Demand Study of Domestic Payments in the Philippines

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1 EXECUTIVE SUMMARY

This report is commissioned by the Bill & Melinda Gates Foundation. The purpose of this study is to provide market participants a sharper understanding of the demand for domestic payment services in the Philippines. In this report, *domestic payments* encompass both money transfers and remote bills (including loans) payments. It reports on market research covering 22 focus groups comprising 224 discussants; an intercept survey of 300 targeted interviews of users of formal payment service providers in Metro Manila, and a population-representative sample of 1,794 adult Filipinos, which includes 1,000 users of remote domestic payment service providers, both formal and informal.

The main findings of this study are:

1. The market for domestic payments is highly active and maturing. Virtually anyone who wants to make a remote bill payment or domestic money transfer is doing so and has many choices of formal Payments Service Providers (PSP) in a competitive market. The market also includes informal service providers (family, friends and vehicle drivers).

2. Most of the users of all PSPs (76%) are classified under Class D (poor); 19% belong to class E (very poor), and 5% to Class ABC (upper and middle classes).

3. Among the 1,794 adults interviewed, 72% made a payment in the last 12 months, of which 33% sent money transfers, 16% paid loans and 55% paid bills. 18% of the population both pay bills and make money transfers.

   In terms of median amounts among those who reported making payments, PhP1,500 was sent to other people, PhP1,280 was expended on a loan payment, and PhP680 was paid for bills in a typical month.

4. The 55% figure for bills payments appears high in part because the level of electricity and water provision to the average Filipino is high. The payees to whom the users of informal service providers, banks, other businesses and payment centers paid most frequently were the companies that had issued them electric bills (66% of these users) followed by those billing for water services (58% of all users of payment centers).

5. Those who pay bills using bank transfers, informal services and payment centers indicate they typically pay nothing to use these services. Although transaction fees for remote bills pay services may seem like a tough sell to this group, 32% of these users reported that they would be willing to pay an average fee of PhP 50 for a bills payment service that did not require them to leave their home. This fee matches the charge of most banks for payment services.

6. The remaining 28% of the adult population did not make payments of any kind in the last 12 months (Non-Payers). Their main reasons for not sending money, paying bills or paying loans are (multiple response): No regular income (33%), No family or friends living far away (17%), No money (16%), No bills or loans (16%), No need to use payment service used previously (12%), and Friends or family don't need or ask for money from me (9%). Other reasons were cited by 4% or less.

7. Proximity and access to PSPs appears to be a non-issue for non-users. Only 3% of non-payers, who potentially could be converted to users, report that they do not know PSPs that are near them. Similarly, 3% of those payers who only pay their bills directly or take money to other people directly report that PSPs are not near where they live. This is another non-user group that could be converted into a user of a PSP. These figures translate into less than 1% of the national population that does not have a PSP near where they live. This finding seems to indicate a low level of unmet demand in the national market.

8. A sizable proportion of the national population (6% or 3.4 million), however, use informal payments providers only, and another 3% of users of informal service providers use formal ones, too. These groups may represent a potential demand for switching more users of informal service providers into users of formal payment services.

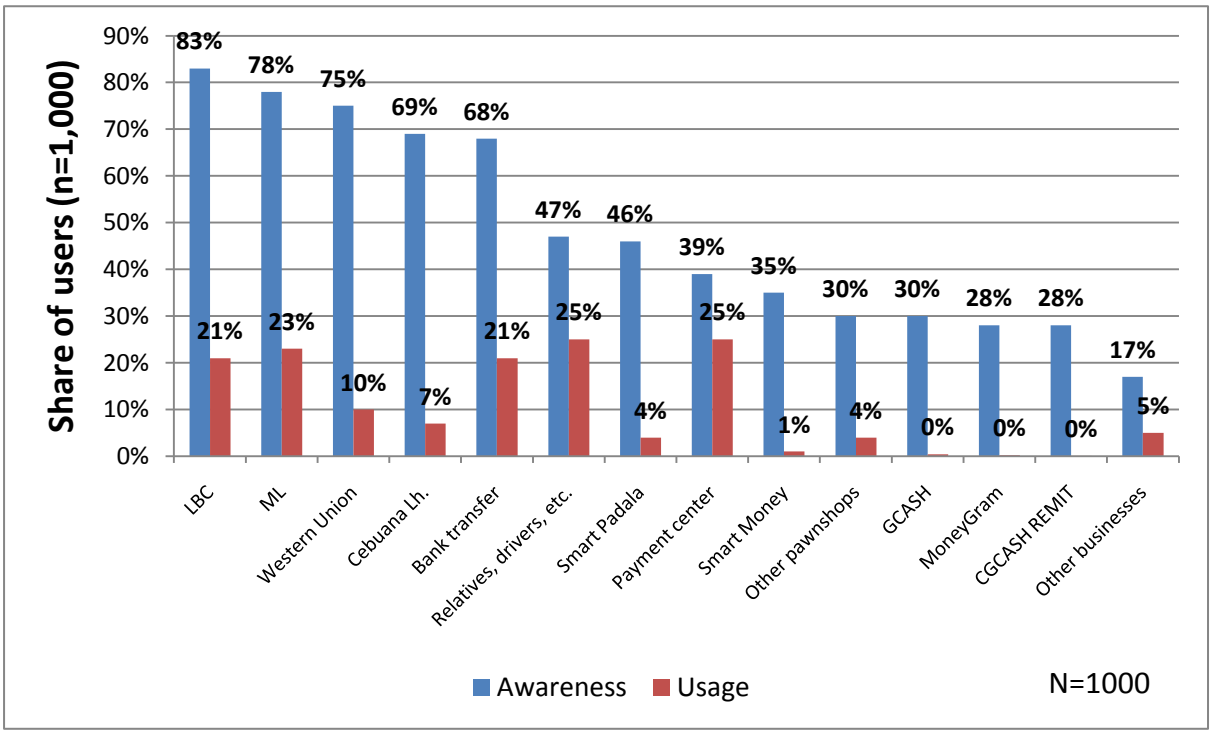
9. Similarly, adults who pay directly themselves are a significant segment in size with 13% of the population making personal direct payments only, 4% making some payments themselves and also using informal payment service providers, and another 16% paying directly themselves and also using formal service providers. This latter segment of direct payers may be converted to making more payments at formal PSPs.

10. Consumer awareness and usage of formal payments service providers are strong due to the user-reported accessibility of pawnshops, LBC branches and Western Union agents and sub-agents in particular, but also payment centers. Awareness and usage figures for each PSP (initially identified by focus group discussants), are found in the chart below:

Usage and awareness of payment service providers

Q1: Which method of paying money, paying loan[s] or paying bills do you know of?

Q2: For each method aware of [have you used it in the last 12 months?]



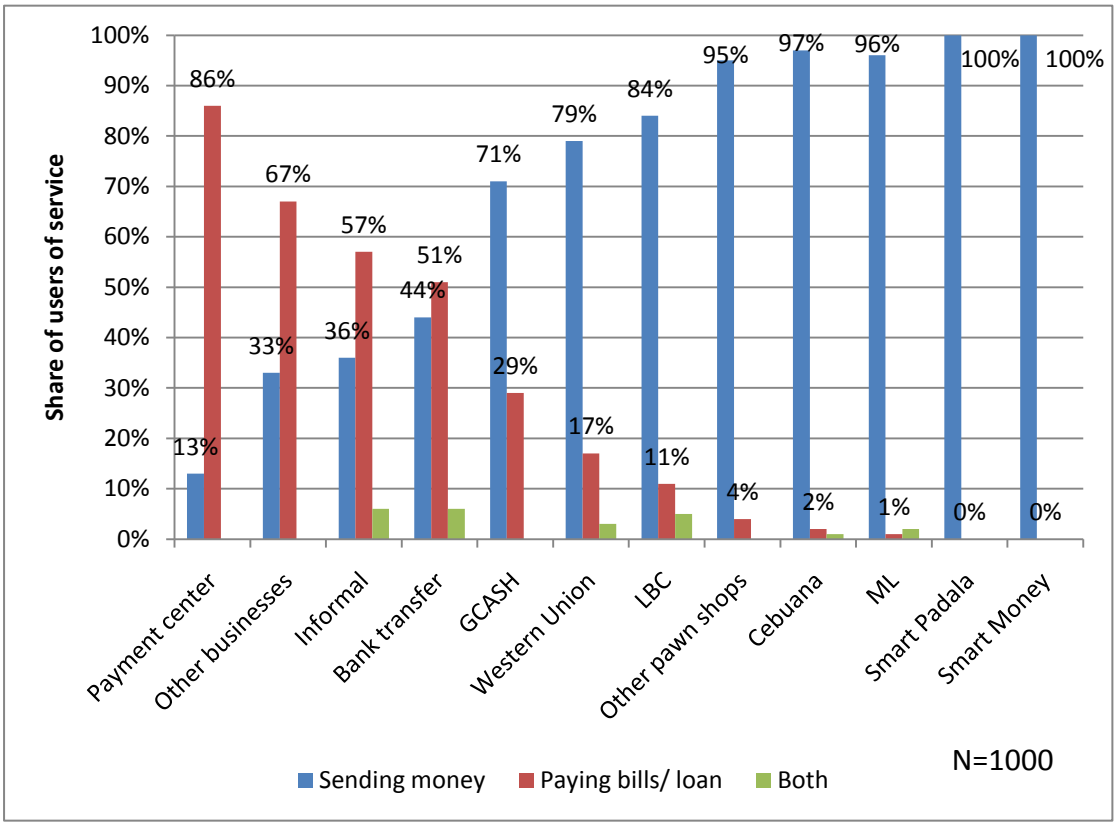
11. While only 47% of all users of domestic payments service providers are aware of informal service providers, 25% are using them, matching the percentage of users of payment centers. The users of informal services are also using pawnshops such as MLhuillier or ML (18% of all informal users), Cebuana Lhuillier (3%) and other pawnshops such as Palawan (6%) to make payments. Only 39% of all users of PSPs are aware of payment centers, probably because of their pre-dominant location of payment centers in the National Capital Region (NCR).

12. The usage of Smart and GXI products barely registered in a national population survey. On a combined basis less than 4% of users of all payment service providers reported usage of mobile money services or products. Awareness of the mobile money products ranged between 28%- 46%.

13. Pawnshops such as MLhuillier (ML), Cebuana Lhuillier and other pawnshops (e.g. Palawan) appear to be well-used and dominate the money transfer market. Payment centers, along with banks, are the major players in the bills payment market in urban areas, and users of informal service providers are also primarily paying bills and loans. See chart below (the mobile money services are shown for indicative purposes only as their percentages per product are unreliable):

Type of payment made, by PSP

Q9: Do you use this facility for…[1]



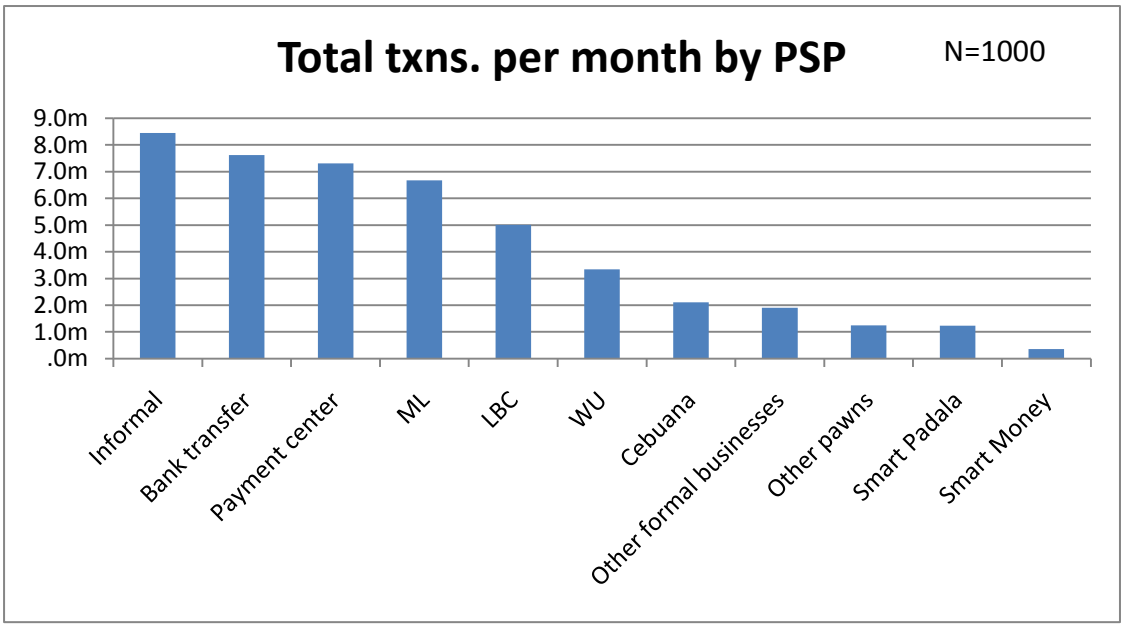
14. In the money transfer segment, the sender is the primary decider of which payment service provider to use. Among the 33% of total adult population that make money transfers, 73% of users said they solely made the decision on which payment service provider to use, 21% said they were at least partially involved in making the decision and 1% said there was no other option on payment service provider to use. Only 6% of the users said someone else made the decision for them on which money transfer provider to use. Negotiations between senders and recipients primarily center on convenience.

15. The total size of the domestic payments market, comprising those individuals making formal, informal and personal direct payments, is estimated at the equivalent of $3.2 billion per month by a projected 41 million people. This compares to 10 million OFWs sending home $17.9 billion annually, according to 2009 data from the BSP.

[1] Most users did either one type of transaction or the other; the small figures who did both at a particular provider were omitted for clarity in the above graph.

16. Using figures from the nationally-representative survey of 1,000 users of payment services to determine (a) the number of total users per PSP and (b) the frequencies with which each channel is used, the consultants were able to estimate the number of transactions per channel per month as the following (based on self-reported monthly estimates even though most users send money at different intervals):

Calculated number of transactions per month



17. The consultants conducted a price sensitivity analysis matching price data from some formal PSPs with consumer expectations. All of the formal PSPs on which we were able to obtain pricing information were pricing according to user expectation on smaller transactions tested at PhP 1000, but many of the PSPs were charging prices that were too expensive for larger amounts tested at PhP3000, according to the user population interviewed.

18. According to a conjoint analysis of respondents' choices, the primary drivers for choosing a formal PSP are speed of delivery and trust, even more important than price, as shown below:

Results of conjoint analysis multivariate regression

	(1) Coefficient	*(2)Standard Error*	*Statistically significant?*
Intercept	59.1	0.68	Y
Price	4.61	0.52	Y
Accessibility	2.29	0.51	Y
Trust	6.86	0.54	Y
Speed	6.9	0.53	Y

19. Formal, lower-cost mobile money services like GCASH and Smart Money are not used much, according to respondents because of a mutually reinforcing combination of lack of trust, lack of awareness and lack of availability of cash merchants. Unclear pricing or "double charging" for both cash in and cash out is also reported as an issue by focus

group discussants, as well as for the less than 4% of adults combined who report using the several mobile money services (close to the margin of error of 3%).

20. Bank transfers at leading commercial banks remain the most trusted method, especially for higher transfer or payment amounts. Banks offer both bills payment and money transfers, while their competitors tend to offer either one or the other service. Some PSPs such as the pawnshops and LBC, offer other non-payment services.

ACKNOWLEDGEMENTS

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3 PURPOSE AND SCOPE OF THE DOMESTIC PAYMENTS RESEARCH

3.1 Purpose

The purpose of this study is to provide market participants a sharper understanding of the effective demand for domestic payment services in the Philippines. In this report, *domestic payments* encompass both money transfers and remote bills (and loans) payments.

Although the country remains a leading market for international remittances owing to the legion of overseas Filipino workers (OFWs) sending money home[2] , the domestic market for remote money transfers and bills payments is less well understood. No doubt the vast market of international remittances has also attracted international players into the domestic payments market (e.g. Western Union, Money Gram). However, home grown service providers (e.g. LBC, national and regional pawnshops, banks, GXI, Smart and others) are pervasive. The domestic payments market appears highly active. Market observers posit that Filipinos have developed many ways to send money or pay to others and that these range from:

- taking the money themselves directly to a biller or person
- sending money using informal service providers
- sending money using formal service providers
- using any combination above.

As a result, we expect to find few Filipinos who have a need to send money to others and are not managing to do so in some manner or means. That they could do it more often, easier, faster, cheaper or more safely is possible and likely.

While the consultants are familiar with the business models and strategies of many of the formal domestic payments service providers, particularly GXI and Smart Communications, this research *is not a systematic study of supply-side providers, but a DEMAND study: it attempts to systematically examine users and potential users of the payments service providers. A few observations are made by the consultants regarding supply-side providers of domestic payment services, but these observations should be further tested with additional supply-side research as a follow-up to this demand-side study.*

This demand-side research attempts to calculate the size of the national market for domestic payments. It also seeks to identify unmet demand under present market conditions and where switching demand may exist. It expects to identify user "pain points" in the price, convenience, availability, speed, or trust associated with current payment services which may or may not force consumers to rely on sub-optimal payment services. For example, consumers may be relying on or choosing to pay for informal services such as transport of money by family, friends or local vehicle drivers, rather than utilizing more secure formal payment services such as bank transfers, m-banking or other electronic transfers that other users report are safer.

In addition, the study seeks to probe and quantify consumer preferences and price sensitivity for different payment service providers and examine user propensity for switching between providers or using multiple providers. To test consumer appetite for some of the existing, less-used payment

[2] Some 10 million OFWs sent home $17.9 billion in 2009; BSP expects this figure to grow 8% in 2010.

services, the study also examines how usage might shift under different market assumptions. The full list of research topics and questions as stated in the BMGF briefing note includes:

- What is the national demand for domestic payments?
- What is the size of the market? How many people are sending and receiving money?
- What is the distribution of money transfer and bills/loan payment amounts? How often is $20 or less transferred?
- How often do senders send money and to how many receivers?
- How much do the preferences of the receiver affect the choice of the remitter/payer?
- Who are the formal and informal providers of money transfer services?
- What are the main pain points that payers and receivers face?
- What is the pricing structure of these services?
- Do senders and receivers say they incur additional costs when sending or receiving money?
- Who is sending and receiving money? Is money flowing from urban to rural areas or vice versa? Are there other important domestic remittance corridors?
- What are the typical sources and uses of the money transferred?
- If prices dropped, would users send more money more frequently and to more people?
- Why do customers choose particular payment services?
- What would be the key drivers for changing from one payments service provider to another?
- What are the main drivers for a non-user of payments services becoming a user?

3.2 Defining key terms

Domestic payments comprise both remote money transfers and bills/loan payments. A remote *money transfer* (MT) is defined as any movement of money from one individual to another via either (a) an agent, where the consumer hands over cash, and the recipient cashes-out on the other end at an agent, or (b) via person-to-person transfers from one e-wallet or bank account to another. By definition, remote transfers do not include exchanges of money between two individuals face-to-face. Remote *bill or loan payments* (BP or LP) include all payments from individuals to companies and institutions. Again, remote bill payments include only those made either through third-party informal or formal service providers such as payment centers, or those made electronically, but not those made by individuals directly face-to-face to retailers, billers or lenders at their offices. Payments made via the mail service are not considered core to this study's objectives, though they were recorded under "other" methods where appropriate.

To answer the questions above, we define *users* as those who pay or could pay for the use of remote money transfer and payment services. For the purposes of this study, a *user* is someone who (a) has utilized and paid for at least one of the recognized payment service providers (formal or informal) for the express purpose of making a money transfer or a bill or loan payment in the last 12 months, and who (b) is at least partially responsible for *deciding* which payment service provider to use and pay. The study also records demographic information on adult Filipinos who are *recipients* of money transfers only, as well as those who send money but did not participate in deciding which specific service provider to use; these consumers comprise part of the overall payments market. But the preferences of these individuals do not relate directly to the effective demand for domestic payment services. Money transfer recipients (including recipients of international remittances) who then on-send or pay money to others in the Philippines are included as *users* in the study.

All *users* are identified by their chosen *payment service providers* (PSPs), or the specific entities or personal contacts they use to execute their remote payments. A given provider may feature more than

one branded product marketed as providing remote money transfer or bill payment services. This study investigates formal payment service providers that provide payment services on a commercial basis such as banks and pawnshops, but also examines *informal payments service providers* such as family, friends or local vehicle drivers. The primary distinction is the formal business has as one of its purposes the provision of payment services whereas the informal providers' offerings instead leverage social networks (people) and facilities (such as public and private transportation) to effect the payment of funds. They may or may not be paid, tipped or receive some other form of remuneration.

As far as personal transfers of money to other individuals or bills paid in-person at the biller – these are termed *personal direct payments* for this study.

This study conceives of demand in three ways. *Unmet demand* refers those adults who want to make remote payments but are unable to do so. C*onversion demand* comprises:

I. Those adults who might convert from non-user to user and pay for formal or informal services
II. Those currently using informal services exclusively who may be converted to using formal service providers at least part of the time
III. Those adults who personally pay money directly to other people or institutions in person only and convert to using remote payment services at least a part of the time.

Switching demand comprises:

IV. Those current users of formal service providers who switch to one or more of other formal service providers, or those who now use a mix of informal and formal service providers who may transition toward greater usage of formal providers with access to improved payments services.

Another group, those *non-users*, who currently are prevented from making and paying for domestic payments due to largely personal and economic circumstances, are interviewed in the national adult survey for the purposes of gathering demographic information, but they do not comprise "conversion" or "switching" demand for payment services, as captured in the findings section below. By contrast, groups I, II and III represent the potential areas of new demand for commercial electronic payment services, a key motivation for conducting this study.

Confirmed throughout the research and survey design phases of this project, the consultants are struck by the evidence of the many different payment providers that are available to consumers and the highly competitive environment in which these providers operate. Results from the intercept survey, for example, indicate that many users are utilizing more than one of the 13 service providers identified by participants in the focus groups (not including all of the commercial and state banks). The preferences and tendency to switch between various payment service providers or use multiple providers are considered major business issues for study under the national adult survey.

