

BETTER THAN CASH
ALLIANCE



HIGHLIGHTS REPORT

STATE OF DIGITAL PAYMENTS IN THE PHILIPPINES

2019 UPDATE AND 2020 PREVIEW

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INTRODUCTION

The Philippines continues to expand its digital adoption as discussed in this Highlights report which captures the progress of payments digitalization in the country in the last two years. This report discusses the trajectory of key payment use-cases that were identified¹ to offer the most promise – both in terms of increasing the share of digital payments as well as democratizing the benefits of digital payments – and shows that payments made by individuals such as merchant payments and remittances remain key contributors to growth.

The COVID-19 pandemic has also catalyzed the shift in awareness and has provided the necessary push for more consumers – individuals, businesses and the government – to use digital payments as the country was compelled to implement necessary health and social-distancing protocols.

These results are encouraging, as the Bangko Sentral ng Pilipinas (BSP) remains committed in pursuing a cash-lite economy, relentlessly putting in place enabling policy and regulatory reforms to promote a safe, efficient and reliable national payment system that ensures responsible digital payments for all. Its deliberate approach to leverage technological advancements, promote the use of innovative products and services, and its uncompromising stance to enable interoperability have provided the critical foundations for the continued adoption and usage of digital payments in anticipation of a “New Economy” post-COVID, in which increased consumer reliance on digital platforms and channels is expected.

¹ State of Digital Payments in the Philippines, 2019; Bangko Sentral ng Pilipinas and Better Than Cash Alliance.

2019

DIGITAL PAYMENTS VOLUME AND VALUE CONTINUE STABLE GROWTH FROM 2018

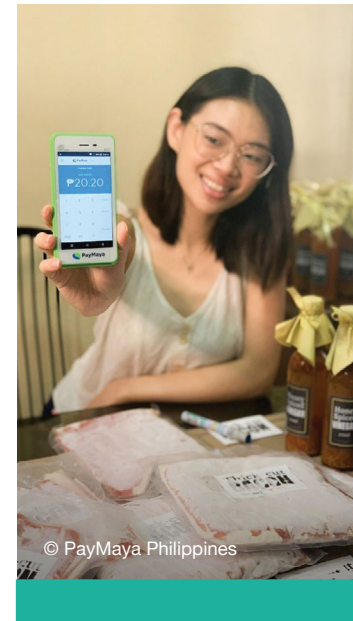
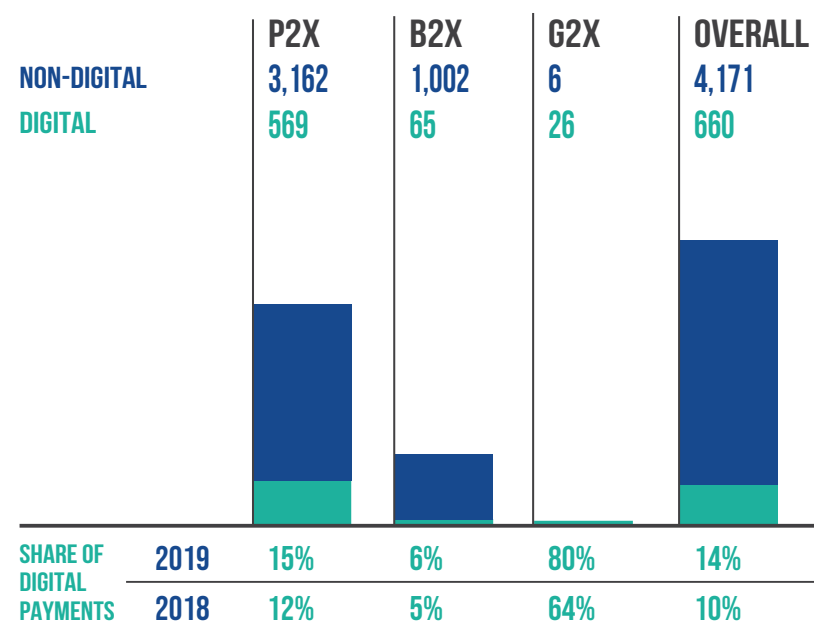
27% increase in volume of digital payments in 2019 driven primarily by merchant payments

The volume of monthly digital payments in the Philippines grew from 10% ² in 2018 to 14% in 2019. This corresponds to a 27% increase in volume, driven primarily by high-frequency, low-value retail transactions, like merchant payments.

