

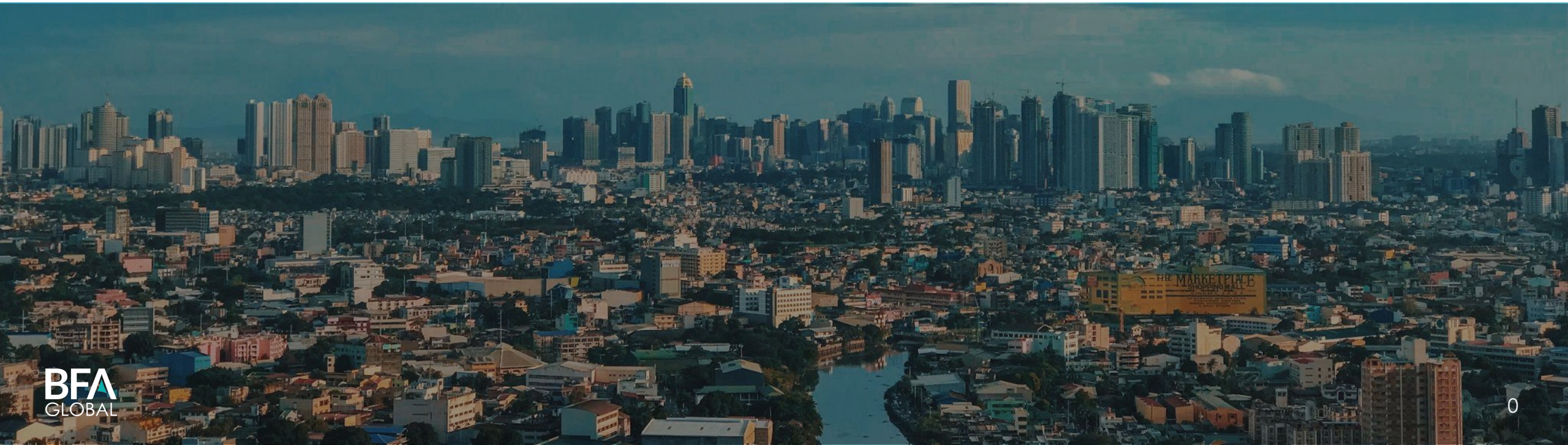
# 03



## Philippines

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# Summary Frame





# Country summary: Philippines

Country group

LMIC

% adults with a financial account  
(Findex, 2017)

34%

## ACCOUNT TO ACCOUNT R/T:

Name of scheme/s	InstaPay
Date of launch	Apr, 2018
Scheme manager	Philippine Payments Management Inc. (PPMI) a PSMB whose board is made up of bank and NB-EMIs
Switch operator	BancNet - Private entity fully-owned by banks
% financial accounts included in scheme	64 BSP Supervised Financial Institutions (BSFIs) offering payments via electronic delivery channels of 513 BSFIs


### Highlights from country:

- InstaPay carries its own brand consistently across the providers.
- Heavily led by the regulator through guidelines and mandates, but implemented by the Clearing Switch Operator (CSO) and participants under the PSMB.
- The regulator required that non-banks be able to participate
- Uptake is inline with expectations and a diverse set of use cases and enhanced features are available.
- Formal account ownership increased from 22.6% of adults in 2017 before InstaPay became effective, to an estimated that 53% as of the first quarter of 2021. The growth is mainly attributed to EMIs.

## INTEROPERABILITY JOURNEY:



- In 2015, BSP launched the National Retail Payment System (NRPS) a flagship program built on the following core principles: (1) separation of payment system governance from clearing operations; (2) fair and level-playing field of payment system participants; (3) reasonable, market-based pricing of payment services; and (4) increased interoperability, among others.
- This lay the foundation for adoption of the NRPS Framework in Nov 2017 aiming to increase electronic payments to 20% by 2020 and recognition of a PSMB in Jan 2018.
- InstaPay was launched in Apr 2018 under the said framework as a real-time low-value instant EFT credit push payment scheme.
- BSP mandated all BSFIs with authority and capability to offer electronic financial and payment services (EFPS) to make InstaPay and PESOnet available across all existing electronic delivery channels by 30 Nov 2018.
- To date only a fraction of BSFIs offer the solution. However, InstaPay had achieved an average of about 2.8 mil transactions per month in 2019 and reached 37.6 mil transactions per month in 2021.
- BSP continues to monitor the situation and provides support for wider reach.

# Calibrating the role of public sector in IO

		Funding & implementation role			
In setup and beyond		0: None	1: Participate/ co-fund	2. Incubate only	3: Sole fund
Policy role	0: Endorse		<ul style="list-style-type: none"> <li>Through various circulars and memorandums, the BSP retains an active role in setting the direction of the system, e.g.               <ul style="list-style-type: none"> <li>by issuing the NRPS framework that formed the governance foundation for InstaPay</li> <li>by ultimately issuing a mandate following consultation for BSFIs to offer InstaPay and PesoNet, as well as other mandates related to public education, no-bilateral switching, pricing and disclosing fees to fulfil the laid out vision</li> </ul> </li> </ul>		
	1: Catalyze 1--Encouragea				At this level, regulator applies moral suasion but takes no direct action
	2: Catalyze 2 -Actively convene & participate				Regulator also takes direct steps, such as studies, convening or threats
	3: Mandate		<ul style="list-style-type: none"> <li>However, much of the scheme decision-making is managed by Philippine Payments Management, Inc. (PPMI), a PSMB that is managed by the industry               <ul style="list-style-type: none"> <li>The industry through the PPMI was free to determine the steps e.g. select the clearing system operator, create the InstaPay clearing rules and implement within specified parameters set through consultation</li> </ul> </li> </ul>		Mandate could include 1 or more of: <ul style="list-style-type: none"> <li>Required connection to central switch</li> <li>Required participation in a scheme</li> <li>Method and/or level of interparty fees set</li> </ul>
	Oversee				Typical role may be oversight, but this may not apply to non-prominent non-prominent Retail Payment Systems

# Country Interoperability summary frame

Heavily led by the regulator through guidelines and an ex-post mandated, but implemented by the PSMB.

