



# Financial Inclusion in the Philippines



## PAYMENTS AND REMITTANCES

What are Payments and Remittances?

Ways to Transfer Money

Remittances and Financial Inclusion

Payments and Remittances in the Philippines

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The ability to send or receive payments and remittances is an important first step toward the usage of a wider range of financial services such as savings, investment, credit, and insurance. Access to basic transactional accounts is a critical component of financial inclusion.

# What are Payments and Remittances?



*Magandang araw! I am Mang Juan, an overseas Filipino worker.*

*Since I started working abroad, I have been sending money to my loved ones in the Philippines. With limited knowledge and experience in money transfers, I resorted to “padala” by asking friends or family traveling back to the country to personally deliver the money. While this has worked, the transfers have been unsecure, intermittent, and inefficient.*

*One day, an emergency required me to immediately send money to my family. I had no choice but to do it through a bank. I discovered that there are various means to send money that are faster, more reliable, and more convenient!*

*Do you have a similar story to tell?*

For people like Mang Juan, transferring money across locations is a necessity. This has pushed the need for safe and efficient payment and remittance services.

## Payment

**is the transfer of an item or value from one entity\* to another in exchange for provision of goods or services, or to fulfill a legal obligation**



## Remittance

**is the transfer of money from one entity\* to another across locations**



### Note:

*Based on the definitions of the Bank for International Settlements (BIS), Consultative Group to Assist the Poor (CGAP), and World Bank.*

*\* An entity can refer to a person, business or government.*

# Ways to Transfer Money

Money transfers can be made using different instruments and channels. While cash or check payments are still very common, electronic payments using cards, electronic money (e-money) or the internet are gaining wider acceptance because they are generally fast, convenient, safe, reliable, and cost-effective.

## By channel

bank, automated teller machine (ATM), pawnshop, remittance agent/payment center, computer, mobile phone



## By instrument

cash, check, credit card, ATM/debit card, stored value card, e-money



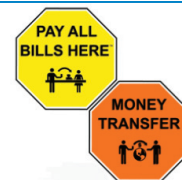
Money transfers can be also categorized based on whether the sender and receiver is a person (P), business (B) or government (G). For instance, online shopping is an example of P2B. The Pantawid Pamilyang Pilipino Program (4Ps) is an example of G2P.

		Receiver		
		Government	Business	Person
Sender	Government	<b>G2G</b> Budgetary allocations, funding of programs	<b>G2B</b> Payments for goods and services	<b>G2P</b> Welfare programs, salaries, pensions
	Business	<b>B2G</b> Taxes, fees for licenses and permits	<b>B2B</b> Payments for goods and services	<b>B2P</b> Salaries and Benefits
	Person	<b>P2G</b> Taxes, fees for licenses	<b>P2B</b> Purchases, utilities	<b>P2P</b> Remittances, gifts



## Did you know that...

Bill payments and remittances are the most common financial transactions of Filipino adults. Seventy-two percent (72%) of adults pay bills (e.g., electricity, water), while sixty-three percent (63%) experience receiving or sending money. Payment centers and remittance agents are the most frequently used channels for these transactions.



Sources: Bangko Sentral ng Pilipinas (BSP) National Baseline Survey on Financial Inclusion (NBSFI) (2015); Le Sar and Porteous (2013)

# Remittances and Financial Inclusion



The Philippines is the third highest remittance-recipient country in the world, next to India and China. More than 10 million Filipinos overseas<sup>1/</sup> send around USD 26 billion annually to their families in the Philippines. Remittances to the Philippines are estimated to account for 10% of the Gross Domestic Product (GDP).<sup>2/</sup>

Remittances received by the beneficiaries of overseas Filipinos (OFs) are often used to meet household needs on food, clothing, shelter, education, health, and utilities, among others. Remittances used productively (e.g., small business) can generate greater income, increase the ability to save and invest, and improve the living conditions and overall welfare of beneficiaries.

## Some uses of remittances



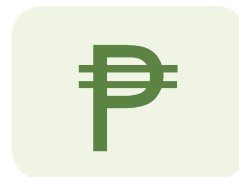
Buy household consumption needs



Pay utility bills, school tuition, and medical expenses



Accumulate assets or build homes

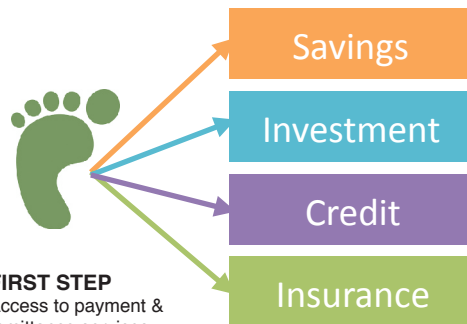


Start entrepreneurial activities

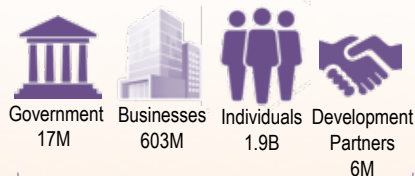
Sending and receiving remittances is an important first step toward achieving full financial inclusion. It allows overseas Filipinos and their beneficiaries to transact with remittance and payment channels, familiarizes them with the requirements of these entities, and opens up opportunities to use their payouts for more value-adding financial services like savings and investments.