4 METHODOLOGY

For this study BFA contracted Social Weather Stations (SWS) and Social Enterprise Development Partnerships, Inc. (SEDPI), a market research firm and provider of technical assistance to microfinance institutions, to execute the three components of the study: (1) a series of focus group discussions (FGDs) across the Philippines (2) an intercept survey of 300 active users of domestic payment services in Metro Manila, and (3) a nationally-representative population survey of 1,794 adults and 1000 adult users of remote domestic payments service providers. The FGDs are intended to be thematic in nature as a way of informing the design of the two subsequent adult surveys. All research was completed during the period of August-October 2010.

4.1 Focus group discussions

From July 26-August 12, 2010 SEDPI conducted 22 FGDs of 8-14 respondents each across the country in urban, semi-urban and rural areas. After conducting four FGDs in National Capital Region (NCR) of Metro Manila and in the Greater Manila Area, SEDPI performed an additional four in the remainder of Luzon and five each in the Visayas and in Mindanao. In total, SEDPI conducted 13 of the 22 FGDs in urban or semi-urban areas, reflecting the fact that the Philippines is a majority-urban nation with a 65:35 urban/ rural split. SEDPI conducted the FGDs along areas suspected to have high-usage of payment services with an eye to locations suspected to exhibit significant usage of electronic payments. At least two SEDPI researchers attended each FGD, one for facilitation and one for recording, and conducted each session in the appropriate local language. Representatives from GXI and Smart were invited to provide feedback on the FGD configuration.

The primary purpose of the FGDs was to obtain qualitative data in advance of the intercept and national adult surveys. All findings from the FGDs are strictly qualitative in nature and cannot be extrapolated to the adult Filipino population at large. Respondents were not selected randomly, nor were the locations of the FGDs planned strategically so as to make them representative of a particular area or demographic. Rather, the selection of the FGD locations was intended to provide a broad mix or urban and rural sites across the four major regions of the country (Metro and Greater Manila, Luzon, Mindanao and the Visayas). The FGDs did provide, however, was a starting point in terms of understanding the preferences of Filipino for different domestic payment methods as well as a preliminary idea of the benefits and shortfalls of each as seen by the consumer.

A total of 234 users participated in the FGDs, each composed of a homogenous group of Filipinos aged 16 and older, and most fell into the D and E economic classes. SEDPI relied upon a range of intermediaries such as local government units, dormitory managers, and microfinance institutions to arrange the FGDs. The locations and participant listings of each FGD are listed below:

Chart 1: Location and composition of FGDs

FGD	Location	City/Province	Respondents
1	Metro Manila	Muntinlupa	Microentrepreneurs
2	Metro Manila	Quezon City	Construction Workers
3	Metro Manila	Quezon City	Students
4	Metro Manila	Quezon City	Microentrepreneurs
5	GMA	Quezon	Government contractual workers
6	GMA	Pampanga	Call center agents
7	GMA	Bulacan	Low wage earners
8	GMA	Rizal	Construction Workers
9	Luzon	Albay	Tricycle Drivers
10	Luzon	Camarines Sur	Fisher folks
11	Luzon	Vigan	Farmers
12	Luzon	Pangasinan	Remittance receivers
13	Visayas	Bacolod City	Low wage earners
14	Visayas	Iloilo City	Students
15	Visayas	Leyte	Farmers and Fishermen
16	Visayas	Cebu City	Students
17	Visayas	Leyte	Microentrepreneurs

FGD	Location	City/Province	Respondents
18	Mindanao	Surigao	Microentrepreneurs
19	Mindanao	Agusan del Norte	Low wage earners
20	Mindanao	Cagayan de Oro City	Employees using G-Cash
21	Mindanao	Cagayan de Oro City	Microentrepreneurs
22	Mindanao	Davao City	Low wage earners

The key design principle for the FGDs was to compose groups of 'homogenous strangers,' meaning groups that bear similarities demographically but who do not know one another. Organizing the groups in this way, so that students are talking with students, for example, or small business owners with others of a similar profile, maximizes the degree of disclosure during the discussions. Two special groups were included: one with money transfer recipients only and one comprising employees receiving their wages in GCASH. Another special group of employees receiving their wages via Smart Money was also vetted but the FGD did not occur due to employer concerns.

4.2 Intercept survey

Informed by the FGD results, which were qualitative in nature, BFA and SWS proceeded to design and implement the next phase of the study. Intercept surveys differ from nationally-representative ones in that respondents are encountered on-site, at their formal payment service providers rather than in their households. This approach ensures that the results will not be randomized—after all, researchers have no way of knowing whether or not respondents' usage of payment methods is at all typical. The intercept survey, though, acts as the bridge between the FGDs and the nationally representative adult survey. The intercept methodology ensures that a minimum number of respondents will be interviewed for each payment type: SWS interviewed no fewer than 27 respondents at each of 11 payment service providers and many of them also are users or former users of informal service providers. Additionally, many of the users interviewed actually used more than just the service provider at which they were intercepted. Some were both recipients of remote payments as well as senders.

This minimum threshold of 27 respondents is important for probing the usage behavior of some of the less-used payment methods. For example, in the nationally-representative survey conducted in October 2009 as part of the Bank of Banks study led by the consultants, the number of GCASH and Smart Money users was so small that it was impossible to indicate anything categorically beyond the percentage of adults using the technologies—one could not interpret the questions on which types of transactions Filipinos used, etc. because of the margin of error would have been unacceptably large for such an analysis. The intercept survey avoids this problem by interviewing over 100 combined mobile money users (GCASH, Smart Money, Smart Padala[3] and GCASH REMIT users combined), enabling the results to inform a series consumer profiles that helps to inform the national survey.

[3] Now known as Smart Money Transfer, service is referred to throughout as Smart Padala for consistency with terminology most appropriate to the August-October 2010 period of study.

4.3 National adult survey

The national adult survey consists of a questionnaire administered door-to-door to 1,000 users of domestic payments services. SWS randomly selected 1,000 adults from the four major regions of the Philippines. SWS field staff approached a total of 4,814 households and were able to administer the national population questionnaire to 1,794 individuals.[4] Findings on 1,000 adults who are defined users of payment services derive from the results of these 1,794 interviews. The national population survey of 1,794 adults provides the representative basis of studying the national Filipino population as a whole.

The SWS selection process uses multi-stage sampling that identifies, step-by-step, smaller and smaller geographic units until a selection of the country's 40,000 *barangays*, or local administrative districts, are chosen as interview sites. While all *barangays* have a chance to be selected, a *barangay's* probability of selection increases with its population size to avoid a preponderance of small, remote areas in the survey sample.

SWS conducted in-person interviews with about five people from each of the *barangays* selected. SWS strives to ensure a randomized selection of individuals despite the lack of a comprehensive public directory like a phone book or a list of addresses by using the central location method. After picking a central point in each *barangay* such as a *barangay* captain's house or the local post office, the SWS researcher uses a random number sheet to identify and interview first that household and then every other household thereafter. At each household, the researcher asks for the ages of everyone in the household, put them in order, and then uses a Kish grid of random numbers to select one adult (not necessarily household head) for interview. This sampling method produces a margin of error of plus or minus 3% at the national level and plus or minus 6% within each of the four regions. This margin for error is at the 95% confidence interval.[5] This survey does not allow for the drawing of conclusions within each locality sampled, due to small sample sizes.[6]

See 'ANNEX A: Technical details for the sampling and response rate of the methodology applied.

5 SUMMARY OF FINDINGS OF THE FOCUS GROUP DISCUSSIONS

The 22 Focus Group Discussions (FGDs) were organized in both rural and urban areas with respondents primarily from the D and E markets. The FGDs were used to offer insight into customer behavior among the general user groups of various payment services. Although not representative, 71% of the FGD participants had experienced receiving money from payments service providers; 65% had sent money;

[4] Of the 3,000+ of the 4,814 who were not interviewed, most cases resulted from either no one being home or the desired respondent not being home at the time of interview. Outright refusals to be interviewed by households were not responsible for most of the non-interviews.

[5] In statistical terms, the 95% confidence level indicates that 95% of the time, the sample mean (i.e. respondents' answers) falls within 3% points of the true population mean of a normally distributed population. By the central limit theorem (which forms the basis of much of modern statistical theory), the distribution of sample means begins to approximate the shape of a normal curve for large sample sizes such as 1,200.

[6] Generalizations at the local level would carry unacceptably large margins of error, given sample sizes of five people per barangay.

and 34% used payment service providers to pay utility bills, loans mostly to friends and family, and purchases of consumer goods and supplies.

5.1 Main reasons for use

According to the participants in the FGDs, the main purpose of sending or receiving money through payment service providers is for emergencies and daily household expenses, and secondly for education expenses. Other reasons for sending and receiving money include working capital to cover business expenses, payment for bills and loans, and emergency medical expenses. Monthly use of a payment service provider is most common when receiving or sending money transfers. Paying bills, loans, or purchases through a formal payment service provider rarely happens in the rural areas, though some people use informal methods, such as family and friends, to bills and loans. Most bill pay transactions with payment centers like Bayad happen in the urban areas. The use of informal service providers seemed to happen almost equally in both semi-urban and rural settings.

In terms of deciding on which payment service provider to use, two possible scenarios were reported almost equally in most of the FGDs. The first scenario is the senders alone make the decision, and the second scenario is both the sender and the receiver make the decision together. Only a few FGD participants did not have some say in which provider to use.

5.2 Most used service providers

The most used payment service providers were bank transfers, LBC, Western Union, M Lhuillier and Cebuana Lhuillier. The participants reported they would choose bank transfers when the amount involved is large, usually amounting to PhP 5,000 and above but smaller if putting into an existing account at the same bank. Security was cited less than expected as a strong concern in part because most amounts to be sent, received, or paid are small and should be easy for these major brands to handle. They seemed to take security almost for granted, except when choosing informal service providers like vehicle drivers. Nevertheless, almost all respondents said they valued security when speaking of their level of trust of a specific service provider. Ultimately, they do not like their money to be lost no matter the size. The respondents also valued security around cash handling and privacy when using a payment service provider, especially speaking about pawnshops.

Only some participants of those FGDs in urban areas are aware of payment centers like Bayad Center, and some thought they were expensive but convenient (even though billers pay for the service). Of those who actually used the payment centers, they found them convenient but often had long queues.

5.3 Features liked and disliked

Participants cited various features they like least about the payment service providers. The features they dislike are often different from one payment service provider to another. The features that the FGD participants said they did not like are long queues, many document requirements, strict verification process, high fees and slow service. When probed, they said high transaction costs and long queues are the most egregious problems they want to avoid. The respondents mentioned that they would lose trust and switch to another payment service provider if their money is lost, delays or repeat visits happen too often, met with bad customer service, charged with high or unexpected fees, or were required to fill out too many documents that are hard to understand.

The participants also cited many positive features. For example, for money transfers pawnshops, Western Union outlets and LBC outlets are usually convenient. Similarly, payment centers are

convenient in urban areas, and at banks you can make both money transfers and bill payments, and they offer security, privacy and trust for larger amounts.

The table overleaf is a consolidation of the comparative strengths and weaknesses cited by the participant users for each of the service providers discussed. These comparisons suggest that each of the service providers have certain weaknesses that may be exploited by its competitors

Chart 2: Findings on payment service providers from FGDs

	Positive features cited	Negative features cited	Other
Bank transfers (top 4: BDO, BPI, Metro Bank, PNB)	Speed & low fees, trusted Security (esp. with large amounts), can do both MT & BP at the same branch	Long queues, offline systems unfriendly staff, limited banking hours, not always convenient to get to	Some also reported they had their savings accounts at these same banks
Western Union	Speed, few documents (1 ID + control #), trusted Convenience (to sender, then secondarily to receiver)	High fees, strict documentation requirements if big amount	Some participants said they were no longer using because of high cost
LBC	Availability, accessibility, door-to-door delivery, useful promotions, trusted brand, low documentation	Slow to deliver door-to-door, high fees, speedy if picked-up at outlet, people know when money delivered, tips to deliverer	Some participants said they were no longer using because of high cost, said their neighbors know when money delivered snd did not like that
M Lhuillier	Speed, availability, loyalty cards redeemable for points or discounts, trusted	Long queues, strict verification, unsafe locations (sidewalks; unsafe areas), lack of privacy	Potential contradiction on trust, stigma of pawning
Cebuana Lhuillier	Trusted, convenient (to sender and receiver), brand	High fees, slow service, strict documentation (spelling of names), poor customer service (rude tellers),	Fees also not clear, sometimes insurance product does not seem voluntary, stigma of pawning
Smart Padala	Affordable, fast convenient	Unavailable, no information about service, delays in receiving money from agent, errors in conf. numbers (lack of trust)	Few users, unknown
GCASH Remit	Affordable fee Convenient	Unavailable Not known	Awareness is low, usage low
MoneyGram	Brand recognition	Not known, Very few using it	In recall awareness of brand, ahead of individual mobile products
Smart Money	Small fee, speed Convenient with ATM card	Unavailable (MIMOs) Not known Lack of information	Concern about “double charge” of agent fees for both sender and receiver
GCASH	Small fee Convenient	Unavailable CICO, not known (even in ¾ FGDs in Metro Manila), human error w mobile, lack of information, poor Globe signal in rural areas, hard to register account	1 FGD organized for those who receive pay via GCASH, low availability cited of cash out points, but once you get used to it, good product, but not aware of BP function
Payment Center	Close(r) to home than biller offices, convenient, cheap, paper receipt	Long queues, not known in rural areas, slow to credit payments at utilities, worry if receipt gets lost	Some participants said they pay directly to biller, especially utilities
Other pawnshops, e.g. Palawan	Convenient if live in this area, Speed	Stigma of pawning, high fees, must live in right area	Mentioned that a separate entrance for senders/payers would be appreciated
Relatives and friends	Low cost, trusted with the right person	Not safe, slow, no documentation,(sender has no conf. of when money arrives)	Used by some participants for irregular sending, especially to other relatives
Vehicle drivers	Low cost, convenient sometimes only method available	Not safe (lost in accident) No documentation, sometimes slow, unexpected costs	Usually intra-island, not across islands, for paying small bills and loans locally

5.4 Mobile money

Only a few FGD participants had experience using mobile money products. Most have little or no knowledge about this type of provider, or if they did, could not readily explain how they worked. As a consequence, they tended to express mistrust of mobile money. Smart Money and Smart Padala were mentioned as money transfer services by at least one of the participants in nine and seven FGDs respectively out of the 22 FGDs. GCASH and GCASH REMIT were mentioned as service providers in five and three FGDs respectively, including two FGDs that comprised workers who received their wages through Text-a-Sweldo, a product of rural banks.

The mobile money payment service providers were commonly referred to by their company names – Smart and Globe. When probed further, the participants could not differentiate between Smart Money and Smart Padala or GCASH and GCASH REMIT. SEDPI researchers also showed the brands of payment service providers that were not initially mentioned by the participants in FGDs. This was to test brand recall of other payment service providers that they had not used. The result showed that MoneyGram, GCASH, GCASH REMIT, Smart Padala and Smart Money names were recognized in 15, 11, 11, 10 and 6 FGDs respectively. The respondents in those FGDs that had not reported ever using mobile money did not know others who used these payment service providers. However, they know that these payment service providers exist, but were unsure if they were available. They had very little understanding of how much they really cost or where cash in/cash out agents are located.

5.5 Recommendations for improvement

The most common recommendations to improve payment service provider services are the following: provide faster service; lower fees and charges; increase number of branches; extend business hours without offline occurrences; improve customer service; and last, offer incentives or rewards for patronizing the payment service provider. Clients said they want safe, fast, available and accessible payment service providers at the least possible cost.

With probing from the researchers, the participants defined faster service in two ways. First, faster service means that remittances are received in minutes. But it also it means that the payments service providers are accessible anywhere without going out of their way – near their house, place of work and public areas such as public markets, malls, bus stations and small grocery stores. Participants reported that pawnshops, for example, are usually accessible. Accessibility could be achieved through increasing number of branches as well as extending business hours.

The benchmark for low fees and charges are bank rates. The low flat rate, approximately PhP50 ($1.20) per transaction that banks charge, are considered low for payment transactions greater than PhP5,000 ($120). On the other hand, small payment transactions ranging from PhP50 ($1.20) to PhP500 ($12) should only be charged PhP2 pesos at most, they said. Improvement in customer service includes friendly and approachable management staff; providing information when remittances have arrived through text messages so as not to waste time in dropping by payment service provider branches just to check whether a remittance is ready for pick up; and providing reasonable options and timely solutions when complaints are aired.

Greater transparency with respect to pricing schemes at payment service providers may be needed, as most respondents could not accurately recall the pricing of the service providers they had used.

6 INTERCEPT SURVEY OF USERS IN METRO MANILA

This study of the effective demand for payment services in the Philippines includes an intercept survey conducted in Metro Manila for two reasons. First, prior research and the FGDs touched upon but did not explore the profiles of those using different payment services. For example, the tendencies and preferences of those sending money and paying bills at pawnshops are not well-understood, nor are the users of mobile money services, whose small numbers make them difficult to pick-up on either the 2009 or, as it turned out, in the 2010 national surveys. Equally important, the intercept survey in effect field-tested content of the main questionnaire on a large scale (300 respondents) in advance of the national survey. From this process, it emerged that several sections—especially the conjoint analysis— were problematic. The greater efficacy of the main questionnaire yielded improved results on the subsequent conjoint analysis for the 2010 national population survey (see below).

The following are the main findings areas from the intercept survey of 300 active users of payment services, defined as those who have used one or more service providers in the last six months:

- Statistics on the awareness and usage of payment service providers;
- User profiles for each of the 13 payment service providers identified earlier by the focus group participants;
- Granular data on users of Smart Money, GCASH and other electronic payment services;
- Comparative advantages of the GXI and Smart mobile money services and products;
- Respondents' limited usage of informal payment services;
- The "stickiness" of certain payment services with respect to their ability to retain customers;
- As well as which payment services respondents tend to stop using;
- Respondents' switching tendencies between or among the service providers;
- Among those service providers not currently used, which ones may respondents use in the future and which ones they cannot see themselves using;
- From the conjoint analysis, the importance of speed and accessibility in payment service preferences;
- Price sensitivity analysis of the active users;
- Balance of decision-making between senders and receivers of money transfers.

6.1 A note on the survey sample

As indicated in the methodology section above, the survey consisted of interviews with 300 users of formal payment services minutes after their use. Interviewers approached the respondents immediately after they had finished using their payment service providers, creating several limitations from a methodological perspective:

(1) The respondents may have been more reluctant to participate and to be forthcoming than if had they been approached in their homes (due to fatigue, lack of time and privacy concerns);

(2) The preferences and usage patterns expressed by the sample represent payments service users alone, rather than adults living in the NCR (in line with the goals of the intercept survey); and

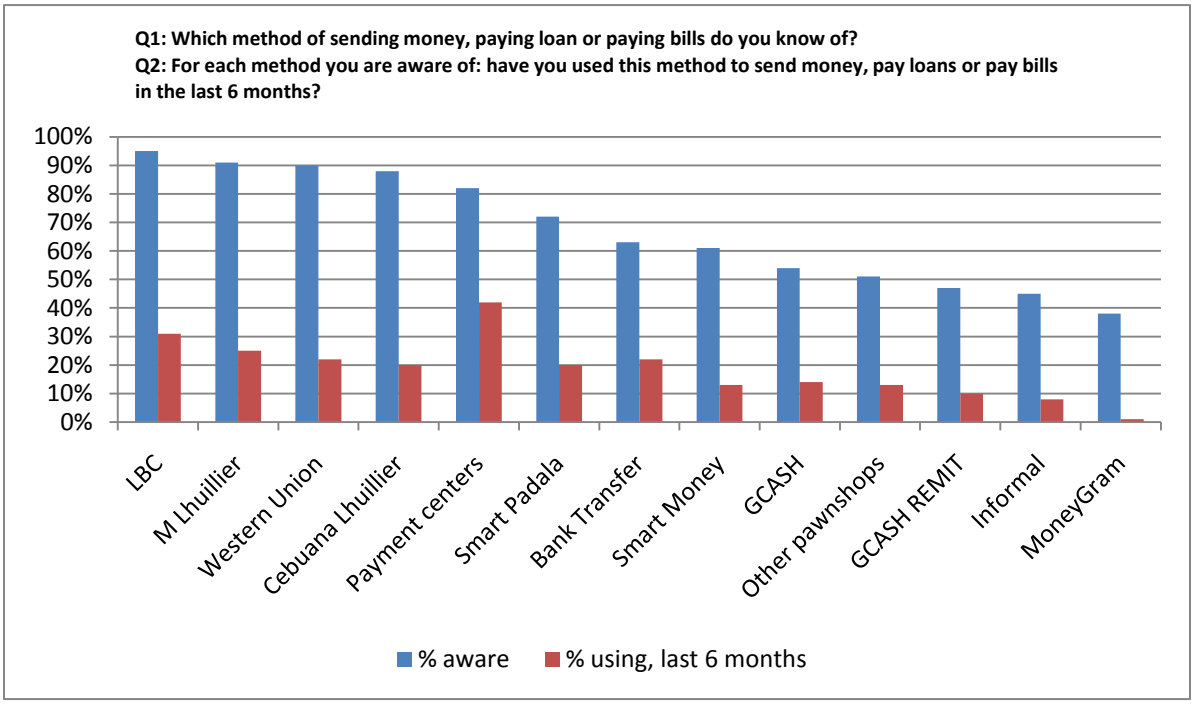
(3) Even among payment service users, the margin of error cannot be calculated because the participants were not randomly sampled.

6.2 Awareness of users in NCR (Metro Manila)

Establishing consumer awareness of the payment service providers is an important first step in understanding usage. Respondents who are not aware of a payment service provider cannot be expected to have an opinion on it, nor should their preferences or willingness to pay for certain features be considered part of the effective demand for payment services[7]. Among the 13 specific payment services about which respondents were asked, only five were known to at least 80% of all interviewees: LBC, M Lhuillier (ML), Cebuana Lhuillier (Cebuana), Western Union and the generic category of payment centers. This awareness may or may not be a direct result of the resources expended on branding and marketing or ubiquity of the outlets in the Metro Manila and would need to be a focus of a supply-side study.

