

The Daily Dispatch

Friday Special Feature

July 16, 2021

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

By: *Xendit Philippines*



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.

The Philippines: an accelerating e-commerce market

Market spotlight

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

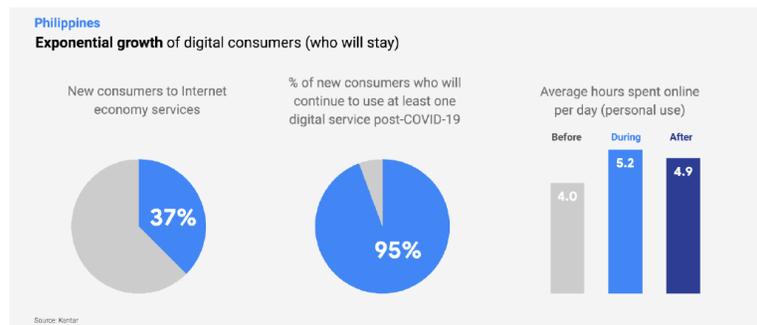
The Philippines is an emerging player in the Internet economy with significant growth registered across e-commerce, online travel, ridehailing, food delivery, and online media in 2019-2020, despite the overall challenging economic climate. Like many other nations in the ASEAN region, the Philippines took decisive measures to curb the spread of the COVID-19 — limiting domestic and international travel, closing nonessential 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.

The Daily Dispatch

During the pandemic, 52% of Filipinos¹⁰ 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). The even better news is that consumers with a newly-found affinity for digital services are retaining most of the pandemic-prompted habits.

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%¹² of first-time online consumers lived in the nonmetro 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 countries¹³. 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

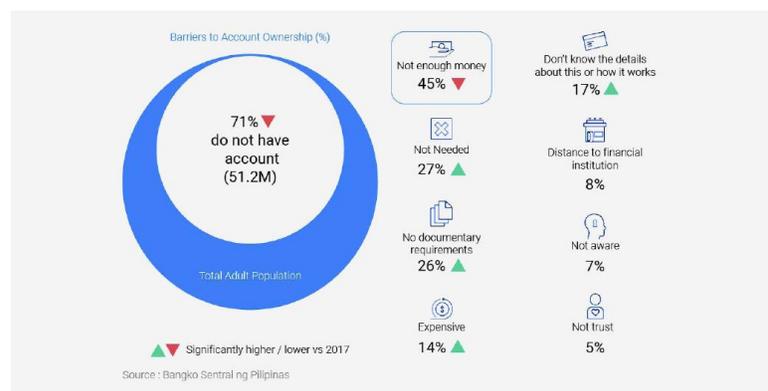
areas, perceived expensiveness of banking operations, or lack of required documents for opening an account. On the other hand, e-money penetration rates are growing hyper-fast with usage increasing by 8X since 2017.

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 framework¹⁴, 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 e-commerce: 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 China¹⁵. 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.

The Daily Dispatch

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 easytointegrate 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.

View the full whitepaper on **Payments in the Philippines: A Market on the Brink of Digital Growth** [here!](#)



For more information on how Xendit can help scale your business, contact the Xendit-Primeiro representative through cchua@primeiropartners.com

The Daily Dispatch

July 16, 2021
TODAY'S TOP NEWS

Holcim investing P210m in factories

Cement producer Holcim Philippines Inc. said Thursday it is investing P210 million in various measures to increase efficiency in its manufacturing plants. Holcim said the projects will reduce the fuel consumption and increase mineral additive usage of cement plants in Bacnotan, La Union and Lugait, Misamis Oriental.

Treasury to issue retail dollar bonds to OFWs

The government plans to sell retail dollar bonds to overseas Filipino workers to raise more funds for infrastructure projects and COVID-19 response efforts, the Bureau of the Treasury said Thursday. National Treasurer Rosalia de Leon said in an online briefing the government was finalizing the details of the offering.

