results to be expected in December 2013. Implementing agency: BFA with independent consultants.
5. Cost-of-cash analysis for cash-for-work programs: the case of the World Food Program in the Philippines	Comparison of the direct costs of cash and electronic payments usage.	In-depth interviews	Marginal cost. BFA will create toolkit for measuring cost-of-cash cost-of-electronic payments for cash-for-work program by September 2013. WFP to share information on cost of programming and complete tool-kit. Results to be expected in October 2013. Implementing agency: BFA.

ANNEX A: LIST OF ACRONYMS

ACH	Automated Clearing House
ADB	Asian Development Bank
ATM	Automated Teller Machine
B	Business
BDO	Banco De Oro
BFA	Bankable Frontier Associates
BIR	Bureau of Internal Revenue
BLGF	Bureau of Local Government Finance
BPI	Bank of the Philippines Islands
BSP	Bangko Sentral ng Pilipinas
B	Business
CCT	Conditional Cash Transfer
D	Donor or Development Partner
DBM	Department of Budget and Management
DDA	Demand Deposit Account
DRFRP	Development Results Focused Research Program
DTI	Department of Trade and Industry
ECCS	Electronic Cheque Clearing System
EFTIS	Electronic Funds Transfer Integrated System
EPCS	Electronic Peso Clearing System
GIFMIS	Government Integrated Financial Management Information System
GDP	Gross Domestic Product
GNI pc	Gross National Income per capita
GSIS	Government Service Insurance System (GSIS)
G	Government
IBFT	Inter-Bank Fund Transfer
IFMIS	Integrated Financial Management and Information System
KYC	Know your Customer
LGU	Local Government Unit
MDR	Merchant Discount Rate
MFIs	Micro Finance Institutions
mPOS	Mobile POS device
NSW	National Single Window
NPA	National Payments Act
NPS	National Payroll System
OFW	Overseas Filipino Workers
OTC	Over the counter
PCHC	Philippines Clearing House Corporation
PDDTS	Philippines Domestic Dollar Transfer System
PhilGEPS	Philippines Government Electronic Procurement System
PHP	Philippine Peso
POS	Point of Sale
P	Person
RTGS	Real Time Gross Settlement
SMS	Short Messaging Service
STP	Straight Through Processing
TSA	Treasury Single Account
USAID	United States Agency International Development
USD	United States Dollars
WB	World Bank
WFP	World Food Program

Average 2012 conversion rate used: 1 PHP = 0.024 USD

ANNEX B: DETAILED PAYMENT GRID

Definitions

The measurement component of the Better Than Cash Alliance diagnostic has three main goals: The first is to evaluate the current status of the shift to electronic payments. This snapshot of the payments landscape provides a baseline to aid the Philippines government in its efforts to strategically shift concentrations of cash and evaluate the impact of policy efforts. The second is to identify and catalogue best practices and cost-effective approaches to determining the baseline. The third is to provide insight into knowledge gaps and priorities for the recommendation of additional measurement activities.

The diagnostic includes an estimated number of payments between each pair of parties in the country: payers (government, G; businesses, B; persons or individuals, P; and development community partners, D) and payees (G, B and P). Though values are captured, the focus is on the volume of payments. This is to highlight the progress of financial inclusion, a key area of interest for Better Than Cash Alliance stakeholders, and one where payments are low value and high volume; government and business payments may dominate values, but individuals make the most number of payments in an economy. Specific payment data points included may vary slightly according to what information is available and relevant to the payments story in each country. Note that payment figures exclude:

- Payments between financial intermediaries (interbank payments) since these are used to settle underlying transactions that have been made or else related to investment only; and
- Payments between accounts of the same party (inter own account transfers) or between different stores of value (account to cash) of the same party (e.g., ATM withdrawals).

But that they include:

- Payments between overseas workers and receivers in-country (international remittances); and
- Payments between international development partners and entities in-country (social welfare payments).

The estimated proportion of electronic payments refers to the proportion of the number of payments (as opposed to value) that are initiated electronically.