The graph below also depicts data on usage of these payment service providers within a six month period. Since the number of interviews at each payment service provider was pre-determined for the intercept survey, the number of respondents using one service over the other (which includes those encountered at one provider but potentially using several others) may not be reflective of the representative numbers of adult Filipinos actually using these services, but it does offer useful insights into users of formal service providers.

Chart 3: Usage and awareness of select payment service providers



[7] Limiting in-depth questioning to those who are aware of a payment service provider eliminates the types of questions that can confound attempts to quantify the national demand for payment services, such as the vague query, "Would you be interested in…"

Of the mobile money services, awareness of Smart Padala was the highest with over 70% of users in Manila aware of the product. Smart Money and GCASH followed with 60% and 50% respectively.

The figure of 8% of respondents who are also using informal payment services suggests that once people in Metro Manila use formal service providers, they choose not to use informal ones or they trust them less because they may not know local vehicle drivers well who offer these services, for example. More reliable information on informal payment service providers emerges from the nationally-representative survey discussed below.

Chart 4: User profiles by payment service provider in intercept survey

	NCR 2009 survey[8]	All service providers	Payment center[9]	LBC	ML	Bank transfer	Western Union	Smart Padala*	Cebuana L.	GCASH	Smart Money	Other pawn shops[10]	GCASH REMIT	Informal service provider
No. using pmt. service provider	-	300	125	92	74	66	66	61	60	42	39	38	30	24
As % of 300	-	100%	42%	31%	25%	22%	22%	20%	20%	14%	13%	13%	10%	8%
Monthly net household income (**median**, **in USD**[11]**)**	43	68	68	68	68	113	56	45	68	113	68	63	90	68
Urban	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Female	50%	61%	63%	65%	58%	64%	56%	61%	65%	52%	69%	53%	60%	71%
C Class middle-income	8%	16%	15%	14%	9%	17%	20%	15%	17%	26%	26%	13%	23%	17%
D1 Poor, property owner	29%	27%	40%	38%	27%	30%	32%	26%	27%	36%	33%	16%	40%	25%
D2 Poor, non-property owner	43%	50%	42%	40%	59%	52%	45%	51%	53%	36%	38%	63%	37%	50%
E Very poor, non-property owner	20%	6%	2%	8%	4%	2%	3%	8%	3%	0%	3%	8%	0%	8%
Billed by water company	69%	75%	90%	67%	66%	77%	74%	69%	68%	86%	74%	74%	83%	63%
Billed by electric company	81%	75%	85%	71%	66%	73%	74%	72%	67%	86%	79%	79%	80%	58%
At least h.s. graduate	75%	86%	93%	86%	88%	94%	86%	87%	80%	93%	97%	95%	100%	83%

[8] This column derives from a nationally representative survey undertaken by BFA and SWS in October 2009 for Mercy Corps in a Gates Foundation funded "Feasibility Study of a Bank of Banks (BoB)", January 2009. BFA deeply appreciates Mercy Corps' permission to refer to some selected data from this study.

[9] Payment centers are typically located in urban areas where one can make bills or loan payments remotely. These may be franchises like the Bayad Center or else small kiosks located in malls or supermarkets. Typically, it is the biller rather than the end-user who pays the payment center for the use of its services.

[10] The term "other pawnshops" is a catch-all for pawnshops other than M. Lhiullier and Cebuana Lhuillier, e.g. Palawan, RD Pawnshop, and a number of others.

[11] Exchange rate of 47.05 PhP per USD as of October 24, 2009 used for conversion.

6.3 Findings of intercept survey

6.3.1 User demographics

The intercept survey of 300 users in Metro Manila suggests that users of payment services stand apart from their fellow Filipinos in several ways. Compared to the population at large living in the National Capital Region, the users appear to be better educated and better-off, with greater access to financial services. The users boast a monthly net household income (PhP 3200[12]) over 50% greater than the average NCR household (PhP 2020). Whereas 20% of Filipinos in the NCR are classified as 'very poor'(class E), only 6% of the active users fit this designation; similarly, the respondents as a group feature twice as many middle or 'C' class adults (16%) as found in the NCR population (8%). These disparities in income are matched in education levels as well: users of payment services were 10% more likely to have completed high school[13] than adults in the NCR.

The users of GCASH, GCASH REMIT and bank transfer services in the greater Manila area demonstrated significantly higher household income levels (at least PhP 4200 per month) compared to other respondents. Early developments in the telecommunications sector may have played a role in shaping the users of GCASH and GREMIT. Globe may have acquired and retained a large share of the wealthiest segment of the NCR market early on. Similarly, a relatively large proportion of upper and middle-class Filipinos hold bank accounts, which may explain the higher levels of income associated with those making payments through banks (although non-account holders may deposit cash directly into bank accounts of individuals with accounts at that particular bank)[14].

The users of Smart Padala (PhP 2100)[15], Western Union (PhP 2600) and, to a lesser extent, pawnshops other than Cebuana Lhuillier and M. Lhuillier (PhP 3000) appear to have the lowest household income levels among the respondents. The results of the national survey of users may or may not validate this finding.

The intercept survey hints at two additional components of the effective demand for payments. First, over two-thirds of the users intercepted for the survey were women. Pending confirmation by the national survey, this finding holds implications for the marketing and delivery of any new or revamped service in the market for payment services. Second, poor non-lot owners (D2) outnumber all other market segments both in the NCR and among the active users surveyed. The NCR remains the lone region where non-owners outnumber lot owners among the poor, suggesting that a restricted land market has contributed to cramped housing conditions. The intercept survey offers a clearer portrait of the effective demand for payment services by focusing on individuals as opposed to households, which

[12] Median value, to reduce the influence of outliers which typically skew income statistics.

[13] The difference in the share of respondents vs. the share of NCR adults who have completed high school is sizable (85% vs. 75%), although given the enlarged margin of error at the regional level from the 2009 national adult survey (+/- 6%), the result may not be statistically significant.

[14] Although income levels for MoneyGram are technically the highest out of any group of active users, these results should not be considered representative as only two individuals were interviewed as part of the intercept survey (MoneyGram was not one of the respondents selection sites).

[15] Service was recently renamed Smart Money Transfer.

due to overcrowding, may otherwise have confounded the data-collection process and undermined efforts to produce reliable market sizing efforts at the national level.

6.3.2 User access to financial services and cellphone ownership

Though income levels in the NCR are already high by national standards, access to finance appears to be greater still for the users of payment services in this region. The respondents are utilizing the services of formal-sector commercial finance institutions in ways most Filipinos are not. A majority of respondents possess ATM cards from commercial banks (61%) and have used an ATM in the last six months (61%), with the comparable figures being under 50% at the regional level and no more than 25% for the country as a whole. Active users are more likely to have savings (49%) than typical NCR residents (32%), and a far greater share of respondents have savings at commercial banks (33% vs. 14% for the NCR). More than half of the intercept survey respondents reported having bank accounts.

These users of payments services also appear better-positioned to benefit from branchless banking technologies. Over 90% own mobile phones—greatly exceeding the figures for the NCR (60%) and for the Philippines as a whole (52%) — while over 40% have their own email addresses[16]. However, even among this group of active users, awareness of GCASH and Smart Money remains relatively low, as indicated in the table above.

6.3.3 Uses of payment service providers in Metro Manila

Respondents are using most of the 13 PSPs in the table below primarily for money transfers. The main exceptions are the bill payment centers and the commercial banks, the latter of which are performing a mix of bill pay and money transfer transactions. Respondents appear to be using bank transfers for when they must send larger amounts of money, which is evident from the size of the 'largest amount ever sent' (PhP 7400) through banks, which is significantly greater than the figures for the other payment service providers. According to those interviewed, Western Union, LBC and Cebuana Lhuillier, in order, have the highest fees (as a percentage of the transaction size), whereas most other service providers charge a transaction fee of 1% or less. The few active users of informal service providers such as friends or local vehicle drivers are paying very small amounts for these services. Much more about users of informal service providers was gleaned from the national population survey of all those interviewed.

[16] The email account figure implies that an even greater share may have internet access, assuming that (1) these respondents have at least semi-regular access to the internet and that (2) a greater share of the population has at least occasional internet access than the share with an email address.

Chart 5: Usage data by payment service provider

	Representative figure for the National Capital Region (from 2009 survey)	Payment center	LBC	ML	Bank transfer	Western Union	Smart Padala*	Cebuana L.	GCASH	Smart Money	Other pawn shops	GCASH Remit	Friends, relatives, vehicle drivers, others
No. using pmt. service provider		125	92	74	66	66	61	60	42	39	38	30	24
As % of 300		42%	31%	25%	22%	22%	20%	20%	14%	13%	13%	10%	8%
Percent using service provider to send money	25%	6%	84%	97%	44%	98%	93%	95%	60%	72%	89%	83%	92%
To pay bills	53%	93%	12%	3%	32%	0%	3%	3%	17%	8%	5%	0%	4%
To do both	15%	2%	4%	0%	24%	2%	3%	2%	24%	21%	5%	17%	4%
Usual amount paid/ sent through provider (median, in USD)	37	34	23	25	56	34	23	23	23	34	34	23	23
Largest amount paid/ send (median, USD)	NA	45	56	68	158	68	56	45	68	112	68	79	56
Typical transaction fee paid (median, USD)	NA	.16	1.35	1.46	0.11	1.58	0.45	1.35	0.45	0.23	1.01	0.56	0
Transaction fee as a % of amount sent/ paid	NA	0.4%	2.4%	2.2%	0.1%	2.3%	0.8%	3.0%	0.7%	0.2%	1.5%	0.7%	0.0%
Does respondent receive money from someone else and then on-send to others?	NA	0	9%	14%	18%	27%	3%	12%	10%	8%	11%	17%	0%

6.3.4 Additional findings on users of remote payment services in NCR

The intercept survey's results relate exclusively to active users of payment services who live in or near the Metro Manila area and they are not necessarily representative. Demographically, the group interviewed can be described as:

- belonging to the 25-34 age group (36%), followed by the 18-24 and 35-44 (22% each) and finally those between 45-54 (11%) and those over 55 (9%);
- speaking primarily Tagalog in their homes (9 in 10 respondents), and belonging (40%) to the Tagalog ethnic group more than any other;
- having, on average, around PhP 500 ($10) in their pocket at any given time; respondents tend to feel that they are 'running low' when that amount falls below PhP 100;
- of the 50% of respondents with savings, 2/3 save in commercial banks with a median value of PhP 10,000 ($225);
- while the 1/3 storing money at home (20% of respondents overall) have saved a median value of PhP 3,000 ($70).
- Users of Western Union, GCASH REMIT and bank transfer services were the most likely to have received money from other people remotely and then on-paying to others. However, this on-paying does not occur very much with these users.

As a group, the users of formal payment services seem to exhibit more commonalities than differences. This group tends to use the various payment services in the following ways:

- Most of the recipients of the money sent are parents, siblings and other family members;
- most respondents use their respective services on an at least monthly basis, with the exception of the informal payment services which respondents typically use only several times per year;
- recipients use money received primarily for household expenses, followed by spending on education and medical needs;
- low fees and lack of service provider options for recipients are lesser concerns;
- users tend to think their payment service(s) is the best, as indicated by users' consistently high scores for their payment services (min. 8-9 on 10 point scale) on convenience, speed, security, fees and customer service;
- for most services, more respondents indicated that they chose payment service providers based on what was "most convenient" for their recipients than for themselves;
- this was especially true for the users of "other pawnshops", e.g. Palawan, which may indicate that in geographically isolated areas these shops are the primary formal payment service provider for money transfers.

6.3.5 Findings on potential for switching to other payment services

- Most payment services appear to be "sticky," with fewer than 10% of one-time users having stopped using the service;
- users have switched-onto a variety of services, with Smart Padala (9% of respondents) and M. Lhuillier (7%) capturing slightly more of this activity;
- the exceptions are LBC (23% of one-time users having stopped), Western Union (22%) and Cebuana Lhuillier (17%);

- in most cases, users would utilize a new payment service in addition to their current service rather than in lieu of them;
- nearly all users of payment service providers say the money they sent or paid arrives in full or without any deduction, with the exception of mobile money users who pay for cash out;
- their recipients encountered no problems (again, according to senders);
- regardless of payment service provider used, most agree that a paper receipt is needed when sending money or paying bills/loans;
- but respondents, other than those using mobile money, Cebuana Lhuillier or informal services, are divided on whether receiving a text or SMS confirmation is adequate as proof of payment.

6.3.6 Findings on users of mobile money:

- About one-quarter of those surveyed had used either GCASH or Smart Money;
- 50% of this group had used these services within the last week;
- Sending money to other persons (67% of GCASH and/or Smart Users) was by far the most common type of transaction performed through these services
- Users expressed strong support for allowing cross-payments between the two mobile money services;
- GCASH and GREMIT users were far more likely to be sending money within the National Capital Region (45% of GCASH users) or to other urban areas in the Philippines (60%);
- whereas Smart Money users were split roughly 50/50 between sending money to urban and rural areas;
- Taken together, the pawnshops, e.g. ML, Cebuana and Other Pawnshops, are the market leaders in domestic money transfer services but not in bills payments;
- Confusion around the transaction fees associated with mobile money payment service providers is apparent (e.g. respondents said GCASH charges nearly PhP 25.[17]).

6.4 Price sensitivity analysis

The intercept survey utilized a type of price sensitivity analysis pioneered by the Dutch economist Peter van Westendorp (1976), who probed consumers' price sensitivity directly, through a series of four questions (precise wording has varied):

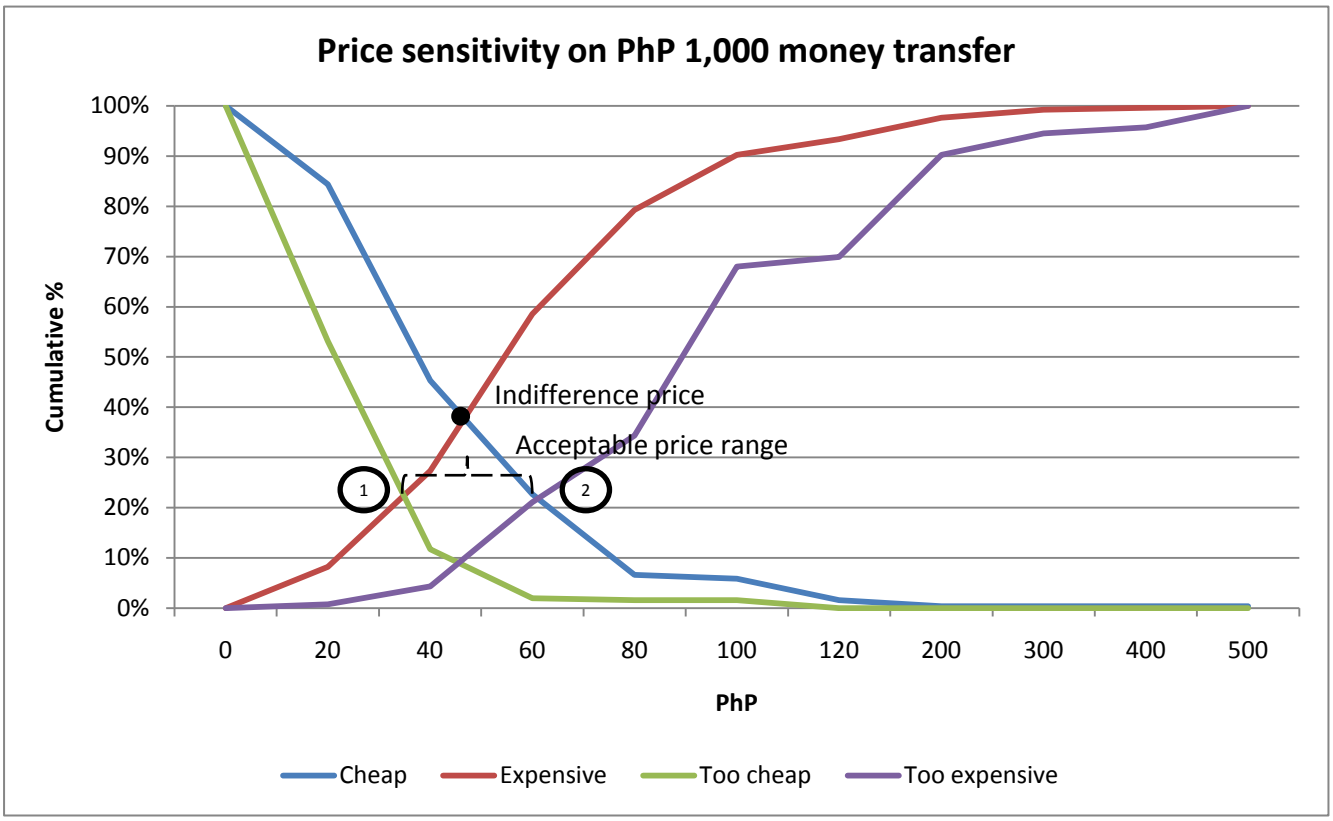
- *At what price would this good or service be considered too expensive?*
- *At what price would it be considered too cheap (and so raise concerns about its quality)?*
- *At what price would you consider it expensive but still worth it?*
- *At what price would you consider it too cheap but still worth it?*

These questions yield four price points per consumer, which researchers then use to calculate the range of acceptable prices for the sample population. The van Westendorp approach entails plotting each of the four sets of responses on a common graph of price vs. the share of respondents who find

[17] This may be because cash-in/ cash-out agents are allowed by GXI and Smart to charge a flexible transaction fee to consumers.

that price too expensive, too cheap, etc. The intersections between the curves generated by the four questions above are revealing of consumer's price sensitivity to payment services:

Chart 6: Price sensitivity analysis, intercept survey



For the non-representative intercept survey, the range of acceptable prices to the 300[18] consumers surveyed falls between PhP 38-61. This range begins at the intersection of the "expensive" and "too cheap" curves (point 1) and extends to where the "cheap" and "too expensive" curves meet (point 2). To the left of point 1, increasing shares of respondents find the price too cheap and have doubts about the quality of the service(tracking upward along the green line); to the right of point 2 (along the purples line), respondents begin to find the payment service too expensive. In between PhP 38-61 is where the largest share of consumers interviewed found the fee associated with the transfer to be either acceptably cheap or acceptably expensive. The price point where these two curves meet is known as the indifference price because equal shares of respondents find the service cheap or expensive. This point lies at roughly the midpoint of the range of acceptable prices.

Note that the percentage figures are cumulative so that as price increases, a greater share of respondents indicates that their price pain point for 'too expensive' has been reached.

The content of the intercept survey supports price sensitivity analyses for four transaction sizes: PhP1,000, PhP 1001-5000, PhP 5001-10,000 and PhP 10,000+. The results indicate that consumers

[18] Because some interviewees did not respond to all items, only 256 complete responses were used in this analysis.

expect to pay a higher absolute price (i.e. higher transaction fee) on larger money transfers. However, the fees decline as a percent of the transaction's size[19]:

Chart 7: Consumer price sensitivity by size of money transfer (all figures PhP)

Size of money transfer	1 000	1 001-5 000	5 001-10 000	10 000+
Acceptable price range	38-62	80-155	150-280	230-410
Indifference price	49	107	205	290
As a % of transaction size	4.9%	3.6%	0.7%	-

The above figures, it must be emphasized, speak only to the preferences of the users of formal payment services living in and around the Metro Manila area. Furthermore, the purpose of the domestic payments research was to conduct a demand study; the numbers below are accurate to the best of our knowledge as of August 2010 but require confirmation and potentially call for complementary supply-side research.

However, they do prove useful in benchmarking these consumers' pricing expectations, i.e. the range of prices that they find acceptable. This analysis suggests that consumers may find some of the most widely-used payment service providers —LBC, Western Union and, at certain transaction sizes, Cebuana Lhuillier—to be overpriced, as shown in red in the table below. LBC and Western Union's pricing structure exceed the respondents' pricing expectations in all price ranges above PhP3,000, and while the transaction fees for GCASH REMIT, GCASH at the rural banks and the transfer services of the rural banks themselves are either cheaper or in line with pricing considerations as captured by the sensitivity analysis above, it is not evident that Filipinos have begun to utilize these service providers in large numbers.

On the whole, the pawnshops (Palawan, ML, and in some cases Cebuana) appear to be offering services at prices acceptable to those interviewed for the intercept survey. However, so is the competition for transfers less than PhP 3,000.

[19] Percentage not calculated for largest range of transaction bucket because the upper end of the range is left open-ended. For the two buckets with ranges (1001-5000; 5001-10000), the average of the range has been used as the denominator in the calculation of the relative fee.

Chart 8: Pricing of payment service providers by transaction size (as of November 2010)[20]

(Prices in excess of consumer expectations in *red*)

Amount sent (PhP)	*Acceptable range (from price sens.)*	GCASH REMIT	Rural Banks	Palawan Pawnshop[21]	LBC	Western Union	ML Kwarta Padala	Cebuana Lhuiller
1-100	*38-62*	10.00	25.00	18.00	15.00	19.00	15.00	15.00
501-1000		50.00	25.00	30.00 - 45.00	60.00	65.00	60.00	60.00
3001-4000	*80-155*	150.00	85.00	105.00 - 135.00	240.00	255.00	240.00	240.00
6001-7000	*150-280*	200.00	145.00	195.00 - 225.00	420.00	445.00	240.00	240.00
8001-10000		200.00	205.00	225.00	600.00	560.00	240.00	240.00
20001-40000	*230-410*	200.00	805.00	240.00	2,400.00	850.00	240.00	480 - 960

7 2010 NATIONAL POPULATION SURVEY: FINDINGS

7.1 Filipinos make payments

The 2010 national population survey results of all adults (1,794) reveal an active domestic payments market. Total adults interviewed indicate that 72% of Filipinos make some type of payment, both remote and personal direct payment (referred herein as "All Payers"); 28% report they make no payments (herein referred to as "Non-Payers"). The majority of Filipinos (58% of all payers) has made a remote bill or a loan payment or a money transfer within the last 12 months, and as we learn from the results of questions directed at remote payment users in Section 8 below, they are utilizing a wide range of formal and informal service providers to complete these transactions. A significant proportion of national population surveyed (14%) are also making direct payments only in-person to individuals or companies(herein referred to as Personal Direct Payers or Direct Payers), a proportion of whom may constitute new demand that requires changing or converting of their payment behavior.

