



# Payments in the Philippines: A Market on the Brink of Digital Growth



# Executive Summary



The island nation of the Philippines is an emerging player in the digital markets' race.

Cumulatively, the country's digital economy is projected to expand from \$7.5 billion in 2020 to \$28 billion by 2025, growing at a CAGR of 30%. Contractions in several economic sectors – car sharing, online travel booking, and online lending – are projected to be offset by acceleration across other sectors including e-commerce, food delivery, online media, and online payments among others.

Overall, the local market presents ripe opportunities for new market entrants in the e-commerce and digital services industries.

A population of 100 million, Filipinos are still strongly reliant on cash – both for outbound payments such as bills and commercial transactions and incoming cash injections such as salary, government payments, and remittances. However, the tide is changing. The pandemic prompted many consumers to go cashless and increase usage of digital payment methods – debit cards, mobile wallets, and bank transfers.

The changes in payment preferences have led to further market fragmentation where no payment channel holds more than 20% of the total market share. Cash on delivery (COD) tops the usage for e-commerce transactions, with several mobile wallets eroding profits of the traditional financial institutions.

The size of the local digital economy in the short-term perspective (2021-2026) is yet to take a definite shape due to the uncertainty surrounding the pandemic. What is certain, however, is that new entrants will require a solid omnichannel payment strategy for reaching the local consumers.

## Market spotlight

The Internet economy market value in 2019	\$7 billion <sup>2</sup>
The Internet economy market value by 2025	\$28 billion <sup>3</sup>
Consumers new to the online economy in 2020	37% <sup>4</sup>
Made an online purchase in the last month	74% <sup>5</sup>
Consumers new to the online economy in 2020	37% <sup>6</sup>
Average spending per user	\$89 <sup>7</sup>
Percent of total sales coming from mobile commerce	61% <sup>8</sup>
Bank account penetration (including digital wallets)	34.5% <sup>9</sup>

The Philippines is an emerging player in the Internet economy with significant growth registered across e-commerce, online travel, ride-hailing, food delivery, and online media in 2019-2020, despite the overall challenging economic climate. Like many other nations in the ASEAN region, the Philippines took decisive measures to curb the spread of the COVID-19 – limiting domestic and international travel, closing non-essential commerce, and imposing stay-at-home orders across all metro areas.

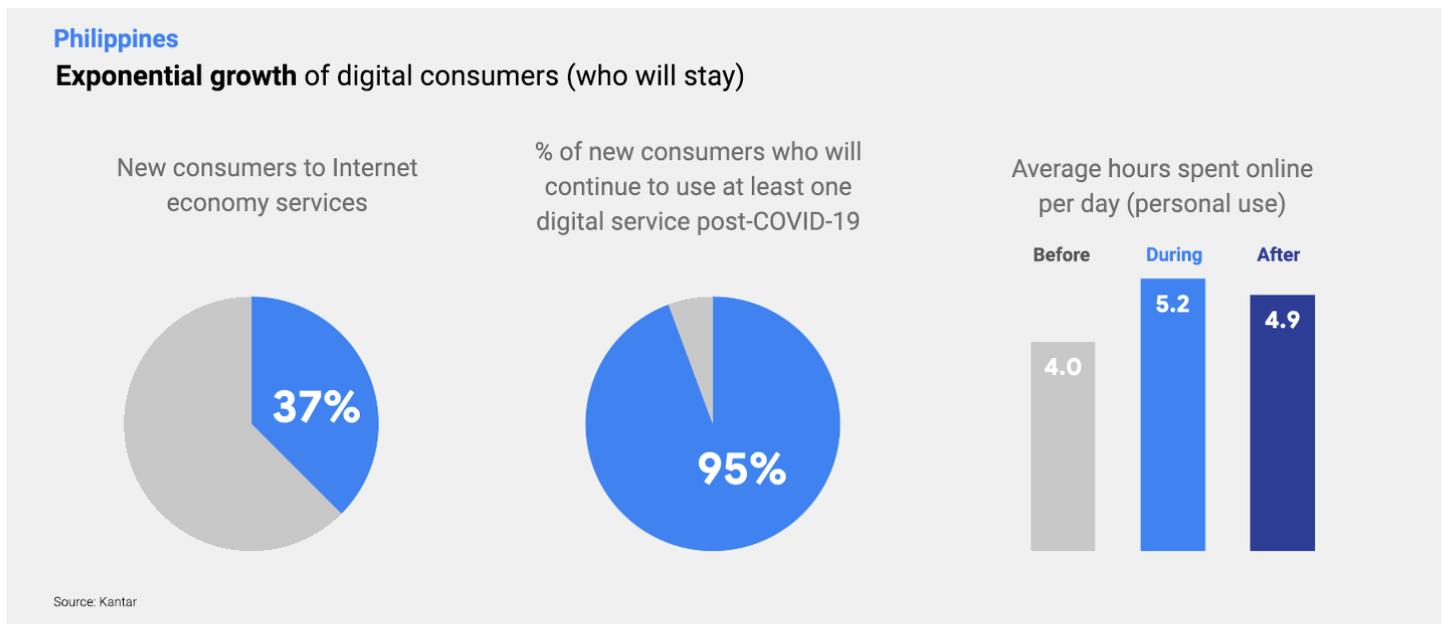
The emergency measures initially de-accelerated the economic growth in the region. Industries stalled and consumer spending came to a standstill, where Q2 of 2020 undeniably impacted the country's economy. On the other hand, the rapid cross-sector digitization has also opened up new pockets of growth for online businesses.

