



Mobile Money for the Unbanked

Mobile Money in the Philippines – The Market, the Models and Regulation



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Part 1: Objectives and Executive Summary

Objectives

The objectives of this case study are to:

1. Provide regulators with an understanding of the steps taken by the Bangko Sentral ng Pilipinas that have enabled the success of GCASH and SMART Money
2. Provide mobile operators deploying mobile money offerings with a comprehensive view of two well-designed models that have achieved scale in the Philippines, and drive understanding the contributions and incentives of each ecosystem participant
3. Identify factors that have played a role in limiting growth

Executive Summary

Three factors have contributed to the success of mobile money in the Philippines:

1. **Characteristics of the Philippines market**
Not only the extent, but also the way in which Filipinos have adopted mobile have been key enablers of mobile money success. The country is the texting capital of the world and Filipino mobile users are highly SMS literate, which made the proposition of conducting financial transactions on a handset somewhat more intuitive. Access to finance is low, but latent demand for financial services clearly existed, which was evident from a thriving quasi-financial sector and sizeable domestic and international remittance flows. Finally, the card acceptance market and fee structure enabled both models to incentivize participants in their ecosystems.
2. **Actions taken by the Bangko Sentral ng Pilipinas (BSP)**
The BSP has enabled mobile money success through their progressive regulations. Enabling mobile operators to offer e-money, empowering non-banks to perform cash in/out and providing legal certainty to formalize rules have all contributed to success in the market.
3. **Actions taken by SMART and Globe**
SMART and Globe's ability to design strong offerings and subsequently build and align the interests of supporting ecosystems have been the final and critical enabler of success.

While the factors described above have enabled the Philippines to become one of the most successful mobile money markets in the world, other factors have constrained growth to some extent. Understanding the way that the following areas served as constraints (but if addressed can be considered as enablers of future growth) is relevant not just in the context of the Philippines, but in any market seeking to understand the way that design of regulatory frameworks, ecosystems and service offerings can impact success. The three areas include:

1. Authority and incentives for agents to perform customer registration
2. Rules impacting ability to scale the number of non-bank cash in/out agents
3. Brand identification and relevance to base of pyramid customers

Market Context

The Philippines is among the most advanced mobile money markets in the world. In 2001, SMART Communications launched SMART Money in partnership with Banco de Oro. The service, which uses SIM Tool-Kit, enables customers to buy airtime, send and receive money domestically and internationally via mobile, and pay for goods using a card. In 2004 Globe Telecom launched GCASH, an SMS-based offering, which offers a similar suite of functionality entirely using the mobile phone.

Part 2: Market Characteristics of the Philippines

Before examining the actions taken by the Bangko Sentral ng Pilipinas and Globe / SMART that have led to mobile money success in the Philippines, a brief overview of market-specific enabling factors is provided below.

Mobile

Widespread reliable mobile coverage

Mobile money success could not have occurred without the rapid adoption of mobile in the Philippines. Since 2000, penetration has risen from just 3% to 68% today. This warm reception enabled SMART and Globe to develop widespread reliable network coverage across the country. Not surprisingly, there is a strong correlation between confidence in the mobile network and likelihood of adopting mobile money, with 75% of Filipino mobile money users describing their mobile network as 'very reliable' versus 61% of non-users.

SMS Literacy

A key challenge mobile operators face in deploying mobile money is persuading customers to conduct financial business on a mobile phone. In the Philippines, the nature of mobile use eased this challenge. The Philippines is known as the 'texting capital of the world' and Filipino mobile customers are highly SMS literate. A 2009 CGAP-GSMA study confirmed that the early adopters of mobile money in the Philippines are particularly heavy SMS users, sending 57% more messages per day than non-mobile money users.