The national population survey allows for comparisons within this group and with the adult Filipino population as a whole within an acceptable margin of error (+/-3%). SWS field staff approached a total of 4,814 households and interviewed 1,794 individuals.[22] Findings on the proportion of Filipino adults who are users of payment services derive from the results of these 1,794 interviews.

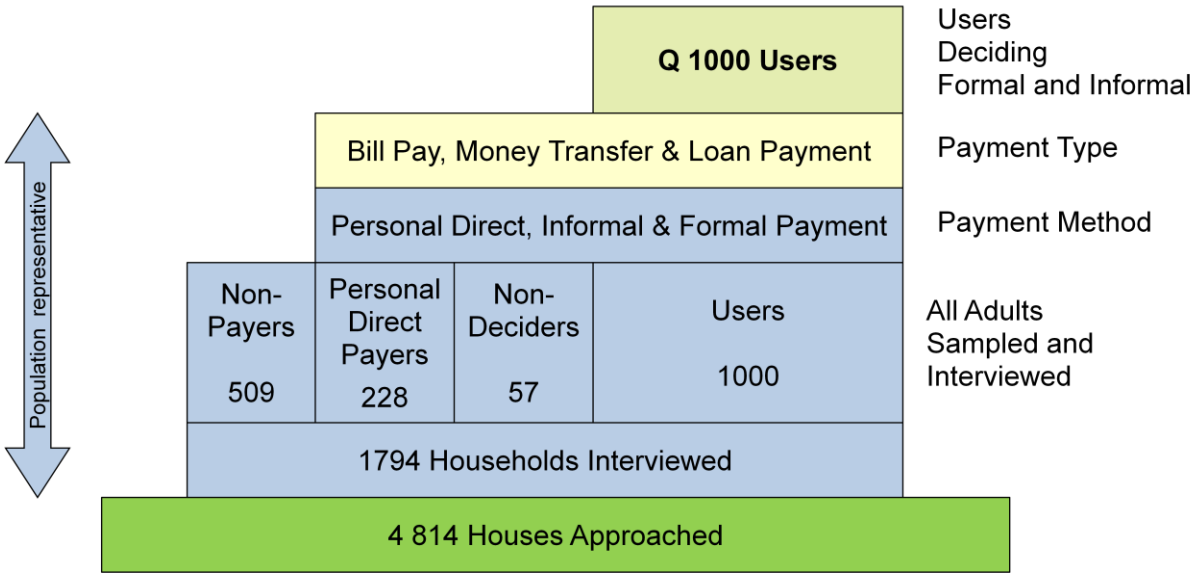
How the disaggregation and segmentation stack up is depicted below:

[20] Source: BFA, MABS, SEDPI, Smart and GXI.

[21] Average of range of fees provided.

[22] Of the 3,000+ who were not interviewed, most cases resulted from either no one being home or the desired respondent not being home at the time of interview. Outright refusals to be interviewed by households were not responsible for most of the non-interviews. Please see Annex A for a complete listing of the reason for which households were not eligible for interview.

Chart 9: Segmentation of survey respondents



1,794 adults interviews were needed to assemble the sample of 1,000 users, 55% of Filipino adults (=1000/1794)—or 32 million people—are projected to be meet the study's definition of a user representing current effective demand. This user definition, as discussed above, requires that the adult (1) sent money or made a payment for any purpose in the last 12 months, (2) is either solely or at least partially involved in deciding which service provider to use, and (3) made the payment remotely through formal and/or informal service providers as opposed to in-person (herein referred to as "Users").

Some 3% of all who made some type of payment in the last 12 months had in fact made a remote payment, but did not have any input into the decision of which service provider to use (herein referred to as "Non-Decider Payers"). For the purpose of this demand study, these adults are considered non-users, as are the personal direct payers only and non-payers. The survey collected sufficient data, however, on these non-users in order to calculate their impact on the total market of domestic payments.

The user figure of 55% derives from taking the total of all adult Filipinos who have made some sort of payment in the last 12 months (72% of national population) and subtracting those who made personal direct payments only (14% of national population) and subtracting those who did not decide which service provider to use (3% of total population).

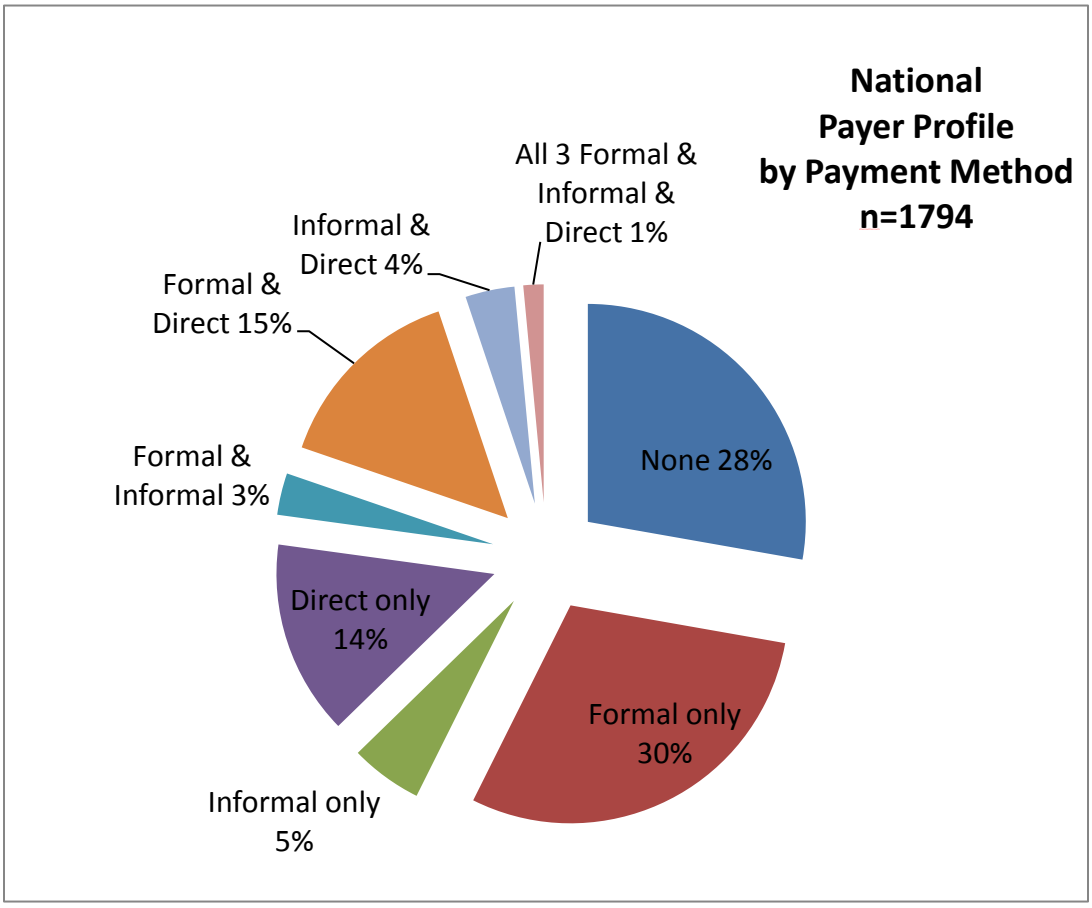
The chart below segments the total adult population according to the type of payers who have made payments in the last 12 months. Including the overlap between categories, 49% of adults are estimated to have used a formal service provider, compared to 13% for informal providers and 34% who have made payments directly, in person.

Chart 10-a: Categorization of payers (includes overlap)

Survey: n= 1794	Population: 57.1m adults
Payers using formal PSPs	49%
Payers using informal PSPs	13%
Direct payers	34%
Non-payers	28%

The following graphic depicts the full segmentation and disaggregation of the payers in the above table:

Chart 10-b: Full segmentation of all payers, users and non-users [23]

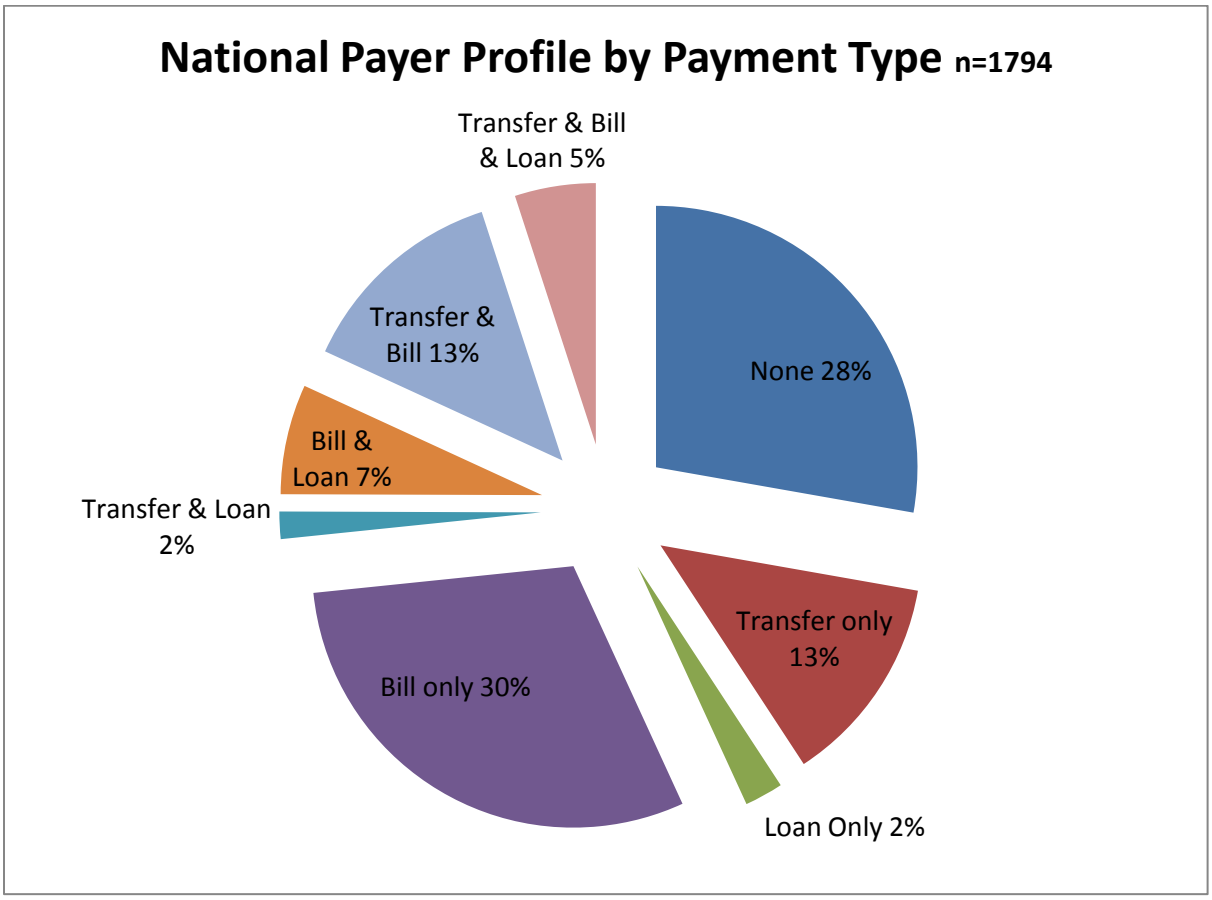


As depicted in the Chart 11 below, within the larger group of all payers, bill payments represent the most common type of payment transaction, with 55% of those surveyed having paid a bill in the last 12

[23] Table 10 stems from results of questions 1, 6 and 9 in the national population survey questionnaire.

months, as compared to 33% who made money transfers and the 16% who made a loan payment over the same period. Compared to the national average figures for this wider group, Mindanao residents were far more likely to have sent money in the last 12 months (47% of adults). Visayas had the greatest share of non-payers (40% of adults), which may stem from the fact that Visayas on the whole is the poorest of the four major regions in the Philippines. This result raises a number of supply-side issues requiring further research.

Chart 11: ***Q1 Did you send money, pay a loan or pay a bill for any purpose in the last 12 months?***



7.2 Personal direct payers, non-decider payers and non-payers

The national population survey results provide profiles of three specific groups of payers that are not defined as users of PSPs. The vast majority of personal direct payers only indicate that they trust only themselves to deliver their payments to other individuals and companies (75%). This sentiment does not appear to stem from a general distrust of money transfer and bill payment services per se, with only 6% of these respondents indicating that they felt this way. Past problems with these remote payment services (3% of respondents) do not appear to be the culprit either. Rather, it may be that most personal direct payers do not have a compelling need to use remote payment services, as very few (3%) indicated that there are no payment services nearby to where they live (this amounts to less than 1% of the national population).

The vast majority of those sending money and making remote bill and loan payments made the decision on service providers themselves or with some input from others. Of those who did not make this

decision (3%), most did so because there were no other service providers in the recipient's area (47% of non-deciders said so) or because the recipient had strong preferences for a particular provider (44%). Less than 5% of this group reported allowing someone else to make this decision due to problems with previous payment services. Their spouses (53%) and live-in partners (19%) were the most likely people to tell the payer which payment service provider to use.

Among the 28% of adults who reported not sending money or making any payment in the last 12 months, the most common reasons they reported were they did not have regular income (33%) or any money (16%). The next most common set of responses was around issues of friends or family. Non-payers reported that no family or friends lived far away from them (17%) or if they did, friends or family don't need or ask for money (9%). They also reported they do not have bills or loans to pay (17%). Interestingly, some reported that they no longer have the need to use payment services they used previously (12%). Only 4% of the non-payers said they do not know how to send money, and only 3% said there were no remote service providers near them (less than 1% of the national population).

Chart 12: Reasons for not making payments

Q5*: Why did you **NOT** send money or pay bills or a loan in the last 12 months (multiple responses)?*

I have no regular income	33%
I have no money	16%
I don't have family or friends living far away	17%
I have no bills or a loan	16%
I presently do not have a need for the payment service I used previously	12%
Friends and family don't need or ask for money from me	9%
Don't know how I would send money to someone	4%
No money transfer service providers or payment centers near me	3%
Others	12%

7.3 Calculating latent demand versus other forms of demand

The following is the basis through which demand for payment services is determined.

The 1000 adult user questionnaire is administered on a statistically valid national level. The field researchers interviewed a total of 1,794 persons. Households were selected on a statistical sample basis and then adults within the household on a second statistical basis.

Chart 13: Demand for payment services

Type of payer	Variable	NCR	Bal. Luzon	Visayas	Mindanao	Total	Payers
Users	**UP**	250	250	250	250	1000	1000
Non-Decider	**nDP**	24	21	7	5	57	57
Direct Payer	**dirP**	12	102	61	53	228	228
Non-payer	**nonP**	68	150	213	78	509	
TOTAL		354	523	531	386	1794	1285

Based on the answers to the questions in the pre-qualification survey, that followed the process as depicted in ANNEX B: Sampling and Execution Methodology respondents were classed into Non-payers, Personal Direct Payers, Non-decider payers and Users.

Furthermore all payers (Personal direct, non-deciders and Users) were asked questions to determine what payment methods they used (Formal, Informal or Direct) and what payment types they made (Bill payment, Money Transfer and/or Loan repayment). Chart 13 above illustrates the segmentation by payer type of the 1,794 respondents to the national population survey.

The national population survey determined whether the person interviewed paid money to others through the question, "Did you send money, pay a loan or pay a bill for any purpose in the last 12 months?" The segmentation of the 1,794 adult respondents is as follows:

Non payers

A 'No' answer meant that the person was not currently paying and was asked a series of questions as to why s/he does not make payments, as reported above; 509 out of 1794 did not make payments.

The assumption is that the person is too poor or has no need to make payments as they report they have no money or regular income. The primary factor is that the person has no money to be able to pay and thus until her economic situation improves will not pay. Thus unless the person moves into a position where they receive money (a G2P subsidy, for example) that they can then use to pay bills, transfers and loans they will not become payers. This is usually due to economic factors such as availability of employment or business opportunity, and as such does not constitute a latent demand for payments, rather it indicates a need for economic development and thereby the ability to obtain income and then as a result the need to pay. **Thus this category does not have an unmet demand to pay. Also only 3% of these non-payers (less than 1% of the national population) said a PSP is not near them.**

Payers

If the person paid in any one of the three ways discussed above, then they were asked how much and how often they paid. This then constituted all the payers, namely 1,285 out of 1794 interviewed.

Thus **Payers = UP + nDP + dirP.**

Q2, Q3 and Q4 of the questionnaire were then administered to the payers to determine what type of payments are made by the individual – in amount and frequency for sending money, paying loans or paying bills.

These answers then gives an indication of the portion of the 1,794 sample who make payments and represent the base that have potential unmet demand namely 1,285 out of the 1794 people sampled.

Latent payment demand – is defined as payment demand that exists but is currently not satisfied by Personal Direct, Informal or Formal payment services. A distinction is made between bill payment and money transfer:

- Bill payment is relatively inelastic as the need to pay a bill exists due to factors exogenous to payments – such as the payer receives electricity and receives a bill which in turn must be paid with the issue of how the bill can and is paid and not whether it will get paid. As such, there is unlikely to be latent demand for bills payment because the as if the payment is not made the biller will act to recover its money and terminate service. What does exist is a possibility to switch from personal to informal or to formal bill payments providers or between formal service providers. This is switching activity and not the addressing of latent demand.
- Money transfers, where access, speed and prices may change to stimulate more transfers to occur, is more likely to exhibit latent demand. As transfers do not require that some activity (e.g. the consumption of electricity) must first occur in order to trigger a bill and thus the bill payment, money transfers are essentially at the discretion of the sender, representing latent demand that may be sensitive to price, speed and convenience. This example is specifically explored in q20 of the national adult survey with users. Additionally, when remittance services become available where no prior services existed or where poor transfer services existed latent demand may be activated.

Switchable demand – is defined as serviced demand that can be moved or switched from one payments service method or provider to another. This does not represent an unmet demand but rather a demand that can be switched from one payments service provider to another or converted from Personal Direct to Informal and/or Formal transfer methods and is essentially market opportunity and competitive in nature. This Switchable Demand is applicable to bills payments and money transfers.

The table below shows where **latent demand** for payment services may exist.

a. Transitioning from personal direct payments to informal and formal payments services – represented by an '-->' in the table below. If there is latent demand in payments it is likely to be unlocked by more efficient and available money transfers. As discussed above, transitioning payment methods for bill pay is unlikely to unlock latent demand.
b. Additional intrinsic demand for service within the money transfer services that may arise if products and availability change or prices decrease – depicted by a "^" and typically this will be within the formal service providers. Changes within formal services may trigger informal services to change as well to remain competitive. There is unlikely to be latent demand for bill pay within any category as people do not run around looking for bills to pay as bill payment services become cheaper (and in the Philippines case where the biller pays the fee these are already free the demand would be transitional – switchable - and not latent).

It is postulated that transitions will take place from left to right in Chart below and that the majority will be of the "-->" type.

Chart 14: Demand for payments services

Type of payer (Latent Demand)	Variable	Personal Bill Pay	Informal Bill Pay	Formal Bill Pay	Personal Transfers	Informal Transfers	Formal Transfers
User	**UP**	-	-	-	-	→	^
Non-Decider	**nDP**	-	-	-	-	→	^
Direct Payer	**dirP**	-	-	-	-	→	^
Non-payer	**nonP**	-	-	-	-	-	-

Latent demand is uncovered thus:

- Possibly from transitioning transfer payments services to more efficient methods – allowing money to be transferred more often in lesser amounts
- Possibly from switching between transfer payments unlocking the possibility to pay less more often

Latent demand could be unlocked in the informal transfer market and in the formal transfer market due to changes in process, pricing and availability making it easier and cheaper to pay and possibly unlocking some latent demand. This is not unlike the situation in Kenya before M-Pesa became such a success.

From the point of view of the Formal Payment Supplier, such as Smart or GXI, most of the demand available is probably switchable demand and less latent demand.

7.4 Personal Direct Payers as the primary source of convertible demand for payment services

We used a cross-tabular analysis of payment methods (formal, informal, personal direct) vs. payment types (BP, MT and LP) to identify key niches in domestic payments market. As noted above, the informal-only users comprise a relatively small share of the overall domestic payments market, with only 13% of adult Filipinos (and 25% of users of domestic payments services) utilizing an informal provider within the last 12 months.

Chart 15-a: Informal users segmentation (n=1794)

	As % of the 1,794	Projected adults[24]
Informal payers only	6%	3.4m
Informal + formal payers	3%	1.7m
Informal + personal direct payers	4%	2.3m
Formal + informal +personal direct payers	2%	1.1m
Total: made informal payment in last 12 months	**15%**	**8.6m**

On the other hand, about 33% of Filipinos emerged as Personal Direct Payers. This figure includes those making direct payments exclusively (13% of adults) and those using both formal and direct services (16%), as well as those utilizing a combination of direct and informal service providers (4%) and those utilizing all three types of providers (2%). Among those making direct payments exclusively, two niches are apparent: those making bills payments (8% of all adults) and those making both bills and loan payments (3%). Formal payment service providers may be able to convert these Personal Direct Payers into customers if they can overcome these payers' chief reservation with respect to remote payments, namely that the majority only trust themselves to make payments. ***Those making payments exclusively via self-delivery comprise a distinctive group in that, unlike the overall user population, a majority is men.***

Of those who only used direct payments, 57% agreed that paying bills would be easier for them to do via a PSP (compared to a figure of 25% for money transfers). Far more of the direct-only payers deliver bills payments themselves (approx. 6.3m or 11% of all adults) than make money transfers or loans payments in person, suggesting a potential niche market. Among those using both formal and direct methods (estimated at 9.2m adults), bills payments also comprise the lion's share of payments transactions.