During the pandemic, 52% of Filipinos<sup>10</sup> shopped online for the first time. Google recorded a 3X increase in online selling-related queries through 2020. E-commerce (+55% YoY) and food delivery (+48% YoY) were the two trending sectors in terms of sales volumes, whereas the online spending on travel services understandably declined (-66% YoY)<sup>11</sup>. The even better news is that consumers with a newly-found affinity for digital services are retaining most of the pandemic-prompted habits.

# The Philippines: an accelerating e-commerce market



## Exhibit 1: Exponential growth of digital consumers



The majority of economic activity is concentrated in Metro Manila – the capital region, home to some 20 million residents – which is already well-served by a cohort of international and regional e-businesses.

Consumers outside major metro areas (Manila, Cebu, and Davao) are catching up too in terms of digital spending. In 2020, 54%<sup>12</sup> of first-time online consumers lived in the non-metro areas. The young and digital-savvy population feels comfortable tapping into mobile e-commerce and social commerce to access new services and purchase products.

Despite a temporary contraction, the Philippines economy is en route to recovery. Local businesses are slightly ahead in terms of digitization, compared to other ASEAN countries<sup>13</sup>. Consumers are also not rushing to cancel online subscriptions or go back to offline spending post-lockdowns.

**The Philippines Internet economy is expected to grow at 30% and reach \$28 billion by 2025**

# Market growth enablers



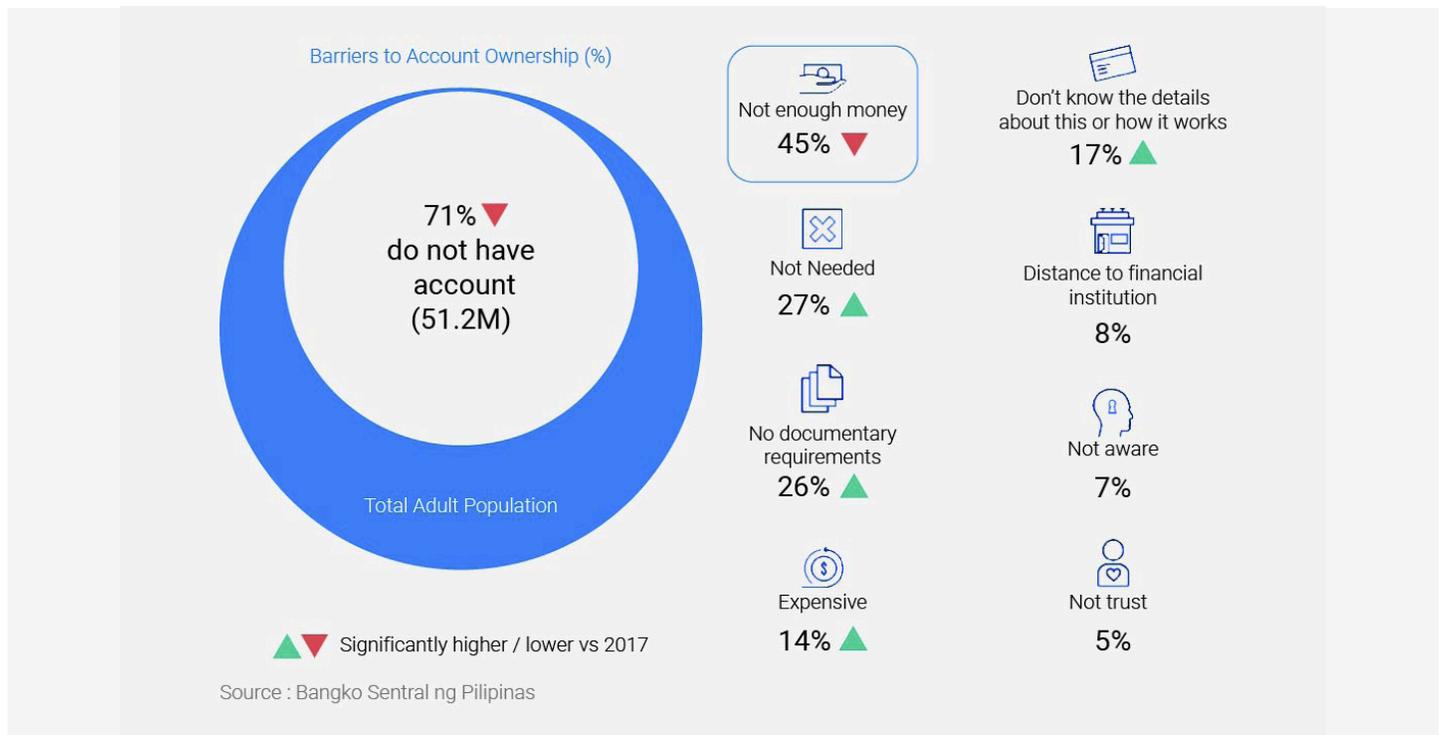
- **Growing e-money penetration:** Bank account penetration rates are relatively low in the region – 12.2%. The growth is constrained by a low branch presence outside of metro areas, perceived expensiveness of banking operations, or lack of required documents for opening an account. On the other hand, e-money penetration rates are growing hyper-fast with usage increasing by 8X since 2017.

