

E-Finance in the Philippines: Status and Prospects for Digital Financial Inclusion

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PIDS PUBLIC SEMINAR ON TECHNOLOGY AND INNOVATION
09 DECEMBER 2019



Philippine Institute for Development Studies

Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Outline

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Financial inclusion and digital finance

- ❑ Financial inclusion means bringing all segments of the population irrespective of their economic situation to have effective access to a wide range of financial products and services
 - ❑ global efforts to provide inclusive financial services because of its great potential in contributing to inclusive growth and income equality
 - ❑ In the Philippines, a key objective under PDP
- ❑ Digital finance as an instrument for financial inclusion
 - ❑ by providing the financially excluded (underserved and unserved) and SMEs with access to relevant, appropriately designed and affordable financial services
 - ❑ through digital channels such as mobile phones, point-of-sale (POS) terminals, networks of small-scale agents, payment aggregators
 - ❑ Having access to basic mobile payments services allows sending of money, paying of bills, or purchasing prepaid electricity with greater ease, affordability and access (GSMA Global Adoption Survey)



Objectives of the study

- ❑ What is the current landscape of digital finance in the Philippines?
- ❑ What are the users' perceived advantages and disadvantages, challenges and facilitating factors in using e-money/digital products?
- ❑ What are the roles of the regulators in the propagation of digital finance in the Philippines?

E-finance in the Philippines

Number of banks authorized by BSP to engage in e-banking operations

As of end-June 2019								
Bank Category	Number of banks with electronic facilities ¹	Number of banks with e-banking and e-money applications						
		Mobile banking	Phone banking	Internet banking (proprietary)	Internet banking thru BancNet ² Online	Mobile financial services thru mobile apps	BancNet POS cash-out aggregator/acquirer	Electronic money issuers (prepaid/cash/remittance)
Universal and commercial	41	15	14	35	6	22	10	19
Thrift	28	8	6	11	7	7	7	8
Rural and cooperative	16	1	0	1	2	0	9	4
Total	85	24	20	47	15	29	26	31

¹ As approved by the BSP

² BancNet is a Philippine-based interbank network.

Source: Appendix 7, BSP (2019a)



Electronic money in the Philippines

	2017	2018	Growth (%)
Number of E-Money Accounts (in millions)			
Active e-money wallets	2.2	5.0	132.7
Prepaid cards (linked to e-money)	24.9	28.0	12.5
Cards (in millions)			
ATM debit cards	38.7	39.5	2.0
Credit cards	8.0	9.4	18.0

*E-money accounts (excluding Gcash and Smart Money) issued by other E-Money issuers

Source: Financial Inclusion in the Philippines Dashboard, BSP.

Reasons for not transacting with e-money agents

	No. of respondents	%
Products and services offered by the access point are not necessary	124	59.3
Products and services are not suited to personal requirements and preferences	31	14.8
Uncomfortable in going to the access point	10	4.8
Presence of long lines and long waiting time in the access point	2	1.0
Products and services are not cheap	8	3.8
Lack / Absence of necessary documents required in transacting with the access point	8	3.8
Lack of trust in the access point	6	2.9
Lack of awareness in conducting transactions	15	7.2
Other people (i.e. relatives) does the transaction for them	5	2.4
Total	209	100.0

Indicators for digital payments in selected Asian countries, 2017

Indicators ^a	CN	IN	ID	JP	KR	MY	PH	SG	TH	VN	East Asia & Pacific
Made or received digital payments	67.9	28.7	34.6	95.3	92.4	70.4	25.1	90.1	62.3	22.7	58.0
Made or received digital payments, 2014	44.5	19.3	22.4	88.7	86.1	57.8	19.5	87.0	33.2	18.1	39.0
Used an account to pay utility bills	25.8	6.5	12.0	64.5	66.5	25.3	2.3	44.5	10.5	2.9	20.8
Used an account to receive private sector wages	19.3	5.4	5.9	47.3	41.9	20.5	6.6	44.1	12.0	8.9	15.9
Used an account to receive government payments	12.8	8.1	8.9	43.4	29.7	25.1	10.0	31.7	27.9	3.0	12.2
Used the internet to pay bills or to buy something online	48.8	4.3	11.2	48.1	76.0	38.8	9.9	56.6	18.7	20.5	38.6
Used a mobile phone or the internet to access an account	39.8	5.3	7.7	33.3	67.1	32.6	7.0	48.7	17.4	9.2	31.0
Used a debit or credit card to make a purchase	41.9	12.3	12.3	68.7	83.9	39.4	5.1	77.0	21.3	6.2	33.1