A2A or CICO		PUBLIC POLICY ROLE IN INCEPTION					PUBLIC ROLE IN IMPLEMENTATION			
		0. Endorse	1. Catalyze 1	2. Catalyze 2	3. Mandate	None	0. None	1. Co-fund	2. Incubate	3. Fund and own
O U T C O M E	0. Uncertain /too early									
	1. Below expectations									
	2. In line with expectations									
	3. Above expectations									

(NRPS) Framework key objectives were to transition to cashlite, to increase adoption of electronic retail payments from 1% electronic payments in 2013 to 20% electronic payments by 2020 by promoting: Interoperability, Inclusiveness and Coopetition (Cooperation +Competition). In Nov 2019, the governor of BSP noted the strong progress and extended BSP's own ambitious target to reach 50% by value by the end of 2023. (Agcaoili 2019)

# InstaPay: Features and Economics

**Year launched:** [April, 2018](#)

**Speed of posting to accounts:** 2 to 3 seconds from receipt of clearing advice ([BSP 2018](#))

**Operating hours:** 24/7/365

**Store of value:** Bank accounts and EMI wallets

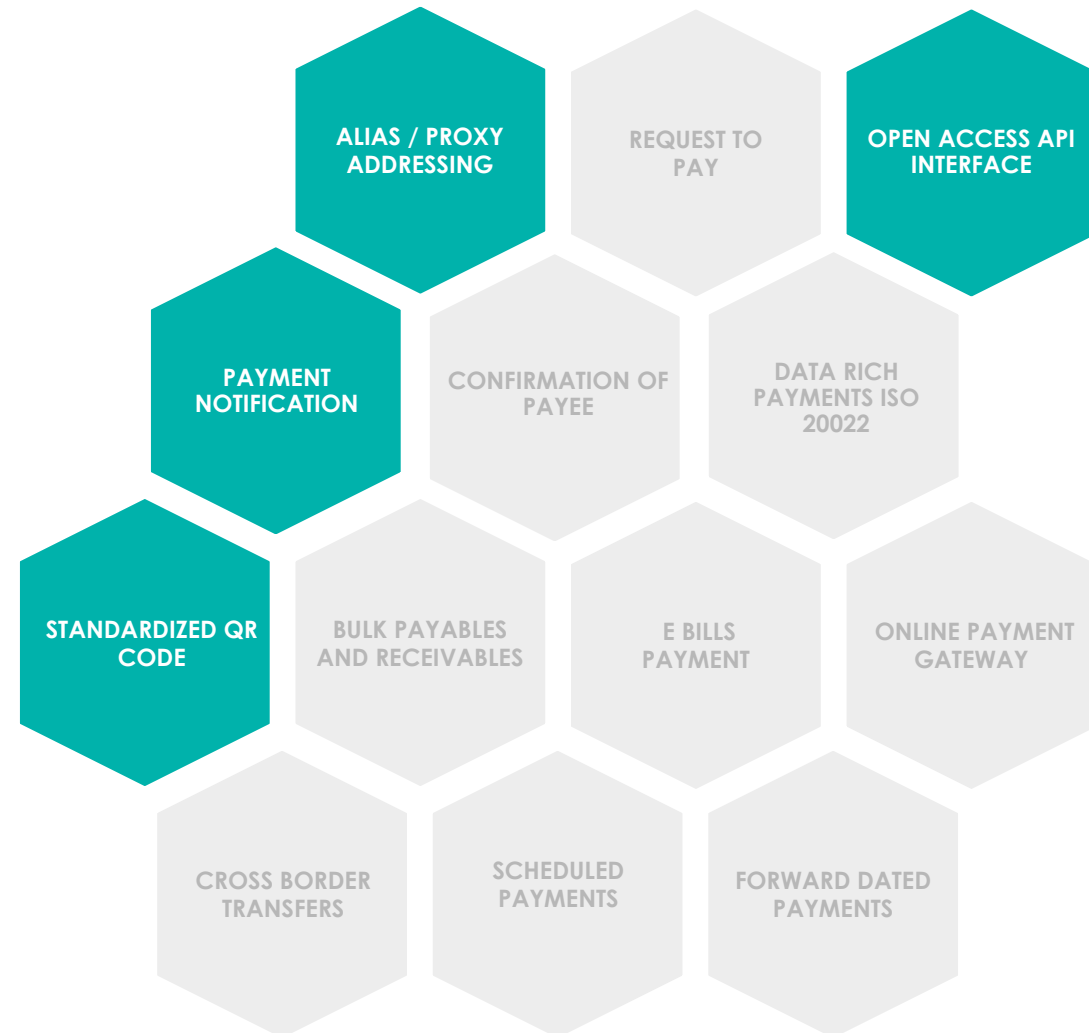
**Channels:** Mobile apps and Internet banking

**Use cases:** P2P, P2B, P2G, B2P, B2B, B2G, G2P, G2B & G2G.

**Consumer fees:** [PHP 0 to 25](#) (about USD 0 to 0.5) depending on the participating institution, although [some have waived as a COVID response](#) measure.

**Objective:** Higher e-payments usage by 2020, boost cashless transactions from 1% to 20% by 2020.

**Maximum value:** Customers can transfer funds up to PHP50,000 (about USD 1,000) per transaction many times in a day. However, banks or non banks can set a minimum amount for sending and an aggregate daily limit. ([Factsheet 2021](#))



# InstaPay: Features and Economics

## Provider fees:

- Sender pays model is applied.
- Sending participant sets the InstaPay fee for their customers which currently ranges from free to PHP 25 (USD 0.5)
- For P2P, the switching fee PHP 1 (USD 0.02) per transaction but this was to be revised in as of Jan 1 2022 to PHP 3 (USD 0.06).
- P2M has a different pricing: merchant pays the receiving financial institution (MDR or flat fee depending on arrangement), this is where the sharing will come from.
  - 3 entities acquirer, originating, receiving.
  - Floor price is 50 centavos (in pesos) or % of MDR whichever is higher (depending on flat or %) - received by originator
  - e.g PHP 10 for every transaction. Now PHP 3 to the operator (switch) from PHP 1 as of January 2022, 60 centavos to the originator because it's flat.  $10 - 1 - 0.6 = 8.40$  to receiving entity.

## Transaction size:

- Average ticket size: PHP 5,500 to 5,900 had been the case for the first two years
- First half of 2020 the ticket size most transacted: <PHP 1,000
- First half of 2021 the ticket size most transacted: PHP 900 to 2000
- In 2020, no fees were charged by some of the NB-EMIs so people sent much smaller amounts





# Setup and Ownership





# Summary frame: A2A interoperability stipulated objectives - PesaLink

Pesalink set out to **provide more efficient and cheaper rails for the flow of money** across banks first, ultimately enticing other FSPs to use its rails based on the same value proposition.

- Despite the notion that it was launched by banks to compete with Mpesa, the scheme highlighted that Pesalink was addressing a market gap and a different market:

*"The real agenda was: (i) to provide instant services for bank customers as there were a lot of transactions beyond the M-pesa limit (KES70,000 at the time) that were being facilitated by the banks through paper checks and EFTs...and (ii) there was the opportunity to also serve non-bank players by offering more efficient rails, besides (banks were already facilitating wholesale transactions) as any FSP facilitating any payments would terminate at a commercial bank if not the central bank" - Scheme representative*

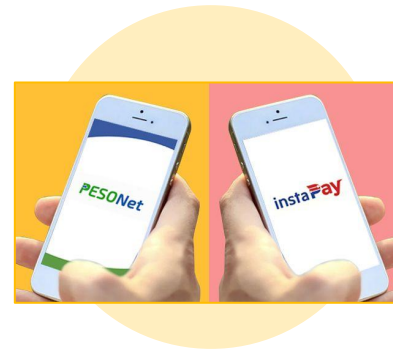


PesaLink is a realtime interbank money transfer service

Image source: <https://www.ipsl.co.ke/>

# InstaPay: Stipulated Objectives

PESONet (batch EFT credit payment scheme) and InstaPay (real-time low-value EFT credit push payment scheme) were launched under the National Retail Payment Framework **to increase e-payment transactions to 20 percent by 2020** for the benefit of the consumers, the industry and the economy as a whole.