**Exhibit 2: Financial inclusion survey**

	Overall account penetration	Bank account	Account with Microfinance NGO	E-money account	Account with Cooperatives	Account with NSSLA
2019	28.6%	12.2%	12.1%	8.0%	1.7%	0.1%
2017	22.6%	11.5%	8.1%	1.3%	2.9%	0.3%

Source : Bangko Sentral ng Pilipinas

### Exhibit 3: Barriers to Account Ownership

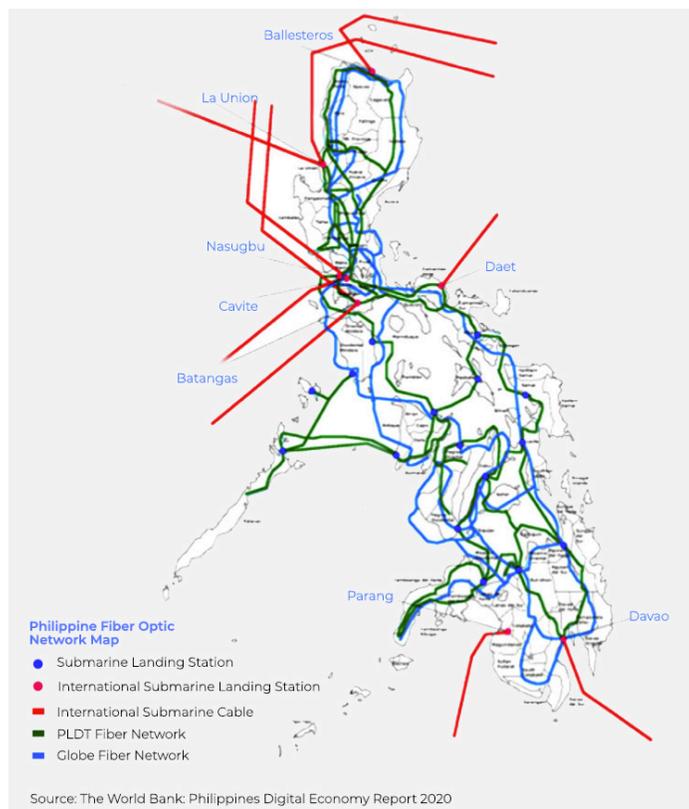


- Governmental support:** Local leaders recognize the importance of a strong and secure financial infrastructure as a backbone for economic growth. The Bangko Sentral ng Pilipinas (BSP) put forward a technical and legislative framework<sup>14</sup>, aimed at digitizing 50% of the total volume of retail payments and expanding financial inclusion to 70% of Filipino adults by 2023. BSP also promotes wider adoptions of the interbank retail payment systems – PESONet and InstaPay – both providing affordable and fast P2P, B2C, and B2B money transfers.
- High levels of cross-border ecommerce:** The nascent stage of the domestic e-commerce market prompts local consumers to venture across borders. Cross-border online sales generated totaled \$900 million last year – 39% of transactions were with China<sup>15</sup>. Other ASEAN countries, Japan, and the US account for the remainder. Local consumers also don't feel comfortable spending with international retailers. The most-used e-commerce platforms in the region are mostly cross-border players: Shopee, Lazada, iHerb, and eBay.