Note: ^a% with an account, age 15+

Source: World Bank's 2017 Findex Database

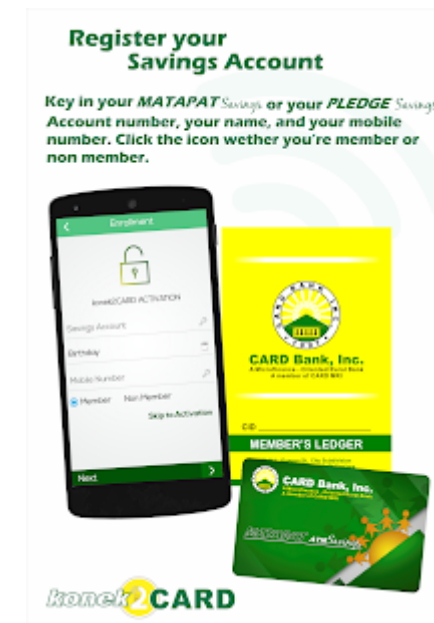


Role of the regulator

- ❑ Support access and use of digital financial services
- ❑ Consumer protection
- ❑ Digital literacy
- ❑ Maintain regulatory tools and capabilities, while anticipating future demands of the market
- ❑ Ensure connectivity – faster, affordable, secure internet connection
- ❑ Encourage development of accessible, affordable, comprehensible products (e.g. microdeposit, microinsurance)

Case of *Konek2CARD* mobile app

- ❑ Konek2CARD or k2c is a mobile banking application introduced by CARD Bank, Inc.
- ❑ Services available
 - ❑ Cash-in (deposit/savings)
 - ❑ Cash-out (withdrawal/loans)
 - ❑ Cash payment
 - ❑ Balance inquiry, transaction history
 - ❑ Fund transfer (within the bank)
 - ❑ Customer service



- CARD Bank, Inc is a microfinance-oriented rural bank
- Digitalization efforts started in 2011

FGD with k2C users

- ❑ FGD was conducted to determine the responsiveness of members (i.e. clients and agents) in using digital financial services (konek2CARD), usage behavior, challenge and issues.
- ❑ Participants of the FGD are registered to the k2C.
 - ❑ Majority are at least highschool graduates (84%),
 - ❑ married (92%),
 - ❑ self-employed (86%)– sari-sari store owner, direct seller/buy&sell, computer rentals, piggery, e-load/e-money; they also receive money from remittances from family/relatives
 - ❑ Have been clients of the CARD Bank for 5 years or more (70%); reasons for opening a bank account are for savings, loans, for their business and tuition of their children

FGD findings

Advantages of using k2C

- Easier, faster, transaction process
- Convenience
- Lesser cost
- Saves time

Bottlenecks to using k2C

- Misconception about technological upgrade
- Presence of alternative option
- High overall transaction charges
- Absence of required device (smartphone)
- Weak/intermittent mobile phone signal



Case study insights

- ❑ Digital finance benefits households and individuals

 - ❑ Convenient, time-saving, less costly bank transactions

Previous studies:

 - ❑ Owning a bank/financial account (especially by women in the household) > spend more on food, education and health > increase welfare and productivity of the family

 - ❑ Time and money spent saved from not going to the bank > improved management of time and expenses

- ❑ Financial inclusion entails relevance of financial services provided to customers

- ❑ Issues/concerns can discourage adoption of technology (access cost, connectivity, hesitance)



Conclusion and Recommendations

- ❑ Financial education/literacy and review of the complexity of digital platforms
 - ❑ There is some hesitation to use digital services by the older/less tech savvy segment of the population
- ❑ Improve digital infrastructure
 - ❑ Usage of e-finance depends largely on digital infrastructure
- ❑ Continue to find ways to extend more affordable, suitable and convenient financial services to Filipinos especially those in hard-to-reach areas
 - ❑ Private sector has been active and innovative in improving the financial landscape (e.g. CARD Bank, FINTQ)
- ❑ Invest in innovative methods of identification (e.g. national ID system, biometric scan)
 - ❑ Facilitate potential users who may not have or have difficulty securing ID cards to participate in the financial system
- ❑ Interoperability could be a source of concern in the future since it affects the costs of service provision



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