PH growth forecast lowered to 4.6%

Standard Chartered Bank has lowered its gross domestic product (GDP) growth forecast for the Philippines this year, citing still weak consumer demand as a result of the ongoing Covid-19 pandemic restrictions. The financial institution said in a report released on Thursday it now estimates the GDP to recover by 4.6 percent.

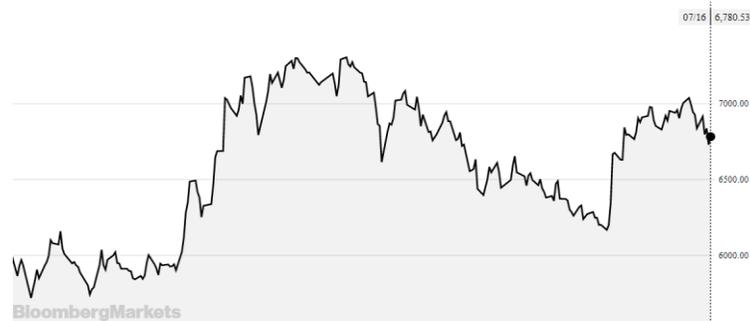
Fintechs can overtake banks in retail – Moody's

In a report released on Thursday, it said, "Fintech companies and a new breed of digital-only banks threaten to gain on conventional banks in key areas of their retail business, such as depository services, credit cards, remittances and unsecured lending, with products that are more accessible and easier to use."

PHL Seven allots P1B for capex

Philippine Seven Corp., the operator of 7-Eleven convenience stores in the country, said it has set aside a capital expenditure (capex) budget of P1 billion for this year to put up more stores in residential areas.

Philippine Stock Market Update



Previous Close:

6,727.93

1 Yr Return:

12.16%

Open:

6,743.78

YTD Return:

-5.13%

52-Week Range:

5,691.74 - 7,432.40

Source:

Bloomberg

Foreign Exchange

As of July 15, 2021

US Dollar	Philippine Peso
1	50.220

PDST-R2 Rates

As of July 15, 2021

Tenor	Rate
1Y	1.613
3Y	2.347
5Y	3.009
7Y	3.507
10Y	3.915
20Y	5.001

Daily Quote

"The biggest part of our digital transformation is changing the way we think."

-- Simeon Preston

The Daily Dispatch

MORE LOCAL NEWS

Nat'l government borrows another P540B from BSP

THE CENTRAL BANK approved another short-term loan worth P540 billion to the National Government to boost its coffers as the pandemic continues. This is the fourth time the National Government has received support from the central bank.

Gov't plans maiden retail dollar bonds

THE government is planning to raise more funds with its first-ever retail dollar-denominated bond (RDB) offering by mid-August, mainly targeting overseas Filipinos. The Bureau of the Treasury will be launching the onshore RDBs to provide a safe investment opportunity for small investors and OFWs as these would carry higher rates.

7-Eleven set for Calabarzon expansion

CONVENIENCE store operator Philippine Seven Corp. is setting its eyes to open new stores outside Metro Manila, moving its focus in residential areas in the Calabarzon region and other places beyond the National Capital Region for its expansions this year.

DITO expands to 18 more areas

DITO Telecommunity Corp. Announced on Thursday that it expanded to 18 more areas. DITO mobile services are available in 18 more areas "starting July 15," the company said in a statement. DITO is now commercially available in 158 cities and municipalities nationwide.

Keepers seeks nod on P7.5-B follow-on offering

THE Keepers Holdings, Inc. said it had filed a registration statement with the Securities and Exchange Commission for its follow-on offering to raise as much as P7.5 billion. Keepers Holdings was previously a shell company under the corporate name Da Vinci Capital Holdings, Inc.

OceanaGold plans to reopen Didipio mine

OCEANAGOLD CORP. plans to restart the Didipio gold and copper mine "as soon as possible," after the PH government renewed its contract for another 25 years. This comes nearly two years after the Didipio mine's operations were stopped due to a dispute between the Canadian-Australian mining firm and the provincial government.