Chart 15-b: Personal Direct Payers Segmentation (n=1794)

	As % of the 1794	Projected adults[25]
Personal direct payer only	13%	7.4m
Personal direct + formal payer	16%	9.2m
Personal direct + informal payer	4%	2.3m
Personal direct + formal + informal payer	2%	1.1m
Total: made personal direct payment in last 12 months	**33%**	**18.9m**

[24] Not population weighted, meaning true population mean may be expected to differ by up to +/- 3%.

[25] See note above.

The user segment that is utilizing both formal and direct payment methods represents a second potential source of convertible demand for remote payment services. Formal payment service providers seeking to capture a greater share of these Users may also have to overcome trust issues with respect to remote methods of payment with formal service providers.

The following table segments the 72% of adults who have made at least one payment in the last 12 months:

Chart 15-c: Segmentation of payments services users

Payment Method vs Payment Type

N=1794

MT – money xfer LP – loan pay BP – bill pay	MT only	LP only	BP only	MT & LP	BP & LP	MT & BP	MT & LP & BP	*Any of the 3*
Informal only	1%	1%	3%	-	1%	-	-	6%
Direct only	-	2%	8%	-	3%	-	-	13%
Informal & Direct	-	-	-	-	2%	-	-	4%
Formal only	9%	-	13%	-	-	4%	1%	28%
Formal & Direct	2%	-	4%	-	1%	7%	3%	16%
Formal & Informal	-	-	-	-	-	1%	1%	3%
Formal & Informal & Direct	-	-	-	-	-	1%	1%	2%
Any of F,D or IF	12%	3%	29%	2%	8%	13%	6%	72%

The highlighted boxes above are potential niche markets in the national population of payers. Those personal direct payers only and those direct payers using formal PSPs may be converted or switched to stimulate new demand. Similarly, users of informal service providers may convert to users of formal PSPs particularly in making bills payments.

7.5 Findings on current size of market for domestic payments

The national population survey yields a rough estimate of the total size of the market for domestic payments in the Philippines. Taking the average value of money sent or paid to settle bills or loans and multiplying it by the projected number of users making each of these transactions produces the estimates below. In total, the national adult survey suggests that the domestic payments market currently processes PhP 152 billion per month—just over USD 3.2 billion.

Chart 16: Estimated current size of market for domestic payments per

Calculation of size of market for domestic payments, from national population survey (n=1794)	Money transfer	Loan payment	Bills payment
A. National weighted average per transaction (PhP)	2,710	4,367	1,972
B. % performing txn. (assumed to be monthly).[26] (population-weighted)	32.8%	15.9%	55.2%
C. No. adults in Philippines	57.0 mil.	57.0 mil.	57.0 mil.
Total amount sent per payment type, PhP (A*B*C)	50.6b	39.6b	62.0b
Total amount sent per month	PhP 152 ($3.2b)		

8 USERS OF PAYMENT SERVICE PROVIDERS: FINDINGS

8.1 User profile

The results of the national population survey of all adults interviewed established that most Filipinos appear to have made one or more types of payments in the last 12 months but that a smaller proportion—closer to 55% of adults—can be considered users of remote formal and/or informal payment services. 1,000 such adults form the sample for the national adult survey of remote payment users. Judging from their collective demographic profile, these users resemble the adult Filipino population at large in many respects. The economic class segmentation of the users mirrors that of the national population, with a slightly lesser share of users being middle class (4% vs. 6% for all adults) and slightly fewer coming from the ranks of the very poor (19% of users vs. 23% overall). The two groups share an identical monthly net income figure of PhP 2,000 (USD 45), while education levels among the

[26] The questions on the National Population Survey used to construct this estimate of the total demand for payments services (Q2-4: "In a typical month, what is the total amount of money that you…") intentionally did not ask respondents to share the frequency of each transaction, only the estimated monthly total for each payment type (BP, MT, LP). The objective in this section is to obtain a "smoothed" estimate of the monthly payment amounts in aggregate, so as to estimate the total size of the market. Had the question instead asked respondents to attach a specific frequency to each type of transaction, the total market size estimate would have required the messy intermediate step of standardizing the transaction frequencies. For example, to compare data from a respondent who sends PhP 300 "several times per week" to another respondent who sends PhP 500 once per year would have necessitated multiplying the first figure by 2 times per week * 52 weeks/ year = 104. Yet because "several times" per week might mean two times for one respondent and three or four times for the next, this conversion might not be accurate. In short, the process would be far murkier under this approach.

users (67% with at least a high school diploma) are nearly identical to figures for the nation as a whole. On most demographic measures, the differences between the two groups do not, on a percentage basis, exceed the survey's margin for error.

The user population is exceptional, though, in two respects. First, the sample shows a rural bias: in a country that remains 35% rural, 46% of users interviewed for the national survey live in rural locations[27]. More significantly, the number of female users exceeded the number of male respondents by over 2:1. Clearly more women are remote payment users than men. We found this also to be true in the non-representative intercept survey of users in Metro Manila.

Chart 17: Demographic profile of users

Group	**User Population**
	National Adult Survey (2010) **Survey: n= 1000** **Population: 57.1m adults**
Female	68%
Urban	54%
Upper class (AB)	1%
Middle class (C)	4%
Poor, lot owner (D1)	37%
Poor, non-lot owner (D2)	38%
Very poor (E)	19%
Monthly net household income (median)	PhP 2000 (USD 45)
At least graduated high school	67%
Married	70%
With livelihood or source of income	61%
NCR	17%
Balance of Luzon	38%
Visayas	17%
Mindanao	27%

Access to financial services and banking facilities is only slightly higher for users of payment services. The proportions of users with bank accounts (26%), with savings in general (29%), with savings at commercial banks (13%) and with ATM cards (33%) are each roughly 5-10% higher than for the adult Filipino population as a whole, as is the share of users billed for water (59%) and electric services (88%).

[27] Although SWS strives to give each barangay an equal chance for selection in constructing its survey sample through stratified random sampling (see methodology), the trade-off inherent in this approach is that the resultant sample may be an imperfect reflection of the country's geography. This chance outcome does not, however, make the survey any less representative.

Chart 18: Access to financial services

	Survey: n=1000 Population: 57.1m adults
Owns cell phone	70%
With an email account	13%
Used ATM, last 12 months	33%
Indicates having savings of some form	29%
Has savings in home	13%
Has savings in a commercial bank	13%
With a bank account	26%
Account at commercial bank	22%
Having borrowed money or taken out a loan, past 12 months	9%
Receives money or remittances from abroad	24%

8.2 Awareness of payment service providers

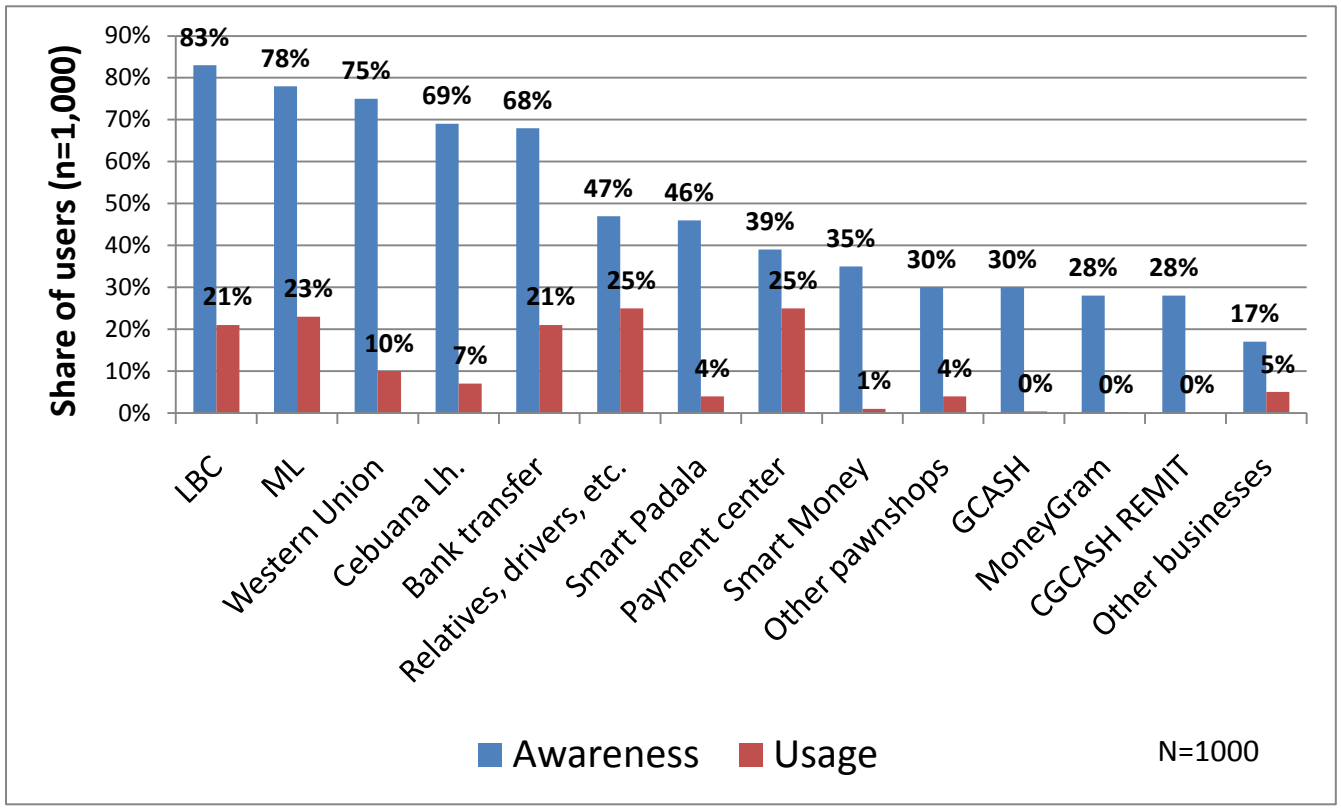
Brand awareness serves as one indicator of how consumers view the competitive landscape for domestic payment services. While greater brand awareness alone does not drive higher usage of payment services, low awareness among consumers does appear to be limiting the uptake of several services. Of the 14 payment service providers presented to respondents (some of which were generic categories, such as payment centers), only five were recognized by about 70% of consumers or more: LBC, M. Lhuillier, Western Union, Cebuana Lhuillier and bank transfer services. All other service providers, including informal delivery methods such as relatives and vehicle drivers (47%), were known to fewer than half of respondents. The mobile money transfer services registered some of the lowest awareness ratings: none of Smart Money (35%), GCASH (30%) or GCASH REMIT (28%) exceeded 40%, and only 46% of consumers claimed they were aware of Smart Padala. Only 28% of consumers indicated that they are aware of MoneyGram as against a rating of 75% for Western Union, its competitor in many markets around the world.

The national survey suggests that while all of the most-used payment services are known to at least ~70% of the users (the exceptions being the informal providers and the payment centers, which may not have a nation-wide presence), awareness alone does not lead to high usage levels. For example, Western Union's high awareness rate of 75% dwarfs its share of users in the preceding 12 months (10%). Similarly, 69% of users are aware of Cebuana, but only 7% are using Cebuana.

Chart 19-a: Usage and awareness of payment service providers

Q1: Which method of paying money, paying loan[s] or paying bills do you know of?

Q2: For each method aware of [have you used it in the last 12 months?]



8.3 Usage of payment services

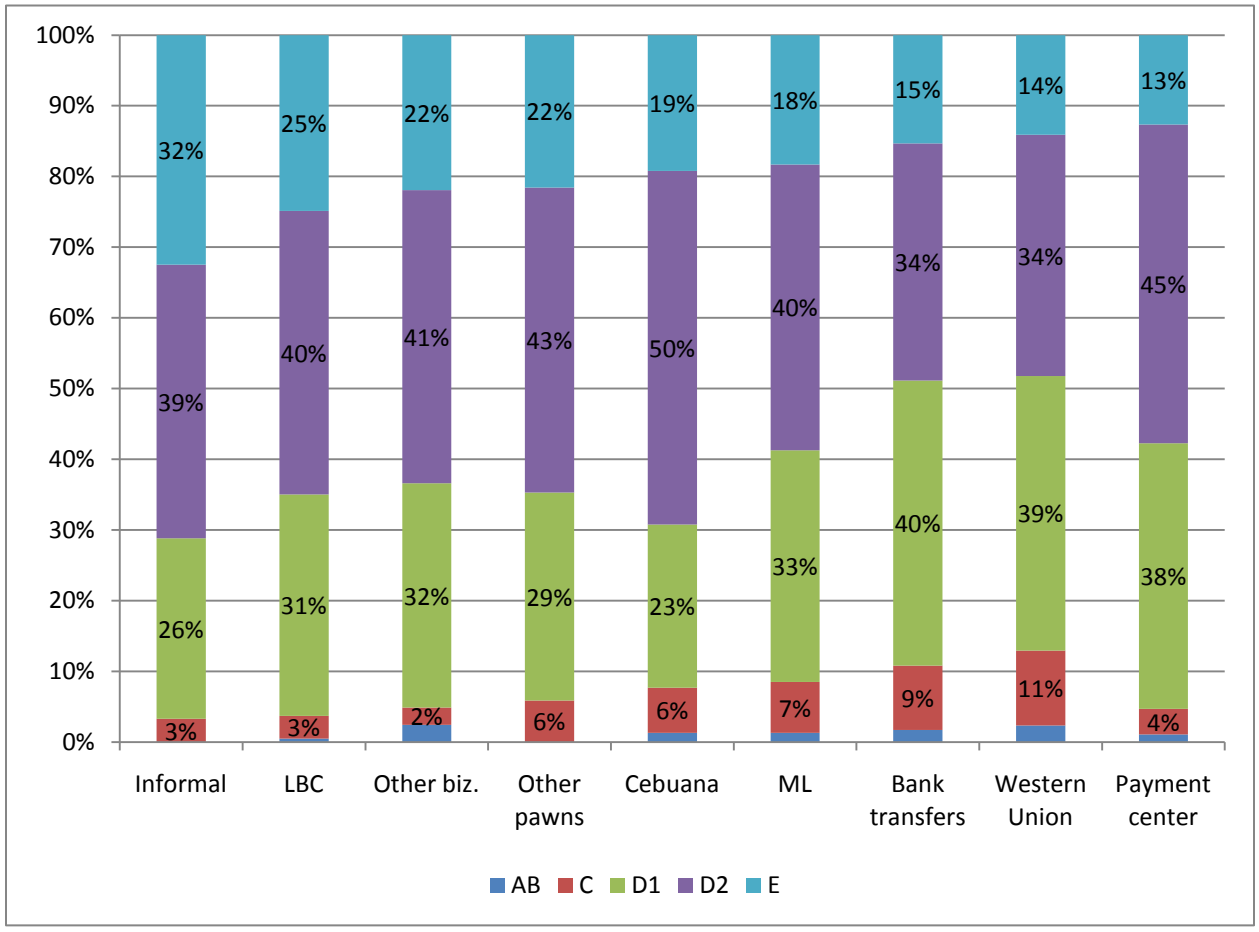
The results of the national demand survey confirm two broad categories of payment service providers required by users: those which process primarily bill and loan payments and those that handle primarily money transfers. Users report that some service providers have the capacity for both types of transactions. Two services in particular, bank transfers and the informal service providers, perform a healthy mix of both to meet the demand of users.

Each of the 14 payment service providers reported by users falls into one of two tiers of usage. First, 20% or more users have utilized one of five service providers in the last 12 months. Second, the remaining nine each feature usage levels of 10% or less. The top five service providers are a diverse group that includes informal service providers such as relatives and vehicle drivers (25% of users), one pawnshop (M. Lhuillier at 23%) and one courier and money transfer service (LBC at 21%), as well as payment centers (25%) and bank transfer services (21%).

The chart below segments the users of each payment service provider according to the socio-economic class of the user. For most service providers, the user profile mirrors the distribution of income in the Philippines as a whole. More than any other payment service provider, the users of informal services derive from the ranks of the very poor (32% “E”). Surprisingly, a significant share of LBC users (25%) is

also very poor. At the other end of the market, users of Western Union and bank transfer services are the PSPs of choice of the upper and middle classes (ABC).

Chart 19-b: Usage of PSPs by socio-economic class



8.4 Multiple usage of PSPs

The Chart below summarizes the usage of multiple payment service providers. The first row displays the number of users out of the 1000 users interviewed who utilized each PSP (for example, 176 used bank transfer services), and each row thereafter within the same column is a percentage of the top-row figure. For example, of the 176 who used bank transfer services, 9% also used Western Union while 22% also used M. Lhuillier. Note that because the number of users differs for each PSP, the percentage of users of service X also using service Y is *not* identical to the percentage of users of service Y who are also using service X. These and other findings are summarized in the text below the table.

Chart 20: Multiple usage of payment service providers

Q2: For each method you are aware of, have you used this method to send money, pay loans or pay bills more than 12 months ago?

1 See five storylines below

	1	2	3						4					5
	Bank trans.	Western Union	LBC	ML	CLH.	Smart Padala	GREMIT	Money Gram	Smart Money	GCASH	Payment center	Other pawns	Other biz.	Informal
Users	**176**	**85**	**99**	**235**	**78**	**29**	**1**	**1**	**13**	**3**	**277**	**51**	**41**	**274**
Bank transfers	-	11%	16%	7%	10%	7%	0%	0%	23%	0%	8%	12%	10%	7%
Western Union	9%	-	19%	8%	12%	10%	0%	100%	15%	0%	10%	8%	17%	3%
LBC	18%	33%	-	10%	38%	24%	100%	100%	31%	100%	0%	16%	2%	2%
ML	22%	22%	49%	-	38%	24%	0%	0%	23%	33%	9%	33%	20%	18%
Ceb.	8%	11%	24%	13%	-	21%	0%	100%	15%	0%	5%	12%	7%	3%
Smart Padala	2%	4%	11%	3%	8%	-	0%	0%	46%	0%	1%	4%	7%	1%
GCR	0%	0%	0%	0%	0%	0%	-	0%	0%	0%	0%	0%	0%	0%
M	0%	1%	0%	0%	1%	0%	0%	-	0%	0%	0%	0%	0%	0%
Smart Money	1%	2%	3%	1%	3%	21%	0%	0%	-	33%	1%	4%	2%	0%
GCASH	1%	0%	0%	0%	0%	0%	0%	0%	8%	-	0%	0%	2%	0%
Payment center	16%	33%	38%	10%	19%	10%	0%	0%	31%	0%	-	12%	7%	5%
Other pawns	6%	5%	9%	7%	8%	7%	0%	0%	15%	0%	2%	-	2%	6%
Other biz.	5%	8%	12%	3%	4%	10%	0%	0%	8%	33%	1%	2%	-	4%
Informal	13%	9%	32%	20%	12%	7%	0%	0%	8%	33%	5%	33%	27%	-

The following are the most significant findings on the multiple usage of PSPs from the chart above (storyline 1-5):

1. An analysis of reported usage of payment services at banks suggests a surprising number of people using the banks are also using the pawnshops:
    - On money transfer services, 22% of users of bank services are also using ML;
    - While 8% are also using Cebuana and 6% are using the services of other pawnshops such as Palawan
    - A further 18% of users of bank transfers are also using LBC.

2. Western Union appears to be a feeder for other payment service providers:
    - Fully one-third of the users of Western Union are also using payment centers, most likely those living in urban areas in Metro Manila
    - One-third of Western Union users are also using LBC, while 22% of WU users also utilize ML
    - It may be the case that many WU users living in urban areas value the proximity and convenience of these other PSPs, but as noted below, Western Union also has a high attrition rate, as reported by users.

3. Heavy switching characterizes the group of users utilizing the pawnshops and LBC:
    - Among LBC users 49% also use ML, 24% also use Cebuana and 9% also use other pawnshops (like Palawan and RD)
    - Among Cebuana users 38% also use ML, 38% also use LBC and 10% also utilize other pawnshops
    - Among ML users 13% also use Cebuana, 10% also use LBC and 7% use also other pawn shops
    - Among the users of other pawnshops 33% are also using ML, 16% are also using LBC and 12% are also using Cebuana.

4. In general, it is difficult to draw conclusions around the usage of the mobile money services due to the small number of respondents.

5. Users of informal PSPs, who tend to be located disproportionately in rural areas and in Mindanao and Visayas rather than in Metro Manila or the balance of Luzon, are also using the PSPs with the most accessible outlets:
    - A significant share of informal service users are using pawnshops, including ML (18% of informal users)
    - These users are also going to Cebuana Lhuillier (3%) and other pawnshops like Palawan (6%)
    - It is possible that these users are making use of informal service providers for intra-island bills and loans payments, but the pawnshops to deliver payments, most likely money transfers, across island groupings.