They were launched in November 2017 and April 2018 respectively, following the adoption of the National Retail Payment System (NRPS) Framework in 02 Nov 2017.



"In 2013 there was a diagnostic study conducted in the Philippines, 1% transactions were in electronic format - that is where our journey started. We made reforms on our retail system and targeted that by 2020, we grow the 1% to 20% 2020." - **Regulator**



# InstaPay: Background and Role of Regulator



## Industry instigator and mobilizer to develop solutions

The BSP jolted the industry into action following the BTCA 2013 diagnostic study that determined that only 1% of transactions in Philippines were in electronic format.

### **BSP drove consensus among industry participants to leverage their existing platforms to deliver InstaPay national payments switch:**

- In 2014, the push for a national switch started. The BSP began to engage the chair of BancNet. At the time BancNet provided Inter Bank Funds Transfer (IBFT) using their ATM switch. Although it worked well, it was only available to card holders as transfer of funds mimicked an ATM withdrawal (see *footnote*), also it was only open to banks and MFIs participating in BancNet. Still not all members were able to (or wanted to) participate, there were only a number who accommodated the direct credit to an account and these were where beneficiaries could receive an IBFT.
- BSP brokered the merger of BancNet and MegaLink in [Jan 2015](#), the two largest Automated Teller Machine (ATM) consortiums in the Philippines, leaving BancNet (the larger of the two) as the surviving entity.
  - The merger was brokered by BSP to promote “[interoperability, efficiency, security, and inclusiveness](#)” paving way for a national payments switch, as it was crafting the NRPS framework which was launched in December 2015.
  - As a result, the IBFT credit transfer was formalized across a wider network of banks and MFIs.
  - This was formalized when BSP asked the two ATM switches to merge - megalink and banknet to achieve economies of scale to give way to a national switch that would become a national payment switch, while they were crafting the NRPS framework.

### **BSP also developed the [NRPS framework](#) which put forward the cash-lite agenda and enabled it to be driven by the industry players through a PSMB with support and input from the BSP.** The framework:

- Resulted in the launch of InstaPay as an initiative to increase e-payment transactions to 20 percent by 2020.
- Required the separation of governance of the payment system, which includes the establishment and implementation of standards and rules, from the actual clearing operations; and
- Called for an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral to perform the governance role.

*IBFT ran like an ATM using ISO8583 and the rules are simple. Any card issued in the Philippines could be used to fund the instant payment. BancNet pulled the funds from the card issuer account as though it was a cash withdrawal so it was open to all with a card to initiate an IBFT, which could be done from ATMs or BankNet's own website.*

Source: BFA interviews (2021)

# InstaPay: Role of Regulator



Intervening to balance industry needs and broader financial inclusion and digital payment goals

Even while letting the industry drive the agenda, **the BSP exerted influence to ensure inclusiveness of the payments system to non-banks despite push back from the industry:**

- At launch, the PSMB was composed of representatives from 70 banks and also e-money issuers who signed the agreement.

*"[With regards to financial inclusion], 'we were allergic to EMLs. Moral suasion to collaborate with them was not enough, so governance framework from the BSP was necessary to make it happen. We've noticed that it is not that bad. It has give EMLs a space to do what they are good at. It is hard to make money just on payments alone so EMLs have to study and learn how to do that, meaning they may have to partner with us or lend on their own. They have not cannibalized our market, as our focus is not financial inclusion. We do not serve the market.'" - Bank 1*

*"It is necessary for a regulator to play a role if the intention is to move things quickly. Also where the market is too skewed; players with significant market share may not have volunteered or would have opted out.'" - Bank 2*

Source: BFA interviews (2021)



Photo by Sebastian Herrmann on Unsplash

# InstaPay: Role of Regulator



**Ex-post mandates to formalize industry consensus coupled with measured implementation to cater for market readiness and context**

- In September 2018, the **BSP mandated that all BSP Supervised Financial institutions (BSFIs)** authorized to offer electronic financial and payment services (EFPS) to make InstaPay and PESOnet available across all existing electronic delivery channels by 30 Nov 2018.
- **However, the mandate is yet to be fully realized, a 100% participation by all the players** is yet to be achieved.
- **This is enabled by BSPs design to allow for market readiness and context:**
  - For example, there are still participants that are only receivers.
  - BSP approval allows for BSFIs to be receivers only, or both sender and receiver, with the latter having higher requirements to ensure soundness of the system. This staged approach ensures inclusiveness based on technical capability and capital.
  - According to PPML, the BSP closely monitors the developments. It requires reporting by PPML on entities that are not participating 100% to determine the barriers and explore solutions.
  - Providing functionalities such as request to pay and broader usecases such as P2M is also not compulsory
- Furthermore, **although the [2018 Guidelines on the National Retail Payment System \(NRPS\)](#) Key Principles and Specific Rules prohibit bilateral clearing, various bilateral integration between EMLs and Banks exist.** Certain participants complained that it provided unfair advantage as flows that did not go through the dedicated switch accrued no charges. However, those that supported such flows explained that their intention was to provide greater convenience and value to end users.



*Coming from a country where the regulator dictated what we can do, I consider BSPs an interventionist. BSP has achieved a healthy tension. [As an FSP] You may not win this time but doors are open for discussion. - **Bank***



*We have a bilateral connection with two of the EMLs. This was set up to allow for loading of wallets from bank accounts at no cost to the customer. The wallets however charge for transfers from wallet to bank but this is not often the case. - **Bank***



# InstaPay: Role of Regulator



**Tempo-setter: Monitors and keeps raising the bar**

As a follow up to the National Retail Payment System (NRPS) Framework which targeted to increase digital payments from 1% in 2013 to 20% in 2020, which was reached; BSP published a [digital payments roadmap](#) in 2020 to provide renewed targets to be achieved by 2023. These include:

- Converting 50% of the total volume of retail payments into digital form by offering faster, affordable and convenient payment solutions to Filipinos
- Expanding financial inclusion to 70% by providing wider access to basic transaction accounts via banks and non-bank e-money issuers

Already, [BSP reported](#) that 53% of Filipino adults were financially included as of the first quarter of 2021, and digital payments to total retail transactions volumes increased to 30 percent in [2021](#).