# Growth constraints for e-conomy



**Exhibit 4: Philippine Fiber Optic Network Map**



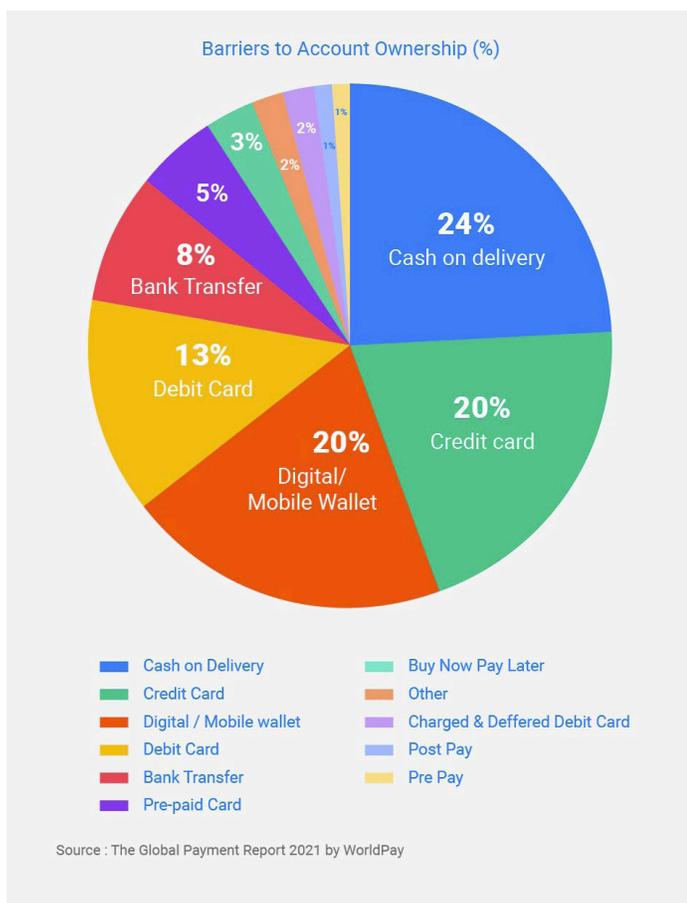
Source: The World Bank: Philippines Digital Economy Report 2020

- **Internet speed and penetration rates:** Due to its unique geographical position, the Philippines needs to go an extra mile to ensure high levels of Internet coverage. The “last mile” delivery remains the most problematic as the number and location of cell sites is the lowest in the ASEAN region<sup>16</sup>. Mobile internet access and speed remain spotty, whereas fixed broadband connection is severely lagging in terms of availability. Uneven connectivity presents a major challenge to further expansion of the online markets.
- **Logistics:** Geographic position also impacts the speed and quality of postal and logistic services in the country. Deliveries outside of large metro areas can be complex to execute. The logistics cost account for an average of 27% of sales<sup>17</sup> of manufacturing firms in the Philippines — the highest in ASEAN.
- **Significant levels of unbanked and underbanked consumers.** Over 70% of Filipinos don’t have access to any type of financial account. Roughly, 19% own a debit or credit card<sup>18</sup>. The account penetration rates are higher among higher socio-economic classes — 43% vs 28.6% among general populations. Still, financial inclusion is rather low.

# How consumers in the Philippines shop: Payment methods and preferences



**Exhibit 5: 2020 e-com mix by payment method**



Filipinos are a cash-reliant society. Over 7 out of 10 payments were settled in cash last year<sup>19</sup>. Cash on delivery is the prime method for settling commercial transactions. Most regional e-tailers and courier services support this option. Consumers can also pay for goods purchased online at partner retail locations such as 7-Eleven, Ever Superstores, Cebuana, Gaisano, NCCC, and Tambunting among others.