	# of payments p.m.	% electronic	# of payments electronic	Avg. Value per payment PhP	Total Value PhP	Total Value USD	% electronic by value	Sources
G2P	**11,959,363**	**46%**	**5,525,992**		**167,773,145,593**	**$4,026,555,494**	**36%**	
Gov't Employees	6,140,000	48. %	2,947,200	6,413	39,373,118,400	$944,954,842	48%	DOLE (April 2013); Landbank interview
GSIS Pensioners	225,749	100%	225,749	8,416	1,900,000,000	$45,600,000	100%	GSIS 2012
SSS Benefits	213,667	100%	213,667	2,978	6,806,906,417	$163,365,754	100%	DOLE yearbook of labor stats 2011
CCT - Pantawid Pamilya	3,901,017	50%	1,950,509	1,771	6,908,317,600	$165,799,622	50%	DSWD March 2013
Social Pension for Senior Citizens	52,592	0. %	0	2,993	157,404,083	$3,777,698	0%	DSWD March 2013
Modified CCT - FNSP	24,911	71.5%	17,811	936	23,327,800	$559,867	72%	DSWD March 2013
Modified CCT - EAC	32,301	71.5%	23,095	595	19,224,000	$461,376	72%	DSWD March 2013
Modified CCT- HSF	579	71.5%	414	97	56,200	$1,349	72%	DSWD March 2013
Modified CCT - Cash for Work	1,520	28.5%	433	2,515	3,823,450	$91,763	28%	DSWD May 2013
GSIS Loans	131,966	100.%	131,966	74,961	9,892,275,750	$237,414,618	100%	DOLE yearbook of labor stats 2011
SSS Loans	44,164	0.00%	0	357,667	15,796,000,000	$379,104,000	0%	DOLE yearbook of labor stats 2011
PhilHealth gov't employees	62,134	0.00%	0	9,450	587,166,300	$14,091,991	0%	PhilHealth interview 2012 data
PhilHealth private employees	123,556	0.00%	0	9,346	1,154,754,376	$27,714,105	0%	PhilHealth interview 2012 data
Pag-IBIG benefits	12,831	100%	12,831	35,663	457,583,333	$10,982,000	100%	DOLE yearbook of labor stats 2011
Pag-IBIG home financing	4,636	50%	2,318	8,261,581	38,300,000,000	$919,200,000	50%	Pag-IBIG accomplishment report 2011
Pag-IBIG short-term loans	191,917	0.%	0	236,561	45,400,000,000	$1,089,600,000	0%	Pag-IBIG accomplishment report 2011
LGU social welfare payments	795,824	0.%	0	1,248	993,187,883	$23,836,509	0%	BLGF values 2011; USAID SIMM cities
G2B	**796,944**	**0.001%**	**8**		**36,891,666,667**	**$877,320,001**	**0.001%**	
Procurement extrapolation	796,944	0.001%	8	45,869	36,891,666,667	$877,320,001	0.001%	PhilGEPs 2012 and Transparency International 2011
G2G	**4,509,449**	**84%**	**3,787,506**		**31,771,187,510**	**$762,508,500**	**93.3%**	
Contributions to GSIS	1,835,400	100.00%	1,835,400	3,175	5,827,333,333	$139,856,000	100%	DOLE yearbook of labor stats 2011
Contributions to PhilHealth	2,673,861	73.00%	1,951,919	2,961	7,917,000,000	$190,008,000	73%	DOLE yearbook of labor stats 2011
Fed Gov't to LGUs	187	100.00%	187		18,026,854,176	$432,644,500	100%	BLGF 2011 (for values); USAID SIMM cities
Government Total	**17,265,756**	**54%**	**9,313,506**		**236,435,999,769**	**$5,666,383,995**	**38%**	

B2P	**62,801,742**	**7%**	**4,632,392**	**5,829**	**75,849,200,623**	**$1,820,380,815**	**31%**	
Employees (Formal)	6,345,742	73%	4,632,392	5,053	32,067,572,623	$769,621,743	73%	DOLE/NSO
Employees (Informal)	56,456,000	0.00%	0	776	43,781,628,000	$1,050,759,072	0%	NSO 2008; PIDS
B2B	**536,500,651**	**0.26%**	**1,388,346**		**2,332,466,855,761**	**$55,979,204,538**	**2%**	
Suppliers (Formal)	34,708,651	4.00%	1,388,346	957,170	1,328,882,855,761	$31,893,188,538	4%	Clearing House, BPI, BPI-Banko study
Suppliers (Informal)	501,792,000	0.00%	0	2000	1,003,584,000,000	$24,086,016,000	0%	Various
B2G	**3,286,151**	**50%**	**1,629,596**		**138,330,531,860**	**$3,319,932,765**	**47%**	
Taxes BIR	598,425	0.00%	0	90,518	54,168,317,590	$1,300,039,622	0%	BIR 2012
Taxes BIR electronic	58,988	100.00%	58,988	910,881	53,731,108,244	$1,289,546,598	100%	BIR 2012
Taxes to LGUs	205,064	0.00%	0	15,326	3,142,856,026	$75,428,545	0%	BLGF 2011 for value; Doing Business 2012
Contributions to SSS	1,330,000	100.00%	1,330,000	5,387	7,164,250,000	$171,942,000	100%	Doing Business 2012
Contributions to PhilHealth	1,093,673	22.00%	240,608	18,400	20,124,000,000	$482,976,000	22%	DOLE yearbook of labor stats 2011 and Doing Business 2012
Business Total	**602,588,544**	**1%**	**7,650,334**		**2,546,646,588,244**	**$61,119,518,118**	**6%**	
P2P	**19,870,367**	**3%**	**523,929**		**65,428,000,000**	**$1,570,272,000**	**20%**	
Int'l Remittances	158,878	93.30%	148,233	82,000	13,028,000,000	$312,672,000	93%	NSO Survey on Overseas Filipinos 2011
Domestic Remittances	19,711,489	1.91%	375,696	2,710	52,400,000,000	$1,257,600,000	2%	BFA study; MM data
P2B	**1,893,073,688**	**0.28%**	**5,247,208**		**223,333,333,333**	**$5,360,000,000**	**1.1%**	
Purchases	1,851,202,920	0.26%	4,737,327	64	118,333,333,333	$2,840,000,000	0.26%	Interviews with major retailer and Digital E-Commerce Association; Data from Business Monitor International/Philippines Retail Association; expenditure data from DOLE stats
Bill Pay	32,505,071	0.20%	65,010	1,972	64,100,000,000	$1,538,400,000	0%	BFA Study
Loan payments	9,365,697	4.75%	444,871	4,367	40,900,000,000	$981,600,000	5%	BFA Study
P2G	**779,625**	**1%**	**9,878**		**22,843,661,376**	**$548,247,873**	**0.7%**	
Taxes BIR	137,414	0.00%	0		21,065,456,840	$505,570,964	0%	BIR 2012
Taxes BIR electronic	9,878	100.00%	9,878		158,942,539	$3,814,621	100%	BIR 2012
Real estate and other taxes to LGUs	632,333	0.00%	0	2,561	1,619,261,997	$38,862,288	0%	BLGF, Doing Business 2012
People: Total	**1,913,723,680**	**0.30%**	**5,781,015**		**311,604,994,709**	**$7,478,519,873**	**5%**	
D2P								
Employees	554	86%	256		28,240,000	$677,760	86%	Oxfam, MCC, USAID, WFP
Social Welfare	5,950,533	59%	3,508,779		340,061,593	$8,161,478	59%	Oxfam, MCC, WFP
Donor: Total	**5,951,087**	**59%**	**3,509,035**		**368,301,593**	**$8,839,238**	**61%**	