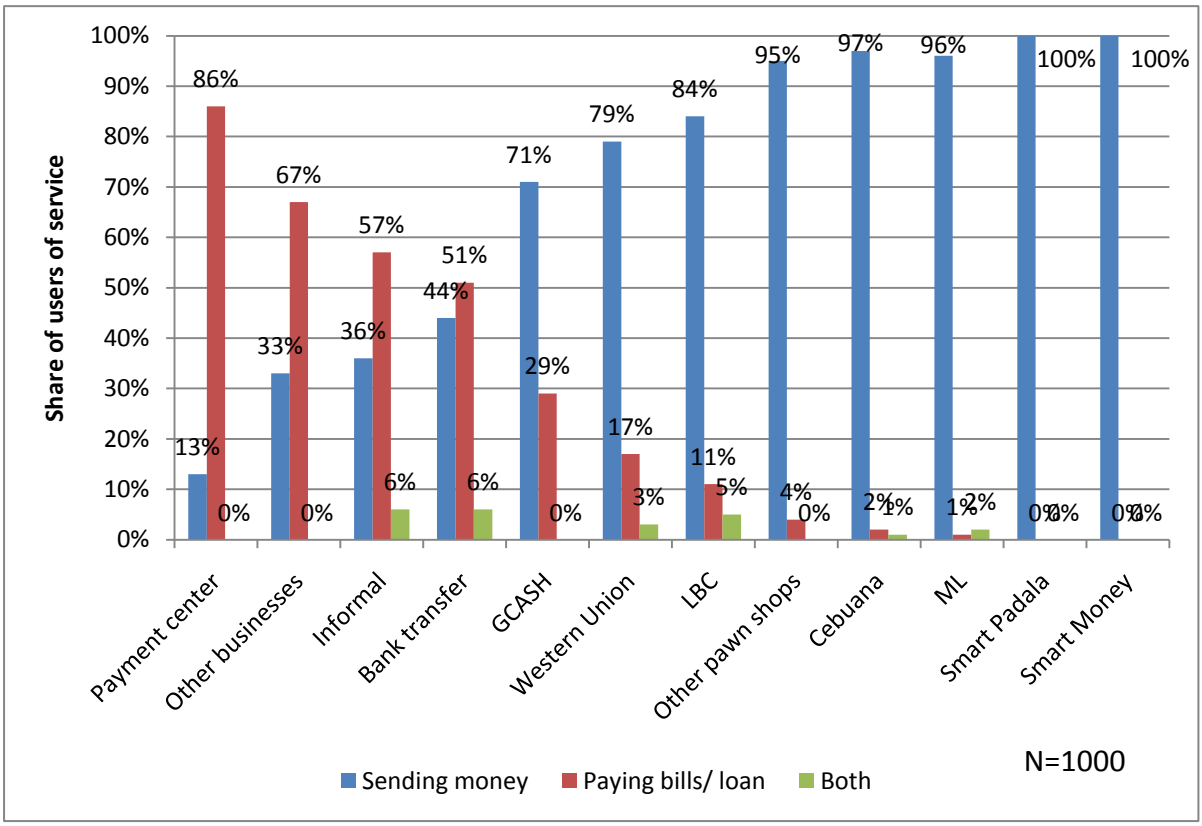
8.5 Types of payments and other transactional data by PSPs

The user survey also recorded information on the frequencies, amounts, and recipients of remote payments. Three of these five services (banks, informal providers and payment centers) perform a

majority of users' remote bills payments. The payees to whom the users of informal service providers, banks, other businesses and payment centers paid most frequently were the companies that had issued them electric bills (66% of these users) followed by those billing for water services (58% of all users of payment centers). Some 55% of all Filipino adults made a remote bills payment in the last year, in comparison to only 33% who have made money transfers.[28] Among the top five-used service providers, M. Lhuillier and LBC are the only two where users are making more money transfers than bills payments, as money transfer appears to be the primary business model with respect to these providers. Those service providers with usage levels of 10% or less are competing primarily for the money transfer business.

Chart 21: Type of payment made, by PSP

Q9: Do you use this facility for…[29]



The payment service providers that respondents use more frequently tend to be the ones more associated with bills payment transactions. Respondents are most likely to use payment centers, banks, informal providers and 'other businesses' at least once per month, whereas the users of the all types of pawnshops and of LBC typically use these services only several times per year. ***The***

[28] See methodology and pre-qualification description above. These numbers come from the nationally-representative pre-qualification sample distributed to 1,794 adults in the Philippines on a randomized basis. The sample for the national survey was built from this group after removing those who did not make payment decisions and those who made payments in person rather than remotely.

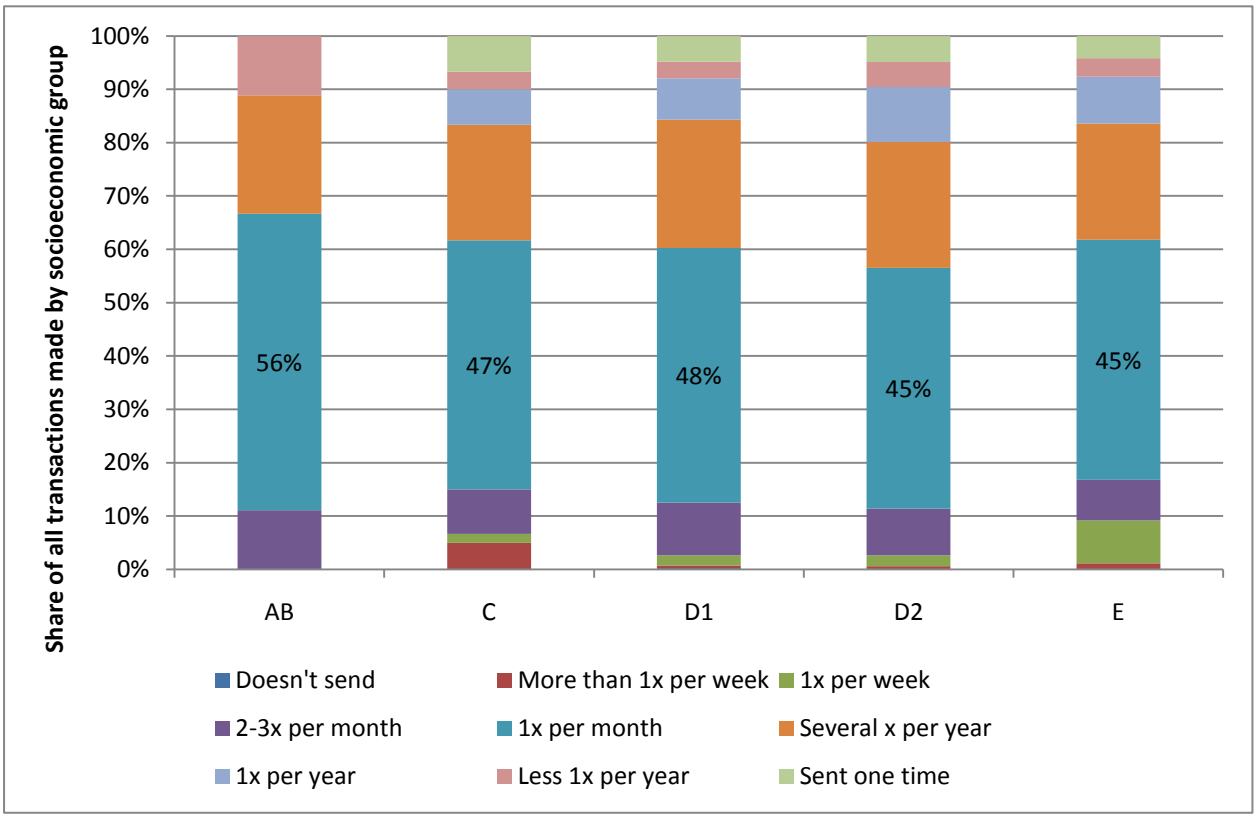
[29] Most users did either one type of transaction or the other; the small figures who did both at a particular provider were omitted for clarity in the above graph.

monthly regularity of most bills payments appears to drive the business models of the most used formal service providers, though it is the billers that generally pay for the transactions and not the users. Supply-side research might indicate whether these providers experience substantially higher transaction volumes relative to the money transfer-oriented services and how this affects their revenue models.

The chart below which segments payment frequency by socio-economic class confirms that close to one half of all payments is made on a monthly basis. However, a significant share of very poor users, along with the middle income group, tends to make payments more than once per month.

Chart 22: Segmentation of payments frequency (all types) by socioeconomic class

Q11: How frequently do you use this provider?



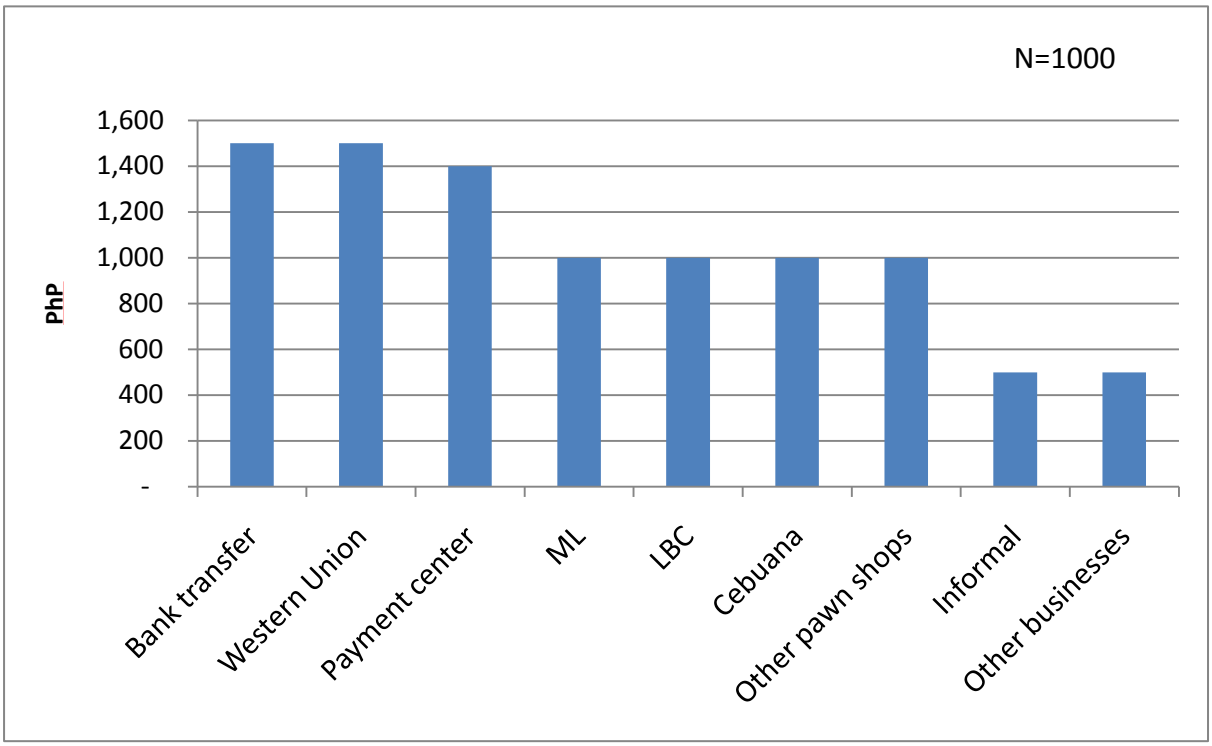
Users of the money-transfer oriented services tend to send money to family members, primarily siblings (25% of users) and spouses (15%) who together may be termed intra-generational beneficiaries, followed by children (14%) and parents (9%). The higher incidence of the intra-generational over the cross-generational money transfers may hold implications for the marketing of these services.

By contrast, transaction size is not a metric that segments neatly across the two types of payment services. Judging from the size of a typical transaction, users typically transact in different amounts at different service providers, along three lines: the users of Western Union, bank transfer services and payment centers process transactions of with a median value of around PhP 1,400 (USD 30-35); a second group consisting of the users of the three types of pawnshops as well as LBC transact in

amounts closer to PhP 1,000 (USD20-25), while those using informal service providers and other businesses send money and pay bills in amounts of around PhP 700 (USD 10-15).[30]

Chart 23: Typical amount sent, by PSP

Q14**:** What is the usual amount that you send or pay with this provider (median figure)?



These differential transaction sizes may reflect user trust, speed, convenience or income. Banks are trusted for handling larger amounts of money, as are users of Western Union and payment centers. The results of both the focus group discussion and the intercept survey suggested that respondents rate banks highly in this regard. On the other hand, greater uncertainty with informal providers' ability to deliver money on time and in full may be reflected in the lower average transaction sizes for these providers, but also more likely reflects that lower income users are utilizing informal services providers. Users indicated that they would consider PhP 3200 ($68) a "very big" amount for money transfers with informal providers compared to a figure of PhP 5300 ($113) for performing a similar transaction with a bank.[31]

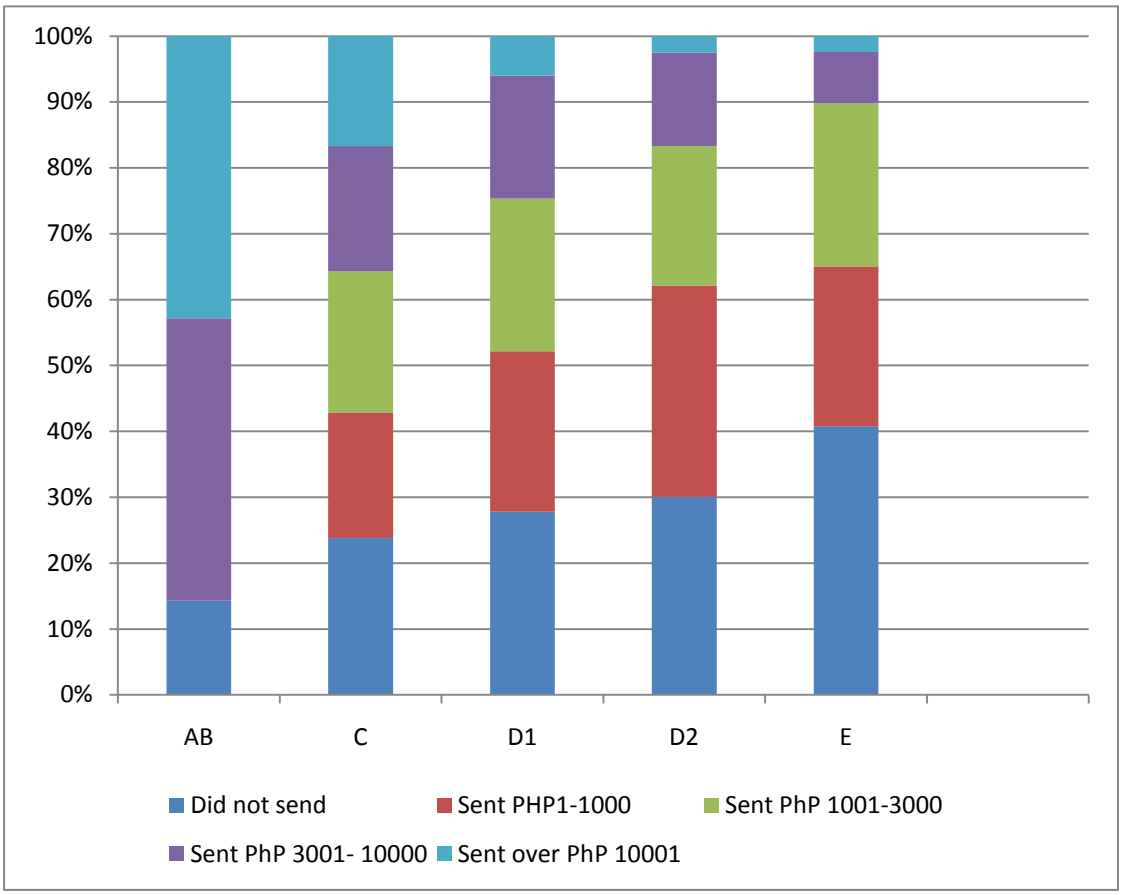
The chart below, which segments the amount of money sent by the socio-economic class of the users, indicates that poor and very poor adults tend to send money in smaller amounts. As noted above, both the C and E classes tend to send money more than once per month. Middle class adults, though, tend to send money in amounts spanning the full range of sizes, whereas the majority of very poor adults send money in amounts of PhP 3,000 or less—if at all.

[30] Segmentation not currently available by channel and by transaction type at once.

[31] Both figures are median values in response to the question, "A very big money transfer means _____ [amount] to me."

Chart 24: Segmentation of amount of money sent by socio-economic class

Q119: If you were to combine the money that you send and the money sent by other members of your household to other people, about how much is the total money sent by your household in a typical month?



8.6 Transaction fees

With respect to transaction fees, the markets for money transfer and bills payment services differ markedly. The bills payment market appears inelastic, and the providers have conditioned consumers in the Philippines not to expect to have to pay transaction fees for using remote bills payment services. In most cases, the service provider appears to charge the billing company for these services. Together, users of bank transfer, informal services and payment centers indicated that they typically pay nothing to use these services. Although transaction fees for remote bills pay services may seem like a tough sell to this group, 32% of these users reported that they would be willing to pay an average fee of PhP 50 for a bills payment service that did not require them to leave their home. This fee matches the charge of most banks for payment services and may suggest a market opportunity for low-cost bills payment services such as mobile banking.

On the other hand, users who make money transfers report that they typically pay transaction fees ranging from PhP 50 at 'other pawnshops' up to PhP 70 for at M. Lhuillier and Western Union. Users reported prices for GCASH, Smart Money, GCASH REMIT and Smart Padala ranged from PhP 0-30 but are not in line with pricing schedules for these products. The participants in FGDs also reported incorrect figures. Flexible agent cash-in and cash-out fees may also contribute to respondent confusion. On the whole, these transaction fees were self-reported by respondents irrespective of

transaction size. The price sensitivity analysis section below offers a fuller treatment of the transaction price question.

However, low fees were not a prime reason for which respondents use their payment service provider (with the exception of the 'other pawnshops'). About 41% of the users of LBC, M. Lhuillier and Cebuana, ranked fast service (with respect to delivery and settlement) as the single most important reason, followed by security and trust (27% each). Users of Smart Money (59%) and Smart Padala (37%) also identified speed as most important. By contrast, users of each of the three service providers associated with bills payment transactions each cited distinct reasons for using their provider or providers of choice, hinting at each provider's comparative advantage as perceived by users: with payment centers, proximity to the user's home or place of work stands out (60% of these users), whereas banks seem to provide security (46%) and trust (38%). Users of informal services gave similarly high ratings in the area of trust (62%), perhaps due to strong family ties (or at least a modicum of accountability) for those living in their communities. In terms of speed, users of informal PSPs report that recipients get their money within a median of 30 minutes.

Users were also asked if the transaction fees of their current PSP were decreased would they pay smaller amounts more frequently.

Chart 25: dropping fees significantly

Q20: If the transaction fee charged by this provider dropped significantly, would you send less amount of money more frequently?

Users of:	No	Yes
Informal	47%	53%
Payment centers	80%	20%
ML	23%	77%
LBC	56%	44%
Bank transfers	48%	52%
Western Union	66%	34%
Cebuana	51%	49%
Other PSPs	61%	39%
Other pawnshops	23%	77%
Smart Padala	41%	59%

8.7 Customer attrition and switching

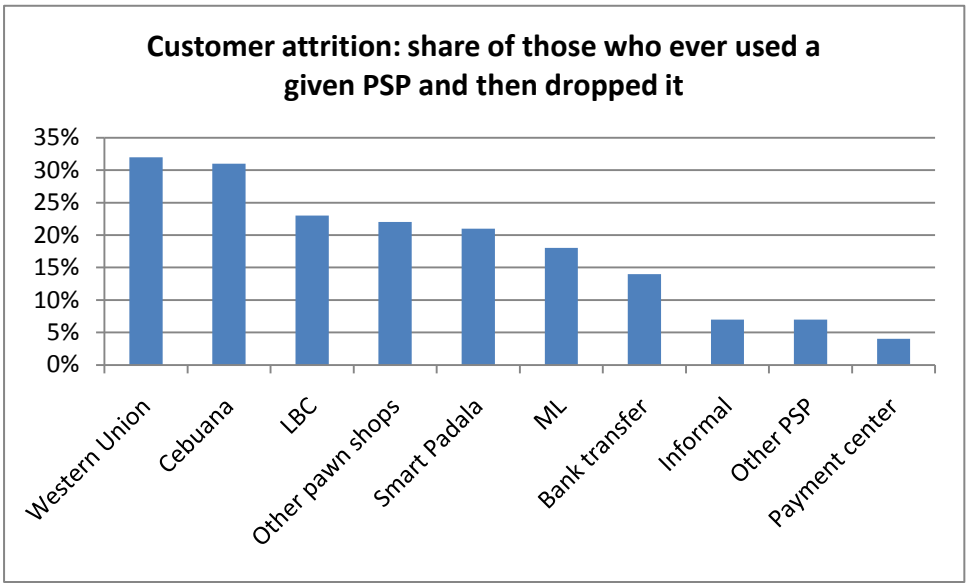
The national survey also reveals that the pawnshops along with LBC and Western Union—the service providers most focused on money transfers—have the greatest customer attrition. Of those

surveyed who had ever used these services, 38% of one-time Western Union users no longer utilized its services, while one-time users of Cebuana Lhuillier (31%), LBC (23%) and 'other pawnshops' (22%) feature similarly high attrition. SMART PADALA users displayed the single-highest termination rate at 42%.[32]

The users of informal service providers, bank transfers, other businesses and payment centers all exhibited lower attrition rates on the order of 7-14% of one-time users. Among the users of these four services who stopped, many (35%) did so because they no longer made payments at all. A total cessation of bill and loan payments also proved to be the prime reason for termination across all types of services (32%), followed by the former recipients of money transfers returning home (18%).[33]

Chart 26: Customer attrition

Q5**:** Are there some methods of sending money, paying loan[s] or paying bills that you stopped using[34]?



Western Union and Cebuana appear to be losing some users. Furthermore, the majority of users of payment services either remains unaware of the mobile money services or, among those who had heard of them, indicate that they would not use them. Regarding GCASH, of the 1,000 users interviewed unaware of the service say they would never use it (23%); Smart Money's figures are similar at 54% unaware and 30% who would never use.

The Chart below suggests that the domestic payments market in the Philippines is relatively mature, and it may be difficult to achieve scale take-up, given respondents' decided resistance against some

[32] This finding on high attrition was made before the Smart Padala product was re-named Smart Money Transfer.