In 2019, an estimated 4.8 billion payments were made per month. Individuals comprised the largest group of payers making nearly 77% of all payments in the country, followed by payments made by businesses (22%) and by governments (1%). Of these three groups, government payments (G2X) are the most digitized, as they were the previous year. 80% of G2X payments by volume were made through digital channels, up from 63% in 2018. In contrast, the business sector (B2X) is the least digitized, with only 6% of its payments in digital form. Payments made by people (P2X) are 15% digital (up from 12% in 2018).

Figure 1: Shift in and share of digital payments BY VOLUME

Classified by the payer and overall
All numbers are in millions

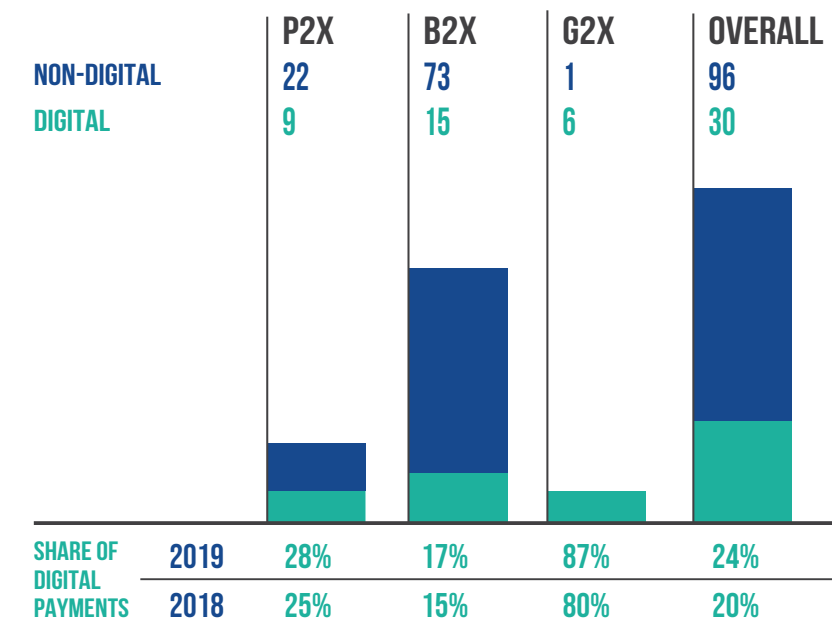


The value of monthly digital payments grew to 24% of all transactions in 2019, up from 20% in 2018. Business to business transactions (the majority of which are supplier payments) formed the bulk of payments by value. They remained largely unchanged from year-on-year, with a comparatively smaller growth rate of 14%. Growth in volume of digital payments has been driven by small-ticket retail payments and hence their impact on the overall value of total digital transactions is limited.

In terms of average monthly value of transactions in 2019, some 87% (PHP320 billion) of payments of the government (G2X) are already in digital form, followed by payments of persons (P2X) at 28% (PHP451 billion). Payments made by businesses (B2X) lag at 17% (PHP765 billion).

Figure 2: Shift in and share of digital payments BY VALUE

Classified by the payer and overall
All numbers are in USD billions



Growth in volume of digital payments has been driven by small-ticket retail payments and hence their impact on the overall value of total digital transactions is limited.

² All values refer to the percentage share of total payments for the given year, BSP.

2020

STRONG EVIDENCE INDICATES THAT COVID-19 HAS INCREASED ADOPTION OF DIGITAL PAYMENTS BY CONSUMERS AND MERCHANTS

Early estimates from the first half of 2020³ suggest that **digital payments rose to 17% of all monthly payments**, propelled by payments made to merchants and person-to-person payments. During this same time, the average monthly value of digital payments increased marginally as well, from 24% to 25%.