# InstaPay: Role of Regulator



Spur innovation and collaborates with innovators to fill gaps, resulting in business models with a high propensity to adequately serve the poor

**It was noted that BSP closely worked with two crucial innovators that have proved fundamental for expanding reach to the underserved in Philippines:**

- Gcash which is the largest InstaPay market share in terms of volumes, 25% outgoing and 40% receiving, noted working closely with BSP to drive awareness and education.
- i2i a financial services network that connects hundreds of thrift banks, rural banks, pawn shops and community-based financial service providers to each other, the National Retail Payment System (NRPS), and the largest remittance channels, explained that they've received strong regulatory support from BSP. They are a product of a central bank sandbox:



"We initially tested with 6 players initially in a central bank sandbox. It was actually the central bank that encouraged us to expand the reach of the NRPS."

**- i2i representative**

**BSP has also developed various frameworks in consultation with the industry to continue supporting innovation and reach to the underserved:**

- Digital Banking Framework and granting licenses to 6 entities in [2021](#).
- [Test and Learn Framework or Regulatory Sandbox](#) (2022 draft)
- Open Finance Roadmap 2021-2024
- [CBDC exploratory study](#) and recommendations
- [Incentivising](#) opening of basic account following basic deposit account framework in 2018
- Recently launched 2022-2028 national strategy for financial inclusion

# InstaPay: Business Model



The regulator keeps a close eye on fees charged to consumers and intervenes from time to time with consideration for participants' business case

## Customer fees:

- The regulator closely monitors the charges applied to customers. BSP-supervised financial institutions are mandated to disclose fees on electronic payments pursuant to [Circular 980](#).
- Participating institutions apply a fixed fee regardless of the transaction amount.
- Initially, the fees ranged from PHP 0 to 100, but they have since come down and range between [PHP 0 to 25](#) (about USD 0 to 0.5) depending on the participating institution. Most institutions applied zero as [a COVID response](#) measure and some are yet to readjust up the fees.
- Towards the end of 2021, majority of participating institutions had started to raise fees that had been waived during the height of the COVID-19 pandemic.
- Others raised or were planning to raise consumer fees to pass on the cost of new switching fees (PHP 3 from 1).
- In December 2021, the [BSP imposed a moratorium](#) on the planned fee increases for electronic fund transfers by banks and other financial institutions until the share of digital payments to total transactions doubles to 40 percent or upon issuance of pricing guidelines, whichever comes earlier.
- MDR applied for P2M.



Waiving fees started from participants, the core group then everyone started following coupled with **moral suasion from the regulator**. Similar to adoption of SMS 15 years ago. - **Bank**

The regulator provides support, parameters where we can work within, active dialogue, and respects some of our opinions as a business driven decision. .... For instance, during the pandemic last year, **the regulator asked all banks to waive consumer fees but acknowledged the cost to participants**. As a result it was agreed that participants consider waivers for few months as they monitor, and based on outcome maybe extend.- **Bank**

We are providing it as a service with aim of cost recovery. **We are a highly regulated industry and we are mindful that the regulator will force open the books to see if we are making money**. We are always being asked to substantiate what we charge in all services not just this one - **Bank**

PHP 1 I can absorb but PHP 3 I have to pass on the cost to the consumer. - **Bank**



# InstaPay: Operational Fees and Infrastructure



## Migration by the Clearing Switch Operator to an outsourced switch to enhance capacity, functionality and maintainability

- **The CSO's InstaPay clearing fee increased to PHP 3 per transaction from PHP 1 as of January 2022.** This follows BancNet, the Clearing Switch Operator (CSO), migrating switching to the VocaLink infrastructure in March 2020.
- Due to the PHP1 fee not covering VocaLink and BancNet's costs the fee was increased to PHP 3. The **increased fee has been a contentious issue.**
  - Many stakeholders remarked that the increase in cost that came with the migration was unknown to PPMI, although BancNet noted giving PPMI ample time to respond to the proposal.
  - Ultimately, some stakeholders pointed out that the complication arose due to conflict of interest: The fact that some directors of PPMI also served as directors of BancNet made it difficult for them to push for decisions that were in the industry's best interest.
  - It should also be noted that the PHP 1 clearing fee was an agreement between the BSP and BancNet on the assumption that InstaPay could be run based on the marginal cost of the BancNet ATM switch and not based on a new ISO20022 switch with sufficient capacity to manage the 40m or more InstaPay transactions per month.
- However, **the migration to VocaLink for switching was necessary to enhance functionality and capacity:**
  - BancNet had only 3 months in 2018 to prepare to be the InstaPay CSO which was the key reason that they leveraged existing functionality on their ATM switch as the InstaPay switch, as a quick fix.
  - As transactions volumes grew exponentially, there was a need to seek greater capacity.
  - The migration aimed to future proof the system for future innovation by expanding functionality e.g ISO20022 messaging standards, fraud, tracing and alerting, building more payment usecases e.g P2M.
  - Technology resources dwindled as more skilled people migrated to Singapore, the USA etc making it unsustainable for BancNet to provide, maintain and build their own infrastructure locally.
  - Outsourced to VocaLink to access support future functionality and accommodate higher volumes.
- **BancNet now serves as the first line of support for the participating institutions** operating the communication network for the participants in Philippines with VocaLink operating the clearing operations in Singapore.

# InstaPay: Scheme Management



Delegated to a regulatory payments service management body - Philippine Payments Management, Inc. (PPMI)



## PPMI:

- A stand-alone, self-governing regulatory, not-for-profit structure, run by payment industry participants in the Philippines.
- **Established in 2017 by payment industry participants and with support from the BSP** and duly recognized by BSP as the country's **Payment System Management Body (PSMB) in 2018.**
- The PPMI **oversees the environment by which financial institutions cooperate to enable payments** between accounts in different financial institutions **in alignment with the policies and strategies of the National Retail Payment System (NRPS) Framework** and in close coordination with the BSP.

## PPMI membership (PPMI & CGAP 2021):

- **PPMI members include all qualified direct clearing participants (banks and nonbank e-money issuers)** in the Philippines. See the membership participation process [here](#).
- It is important to note that InstaPay participating institutions that do not have PhilPaSS membership may participate through a settlement sponsorship arrangement with a PhilPaSS member. ([Factsheet, 2021](#))

### Overseer/ regulator

Under oversight of the Bangko Sentral ng Pilipinas with support from PPMI a self-governing regulatory PSMB.

### Scheme operator

BancNet, serves as the payment system operator but has migrated the clearing switch operation to VocaLink.

### Settlement

Settlement is done via the BSP's real time gross settlement system, known as PhilPaSS. It is performed on a deferred net basis.