Methodological deep-dives

Quantifying the payments made in the Philippines required some assumptions and calculations, especially where data was unavailable, incomplete, or unreliable. This section discusses the approaches used for the G2P and B2B cells in the payment grid. Better Than Cash Alliance can provide methodological information on other cells by request.

G2P: Government institutions collect comprehensive and current payments data

The Better Than Cash Alliance diagnostic team calculated key metrics for G2P payments from a variety of government sources, as shown in Tables B1 and B2 below.

TABLE B1 High-level view of government-to-person payments

Total number of payments per month	% electronic (by volume)
11.959 million	46%

This report calculates government-initiated payments (see Table B4 below) using many sources: publicly available statistics from the centrally located Bureau of Local Government Finance (BLGF), the Department of Labor and Employment (DOLE), GSIS, SSS, and Pag-IGIB websites, and interviews with DSW, GSIS, PhilHealth, and SSS. Government payments, though the least voluminous of the payer types, required the most research. Overall, the government institutions in the Philippines collect and record comprehensive, publicly available statistics on payouts that we analyzed for measuring payments. This report calculates estimates for LGU social welfare payouts in particular using aggregate values for provinces, municipalities, and cities collected by the BLGF, and average payout volumes from three USAID SIMM cities that agreed to provide our team with detailed data.

TABLE B2 G2P data points

	# of payments	% electronic	Total Value PhP	Total Value USD
G2P	**11,959,363**	**46%**	**167,773,145,593**	**$4,026,555,494**
Gov't Employees	6,140,000	48.00%	39,373,118,400	$944,954,842
GSIS Pensioners	225,749	100.00%	1,900,000,000	$45,600,000
SSS Benefits	213,667	100.00%	6,806,906,417	$163,365,754
CCT - Pantawid Pamilya	3,901,017	50.00%	6,908,317,600	$165,799,622

Social Pension for Senior Citizens	52,592	0.00%	157,404,083	$3,777,698
Modified CCT - FNSP	24,911	71.50%	23,327,800	$559,867
Modified CCT - EAC	32,301	71.50%	19,224,000	$461,376
Modified CCT- HSF	579	71.50%	56,200	$1,349
Modified CCT - Cash for Work	1,520	28.49%	3,823,450	$91,763
GSIS Loans	131,966	100.00%	9,892,275,750	$237,414,618
SSS Loans	44,164	0.00%	15,796,000,000	$379,104,000
PhilHealth gov't employees	62,134	0.00%	587,166,300	$14,091,991
PhilHealth private employees	123,556	0.00%	1,154,754,376	$27,714,105
Pag-IBIG benefits	12,831	100.00%	457,583,333	$10,982,000
Pag-IBIG home financing	4,636	50.00%	38,300,000,000	$919,200,000
Pag-IBIG short-term loans	191,917	0.00%	45,400,000,000	$1,089,600,000
LGU social welfare payments	795,824	0.00%	993,187,883	$23,836,509

Sources: Department of Labor and Employment, Government Service Insurance System, Department of Social Welfare and Community Development, PhilGEPs, National Statistics Office, Department of Trade and Industry, Social Security System, Philippine Clearing House, "Demand Study of Domestic Payments in the Philippines" (BFA; 2010), Bureau of Local Government Finance, Bureau of Internal Revenue, BSP website, expert interviews.