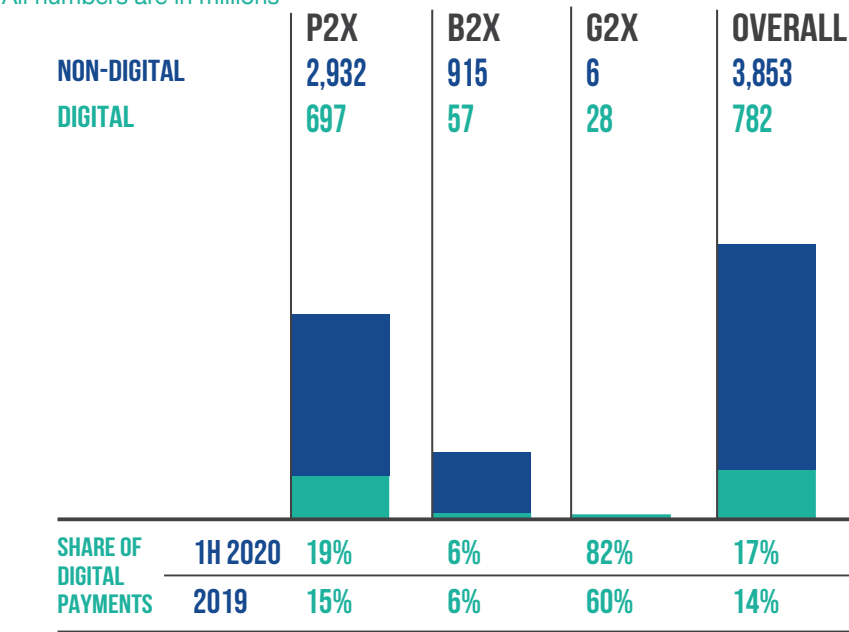
For consumers, the use of digital channels for retail use cases such as merchant and utility payments is powering the spread of digital payments. One e-money issuer saw a 1000% year-on-year increase in remittances, and one large convenience store saw a 10-fold increase in digital payments in the first half of 2020⁴.



For merchants, a boom in e-commerce transactions and merchant acquisition by BSP-Supervised Financial Institutions (BSFIs) is swiftly expanding the appeal of digital payments. Some large retailers are experiencing two to three million more monthly site visits than in the first quarter (Q1) of 2020, and BSFIs acquired five times as many merchants in the first half of 2020 as they did in the entire year of 2018⁵.

Figure 3: Shift in and share of digital payments BY VOLUME

Classified by the payer and overall
All numbers are in millions



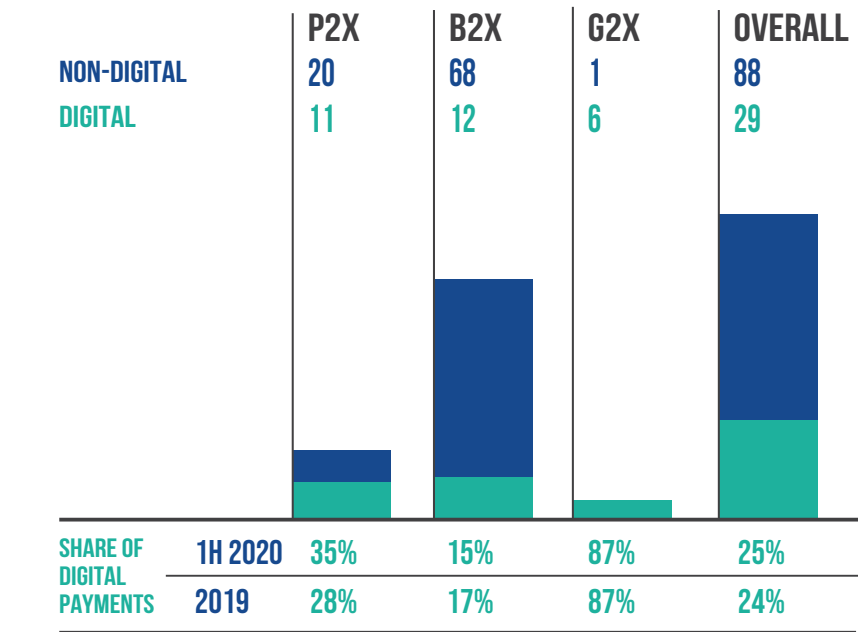
Consumer payments made up the 78% of the 4.6 billion monthly payments in 1H 2020

Consumer payments make up the largest proportion (78%) of the 4.6 billion monthly payments, followed by corporate payments (21%) and payments by the government (1%). The level of digital payments in each use-case remains the same as previous years, with 82% of government payments made digitally, followed by digital payments by consumers (19%). The business sector's rate of digital payments is lowest (6%), a percentage unchanged since 2019.

In the first half of 2020, the largest share of digital payments is G2X, with 87% (equivalent to PHP319 billion), followed by P2X with 35% (PHP547 billion), and digital payments made by B2X at 15% (PHP611 billion).

Figure 4: Shift in and Share of digital payments BY VALUE

Classified by the payer and overall
All numbers are in USD billions



17% of all monthly payments by volume were digital in 1H 2020

³ Based on current data availability, estimates for the first half (1H) 2020 are discussed here.
⁴ As shared during stakeholder interviews.
⁵ As shared during stakeholder interviews.