# InstaPay: Scheme Governance



## PPMI governance framework (PPMI & CGAP 2021):



- The overall decision making body, **PPMI Board is composed of representatives from** universal and commercial **banks**, thrift banks, rural banks, and **non-bank e-money issuers** (NB-EMIs), as well as **independent executives that represent broader public interests**.
- **The governance structure is intentional about non-banks having a say in the payment system** by reserving board seats, still non-banks have qualified on merit.
  - At the time of reporting, there were: 15 board members: 6 facilitate highest volumes, 3 nominated by banks, another 3 each representing rural banks, thrift banks, and an EMIs, while 2 are independent directors nominated by BSP
  - Those facilitating the highest volumes, the top being an EMI, followed by three banks, and then an EMI.
  - The BSP does not have a seat on the board.
- The rules and service levels that govern InstaPay are defined, agreed upon and observed by the ACH participants.
- The steering committee mirrors the board and there are working groups for particular use cases

### Conflict of interest

- There have been concerns about having the directors of PPMI serving as director of BancNet . One of the outcomes is said to be the unexpected increment in switching fees that followed the migration to VocaLink.
- BSP issued [circular 1127 in Sept 2021](#) serving as a Governance Policy for Operators of Payment System to avert potential conflicts of interest related to interlocking directorships and officerships.
- However, some stakeholders were of the view that:
  - Pushing for an independent PPMI board would be more effective in addressing conflict of interest.
  - BSP is also conflicted as although they launched PPMI as an industry governing body, they are still very involved in determining approvals.



# InstaPay: Performance



InstaPay has achieved year on year exponential growth catalysed by the COVID-19 pandemic but only a minority of BSFIs participate

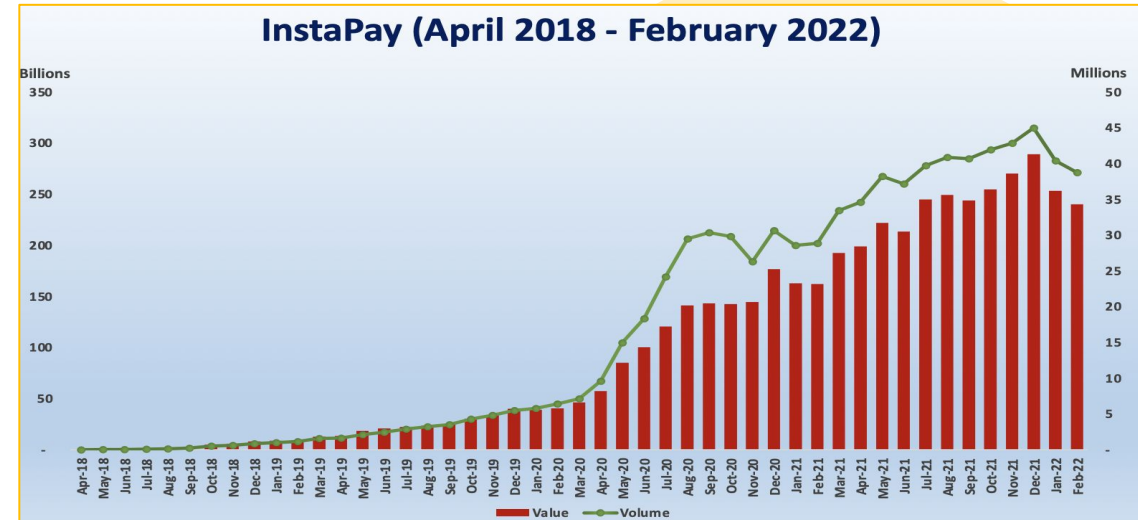
## Participation

**13%**

participation with almost 90% being banks mainly due to limited technical capability

InstaPay (as of 28 Feb. 2022)	Sender/ Receiver	Receiver Only Total	<u>Total InstaPay participants</u>	<u>All Banks and Non-Bank EMIs</u>
<b>TOTAL</b>	<b>53</b>	<b>11</b>	<b>64</b>	<b>513</b>
Universal & Commercial Banks	22	1	23	45
Thrift Banks	12	4	16	46
Rural Banks	9	4	13	384
EMI-Others	10	2	12	38

**Volumes and values:** InstaPay achieved 38,752,462 transactions worth 240.15 billion in Feb 2022, which is 1.3 the volume and 1.5 times the value achieved in Feb 2021



It appears that there is cyclic demand around year end with a December peak and fall off during January and February

# InstaPay: Performance



## Areas of improvement:

Direct participants in InstaPay, who are EMIs, have to separately establish a settlement sponsorship into the RTGS (PhilPaSS). The BSP can allow participation of EMIs in PhilPaSS but to date has not done so and should consider doing so:



Non-bank BSFIs need to have a sponsor bank to participate in the clearing house. We have raised this with the regulators but they say they are still looking at it. The costs are currently minimal as we are able to strike a good deal with sponsor bank e.g no fees per transaction. - **EMI**

Main barrier to participating is technical capability:



BSP has been very supportive, rarely deny providing clearance to any BSFIs. Everything is API based but a lot do not have their own web portal or app.- **Bank**

The challenge is having an front end mobile app / internet platform. There was an initiative for common payment application but it is not being pushed through anymore. - **Infrastructure operator**

Speed of diversifying payment usecases and features. The new switch will enable superior functionality but business case is also a hindrance to support of broader usecases such as P2M



Could have been a 5 point score (highest) if we had merchant payments and gov payments. However, it is not a fault of the players because government is not ready to receive digital payments. The current back end processes are disjoint.

P2M has not taken off, it is all about priorities. ...payments is just one of the competing priorities at banks e.g cards. It is hard to compete as a matter of business value especially when fees are a race to zero. Value of payments to a bank is fees and stickiness but fees are a race to zero and the massive infrastructure cost are a big issue. - **Bank**

# InstaPay: Outcomes



## Business models better catered to reach the underserved and excluded

**Gcash non-bank e-money issuer has the largest InstaPay market share in terms of volumes, 25% outgoing and 40% receiving. GCash has 48 million users with more than 63,000 partner merchants across the country.** (Mynt interview, 2021)

- GCash, is a micropayment service that transforms the mobile phone into a virtual wallet for secure, fast, and convenient money transfer at PHP 15 (USD 0.3).
- Prior to the pandemic, Gcash made up more than 50% of outgoing instapay transactions. At the time, Gcash was one of 4 BSFIs that offered InstaPay for free. The receiving share was very low – 10%, showing adoption outside of Gcash was very low
- Gcash is operated by Mynt (Globe Fintech Innovations, Inc.), a partnership between Globe Telecom, the Ayala Corporation, and Ant Financial, that provides innovative and first-in-world fintech solutions to consumers, merchants, and organizations.
- Mynt's vision is to enable financial access for consumers and merchants by disrupting traditional channels through digital financial technology services.
- In addition to Gcash, Mynt operates Fuse, a tech-based lending company that enables Filipinos to get microloans to business loans without the traditional requirements set by banks and other lending institutions.