B2B: Many extrapolations required

TABLE B3 High-level view of people-to-business payments

Total number of payments per month	% electronic (by volume)
536.5 million	0.26%

Some payer-payee combinations are particularly difficult to measure. These require gathering statistics from a number of different sources and applying multiple informed assumptions. B2B is one such group.

Formal B2B: For estimates on the volume and value of B2B payments made by check, the diagnostic team interviewed an expert from the National Clearing House who estimated that half of all checks are for supplier payments. The team also obtained monthly average check clearing volumes and values from the Clearing House's annual report. To estimate the average volume and value of electronic B2B payments, the country team obtained data from the supplier payments portal of a major bank in the Philippines and extrapolated for the rest of the market based on the bank's market share. To obtain an estimate for cash B2B payments, the team assumed that most cash payments are made by small businesses. The team obtained an estimate for the number of small businesses in the country from the DTI, and also analyzed a 2010 BPI Globe-BanKO study by BFA and Mercy Corps of 221 business owners of mostly formal small retail establishments identified as potential agents which revealed that these businesses made 66% of their payments to suppliers in cash. This report used data from a 2009 study by Dietrich on sari-sari supplier payments as a proxy for the average size of a cash payment from a small business to suppliers.[34] Final calculations suggest that 4% of formal B2B payments are made electronically.

Informal B2B: According to a 2008 survey conducted by the National Statistics Office, 10.5 million informal businesses (as compared to only 820,225 formal establishments) operate throughout the country. The country team used available payments information on sari-sari stores as a rough proxy for all informal industries. The Dietrich study found that on average, sari-sari owners visited larger grocery stores four times a week and spent between US$24 and US$72 each time. Another study found that sari-sari stores had on average three major suppliers.[35] Using these data points, we calculate the total number of B2B payments by the informal sector to be an estimated US$501.7 million a month. Through meetings with numerous organizations, including the Grameen Foundation and the distributor Tao, as well as data on the sari-sari stores represented in the BPI Globe BanKO study, we confirmed that informal suppliers deal almost exclusively in cash.

Shift calculations

TABLE B4

Shift1: One to many					Shift2: Many to one					Shift3: Many to many				
	No mil/ mo	% electronic	Value USD bn	% electronic		No mil/ mo	% electronic	Value USD bn	% electronic		No mil/ mo	% electronic	Value USD bn	% electronic
G2P	11.9	46%	4	36%	P2G	0.8	1%	0.54	0.7%	P2P	19.86	2%	1.6	20%
G2B	0.8	0.1%	0.9	0.1%	P2B bill pay	41.9	1.2%	0.65	2%	P2B purchase	1851	0.30%	2.8	0.3%
G2G	4.5	84%	0.8	33%	B2G	3.3	50%	3.3	47%	B2B informal	502	0%	24	0%
B2P	62.8	7%	1.82	31%	B2B-- utilities & social	0	0%	0	0%					
B2B-- formal	34.7	4%	31.9	4%										
D2P	5.9	59%	0.008	59%										
Overall	120.6	15%	39.4	9%		46	5%	4.49	35%		2372.8	0.3%	28.4	1%

ANNEX C: BETTER THAN CASH ALLIANCE COUNTRY DIAGNOSTIC COMMON METHODOLOGY

Measurement and data quality

The measurement approaches use all available data to compile the payments grid as accurately as possible as described in detail in Annex B for the Philippines. This process involves finding and analyzing a wide range of different data sources of different time intervals and quality. In some cases, extrapolation or interpolation is necessary to make up for gaps in data availability. For this reason, and to be explicit about the basis from which data is drawn, the data relating to each payer group in the grid is assessed for data quality and availability, as shown in Table C1 below.

TABLE C1 Data quality ratings

Rating	Data quality	Data availability
5	Complete, recent, and from credible sources.	Available from one or few up-to-date websites or online publications.
4	Recent and from credible sources. 1-2 components of estimate based on expert opinion or assumptions.	Available from disparate web sites or from a combination of scholarly and popular publications.
3	Incomplete, recent, and based on expert opinion or available data. Few assumptions required.	Available in-person through simple records requests or interviews with public-facing officials.
2	Incomplete and/or outdated, and informed by local sources, ad hoc research, and international heuristics. Some assumptions required.	Available from proprietary sources through non-disclosure agreements.
1	Incomplete and/or outdated, and informed by local sources, ad hoc research, and international heuristics. Multiple assumptions required.	Additional measurement activities required to capture meaningful data.