GOVERNMENT ACTION IN 2020 FURTHER ACCELERATES AWARENESS AND USE OF DIGITAL PAYMENTS

For the government, steps taken to respond to COVID-19 by the BSP, in partnership with the Department of Social Welfare and Development (DSWD) and Department of Labor and Employment (DOLE), have boosted awareness and use of digital payments among Filipinos, through the digital delivery of emergency subsidies, conversion of cash cards to transaction accounts, and encouraging digital salary payments. This is testimony to the need for coordinated focus and action by whole of government to achieve digital payment transformation at scale.

- Notably, the second tranche of the Social Amelioration Program of the DSWD was primarily disbursed through nearly **10 million newly created transaction accounts, which significantly boosted financial inclusion in 2020**⁶. Going forward, the DSWD has also committed to convert the limited-purpose cash cards used for its Pantawid Pamilyang Pilipino Program (4Ps) into full-service transaction accounts. Social aid beneficiaries can prospectively use the funds received to make various payments for food, clothing, and other essential needs through these full-service transaction accounts. Plans for a new unified beneficiary database for DSWD programs and the expansion of payment options for beneficiaries are underway⁷. The integration with the new national ID system (PhilSys) will also enable timely and reliable verification and enrolment of new beneficiaries.
- The Department of Transportation has also made steps toward further digitization of payments by implementing the Automatic Fare Collection System (AFCS) which benefits both passengers and operators through seamless, interoperable, and contactless fare collection. All tollway operators have also been mandated to implement cashless toll collections on all expressways and major toll roads.



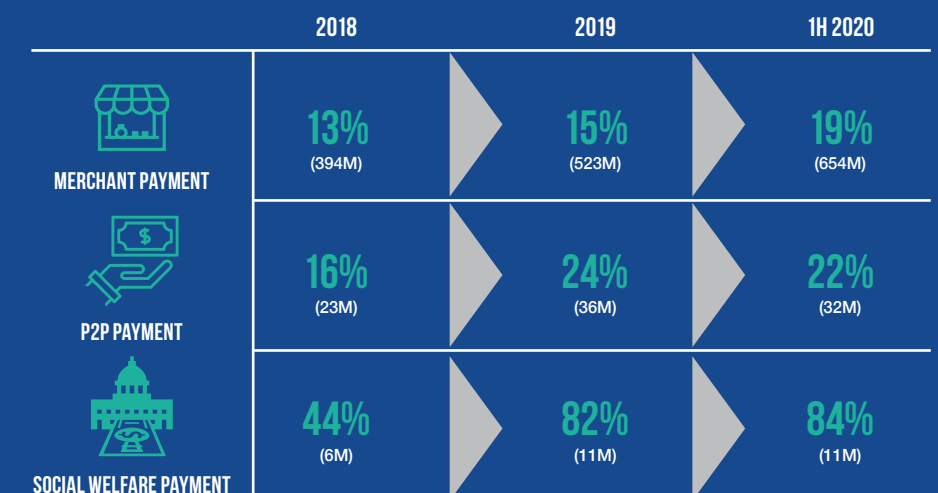
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⁶ Source: 2020 No One Left Behind: The Philippine Financial Inclusion Story

⁷ Source: Beneficiary FIRST Stakeholder Engagement Plan, 2020, World Bank.

WHAT HAS DRIVEN DIGITAL PAYMENTS GROWTH IN THE LAST TWO YEARS? MERCHANT PAYMENTS, PERSON-TO-PERSON PAYMENTS, AND SOCIAL WELFARE PAYMENTS

Figure 5: Key use cases driving growth: Merchant, P2P and Social Welfare payments
Shift in and share of digital payments BY VOLUME



Digital merchant payments grew by 33% in 2019, and remain the largest payment use-case in terms of volume. The upward trajectory for merchant payments continued in the first half of 2020, with a 25% increase. This increase contributed significantly to the strong upward trend in overall volume for merchant payments, driven by the heightened usage of prepaid cards as well as electronic fund transfers (EFT)⁸.

In 2019, digital P2P payments also experienced an uptick, growing by 56% from 2018 levels. This growth was fuelled entirely by increasing use of wallet-to-wallet transfers, with monthly transactions increasing from 23 million to 36 million⁹. This growth was stunted in the first half of 2020, when P2P payments decreased by 11%. However, they remain one of the main drivers on the overall growth of digital payments in the country.

Digital social welfare payments experienced notable increase year-on-year growth in 2019, in both volume (89%) and value (128%). This huge shift was brought about by the improvements in the digitization of Pantawid Pamilyang Pilipino Program (4Ps) transfer and Social Security System (SSS) benefits disbursements. Estimates of social welfare payments for the first half of 2020 show minimal movement compared with 2019 figures.