**Interoperability provided by InstaPay has strengthened Gcash's value proposition and made it more sustainable for Gcash to serve its target market which is mostly the excluded and underserved.**



*"Interoperability has taken non-banks into the world of the banks where it was previously disassociated. Banks take care of upper funnel and we take care of lower funnel. Now we can function simultaneously.*

*It changed the way people view wallets, diversified our sources of revenue, **but the most important part is that it created a way to sustainably fund a wallet.** [50% of value comes in via banks]. Before OTC was the only option and it was expensive to sustain.*

*When we started, there was hesitance to get flows out, we turned on the receiving but not sending. We then realized that we need to **increase user confidence and trust by enabling them to move money to whomever when they need to.** Then we saw adoption increase." - Mynt Philippines*

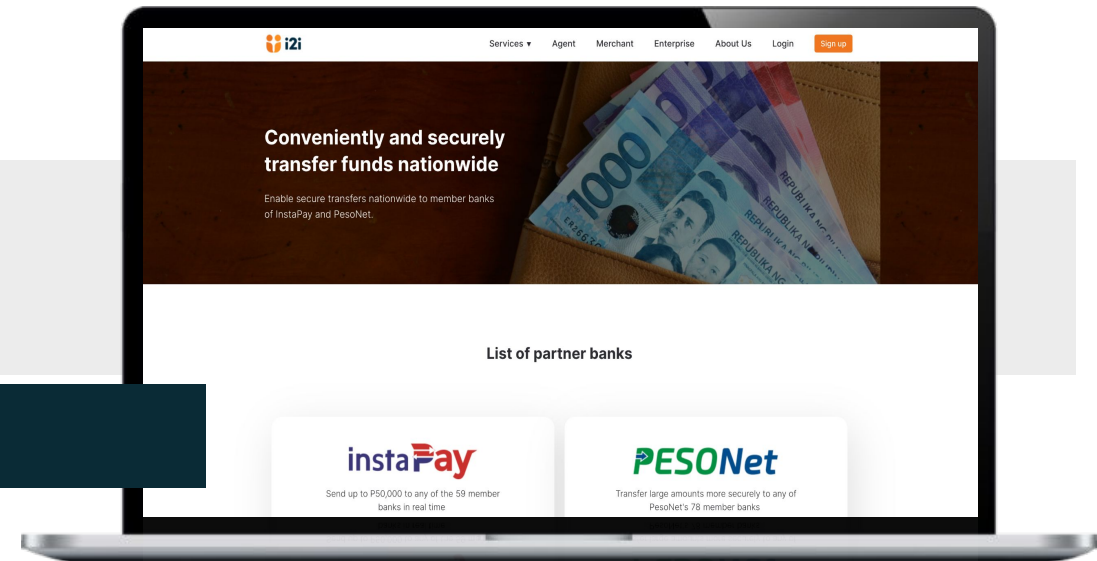


# InstaPay: Outcomes



**Business models better catered to reach the underserved and excluded**

i2i



- [i2i](#) is a central bank approved blockchain based platform that connects rural banks and community-based financial service providers to each other, the National Retail Payment System (NRPS), and the largest remittance channels.
- It uses PHX, a payments-focused stablecoin pegged to the Philippine peso using UnionBank reserves
- It connects financial institutions that are champions for inclusion, serving the unbanked or underbanked Filipinos, who would have otherwise had no access to the national payments rails.
- i2i would have been possible without InstaPay, but InstaPay allows i2i to connect its members to a wider network of BSFIs, extending the i2i network.
- Transaction amounts on the network are based on member risk appetite but guarantee transaction is on real time settlement.
- Participating financial institutions also have a say on customer fees as they know their market best. The fees are shared almost equally between the community bank, i2i and union bank.
- Speed is the most significant benefit. It is also cheaper for the customer, and for the financial institution. It is a cheaper revenue stream for them to execute the transaction since they would never have had the transaction due to lack of capability as community based banks.



# Answers to Research Questions





### Interoperability is a key enabler for financial access and usage...

#### Philippines has embarked and continues to embark on multiple initiatives aimed at expanding financial inclusion:

- In addition to promoting digital payments, Philippines has embarked on multiple initiatives to expand access to basic accounts. These have entailed launching a framework for basic accounts, promoting innovation by creating favourable licensing regimes for financial service providers and products, the launch of digital ID to improve KYC onboarding etc.

#### However, based on publications by the BSP and other media reports, e-wallets have played the biggest role in driving financial inclusion between 2019 and 2021:

- Financial inclusion in Philippines has dramatically risen over the past few years. Formal account ownership increased from 22.6% of adults [in 2017](#) before InstaPay became effective, to an estimated that 53% as of the first quarter of [2021](#).
- According to a [speech by the BSP in 2020](#), account ownership increased to 29% from 23% in 2017 as per the BSP 2019 Financial Inclusion Survey (FIS). Moreover, account ownership among the poorest hit 27%, closer to the national average and almost double the previously reported 14%. According to the BSP, E-money accounts drove the growth in formal access as E-money account ownership grew from 1% to 8% of adults during the same period. Account usage more than doubled to 39% from 18% in the same period.
- More recently with the pandemic as a catalyst, a [press briefing](#) by the BSP revealed that between 2019 and last quarter of 2021, formal account ownership had grown by a further 21 million adults bringing the total to 41 million Filipino adults. The significant increase was attributed to E-money account ownership which rose by 16.8 million in the same period, compared to 3.6 million new basic deposit accounts and a further onboarding of 7 million unbanked Filipinos as part of the registration process for the national ID under Republic Act 11055 or the Philippine Identification System Act (Philsys).

#### InstaPay has been a key enabler for e-wallets in two ways as highlighted by Gcash:

- Created a way to sustainably fund a wallet as opposed to fully relying on rolling out and maintaining an expensive physical cash-in agent network.
- Increased user confidence and trust by enabling users to move money to whomever when they need to:



*"When we enabled sending of off-net transactions, then they saw adoption increase". - Mynt, Gcash provider*



## Research question 2:

## What are the effective policy levers for achieving interoperability success?



- InstaPay has indeed achieved interoperability success with:
  - Year on year exponential growth in transactions and emerging business models that are better suited to serving the excluded/ underserved.

- As noted, **the payments regulator in Philippines has achieved success through:**
  - Acting as the industry instigator by facilitating discussion
  - Providing direction through frameworks and roadmaps
  - Mobilizing and driving consensus among industry participants in developing solutions
  - Intervening to balance industry needs and broader financial inclusion and digital payment goals
  - Applying ex-post mandates to formalize industry consensus coupled with measured implementation to cater for market readiness and context
  - Acting as a tempo-setter: monitoring and raising the target as goals are met
  - Supporting and sparking innovation through collaboration with innovators and providing necessary frameworks and licensing regimes to enable business models with a high propensity to adequately serve the underserved or excluded

## Research question 3:

**When should the foundation or policy-makers advocate for interoperability - from the beginning or let it evolve over time?**

- **Philippines is an example of advocating for interoperability at the early stages when financial inclusion is still low.**

- It points to evidence that **policy makers can intervene for interoperability early on in the market maturity journey and achieve success.** However, other markets such as Jordan and Ghana which we examined in supporting case studies also intervened at early stages of market development but failed to achieve desired results. This points back to research question 2 which examines the “how” the advocacy or intervention is undertaken.