The overall scores cited on the first page are simple averages across the underlying picture.

Trajectory scores

To understand the trajectory of the move towards electronic payments in a country and the likelihood that the momentum may change, the diagnostic focuses on selected payments use cases and then considers the infrastructure and incentives supporting each.

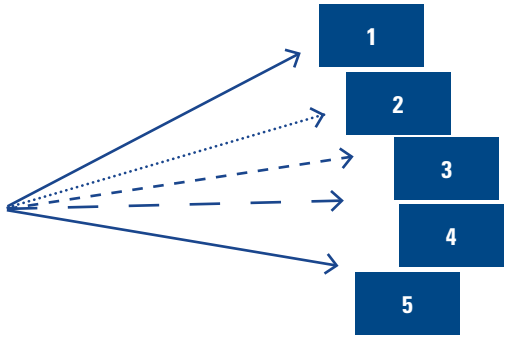
Use cases

A payment use case is a cluster of characteristics (the store of value, the nature of the instrument itself and the channels through which it is initiated) around a common payment application. For example, bulk credit transfers involve transfers across bank accounts under rules particular to the automated clearing house involved, which can be initiated in branch or via channels such as Internet or dedicated line.

Ratings

The propensity for this use case to accelerate the shift to electronic payments is assessed using the scale shown in Table C2.

TABLE C2 Use case ratings

Rating	Conditions & incentives are such for this use case that it is:	Trajectory scores depicted in terms of likely outcome on % of payments of that type which are electronic over time
1	Highly likely to support a full shift	
2	Possible to achieve a full shift	
3	Likely to lead to slow incremental progress	
4	Likely to drift without clear upward trend	
5	Unlikely to lead to shift	

To get to an overall rating which indicates current trajectory (i.e., in the absence of further intervention), a process of interviews and in-country engagement leads to an assessment of the strength and clarity of the infrastructure and the incentives of each of the key constituencies in the payment ecosystem – government, business , financial providers and consumers – to use this instrument for the accompanying shift. As shown in Annex D for this country, the overall score for each use case is the simple average of the underlying ratings across each category, although the scores for each category are not simple averages of the underlying sub-categories. This is because the sub-categories are not weighted; so the category score is assigned based on an overall assessment taking into account the sub-category scores.

Glossary of general payment terms used[36]

Term	Definition
ACH/ Automated Clearing House	An electronic clearing system in which payment orders are exchanged among financial institutions, primarily via magnetic media or telecommunications networks, and handled by a data processing centre.
Gross Settlement System	A transfer system in which the settlement of funds or securities transfer instructions occurs individually (on an instruction by instruction basis).
Large Value (wholesale) Payments	Payments, generally of large amounts, which are mainly exchanged between banks or between participants in the financial markets and usually require urgent and timely settlement.
"Not on us" & "On us"	Payment terms which refer to whether a payment is made in the accounts of the same financial institution (on us) or across financial institutions (not on us).
Payment Instrument	Any instrument enabling the holder/user to transfer funds.
Payment scheme	A term used for a payment system which includes a brand and set of rules licensed by the owners to the participants, such as the international card association schemes.
Payment service provider (PSP)	Entity that does not participate directly in a payments system but specializes in managing payment transactions for the public.
Payment stream	A cluster of payment use cases.
Payments system	A payments system consists of a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money.
Payment use case	A description of an individual payment that identifies the payment's store of value, the payment instrument used, and the channel through which payment instructions are issued.
Real-Time Gross Settlement (RTGS) System	The system used to effect continuous (real-time) settlement of funds or securities transfers individually on an order by order basis (without netting).
Switch	In payment context: an electronic software program which enabled different devices and financial operating systems to connect for the purpose of exchanging information.

TABLE D1 Summary of ratings

PHILIPPINES	A. Mass electronic credits	B. Remote bill payment	C. Debit card at merchants
Country environment	**3**	**3**	**2**
Legal environment for electronic payments is sufficiently clear and certain to support shift	3	3	3
The communications and processing infrastructure supports robust transaction processing	3	2	2
There are a variety of providers offering the service defined in priority use cases on a competitive basis	3	3	1
The oversight environment for payments is clear and certain	3	3	3
The settlement and clearing infrastructure supports the defined use case	3	3	3
Incentives for:			
Government	**2**	**3**	
There is a clearly identified national lead agency responsible for the shift to electronic	1	1	
The lead agency has the mandate and qualified resources sufficient to coordinate the shift across departments/agencies	2	2	
The national government at least monitors centrally and preferably publishes data on the extent of electronic payments	2	3	
There is a law or binding regulation requiring transition to electronic for some or all of government	2	5	
There are well documented credible examples of cost-benefit analysis – awareness of benefits	2	4	
The payment instruments exist to service the main use cases defined by government	2	2	
Service providers	**3**	**3**	**4**
Providers see value in providing this service through electronic payments	2	3	4
Providers can monetize the value of offering this service through electronic means	3	2	
Providers are willing to make the necessary investments required to offer this service	3	3	4