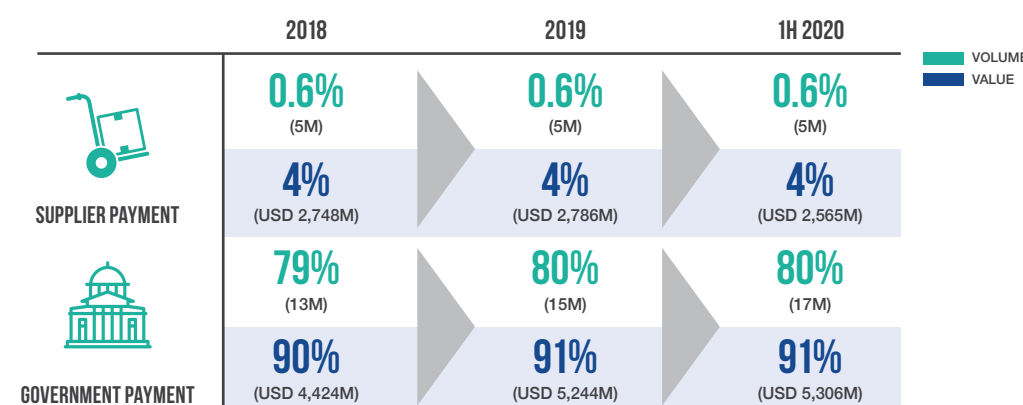
⁸ Source: Euromonitor data, 2020, and Dalberg estimations.

⁹ Source: Electronic Money Issuers report, 2019, BSP-TRISD.

B2B DIGITAL PAYMENTS GROWTH EXPECTED WITH PLANNED E-INVOICING PILOTS AND SIMPLER REQUIREMENTS FOR BUSINESSES

COVID-19
has created
an opportunity
to ensure all
payments are
responsible

Figure 6: Key use cases driving growth: Merchant, P2P and Social Welfare payments
Shift in and share of digital payments BY VOLUME AND VALUE



Muted growth in two major use-cases¹⁰: Business-to-business (B2B) supplier payments remained largely unchanged in terms of both volume and value in 2019. As highlighted in the 2019 Report¹¹, an estimated USD 20–45 billion in annual savings can be realized from digitizing supplier payments. Acknowledging this potential, the Bureau of Internal Revenue (BIR) has prioritized e-invoicing and e-receipt as two of the key online systems to be developed under its digital transformation roadmap. In 2021, a pilot is also planned and, in anticipation of an eventual roll-out, requirements for registering computerized accounting systems have also been simplified, with companies no longer requiring a permit.

Government payments¹², which are already significantly digitized, only increased by two percentage points in volume for 2019 and remained constant in the first half of 2020¹³.

COVID-19 has created an opportunity to ensure all payments are responsible¹⁴
The COVID-19 crisis has been a global wake-up call on the importance of a digital ecosystem that enables the continuation of social and business interactions and commerce. The pandemic has helped to boost adoption of digital payments. In the Philippines, earlier investments to develop a National Retail Payment System founded on interoperability paved the way to reap the benefits of digital payments in times of crisis.

In this period of rapid digitization, it is imperative to ensure that the digital divide is not exacerbated. This translates to a firm commitment to equitable access to digital payments and data protection for all Filipinos, as well as providing a better value proposition to traditionally underserved groups, by working to include lower income people, micro and small businesses, and women, in every possible way.

ACKNOWLEDGMENTS

This continued commitment to driving digital payments growth in the Philippines would not be possible without the leadership of Governor Benjamin E. Diokno.

We thank Deputy Governor Mamerto E. Tangonan, Assistant Governor Edna C. Villa, and Managing Director Vicente T. De Villa III for their stewardship and for always challenging us to raise the bar. We also thank the rest of the Private Sector Operations Department (PSOD) for their dedicated efforts to undertake extensive data collection, as well as the updating and enhancing of the measurement model jointly developed with the Better Than Cash Alliance.

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We also thank Paymaya Philippines for contributing the pictures in the this report.

¹⁰ It should be noted that estimating growth for both use-cases is difficult and figures here are derived from various data sources.

¹¹ 2019 The State of Digital Payments in the Philippines.

¹² Figure 6 does not track digital payments made as part of the Social Amelioration Program in 2H 2020, as it was an extraordinary relief scheme in response to COVID -19 and will not feature as regular G2P payments.

¹³ Government payments here refer to all payments except for G2P social welfare payments.

¹⁴ The Better than Cash Alliance's Responsible Digital Payment Guidebook offers nine guidelines to build trust in digital payments and adapt to continuous innovation.

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