- **The when in the Philippines case coincided with when there were participants in the payment system who could and would reach out with their payment services to the marginally or not financially included.**
  - Interoperability which existed between some industry participants was formalised with supportive governance structures, and mandated to enable access to clearing by the EMIs who could and do serve the the communities that are marginally or not financially included.
  - Formally opening up participation to all EMIs through NRPS and the opening governance established in the PPMI enabled the EMIs to offer these service, which aided by the need for electronic remote payments under the pandemic lockdown then took off, enabling payment inclusion and through that financial inclusion.



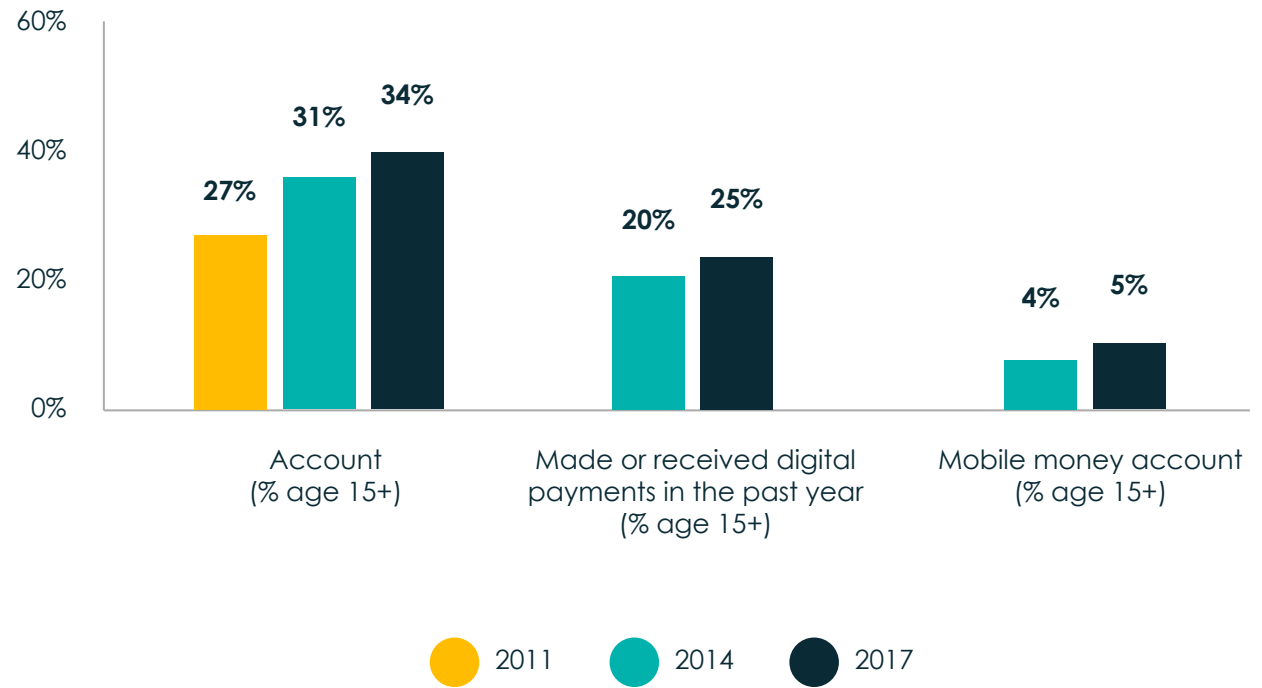


## Additional Context





# Country context



# Country context

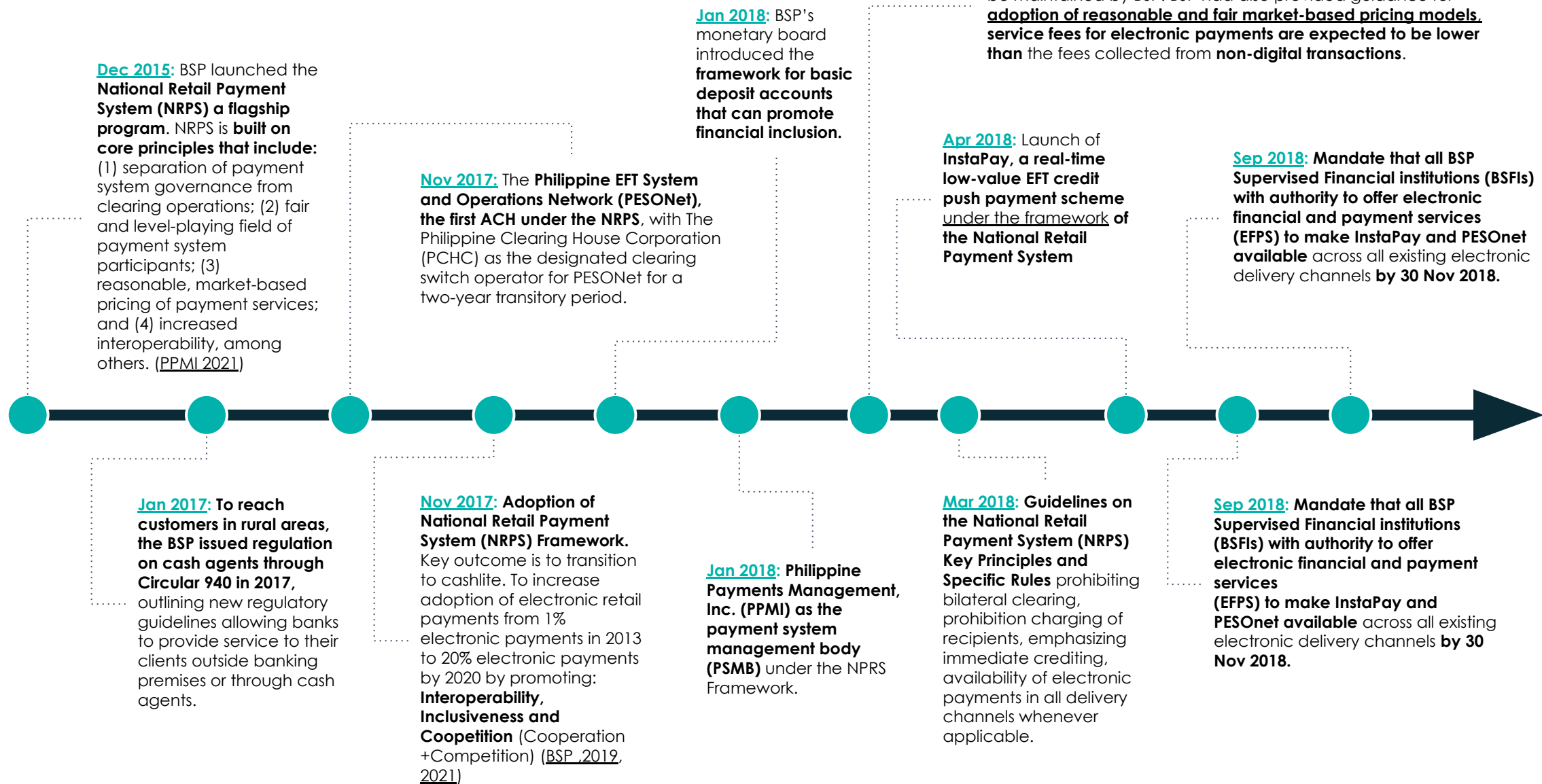


Scores:	71	85	100	75	69
Rank: 8 of 55 Weighted score: 71	Government and Policy	Stability and Integrity	Products and outlets	Consumer Protection	Infrastructure
	1. National Strategies	1. Market entry requirements	1. E-money and simplified accounts	1. Financial services users	1. Payments infrastructure
	2. Financial and digital literacy	2. Operational requirements	2. Credit	2. Insurance users	2. Connectivity
	3. Government digitisation	3. Customer due diligence	3. Emerging services	3. Data protection	3. Digital IDs
		4. Supervisory capacity	4. Inclusive insurance		4. Credit Information
		5. Cybersecurity	5. Financial outlets		