PHILIPPINES	A. Mass electronic credits	B. Remote bill payment	C. Debit card at merchants
Providers consider this service important and therefore market it appropriately		3	3
Non-financial businesses	**3**	**4**	**4**
The perceived advantages of shifting exceed disadvantages	3	2	4
There is no stigma attached to electronic channels as result of recent or major experience of loss	2	3	
There are additional incentives offered to use electronic	3	4	
Cash payments are restricted or else electronic payments required by law in defined circumstances		4	
Cost of cash studies have been performed on categories of business payment and published	3	3	3
Consumers	**3**	**3**	**3**
There is no history of major scandal or disrepute associated with electronic payments in the past five years	2	2	3
There is no widespread distrust of financial institutions among the general public	3		
There is a ubiquity of points at which cash can be exchanged for electronic value in an account and vice versa	3	3	4
Individuals consider the risk of electronic theft less or lower than risk of cash theft	4	4	2
Many people have electronic accounts through which they can conduct electronic payments	5	4	2
Overall	**2.8**	**3.2**	**3.3**

ANNEX E: A BRIEF ASSESSMENT OF MOBILE MONEY USE CASE

The Philippines is known as an early mover in enabling mobile money to be available – the first public product launches date back before 2004. Mobile money involves disbursement of funds as an electronic payment to or from an electronic wallet instrument, which may or may not be linked directly to a bank account, but is linked to a mobile phone number and accessed via mobile phone, as well as other channels. Most common examples of usage:

- P2P domestic remittance
- Salary payments (G2P, B2P)
- Conditional Cash Transfers, other government social programs or subsidies (G2P)
- Supplier payments (B2P, B2B, G2B)
- Utility payments (P2B)
- Loan payments (P2B)

Regulatory conditions largely support the use of mobile money although a strong limiting factor is the inability to access funds from a bank account via agents. Mobile money can only be accessed from an electronic wallet, rather than a bank account, creating a second step for bank account holders to take advantage of mobile money. In practice, **relatively strict KYC requirements, and allowed outsourcing of KYC, have created barriers for ewallet adoption among the unbanked**. Onerous client onboarding processes for ewallets have led government and development programs to avoid the use of mobile wallets with beneficiaries over the past 10 years, opting instead for cash and card-based distribution methods.

The typical **advantages** of successful mobile money operations include easily accessible, fast, reliable and inexpensive emoney transfers and encashment services. This level of operation and performance has not been achieved in the Philippines as of yet. Market research shows that **low active client usage is linked to lack of ease of use, perceived high costs compared with alternatives and exclusive business models** which limit the client to one mobile network operator. This situation often has implications related to network coverage and utility to link to other payers. The clear dominance of cash-based over the counter (OTC) remittance providers and pawnshops in the domestic remittance market has created a highly competitive environment where mobile money providers have struggled to gain traction. And while a wide range of applications and strategies, including payroll, ecommerce and government transfers have been attempted, none has enjoyed large-scale adoption.

Active users of mobile money, however, are satisfied with services. Market research shows that once a client has established a use pattern, satisfaction levels and loyalty are high. **The perception of risk associated to mobile money does not appear to be a significant constraint**. Marketing and client education campaigns around mobile money, however, have been limited in comparison with other mobile money deployments. The highly competitive duopoly in the overall mobile market between MNOs SMART and Globe may have actually

served as a disincentive for investment in mobile money by both parties, which were competing more intensively in conventional business lines and may have left mobile money as a non-lucrative sideline or adjacency to reduce churn.

Important barriers seem to prevent further shift: In order to drive the increased use of mobile money and mobile payments, some shifts in the **regulatory environment and business applications for mobile money** are needed. It is highly likely that the overall fragmented legal and regulatory framework for electronic payments in general has negatively impacted mobile money, given lack of standards and some legal certainty that have led to higher prices and lower use of electronic payments in the private sector. Mobile money will never succeed, however, without addressing the important **agent network infrastructure**, which is required to allow the public to readily convert cash and e-money as needed. Many business use cases for mobile money cannot develop until a reliable and ubiquitous agent network for electronic payments is developed. Addressing these barriers would increase the demand for further shift of bulk payments to electronic.

ANNEX F: AN OVERVIEW OF PAYMENTS REGULATIONS IN THE PHILIPPINES

1. **The provision of payment services is regulated by several legal acts**. The most relevant are: 1) The New Central Bank Act (RA No. 7653); 2) the Banking Law (General Banking Law No. 8791), which regulates the activities of banks and non-bank financial institutions with quasi-banking functions; 3) the Electronic Commerce Act (RA No 8792), which recognizes electronic signatures; 4) Rules on Electronic Evidence (July 2001); 5) Circular No. 471 of 2005, which regulates the activities of foreign exchange dealers, money changers and remittance agents; and, 6) Circular No 649 of 2009, which regulates the issuance of e-money. These legal and regulatory measures to some extent mitigate the absence of a comprehensive national payments law.