Sources:<sup>1/</sup> Commission on Filipino Overseas (2013)

<sup>2/</sup> BSP (2015)



# Payments and Remittances in the Philippines



**2.5B**  
Number of  
Payments per month



**119%**  
SIM  
penetration  
rate in the  
Philippines



**40%**  
smart phone  
penetration  
rate



yet only  
**1%**  
of all payments are  
electronic



17M monthly payments



**44%**  
Conditional cash  
transfers



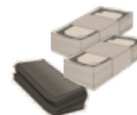
**27%**  
Salaries of  
government  
employees



**15%**  
Pensions



48% of B2P Payments  
are for salaries



30% of B2P Payments are  
loan disbursements



42% of Filipino adults  
had payment  
transactions in 2015

44% of Filipino adults  
had remittance  
transactions in 2015

Most Filipino adults remit  
through remittance agents,  
pawnshops and ATMs

Sources: BSP NBSFI (2015); Better Than Cash Alliance (BTCA, 2013); Groupe Spéciale Mobile Association (GSMA) Intelligence (2016)

Note: Adults refer to individuals aged 15 years old and above

# Emerging Technologies

We are in the era of boundless possibilities fuelled by the unstoppable evolution of technology. There is a shift in customer behavior driving expectations for better, faster, and more innovative solutions across the payments spectrum.

As new payment capabilities come to the fore, cutting-edge technology is transforming how transactions are initiated and processed. There are new players seeking to improve the payment experience of customers, taking it to the next level in terms of speed, convenience, efficiency, and multi-channel accessibility. For a country like the Philippines where the median age of the population is 24, the young, tech-savvy generation will make the adoption of new technology more likely.

**Financial technology**, also known as **FinTech**, involves the use of technology to make financial services more efficient. Fintech companies have entered the payments arena, offering new solutions which demonstrate an incremental or radical/disruptive innovation in the development of payments products and business models.



Electronic money stored in mobile wallets allows you to pay using your mobile phone.



Cloud-based solutions and application programming interfaces (APIs) have significantly improved storage of and access to data.



Biometrics provides stronger security for payment transactions and enhances consumer experience.



Big data analytics allows for complex data analysis to come up with patterns and trends for customer profiling.



Near field communication (NFC) allows sharing of small loads of data between NFC enabled devices (e.g., smart phones).



Block chain technology, the technology behind Bitcoin, is a decentralized public ledger that has the potential to transform payments.

# Efficient Payment System

## What is a payment system?

It is a set of instruments, procedures, and rules for the transfer of funds between or among participants. The system includes the participants and the entity operating the arrangement.<sup>1/</sup>

## Why is it important?

A payment system is a vital part of the economic and financial infrastructure. It facilitates the government, businesses, and consumers to transfer funds to one another. Its efficient functioning allows transactions to be completed safely and on time.

## Types of payment system

### Large-value payment system

A payment system that processes large-value payments that usually require urgent and timely settlement. It ensures the smooth functioning of the financial system and the economy.

### Retail payment system

A payment system that generally handles consumer payment transactions (e.g., utility bills, online purchases) which are very low in value, but very large in number.

The Philippine payment system for large-value payments is called the **Philippine Payments and Settlements System or PhilPaSS**. It is managed and operated by the BSP. Participants to the *PhilPaSS* are BSP-licensed banks and non-banks with Demand Deposit Accounts (DDAs) with the BSP.

## Did you know that...

In December 2015, the BSP launched the **National Retail Payment System (NRPS)**. The NRPS is a policy and regulatory framework that aims to establish a safe, efficient, reliable, and affordable retail payment system in the Philippines. It envisions ease of making payments and receiving or transferring funds from an account to any account anytime, anywhere, and at a reasonable price from any digital device.

The NRPS is recognized in the Philippine E-Commerce Roadmap (PECR) 2016-2020 which was launched by the Department of Trade and Industry (DTI) in February 2016. The roadmap presents strategic plans, policies, and other support measures to fully accelerate the growth of e-commerce in the country.

<sup>1/</sup> Source: Committee on Payments and Market Infrastructures (2015)

<sup>2/</sup> To know more about *PhilPaSS*, you may refer to the following link: <http://www.bsp.gov.ph/financial/payments/philpass.pdf>

# Success Story

Increasingly, the government is migrating existing payment and collection systems from cash to electronic. This move toward electronic payments (e-payments) offers the potential to improve transparency, decrease costs, and increase access to financial services.



Franco de Jesus is a resident of Quezon City. He pays his real property tax every year. He used to file a leave of absence from work and spend the whole day at the city hall because of long lines and tiresome processing just to pay his real estate taxes.

The process changed when Franco learned about mobile money. With the latest innovation in the city's real property tax payment system, he tried paying his taxes through his mobile phone for the first time. The payment went smoothly and he received a text message confirming his tax payment. "Beyond offering convenience, mobile money is also safe and secure," he said.

Because of the new payment system, Franco does not have to spend much time and effort into paying his taxes. "This is very helpful to working people like me," he added. He discovered that mobile money can also be used in paying utility bills and getting airtime load, and he plans to use mobile money for these services.

*Source: United States Agency for International Development (USAID) - Scaling Innovations in Mobile Money (SIMM) Project*

Past issues of this publication can be accessed at:  
[http://www.bsp.gov.ph/publications/regular\\_fip.asp](http://www.bsp.gov.ph/publications/regular_fip.asp)

## About IFAS

The BSP was one of the first central banks in the world to establish an office dedicated to financial inclusion when it created the Inclusive Finance Advocacy Staff in 2007.

IFAS implements, coordinates and advocates the microfinance and financial inclusion initiatives of the BSP.



**BANGKO SENTRAL NG PILIPINAS**

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