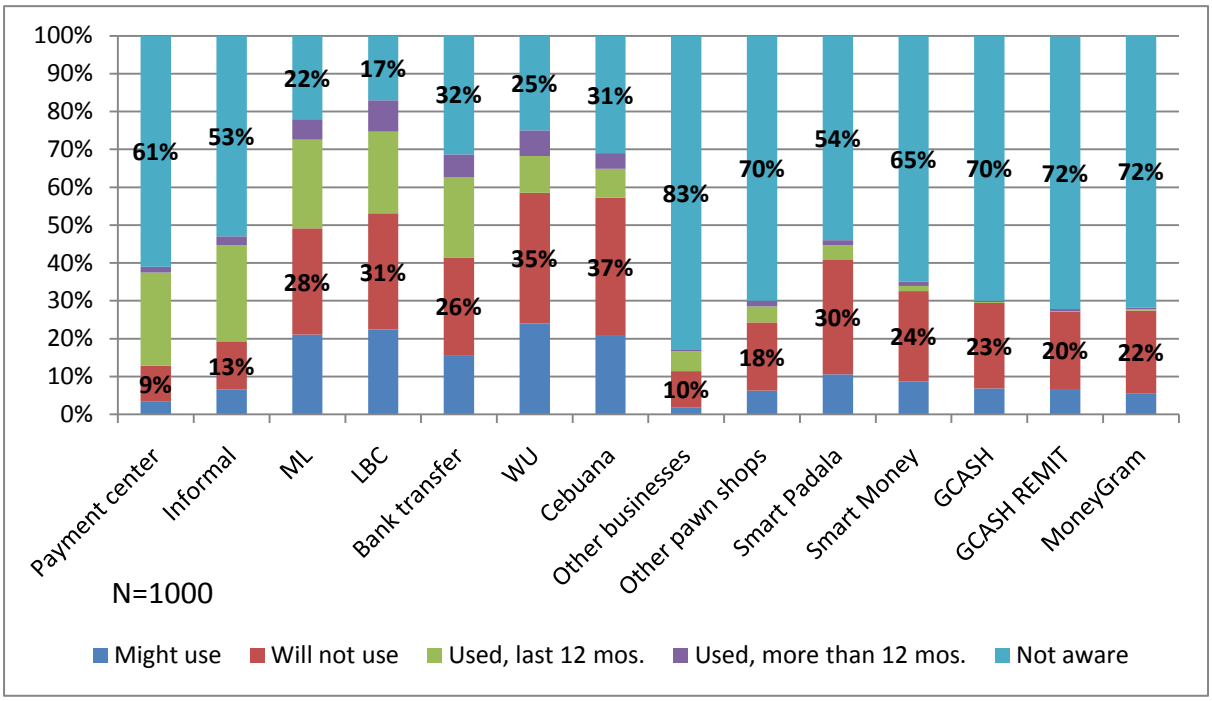
[33] 18% of all users aside from mobile money users and those of MoneyGram; both groups were so small as to be unrepresentative.

[34] Note that in order to facilitate comparisons in the rate of attrition of the various PSPs, the attrition is expressed as a percentage of each PSP's total recorded customer base, past and present. The customer base thus varies among the PSPs, and so the chart cannot be used to calculate the precise number of individuals who no longer use the service.

payment services and continued loyalty to others. At least sixty-five percent of those who are aware of the following services noted that they will not make use of any in the future: GCASH, Smart Money, GCASH REMIT and Smart Padala—by far the highest rates among users of the 14 service providers. The main reason for which respondents do not use alternative services at present is a lack of substantive knowledge about these mobile banking providers beyond a basic awareness. This finding verifies the statements of many participants in the focus group discussions.

Chart 27: Usage, awareness and likelihood of using PSP

***Q2**: For each method aware of, have you: (1) Used this method to send money, pay loans or pay bills in the last month; (2)… more than 12 months ago; (3) Have not used this method to send money… but might use; or (4) Have not used this method.. and will not use it.*



8.8 Profile of users of informal service providers

The national adult survey of 1,000 users uncovered high usage of informal service providers (25%), such as friends and family and vehicle drivers, even though only 47% of all users are aware of these type service providers. As noted above, users of informal service providers tend to be loyal to this type of service, make many smaller transactions and are able to send or pay smaller amounts for what they report are affordable rates. However, focus group discussants also noted difficulties with informal PSPs, such as usually only for intra-island payments, lack of receipts, lost or stolen funds and unanticipated costs, such as tips or paying for food or petrol of deliverer. Nevertheless, the profile of these users shows they tend to more rural than users of formal service providers only, hail primarily from Visayas and Mindanao, have less income, declare they own their homes and lot, and are married women.

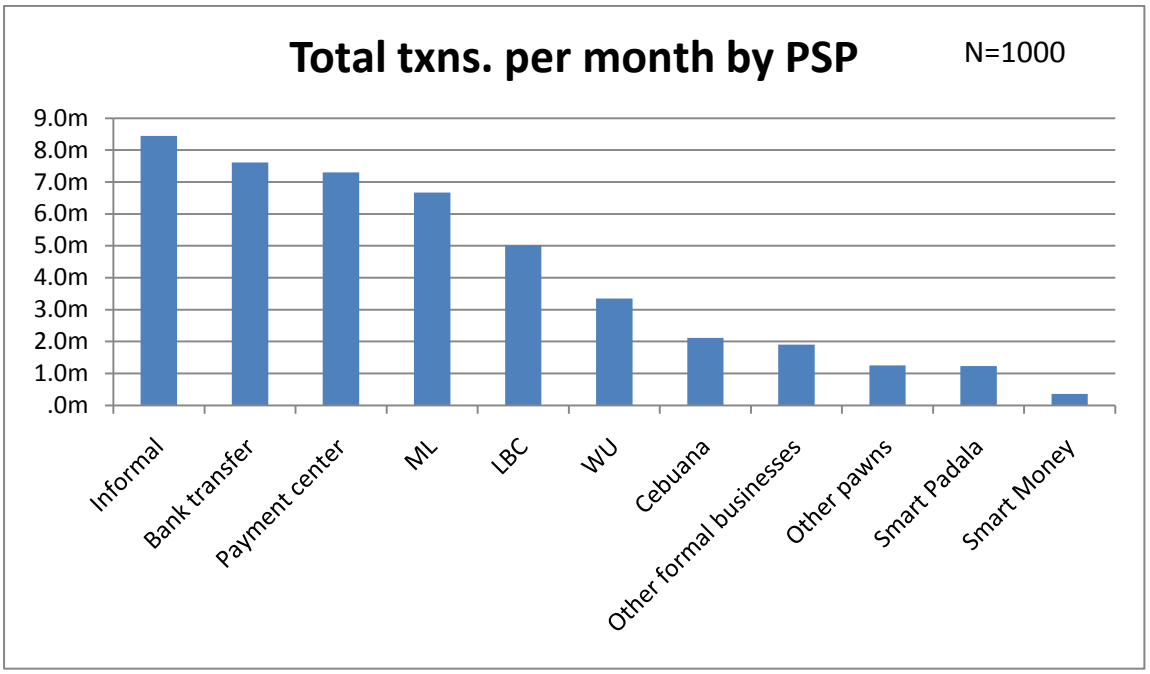
Chart 28: Profiles of users of informal and formal PSPs

Users of:	Informal & formal PSPs	Informal PSPs only	Formal PSPs only
Segment as % of n=1,000	**11%**	**17%**	**73%**
Project Number of Users	**3.4 million**	**5.3 million**	**22.5 million**
Urban share	38%	32%	58%
NCR	8%	1%	33%
Bal. Luzon	12%	7%	31%
Visayas	30%	57%	17%
Mindanao	50%	35%	19%
Percent female	68%	71%	68%
AB	0%	0%	1%
C	3%	1%	5%
D1	43%	47%	41%
D2	32%	33%	38%
E	22%	19%	15%
At least high school education	74%	51%	71%
Married	82%	67%	67%
Owns cell phone	73%	63%	74%

8.9 Payment transactions per PSP per year

Another way to think about the size of the market for domestic payments in the Philippines—especially as it relates to mobile money services—is the number of payment transactions occurring in the market each month. We used figures from the nationally-representative survey of 1,000 users of payment services to determine (a) the number of total users per PSP and (b) the frequencies with which each channel is used. From these calculations, we were able to estimate the number of transactions per channel per year as the following:

Chart 29: Calculated number of transactions per month



8.10 Sustainability of mobile money agents: supply-side observation

These calculations in the Chart above may also suggest an important supply-side observation. A minimum number of transactions are necessary to sustain a network of potential cash-in/ cash-out points for payment transactions. Using 50 transactions per day as a benchmark for the minimum number of transactions needed to sustain a single agent, a network of 10,000 [35]such agents, for example, would require about 15 million transactions per month:

10,000 agents * 50 transactions/ day * 30 days in a month = 15m transactions

Note that the estimated number of Smart Money transactions per month currently sits at less than 0.5m (figures for GCASH not reliable due to the small number of respondents). There appear to be two potential ways to make the mobile banking proposition attractive to the agent:

- Increase the number of transactions per day at CICO/ MIMO
- Decrease the size of the agent network/ shoot for smaller network with more limited coverage
    - Current no. transactions over Smart Money could support ~300 agents[36]

8.11 Conjoint analysis

Good market research catalogues consumer behavior while also peering into their motives for choosing certain products. This study uses conjoint analysis—pioneered in the field of mathematical psychology, and a recognized tool of market research— to tease out the relative importance of specific payment service features to consumers. Typically, researchers use questions to support

[35] Figure suggested by BMGF during presentation to Globe, Smart and BanKO on 3 November 2010.

[36] 300 * 50 txns/ day * 30 days/ month = the <500,000 monthly transactions SM is projected to be experiencing

conjoint analysis by making respondents choose trade-offs between different, hypothetical payment services by asking them to either rank or rate a series of flashcards or computer images that each contain different product features, also known as attributes. For example, a respondent might rate the card describing a payment service that costs PhP 50 per transaction located 5km from his or her house as a '60' on a scale of 1-100.

The national adult survey required respondents to first set select their top six payment out of 16 payment services (presented on cards), each of which contains data on four attributes: speed, price, trust and availability. The respondents then assigned a score from 1-100 to each service. This type of conjoint analysis is known as full-profile design as it features every possible combination, i.e. four attributes with two levels each (high, low[37]). Though the conjoint analysis performed under the intercept survey did not adopt fractional factorial design, which would have reduced the number of cards shown to respondents while preserving each card combination's equal chances of selection, the national survey did reduce the number of ratings respondents were required to make through requiring respondents to rate only six payment services. Respondent fatigue necessitated this change for the national survey[38].

The scores given to these combinations served as the dependent variable in an ordinary least squares regression modeling the relative contribution ('part worth') of each attribute to the consumer's holistic preferences for payment services. The multivariate regression features dummy variables (0/1) to mark each variable's two levels, according to the following:

$$Y = b1x1 + b2x2 + b3x3 + b4x4 + b0 + e$$

$$Score = b1 * speed + b2 * availability + b3 * price + b4 * trust + b0 + e$$[39], where:

b0= intercept term; e= error term

The value of each attribute's correlation coefficient (b1-b4) indicates the relative importance of that attribute (speed, accessibility, etc.) to the consumer. The larger the coefficient, the more important it is in explaining the variation in the scores. The regression utilizes the intercept survey's nearly 6,000 equations (six scores from each of 1,000 respondents, less the incomplete entries) to calibrate the values of the coefficients.

Speed emerges as the most important explanatory variable, followed by trust. Price and accessibility (defined as proximity & convenience) rank third and fourth, respectively. All four attributes were

[37] With the four attributes having two levels each, there are 4^2=16 possible combinations—hence the 16 cards shown to respondents during the intercept survey.

[38] This study considered but did not use several other varieties of conjoint analysis. These included paired-comparison tasks which require respondents to distribute points or chips among several product profiles; choice-based conjoint analyses that require them to repeatedly choose the best option from a set of payment profiles; and, more generally, consumer rankings of either full or reduced product profiles (although the national survey questionnaire incorporates an ordinal element to the conjoint task).

[39] The above equation has been included for illustrative purposes only, i.e. to conceptualize the role of each attribute's two levels (high/low) as they would appear in a multivariate regression with dummy variables. Of course, given the inclusion of the intercept term, a constant, in the above, the full equation would contain n-1 dummy variables, omitting one to avoid the so-called dummy variable trap which results in perfect multicollinearity, i.e. inability to interpret the regression results because if all independent variables are turned 'on' (value 1) it is difficult to interpret the impact of any single independent variable.

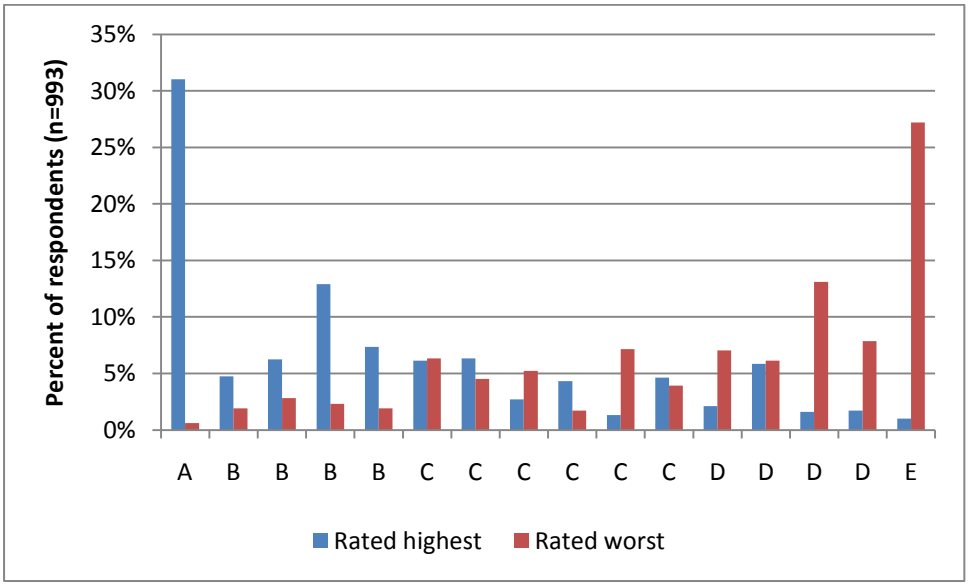
statistically significant at the 95% level.[40] On the intercept survey trust had not emerged as statistically significant due to lack of clarity between the low and high attribute values; clarification on the national adult survey has eliminated this issue.

Chart 30: Results of conjoint analysis multivariate regression

	(1) Coefficient	*(2)Standard Error*	*Statistically significant?*
Intercept	59.1	0.68	Y
Price	4.61	0.52	Y
Accessibility	2.29	0.51	Y
Trust	6.86	0.54	Y
Speed	6.9	0.53	Y

8.11.1 Ordinal findings from conjoint analysis

Chart 31: Results of conjoint analysis



Respondents were asked to pick 6/16 payment services that were the most attractive, and then assign a score to each. The chart above extracts from these scores which payment services, on the whole, the 993 respondents (7 removed for lack of data) rated as the best and worst. Each payment service was described according to four attributes (price, speed, accessibility, and trust), each of which had a high and low value; the 16 payment services are the result of all possible combinations of these for binary variables (4^2= 16).

[40] Because the absolute value of its coefficient is not larger than ~2x the size of its standard error: |-0.82|< (2*1.03).

The letter codes indicate the number of positive attributes in that payment service. Only one of the 16 (labeled A) had all four attributes set to their high/ desirable levels, just as only one (labeled E) had none of these desirable traits. In between are the payment services with 3, 2 and 1 positive attribute (labeled B-D, respectively).

The results indicate that the respondents were able to differentiate between payments with many and with few positive attributes. If respondents assigned scores to each of the 16 payment services at random, one would expect 6.25% of respondents to have labeled service A as the best, 6.25% to have rated it the worst, etc. It is telling, then, that over 30% rated service A (with the greatest number of positive attributes) as the best and that over 25% rated service E as the worst.

The B-class services are rated as best slightly more than by the expected 6.25% of respondents (though this is not true for all 4 B-class services), while most of the D-class services are rated as the 'worst' more often than expected.

The ordinary least-squares regression explores consumer preferences with respect to these attributes, beyond this ordinal data.

8.12 Price sensitivity analysis

The approach taken to the price sensitivity analysis changed little from that employed in the intercept survey. Here are the summary results:

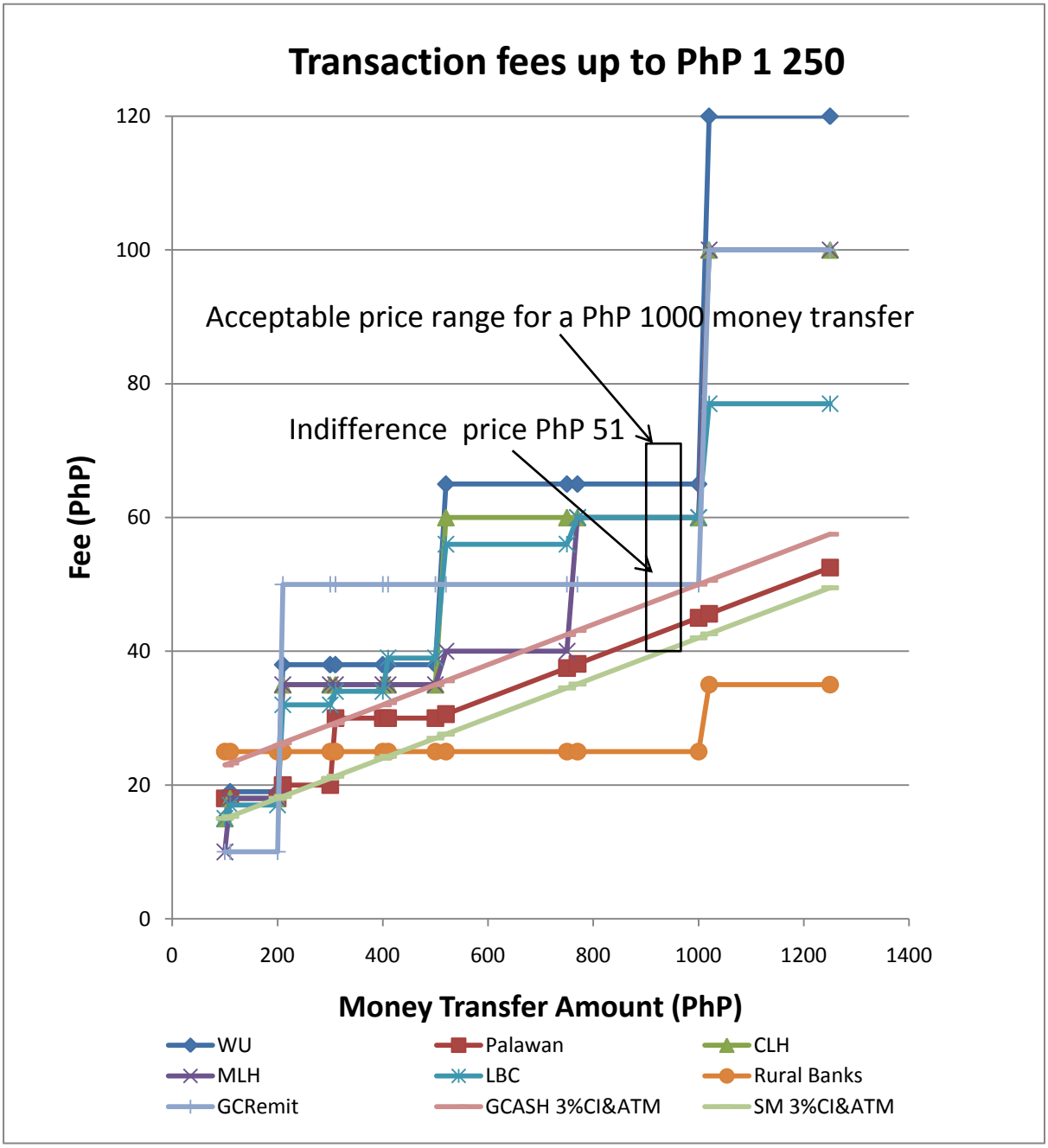
Chart 32: Results of price sensitivity analysis

Size of money transfer (PhP)	**1,000**	**3,000**	**9,000**	**15,000**
in USD	**$23**	**$68**	**$203**	**$338**
Acceptable price range	PhP 40-70	PhP 80-145	PhP 150-280	PhP 245-450
Indifference price	PhP 51	PhP 115	PhP 230	PhP 340
In USD	$1.20	$2.60	$5.20	$7.66
As a % of transaction size	5.1%	3.8%	2.6%	2.3%

We see a greater willingness to pay higher absolute transaction fees for larger money transfer amounts; but, as with the intercept survey, the fee as a percent of the transaction falls at higher transaction sizes.

The following chart shows the cost of selected payments methods over a range from PhP 100 to PhP1250. The Acceptable price range is also plotted as is the indifference price. As can be seen the pricing of all services, except the Rural Banks, is within the expected range.

Chart 33: Transaction fees at select PSPs



Below, for comparison, is the price structure of several payment service providers. Even more so than with the intercept survey results, at a PhP 3000 transaction size, Western Union, LBC and Cebuana appear to be over-charging relative to what respondents feel are "fair" transaction fees (language used as a qualifier in the questionnaire). The results of the price sensitivity analysis from the national adult survey confirm those of the intercept survey.

Chart 34: Pricing of payment service providers by transaction size (as of August 2010)[41]

Amount sent (PhP)	GCASH REMIT	Rural Banks	Palawan Pawnshop[42]	LBC	Western Union	ML Kwarta Padala	C. Lh	GCASH / SM 3% +2.5+12 ATM fee
1-100	10	25	18	15	15	15	15	18
1000	50	25	45	60	65	60	60	45
3000	150	85	105	180	205	240	240	105
9000	200	205	225	600	560	240	240	285
15000	200	305	225	900	710	240	360	465

The two mobile money services also compare favorably on price relative to the other payment services at small transaction sizes (<PhP 3,000):

9 SUMMARY OF OTHER KEY FINDINGS ABOUT USERS

The following are other key findings related to users of payment services providers, both formal and informal:

9.1 Socio-demographic Characteristics

- 61% are employed at the time of the survey, of which 37% are self-employed business people and 23% are hired workers. The remaining 39% are not working.
- Most households where respondents live have electricity (96%), television (83%), running water (80%), cellular phones (71%), and radio (63%). Only 7% of households own a personal computer.
- However, 13% of the respondents have their own email accounts, 63% of which receive emails at least once per day. They access their emails from a computer owned by the family, in an internet café and at work. Majority of the respondents (83%) do not surf the internet.
- 78% of users own their homes, but only 48% own the lot where their home stands.