2. **The Banking Law allows all banks and non-bank financial institutions (quasi banks and trust entities) to provide payment services**. As defined in its Article III, Section 53, banks and non-bank financial institutions can "make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business." Banks and non-bank financial institutions can also issue e-money. In addition, the circular 49, 2009 allows entities whose business is exclusively centered on e-money issuance and incidental activities like being a money transfer agent, to also be an e-money issuer. This effectively means a wide variety of entities have become e-money issuers.

3. **The provision of international remittance services is also open to banks and non-bank institutions. All remittance service providers (RSPs) must comply with BSP's Circular No. 471, which requires registration with the BSP**. Non-bank institutions providing foreign exchange, money exchange and remittance services only need to comply with the requirements of Circular No. 471 to get registered with the BSP. Money transfer operators (MTOs) also need to comply with the anti-money laundering laws, the foreign exchange laws, and transparency requirements established in Circular No. 534 of 2006.

4. **The issuance of e-money is subject to a specific regime under Circular No. 649 of 2009**. According to this regime, e-money issuers have to: 1) register as a money transfer agent with the BSP (except for banks and non-banks financial institutions, which should ask for specific approval); 2) be a stock corporation with a minimum capital of P 100 Million; 3) maintain liquid assets equal to the amount of outstanding e-money issued; 4) not engage in the provision of credit; 5) constitute a separate entity if already engaged in another type of business (e.g., telecom business); 6) maintain records of transactions; 7) provide audited financial statements. All e-money issuers also need to comply with a maximum loading threshold of P100 000 a month; must apply KYC procedures, and keep records of transactions, and prepare and provide suspicious transaction reports, including by agents; must have effective redress mechanisms to address consumer complaints; and, must have the ability to redeem their e-money obligations at face value.

5. **There is no explicit regulation governing usage of agents for financial and payment services**. The Circular 471 of 2005 on Remittance Agents requires any entity desirous of functioning as a remittance agent to register with the BSP and comply with specified AML/CFT requirements and reporting requirements.

6. **Some key payment system concepts are not covered by any Law**. In particular, the specific timing of final settlement, especially in case of the insolvency of one or more institutions that participate in the relevant payments arrangement, is not covered. Likewise, there is no recognition at the level of the law of bilateral or multilateral netting arrangements and lack of clarity on usage of agents for distribution of payment and financial services.

7. **Also, with the exception of money remittances, there is currently no comprehensive legal framework applying to electronic payments**. In addition to covering the permissible payment instruments and the entities that are allowed to issue those instruments and/or that are allowed to provide the related payment services and providing basic guidelines for the operations of the systems or schemes, such a comprehensive framework would also cover in detail the rights and obligations of payment instruments issuers, payment service providers and payment service users, as well as transparency obligations, among other relevant topics.

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ANNEX H: ORGANIZATIONS AND INDIVIDUALS INTERVIEWED

Organization	Individuals
Asian Development Bank	Chris Spohr
Association of Digital Ecommerce	Jack Madrid
Bangko Sentral de Pililpinas	Nestor A. Espenilla, Jr Pia Roman Tayag Ray Estioko Bella Santos Eleanor S. Turaray Felipe M. Medalla
BancNet	Aristeo Zafra Maria Lourdes A. Jarabejo
Banco de Oro	Emmanuel T. Narciso
Bank of the Philippines Islands	Maria Christina L. Go Manuel C. Tagaza Miguel L. Bernabe
BPI Globe BanKO	Tessie Tan
Bureau of Internal Revenue	Lilia C. Guillermo
Bureau of Local Government Finance	Salvador M. del Castillo Ma. Pamela P. Quizon
B2Bpricenow.com	Edgardo B. Herbosa
Citibank	John Cary L. Ong Sari D. Mortel
Credit Card Association of the Philippines	Ellen Lagard
Department of Budget and Management	Richard E. Moya Gabriel Baleos
Department of Social Welfare	Corazon Juliano-Soliman Deseree D. Farjado Honorita B. Bayudan Georgina Ann H. Hernandez
Department of Trade and Industry	Maria Lourdes A. Yaptinchay
Government Service Insurance System (GSIS)	Jesus V. Beringuela
Grameen Foundation	Christopher Tan
GXI Exchange	Paolo Eugenio J. Baltao Ricardo Don R. Alair II
Innovations for Poverty Action	Mark Miller
Inter-Asia Development Bank	Jove Tapiador
Land Bank	Marilyn Tiongson
LBC Express	Eduardo C. Ibazeta