The global pandemic, however, has prompted many to consider alternatives. Among the banked consumers, 73%<sup>20</sup> noted using contactless payments more because

- They perceived cash as unsafe (54%)
- More businesses started accepting digital payments (50%)

In the short term, Filipinos see themselves going cashless for bill payment, grocery shopping, and overseas travel (when the restrictions are lifted).

The Philippines' overall growth rate in digital payments is estimated at 27%-30%<sup>21</sup> — a notch higher compared to 25% in other ASEAN countries. Several factors contribute to this: faster adoption of e-money services and digital wallets; a solid cohort of first-time digital buyers eager to shop online; and growing velocity of the Internet e-economy.

**By 2024, digital wallets will increase their dominant lead in e-commerce to 65.4%, rising to category-leading positions in The Philippines<sup>22</sup>.**

# Top 5 e-wallets in the Philippines



A wallet service by the local telecom player, Globe, has over 33 million users<sup>23</sup> and over 63,000 partner merchants across the country.



An e-money offering from another telecom, Smart Communications, with 28 million active users<sup>24</sup> and 200,000 touchpoints nationwide for sending payments, topping up accounts, or cashing out.



A wallet by the eponymous ride-hailing service. Launched the first digital-first GrabPay card last year, in partnership with Mastercard<sup>25</sup>.



A mobile wallet service meshed with digital currency exchange for fiat and cryptocurrencies. Has over 10 million active users and 33,000 partner locations domestically<sup>26</sup>.



A fintech application, providing digital wallet functionality and financial mini-programs.

Despite being a pioneer in digital payments introduction 20 years ago, the Philippines has made tempered progress in expanding financial inclusion. Albeit for unforeseen circumstances, the adoption of online payments has witnessed a boost over the past years. Cued by shifting consumer behaviors, legislators are also making progressive steps towards ensuring easier access to online payment tools. The upcoming introduction of a unified national ID can solve the document requirements for opening formal bank accounts. The new “basic” scheme account with minimal KYC and low operating cost can also increase the banking penetration rates in the country. On the other hand, non-financial players – telecoms, fintech companies, and e-economy players – also entice Pinoys to go cashless. The country is putting in place solid building blocks for higher e-payment usage and adoption to propel the digital economy growth.

## Exhibit 6: Fast Stats

Fast Stats			
2020 sales % from e-com	2020 sales % from m-com	2020* e-com spend using Digital/Mobile Wallet	2020* POS spend using Digital/Mobile Wallet
3%	61%	20%	13%
2020* - 2024** e-com CAGR	2020* - 2024* POS CAGR	2020* Internet penetration	2020* Mobile penetration
12%	9%	72%	69%
Fore Cast			
2024%** sales from e-com	2024%** sales from m-com		
4%	66%		

Source: The Global Payment Report 2021 by WorldPay

# Figuring out the payment fragmentation with Xendit



The Philippines is a promising online market – still early in its tracks, but well-positioned for near-term expansion. New entrants, however, will have to account for the pre-existing challenges in payments, logistics, and Internet connectivity. To ensure stable and scalable online operations, cater to the full spectrum of consumer payment preferences – cash on delivery, mobile wallets, and debit/credit cards.

## How can Xendit help?

With the plethora of payment methods, it is crucial for your business to not only select preferred and accessible channels to your customers. Equally if not more important, is to ensure you can set up additional payment methods in a timely and efficient manner as you scale your organisation and operations.

With a single integration with Xendit, easily unlock multiple payment channels:

- Xendit is the first payment processor to offer integration with the country's 3 most used wallets – Gcash, PayMay, and GrabPay.
- Over-the-counter payment processing via retail locations (7-Eleven and Cebuana),
- Direct debit from major local banks (UnionBank, BPI)
- Cards - debit and credit cards from all over the world

In addition to accepting payments, Xendit enables you to make hassle-free and instant payments to staff and partners, process refunds and more. Stay protected with Xendit's fraud prevention tools, free invoicing solution and data products.

Xendit is a financial technology company and leading payment gateway provider in the Philippines that provides payment infrastructure for SMEs, e-commerce startups and giant corporations. Xendit provides a secure and easy-to-integrate payment system, supported by world-class customer service.

For many businesses, accepting payments online is new territory, but we're here to help. We have helped 1000s of businesses come online.

If you have any questions, we are happy to help! Contact us at [sales@xendit.co](mailto:sales@xendit.co) today

Sign up for an account or contact our sales to learn about Xendit regional capabilities!

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