

DIGITAL PAYMENTS IN THE PHILIPPINES

A Glimpse Into The Technologies Powering IT





Philippines is at a crucial juncture in its journey towards accelerating the adoption of digital payments. The banking ecosystem in the Philippines is ramping up its digital transformation efforts, and the numbers reveal a landscape that is ripe for digital banking innovation.

Consumer behavior patterns have changed, and consumers today are averse to the idea of physically visiting a bank. The notion of commuting, walking, filling out deposit slips, and waiting in long queues feels cumbersome. Fortunately, there is a cognizance within the banking industry in the Philippines about leveraging technology to facilitate innovative banking solutions.

Presently, a large number of Filipinos remain unbanked despite the rapid adoption of banking apps in the country as per a Statista survey held in 2021: It

highlights that around 56 percent of the total population in the Philippines has an account with a financial institution.

Philippines' central bank, the Bangko Sentral ng Pilipinas (BSP), is placing significant emphasis on the digitization of financial services: BSP has projected that by 2023, digital payments shall comprise 50 percent of the country's retail volume.

BSP also projects that

70 percent of adult Filipinos

shall have bank accounts

by 2023.

Let's take a closer look at the key developments, technologies, and frameworks that shall catalyze the growth of digital transactions in the Philippines.

KEY DIGITAL PAYMENTS DEVELOPMENTS IN THE PHILIPPINES

BSP, in collaboration with the payment systems industry introduced a QR standard that is known as QRPh for person to merchant (P2M) payments in the Philippines. BSP has enhanced QRPh to enable person-to-merchant (P2M) payments, which would help small companies digitalize; this move is a critical measure to accelerate the digitalization of payments across the Philippines.

However, QRPh is far more than just a quick, convenient, and secure digital payments option. In many ways, QRPh is nothing short of a game changer for the digital payments ecosystem in the country.

KEY TAKEAWAYS



It protects a merchants' information security. They no longer have to display their entire name and account number in public. All they need to present with QRPh is their QRPh code, which their clients may photograph or download. With QRPh, instances of payments being transmitted to wrong account numbers are circumvented.



It enables various businesses, especially micro, small, and medium-sized enterprises

(MSMEs), to join the official financial system. Clients have the option of paying to the last centavo via digital transactions.



It contributes to the growth of the client base of banks and e-wallets. Clients will naturally gravitate toward payment service providers who offer greater convenience.



With QRPh, the degree and scale of interoperability shall be higher for end-users and businesses in the Philippines.

In addition, BSP is developing cybersecurity regulations that will require banks and other financial institutions under its supervision to implement robust technological risk management systems as well as comprehensive cybersecurity resilience controls and procedures.

THE ROLE OF INSTAPAY AND PESONET

Electronic Fund Transfers are a major component of BSP's digital banking vision. In this regard, there are two digital payments technology frameworks used in the Philippines that are InstaPay and PESONet. Seemingly similar on the surface, InstaPay and PESONet differ in terms of fund transfer time, availability, and transaction fees apart from other key facets.

InstaPay is an EFT that was established under the National Retail Payment System and is regulated by the BSP. Its primary objective is to offer Filipinos a secure, inexpensive, and efficient retail payment solution.

InstaPay is ideally suited for urgent transfers that are below PHP 50,000 in per transaction value .

The only major disadvantage that InstaPay has is the PHP 50,000 per transaction limit. Thus, sums of more than PHP 50,000 shall have to be sent in quick installments. InstaPay is available 24/7 for domestic

transactions and transfers take place within seconds.

Whereas PESONet is an acronym for Philippine EFT System and Operations Network. It comes under the ambit of the BSP regulated NRPS program that InstaPay also leverages. PESONet facilitates high value transfers of Peso funds on a large scale digitally. PESONet transactions consist of large-scale recurring payments, salaries, and invoice payments. InstaPay is ideally suited for small urgent transactions that happen instantly whereas PESONet is meant for large transactions that are not time bound. To offer a greater impetus to digital payments, BSP is working on a CBDC and a merchant acquiring and aggregation licensing framework as well a cooperative oversight framework. On its part, BSP has a keen awareness of existing need-gaps and the InstaPay and PESONet frameworks shall help foster greater digital banking innovation. BSP is also working on developing a multilateral cross border payments solution for countries in the ASEAN region that are seamless and relatively inexpensive.

Apart from the BSP, the Bank of the Philippine Islands (BPI), the first bank in the Philippines and a licensed universal bank, too has an important role to play in Philippines' booming digital payments ecosystem especially with the InstaPay 2.0 framework.

To achieve their digital transformation goals, banks in the Philippines shall require modern technologies to transform their legacy message structures to contemporary standards; this will enable banks to not only offer cutting edge features to their customers but also pave the way for richer user experiences.

BPI is aware of the various challenges that banks in the Philippines are facing.

BPI will use Ren, a payment technology solution from Euronet.

This is to quickly interface to the latest ISO 20022 standards used by InstaPay and connect them with the bank's channels.

ISO 20022 is a new communications standard that has become the global language for real-time transactions and provides richer data and enhanced remittance information, allowing banks to develop novel business services that fully utilize a real-time payments infrastructure. Keeping in mind the aforementioned developments and technology frameworks, banks in the Philippines ought to carefully determine their payments modernization strategy and partner with key players in the digital banking ecosystem to foster greater financial inclusion.

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