Organization	Individuals
MasterCard	Jo-Ann S. Camacho
Jo-Ann S. Camacho	Benjamin P. Castillo
Metrobank	Richard Benedict So Peter Louie D. Magdame
Millennium Challenge Corporation	John Polk
ML'Huillier	Charles L. LHuillier Catherine A. Quioas
National Statistical Coordination Board	Carmelita Ericta
Optiserve Technologies Inc.	Cheryl Natividad-Caballero
Oxfam	Oxfam
Pag-IBIG	Pag-IBIG
PhilGEPS	PhilGEPS
PhilGEPS	Grazielle R. Castillo Evangeline Racelis
Philhealth	Grazielle R. Castillo Evangeline Racelis
Philippine Chamber of Commerce and Industry	Philippine Chamber of Commerce and Industry
Philippine Long Distance Telephone	Philippine Long Distance Telephone
Philippines Retailers Association	Philippines Retailers Association
Project SIMM/DAI	Project SIMM/DAI
Sari Software Solutions	Sari Software Solutions
SM Department Store	Joey C. Singian
Social Security System	Emmanuel A. Trinidad
Tao Corporation	Gabriel C. Lopa
USAID	Gloria Steele Terisita Tan
Office of the Director of Public Procurement	Terisita Tan
Visa	Iain Jamieson
World Bank	Nataliya Myleenko Kai-Alexander Kaiser
Oxfam	Kai-Alexander Kaiser
World Food Program	Riaz Lodhi Dipayan Bhattacharyya Praveen Agrawal

End Notes

1. G: Government. B: Business (non-financial private sector). P: Person (individuals). D: Development community partner. For further explanation of the payment grid, see Better Than Cash Alliance (2012), The Journey Toward 'Cash Lite', available at http://betterthancash.org/wp-content/uploads/2012/09/BetterThanCashAlliance-JourneyTowardCashLite.pdf.
2. www.gov.ph/2011/05/13/executive-order
3. ITU, ICT Statistics
4. IDC, Philippine Telecom Market, #IDC_P8674.
5. Bankable Frontier Associates, "Demand Study on Domestic Payments in the Philippines", 2010.
6. BSP DG Espenilla, speech April 24, 2013. BSP estimates take multiple account holders into consideration.
7. Global Findex
8. Interviews with BancNet and Megalink.
9. BSP website, 2013.
10. BancNet & Megalink websites, 2013.
11. BancNet & Megalink websites, 2013.
12. BFA: Exploration of Shared Cash Merchant Network in the Philippines, 2012.
13. BSP: 2012 Presentation.
14. 2011 Government E-Payments Adoption Rankings.
15. World Telecommunication/ICT Indicators Database, available at http://www.itu.int/en/ITUD/Statistics/Pages/publications/wtid.aspx.
16. This report refers to "shift to electronic payments" substantially throughout. Electronic payment means the transaction initiated electronically.
17. Ibid.
18. 2012 Survey of Enterprises on Corruption, Social Weather Stations. See www.sws.org.ph/pr20120918.htm
19. See www.digitalfilipino.com/call-for-cross-industry-associations-support-e-commerce-measurement.
20. Asian Development Bank Report, 2012.
21. Projections based on interviews with mobile money schemes and updated projections based on nationally representative data from the Bill & Melinda Gates Foundation - commissioned nationally representative "Demand Study on Domestic Payments in the Philippines" by Bankable Frontier Associates in 2010.
22. BFA, 2010.
23. See forthcoming CGAP case study on this program: BFA (2013).
24. See http://www.econ.boun.edu.tr/public_html/RePEc/pdf/201205.pdf.
25. Introductory remarks at a workshop on interoperability April 22, 2013.
26. The methodology used to calculate volumes and values in payer-payee cells is presented in Annex B.
27. Average 2012 conversion rate used throughout the report: 1 PHP = 0.024 USD.
28. Of the four development partners that responded to Alliance requests for payment information.
29. This analysis does not include bilateral aid transfers in the D2G space, as the focus is on payments for which the sender is in the country, with the exception of international remittances. See Annex B for definitions.
30. Of the four development partners that responded to Alliance requests for payment information.
31. Two smaller ATM networks, ENCASH and Nationlink, also cater to some non-bank financial institutions and rural banks, mostly outside the big urban centers.
32. Capability for interbank fund transfer is limited to banks belonging to the same ATM network. This situation creates disincentives to electronic payments.
33. off-us transaction means that the card-issuing bank is different than the one affiiliated with the ATM or POS.
34. Dietrich, M. (2000). Achieving Scale and Sustainability in a Social Enterprise at the Base of the Pyramid.
35. Bonnin, C. Women's experiences as home-based traders in Metro Manila: A case study of the neighbourhood store.
36. Drawn from glossary in Brian Le Sar and David Porteous (2012), Introduction to the National Payments System, available at www.nps-institute.com.

About the Better Than Cash Alliance

The Better Than Cash Alliance is an alliance of governments, private sector, and development organizations committed to accelerating the shift from cash to electronic payments. The Better Than Cash Alliance is funded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID, and Visa Inc. The UN Capital Development Fund serves as the secretariat.

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