FORMAL ACCOUNT		
<b>BSP Financial Inclusion Survey</b> (Respondents: Adults - Individuals aged 15+)	<b>2017</b>	<b>2019</b>
<b>Percentage of adults with formal account</b>	<b>22.6%</b>	<b>28.6%</b>
<i>By type of account</i>		
Bank account	11.5%	12.2%
E-money account	1.3%	8.0%
Microfinance institution account	8.1%	<b>12.1%</b>
Cooperative account	2.9%	1.7%
Non-stock savings and loan association account	0.3%	0.1%

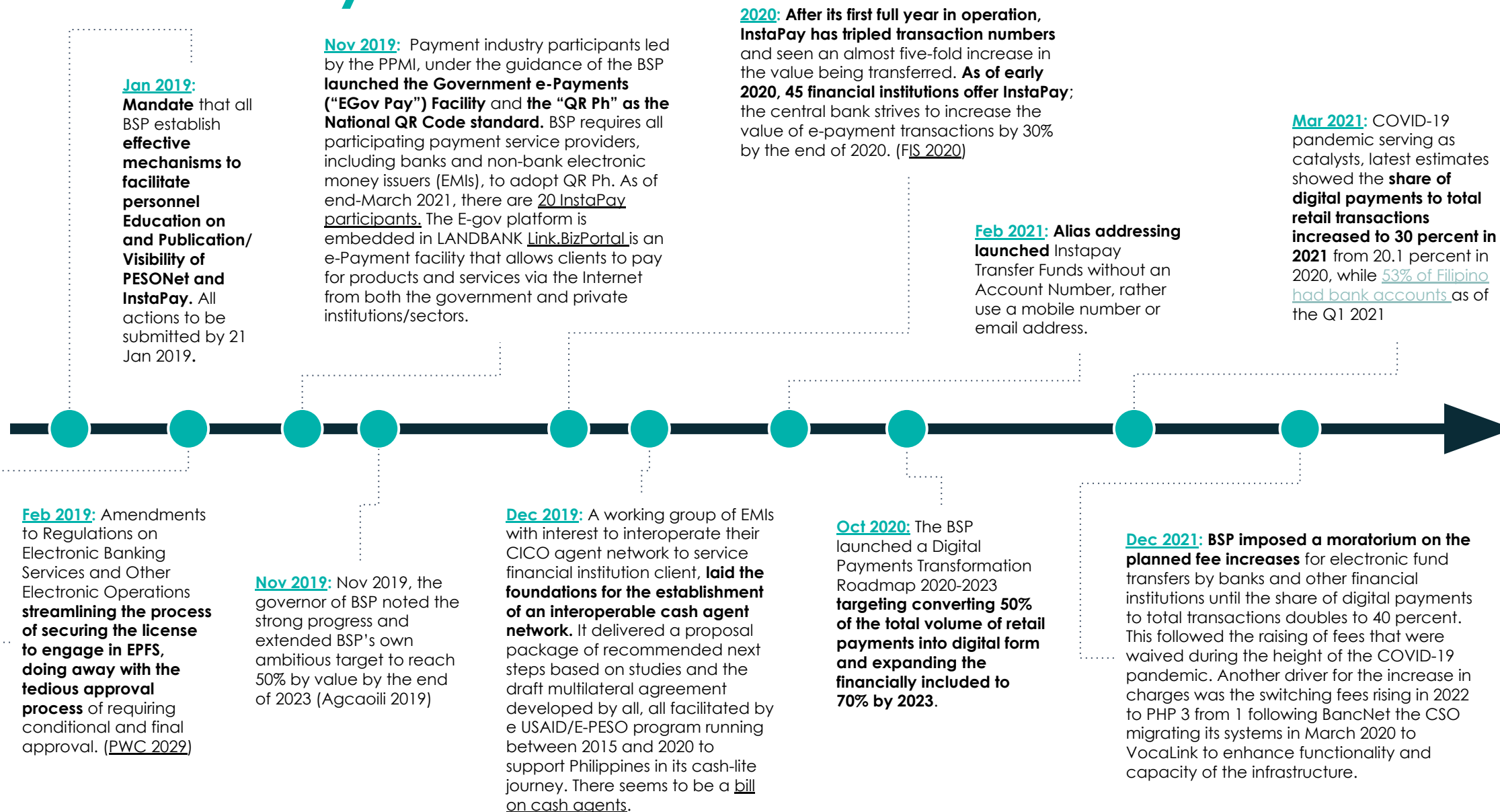
BSFIs	2019*/2020/ 2021**
<b>Banks (head office, branches, and other offices)</b>	<b>12,862</b>
Universal & Commercial Banks	6,945
Thrift Banks	2,654
Rural & Cooperative Banks	3,263
<b>Electronic Money Issuers (EMIs)</b>	<b>61</b>
EMI-Banks**	29
EMI-NBFI**	32
<b>Bank and EMI agents</b>	<b>71,786</b>
Cash agent*	17,057
E-Money agents	54,729

# A2A country timeline





# A2A country timeline



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# Acknowledgement: Interviewed Country Stakeholders



# Acknowledgements to Philippines stakeholders:

Name	Position	Organisation
<b>Regulator</b>		
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Carmelita Araneta	General Manager	Philippine Payments Management, Inc. (PPMI)
Emmie Reyes	CFO	BancNet, Inc.
Natalie (Pinky) Uy	Head of Business and Relationship Management Division	BancNet, Inc.
<b>Participants</b>		
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Noel Santiago	Group Head Digitalization and Channels, Steering Committee Member, Director	Bank of the Philippine Islands (BPI), Instapay ACH BancNet
Manuel Tagaza	Senior VP & Head-Digital Banking Group Former Head of channels and payments, national remittances, SWIFT	China Banking Corp., Bank of the Philippine Islands (BPI)
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John Januszcak	President & CEO Open Finance Platform	GCB Bank Limited
Francis Appiah	Operations Manager	exPressPay Ghana Limited
<b>Payment experts</b>		
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