9.2 Knowledge and Use of Payment Service Providers

- Most users tend to utilize mobile money services such as GCASH, Smart Money and Smart Padala either 2-3 times per month or once per month (insufficient data available on GCASH Remit)
- Asked for the main payment service provider used in the last 12 months (single response only), the results are: payment centers (21%), bank transfers (17%), M Lhuiller (16%), relatives, friends and other people (15%), and LBC (13%). Other payment service providers were mentioned by 5% or less.

[41] Source: BFA, MABS, SEDPI, Smart and GXI.

[42] Average of range of fees provided.

- Those who have not used and will not use a specific payment service provider cite lack of knowledge as the main reason for not using it.

9.3 Current use of payment service providers

- Nearly all users of payment service providers say the money they sent or paid arrive in full or without any deduction.
- Most say they did not encounter problems with the payment service providers they use.
- Regardless of payment service provider used, most agree that a paper receipt is needed when sending money or paying bills/loans. They also agree that receiving a text or SMS confirmation is adequate as proof of payment, except among users of relatives, friends and other people for sending money, and bank transfers who appear divided on the issue.

9.4 Recipients

- Money sent arrives immediately, except for users of relatives, friends and other people for sending money and other businesses where most receive the money up to 30 minutes. Most users of payment service providers say the recipient learns that the money has been sent through text/SMS.
- Receivers of the money mostly travel by walking, taking the tricycle or jeepney to pick-up the money sent to them. Using median values, the duration of the one-way trip to pick-up the money ranges from 2 to 20 minutes, and the median cost of the one way trip ranges from none to PhP18. Very few receivers of the money on-send the money to other people.
- Very few among users of the payment service providers say they incur additional costs or charges on top of the transaction fee when sending money. The same goes for receivers of the money sent. Most do not see any obstacles faced by recipients in getting the money sent to them. Very few receivers save a portion of the money sent to them.
- 24% say they receive remittances from abroad, mostly though Western Union (41%) and bank transfers (40%). Of those who receive remittances from abroad, 29% on-send money to other people, with median amount of PhP3,000, mainly using bank transfers, M Lhuiller and LBC, with siblings and parents as recipients and money is mostly used for household expenses, emergencies, education and medical expenses, confirming similar findings from focus group discussants and the users from the intercept survey.
- Most users of Western Union say the branch they use is a stand-alone outlet, except among those who also use Cebuana Lhuiller who say that the Western Union facility they use is located in a pawnshop.

9.5 Opening mobile money accounts and cross payments

- Among all respondents, 61-63% report it is not easy to open a Smart Money or GCASH account. Among the non-users of Smart Money or GCASH, 33% say the ability to make cross payments would make them to consider using Smart Money or GCASH.

9.6 Cash in Pocket

- Asked for amount of cash typically carried, the median amount given by respondents is PhP500.
- In case they need to make a purchase or pay a bill but the cash they carry is not enough, 27% will borrow from family, 15% will do something to earn money they need, 13% will wait for their next remittance, 12% will wait for their wage or salary, 12% will borrow from friends and 10% will go to the ATM to withdraw cash.
- A median amount of PhP100 is considered low that would trigger respondents to get additional cash to carry with them.

9.7 Cellphone Usage

- 70% of the respondents own a cellphone. Among those with cellphone, 29% say their unit is capable of accessing the internet, of which 14% have browsed the internet using their cellphones and 15% have not.
- Smart is the SIM card primarily used for calling and texting, followed by Globe, Talk N Text, Touch Mobile and Sun Cellular. The median monthly expense for calls and texts is mostly PhP100.
- Cellphones owned by respondents are mostly Nokia.

9.8 Automated Teller Machines

- 33% of PSP users have used an ATM in the last 12 months. Travel time from home to the nearest ATM used is mostly up to 15 minutes and median transportation cost is PhP10. The ATM card owned by respondents is mostly issued by commercial banks.
- 49% of respondents are aware of people pawning their ATM cards.
- Aside from ATM card from banks, 6% own loyalty cards issued by payment service providers, mostly from M Lhuiller, Western Union and Cebuana Lhuiller.

9.9 Savings Information

- Asked what institutions they trust to keep their savings, most answered commercial bank (42%) and home (41%). Other institutions were mentioned by 8% or less.
- 29% of respondents claim to have savings, kept mostly at home and in commercial banks. The median amount of savings at home is PhP2,000, while the median amount kept in commercial banks is PhP10,000. Those who keep the money at home cited trust in the place to keep their money secure and being able to quickly get the money as the main reasons. Those who keep the money in commercial banks cited trust in the institution to keep their money secure. Very few reported storing value in their mobile money accounts.
- The money saved is mostly allotted for family emergencies, education of family member, and for groceries and daily needs.
- 62% of those with savings do not want to send their money to others or use it to pay bills or loans.

10 CONCLUSIONS

10.1 The domestic payments market is highly active and maturing

The demand side data suggests that the domestic payments market is highly active and maturing, and mature in some segments. Furthermore in examining the availability of Payment Service Providers (PSPs), we found that many Filipinos are aware of and use multiple PSPs. Any sales activity or re-launch of new payment services or products will take an especially large investment in strategic marketing efforts and a focus on building usage with economically active women in particular. The current formal money transfer market, as represented by the usage responses from the national adult survey, is quite mature and users seem to prefer pawnshops as a distinct service provider group, especially ML and Cebuana but also other regional pawnshops like Palawan and RD. The focus group discussants report that the pawnshops are ubiquitous and situated where many people reside and work. Users also report some idiosyncrasies that a competitor could exploit. For example, the FGDs reported a stigma associated with the pawnshops. The fact that 49% of users reported they knew of the pawning of ATM cards is also revealing.

LBC and Western Union are seen as expensive which is confirmed by our price sensitivity analysis, and they have fairly high attrition rates suggesting considerable switching. Nevertheless, most current users report they are not going to switch in large numbers. Users making bills payment, the

most common type of payment, are using bank transfers, payment centers and informal service providers which have low attrition rates.

10.2 Knowledge and usage of mobile banking products and services are low.

The usage of Smart and GXI products barely registered in a national population survey. On a combined basis less than 4% of users of all payment service providers reported usage of mobile money services or products. This percentage is close to the margin of error in the research and thus results relating to the opinions and data from only the mobile product users cannot be interpreted with certainty (the awareness and opinion data on the usage are however representative and reliable).

The data is overwhelming that the 55% of the population who are users of remote payment service providers are not aware of either of the Smart and Globe mobile banking services and products, and worse, a significant portion of those who do know about Smart Money, Smart Padala, GCASH and or GCASH REMIT do not trust them and do not expect to use them. Some of the focus group discussants report they cannot find the CICOs or MIMOs. Interestingly, 33% of all users of domestic payment service providers said if they could make cross payments between the mobile banking schemes, then they might find this persuasive enough to try them. On a positive note, the user results, plus the responses from some of the focus group discussants, also show that if people actually try the mobile money services and get used to them they are trusted. One possible conclusion is that a sizable marketing effort with the full cooperation of mobile money agents and aggregators would be necessary to make people switch from the other providers or to convert non-users to users. Special incentives such as promotional free payments for an introductory period may also be required to build up user acceptance, and possibly a coordinated strategy to share agents between the mobile money providers. Cooperation with rural utilities may also yield results.

10.3 Personal direct payers represent potential demand

According to the national population survey, adults who pay directly themselves are a significant segment in size with 13% of the population making personal direct payments only, 4% making some payments themselves while also using informal payment service providers and 16% paying directly but also using formal service providers.

The greatest domestic payment activity among personal direct payers is occurring largely with those who also use formal service providers from time to time. With increased repeat usage, these direct payers may stimulate new demand for formal services. For example, a significant share of personal direct payers (57%) report that using a formal service provider to pay bills or send money may be easier than paying or sending themselves. This represents a potential strategic marketing and consumer education opportunity, especially for the formal payment providers.

10.4 Users of informal service providers may also be an important niche market

Users of informal service providers are a fairly significant segment. Some 25% of all users use informal service providers (relatives, friends and drivers), and the evidence suggests that more informal transactions are taking place every month in this segment than any other. These users are rural and poor to very poor married women who predominantly speak Cebuano and make mostly bills and loans payments intra-island, especially in Visayas and Mindanao, but they are also users of ML and the pawnshops. The consultants suggest this segment is worth additional geographically focused market research.

10.5 Limitations of the research

This study does not attempt to methodically study supply side challenges or data. As such the study represents an assessment of current demand expressed by those in a position to decide how and to

whom to pay. This demand is self-reported and has to be matched with the supply side data of the payments business in the market place where current business exists and future business opportunities and niches may be found. This report makes some observations on what adults report they want considered when developing services or products.

In the case of certain services and products, e.g. Smart Money and GCASH, we only found and interviewed a small number of total users in the national survey. The report covers information researched from a representative population study of 1,794 adults, of which 1,000 are users of remote payment service providers. In statistical terms, the 95% confidence level indicates that 95% of the time, the sample mean (i.e. respondents' answers) falls within 3% points of the true population mean of a normally distributed population. The usage of Smart and GXI products barely registered in a national population survey, and supply-side research on their agents and customers, especially with an eye towards the competition, is required. We anticipated this issue based on previous work in the country, and therefore included the intercept study. In order to evaluate a single mobile money product it will be necessary to run a specific targeted market research action on the users of the product and possibly also potential users. This effort should serve future strategic marketing initiatives well.

10.6 Need for matching demand data against supply-side research

This study obtained some supply side data in the form of service pricing and compared it to end customers' pricing expectations. However, other avenues should be explored to understand the market delivery dynamic and not just the demand dynamic.

As this study was limited to looking at demand, the following issues were not looked at but noted as important next steps that could be addressed by the PSPs in understanding where they should position their services pricewise, service wise and marketwise:

- Identification and exploration of remittance corridors using supply-side data from the PSPs (we found it unlikely to find corridors simply by polling a small sample of users at random)
- The use of investigative fieldwork to uncover domestic payment corridors with both senders and recipients
- Pricing and marketing issues around mobile money service providers and their reasons for pricing in the manner they currently do, which appears to create customer uncertainty
- Comparative research on the pawnshops' approach to payment services and what makes them market-leaders
- The possibility of cross provider payments, such as bank transfers to pawnshops in geographically isolated areas or between mobile money schemes
- Identification of the technological challenges around billers moving to accept electronic payments, especially electricity and water utilities
- Creative partnerships between various payment providers such as commercial banks and rural banks and other payments providers, including informal ones, which have a wider reach beyond urban areas where the payment centers operate.

ANNEX A: TECHNICAL DETAILS: SAMPLING AND RESPONSE RATE

The total number of households knocked at (or calls made) to reach the target sample size of 1000 decider payers reached 4,814. The table below lists the results of calls by outcome:

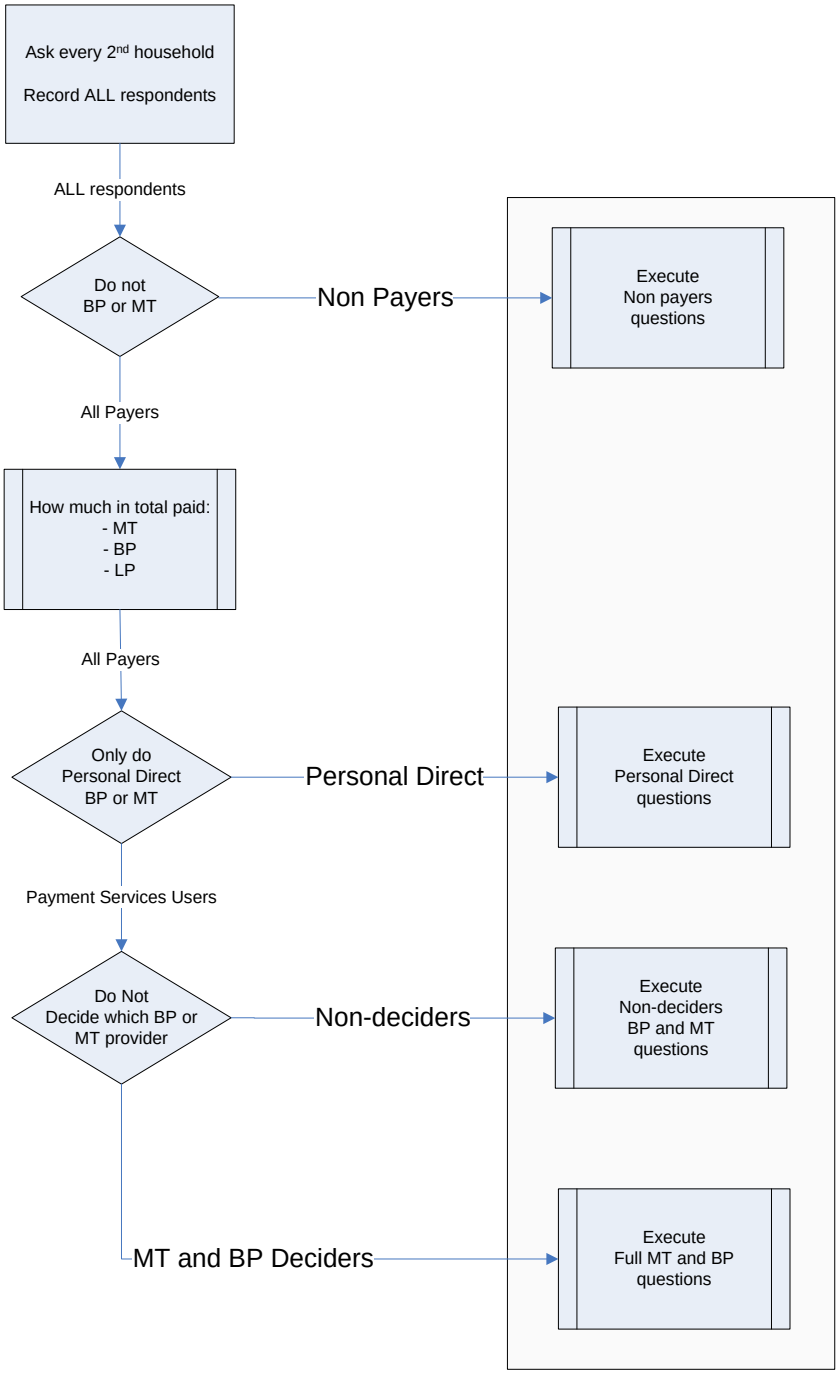
Result of Calls	**Frequency**	**Valid Responses**
Completed interviews	1000	1000
Non eligible respondent	*Non decider payers* *57* *Direct payers* *228* *Non-payers* *509*	794
Break-off/Terminate	27	
Respondent away/Unavailable	1259	
Household level refusal	114	
Known respondent refusal	278	
Unable due to physical or mental disability	37	
Household level language problem	13	
Respondent level language problem	7	
Nobody home	898	
Unknown if household has an eligible respondent	375	
Unable to enter building/reach housing unit	12	
HOUSEHOLDS APPROACHED	**4814**	**1794**

Given the result of calls above, the response rate for the study is 40.5%.

ANNEX B: SAMPLING AND EXECUTION METHODOLOGY

Q1000 sampling and execution methodology

V1.1
2010-11-12



All the FOUR above are added up to determine a population representative number and thus allow for ratio analysis to determine national numbers and percentages

ANNEX C: SWS CLASSIFICATION SYSTEM

SWS Socio-Economic Rating of Respondent

As evaluated by the interviewer based on neighborhood and general appearance of the respondent's house

A	B	C	D*	E
(Upper Class)	***(Lower Upper Class)***	***(Middle Class)***	***(Lower Class)***	***(Extremely Lower Class)***
The most affluent group whose homes and lifestyles exude an obvious disregard for or lack of economizing.		The homes and lifestyles reflect comfortable living and the capacity to indulge in some luxuries.	Households who have some comfort and means but basically thrive on a hand-to-mouth existence.	Those who evidently face great difficulties in meeting their basic survival needs.
Neighborhood:				
Located in exclusive subdivisions or ex-pensive neighborhoods; stands out in mixed neighborhood.	Located in exclusive and non-exclusive subdivisions, or in mixed neighborhoods of large and small houses.	Maybe found in mixed neighborhoods (with B or with D type of households).	Found in neighborhoods of generally the same household type with occasional large houses; located in shabby surroundings.	Located in slum districts, interiors or densely-populated/ shabby areas.
Durability of the house:				
Permanent structure; very well constructed; impressively spacious; made of heavy, high quality materials (concrete, wood & concrete or first class wood, bricks); well-painted; generally with sprawling lawn or garden, and with garage. Includes single detached structure/unit <u>located</u> <u>in expensive neighborhoods.</u>		Permanent or semi-permanent structure; well constructed; made of good quality/mixed heavy and light materials (wood and concrete); painted; may not have a lawn or garden; may have a front yard. Medium-rate apartments belong to this category	Semi-permanent structure; not too large structure of light and cheap materials; poorly constructed; generally unpainted; may have a front yard but not lawn or garden. Low-rate apartment dwellers belong to this class.	Temporary structure *"barong-barong"* type of poorly constructed or a one-room affair; no garden; unpainted or dilapidated.
Maintenance of the house:				
Well-painted <u>not</u> <u>in need</u> of any repair; picture perfect.	Well-painted but <u>may need</u> a new coat of paint and some minor repairs.	Painted and needs some repairs.	Generally unpainted and badly in need of repair.	Unpainted and dilapidated.

*Class D is further subdivided into **D1** *(owns lot)* and **D2** *(not own lot)*.

ANNEX D: GLOSSARY OF TERMS

The following are terms used in this report:

Abbreviation	Term	Description
ATM	Automated Teller Machine	A machine that dispenses money when you use an authorized bank card and PIN number
BoB study	Bank of Banks Study	A nationally-representative survey of 1200 adults across the country in October 2009. The results pertinent to a broad array of wholesale and retail microfinance issues appear in Mercy Corps' *Bank of Banks Feasibility Report*
BOP	Bottom of the Pyramid	The phrase "bottom of the pyramid" is used in particular by people developing new models of doing business that deliberately target that demographic, often using new technology www.en.wikipedia.org/wiki/Bottom-of_the_pyramid
BP	Bills payment	One of three types of payments, along with money transfers and loan payments.
CI	Cash In	Process where a client hands cash to a cash in agent and the agent transfers electronic credit from their account to the client's account using their mobile
CICO	Cash Out and Cash In	Where both Cash Out and Cash In processes occur at the same point of service
Client	Client	An active customer of a Financial Institution
CO	Cash out	Process where a client uses their mobile to transfer electronic credit from their account to the cash out agent's account and the agent then hands cash out to the client to the value of the transfer
FI	Financial Institution	A entity that is licensed to provide financial services
GSM	Global System for Mobile Communications	The system used by most countries for mobile cellular communications
KYC	Know your Customer	Full KYC – usually requiring the presentation of full identity and address validating documents to a known trusted party for verification Copies are made and kept as a record at the time Limited KYC – where the 'strict' Full KYC criteria are lessened specifically in conjunction with an account with a limited balance level and payments limits.
LP	Loan payment	One of three types of payments, along with bills payments and money transfers.

Abbreviation	Term	Description
mFSP	Mobile Financial Services Provider	The entity which is directly interfacing with the end customer to provide mobile financial services
MNO	Mobile Network Operator	Mobile traffic passes through the mobile operator's network as voice, SMS, DTMF, IP data or USSD
Mobile	Mobile or Handset or Mobile phone	A mobile telephony device in the possession of a customer through which they can make voice calls, use SMS, USSD and data services and on mode advanced handsets run programs and browse the Internet. The terms Mobile, Handset, Mobile Handset and Handset are used interchangeably in this report
MT	Money transfer	One of three types of payments, along with bills payments and loan payments.
PIN	Personal Identification Number	A sequence of digits used to verify the identity of the holder of a token. The PIN is a kind of password
POS	Point-of-Sale	The physical machine that allows a merchant to swipe a credit card through to initiate a transaction, most common in retail environment. The location where a sale is completed
PSP	Payment service provider	An individual or entity used to deliver payments.
SIM	Subscriber Identity Module	A mini-smartcard that is inserted into a mobile handset It is used to authenticate the mobile to the mobile radio network The SIM may be programmed to provide security services on the mobile
SMS	Short Message Service	The term used to refer to a text message sent to or from a handset.
Subscriber	Subscriber	An active customer of a Mobile Network Operator

ANNEX E: PHILIPPINE DOMESTIC MONEY TRANSFER FEES, NOVEMBER 2010

Amount up to	WU	Palawan	CLH	MLH	LBC	Rural Banks	GCASH REMIT	GCASH 3%CI &ATM	SM 3%CI &ATM
100	15	18	15	10	15	25	10	23	15
200	19	18	18	18	17	25	10	26	18
300	38	20	35	35	32	25	50	29	21
400	38	30	35	35	34	25	50	32	24
500	38	30	35	35	39	25	50	35	27
750	65	38	60	40	56	25	50	43	35
1000	65	45	60	60	60	25	50	50	42
1250	120	53	100	100	77	35	100	58	50
1500	120	60	100	100	99	35	100	65	57
2000	130	75	120	120	120	45	100	80	72
2500	175	90	160	160	159	55	150	95	87
3000	205	105	195	195	180	65	150	110	102
4000	255	135	240	240	240	85	150	140	132
5000	299	165	240	240	300	105	150	170	162
6000	410	195	240	240	360	125	200	200	192
7000	445	225	240	240	420	145	200	230	222
8000	510	225	240	240	480	165	200	260	252
10000	560	225	240	240	600	205	200	320	312
15000	710	225	360	240	900	305	200	470	462
20000	850	240	480	240	1200	405	200	620	612
30000	850	240	720	240	1800	605	200	920	912
40000	850		960	300	2400	805	200	1220	1212
50000	850		1200	300	3000	1005		1520	1512