Philippines sees huge boost in trade facilitation

The country's move to streamline trade procedures earned it a huge boost in global trade facilitation despite challenges due to the pandemic. Based on the latest Global Survey on Digital and Sustainable Trade Facilitation of the United Nations, the Philippines scored 86.02% this year, up from 80.65% in 2019.

Liza Gokongwei steps down as Cebu Air director

Cebu Air Inc., the operator of budget carrier Cebu Pacific, has appointed an airline veteran as a new member of its board of directors following the resignation of Lisa Gokongwei-Cheng.

VMC income up 14% to P637 million

Victorias Milling Co. Inc. (VMC) reported a 14% rise in its consolidated net income in the nine months of the current crop year, driven by higher raw sugar sales. In a financial report to the Philippine Stock Exchange, VMC said net profit from September 2020 to May 2021 grew to P636.8M from P556M in the same period last year.

Budget releases dip 6.3% in Q2

The gov't trimmed its release of notices of cash allocation (NCAs) by 6.32% in the 2nd quarter, but managed to improve the average utilization rate to 97% for the year. Based on latest data from the Department of Budget and Management, NCA releases in the second quarter fell to P1.12T from P1.2T in the same period last year.

The Daily Dispatch

TODAY'S TOP ASIAN NEWS

Start-ups going public in SEA predicted to triple

More start-ups in South-east Asia are expected to go public, with the annual number of initial public offerings (IPOs) in the region expected to cross 300 by 2030. This would be almost three times the number of regional firms that went public in 2020.

Beyond Meat opens online store in China

BEYOND Meat said on Thursday that it has launched an online store in China on JD.com's e-commerce platform: The plant-based meat-maker aims to boost sales in the world's biggest meat market, where consumer interest in meat alternatives is low.

SDP scraps rights panel after resignations

[KUALA LUMPUR] Malaysia's palm oil giant Sime Darby Plantation (SDP) said on Thursday it had dissolved its human rights commission, after the resignation of two of the three experts on the panel that the company had set up to help lift a US import ban.

Plant-based chicken maker secures funds to enter US

[SINGAPORE] Plant-based chicken maker Next Gen Foods raised US\$20 million from investors including GGV Capital, Bits X Bites and food and beverage maker Yeo Hiap Seng to enter the US, the world's biggest market for plant-based foods.

SoftBank invests US\$1.7b in Yanolja ahead of IPO

SOFTBANK Group Corp's Vision Fund II is investing about US\$1.7 billion in Yanolja Co, giving South Korea's largest travel app extra capital ahead of an initial public offering (IPO).

TODAY'S TOP GLOBAL NEWS

Intel in talks to buy chip giant GlobalFoundries

Intel Corp is in talks to buy chip giant GlobalFoundries, a big investor in Singapore manufacturing, for about US\$30 billion (S\$40.6 billion), the Wall Street Journal reported on Thursday (July 15).

US manufacturing output dips

Output at US factories unexpectedly fell in June as motor vehicle production dropped amid an unrelenting global semiconductor shortage. Manufacturing output dipped 0.1 per cent last month after accelerating 0.9 per cent in May, the Federal Reserve said on Thursday.

Aurora plans to go public through SPAC deal

Aurora, a start-up developing hardware and software to enable vehicles to drive autonomously, is going public through a SPAC merger. The deal with special purpose acquisition company Reinvent Technology Partners is expected to close this year, setting up the merged company with \$2.5 billion in cash.

Binance unauthorised, says Italian regulator

Major cryptocurrency exchange Binance is not authorised to carry out activities in Italy, the country's market watchdog Consob said on Thursday (July 15), joining a string of global regulatory moves against the platform.

Google expands India cloud infrastructure

ALPHABET Inc's Google is ramping up cloud infrastructure in India with a second cluster of data centres in and around capital New Delhi to meet increasing customer demands in a key growth market, senior company executives said.