Financial Services

Low Access to Finance and Evidence of Latent Demand

Today, just 26%¹ of Filipinos have access to formal financial services but clear evidence of the need and demand for them existed prior to the launch of GCASH and SMART Money: there are many large domestic remittance providers that have served the Philippines² in addition to a ubiquitous quasi-financial services sector. For instance, it is common for someone experiencing a temporary cash shortage to pawn their jewellery or other valuables at one of the 6,296 pawnshops in the Philippines. While the ubiquity of pawnshops delivers questionable financial inclusion benefits³, the prevalence of cash-laden outlets that are recognized in Filipino minds as a place where one conducts financial business has actually benefited mobile money deployments. Both SMART – and more extensively Globe – were able to leverage the pawnshops and money changers that were already being frequented by Filipinos to create a cash in/out network. Likewise, the operators of these pawn shops were receptive to new offerings that would help them cover fixed costs for little incremental investment – particularly because some had already gone through the process of acquiring the necessary license to become a Remittance Agent, so this administrative work would not need to be done again.⁴

¹ Source: World Bank: Financial Access for All

² Filipinos have traditionally had more choice for domestic remittances than Kenyans, which may have impacted the relative rates of adoption.

³ Pawn shops charge high interest rates and there is a risk that the pawner may not recover the good.

⁴ Pawn shops already had a need to be highly liquid to enable them to purchase goods from customers (i.e. if someone wanted to pawn an expensive watch, the Pawn Shop owner needs to be prepared with a lot of cash, or they risk losing the interest on the transaction.

Prevalence of International Remittances

The size of the overseas worker community and market for international remittances has also contributed to the success of mobile money in the Philippines. 8 million⁵ Filipino overseas workers (OFWs) remit approximately US\$18 billion to family members in the Philippines each year using non-mobile money transfer offerings. In 2004, Smart launched a service under SMART Money called SMART Padala (to send). The service enables OFWs to remit directly to SMART Money account holders. By 2006, this service had a monthly average of 1.5 million users remitting US\$15million dollars. SMART has also partnered with NCB (the biggest commercial bank in Saudi Arabia) to enable OFWs in the Middle East to remit to the Philippines directly. The culture of Filipinos seeking overseas employment as a means of supporting their family members at home provided an important financial flow for mobile money providers to target and volume from which cash in/out agents could profit.

Retail Landscape

Network of Merchants Accepting Debit/Credit Payments

Filipino merchants' acceptance of debit/credit cards as payment, along with the associated fee structure, created a fertile market⁶ for mobile money – or at least the models that would subsequently be introduced. However, the way that this characteristic has benefitted SMART Money compared to GCASH has been very different.

By including a card in their offering, SMART was able to instantly offer their customers access to a large retail payment network without needing to wait for an entire ecosystem to develop. Additionally, SMART was able to generate revenue on the basis of the bank interchange fee structure that governs the card payment networks. Each time a SMART Money card is used at a merchant 'acquired' by a bank other than BDO, that merchant's acquiring bank must pay a fee to BDO/SMART ranging from 0% to 3% of the transaction value.⁷ SMART also has a mobile payment facility, but the card model is most widely used.

In an entirely different way, the existing network of merchants accepting debit/credit cards also benefitted Globe. In some cases they were able to persuade retailers to accept GCASH as payment as a means of saving the 0-3% merchant discount fee that would otherwise be paid on customer purchases via cards. Additionally, since there are many retail outlets in the Philippines that do not have card acceptance infrastructure (i.e. 600,000 sari sari stores that predominantly serve the base of the pyramid), GCASH was able to offer an inexpensive and convenient cashless retail payment option that benefits those at the base of the pyramid – particularly in the provincial areas of the country.

⁵ <http://www.cfo.gov.ph/JZM%20speech%204th%20GFNC%20hawaii.pdf>

⁶ Term reference: Mas & Heyer - Seeking Fertile Grounds for Mobile Money

⁷ Source of fee range: SMART Money. The extent to which this is shared between partners is not disclosed. In markets where domestic interchange fees are paid from the acquiring bank to the issuing bank when a customer uses a card issued by one bank at a merchant acquired by another bank there is an important implication on banking partner selection. It is in the mobile operator's benefit to work with a bank that has the smallest base of acquiring merchants to maximize potential to earn interchange revenue.

Geography

Two thirds of the Filipino population live in a handful of urbanized areas. Combined with a population that is relatively mobile⁸, this has resulted in the development of a few key domestic remittance corridors. Similar to the dual-corridor phenomenon observed in Kenya⁹, it is typical for a breadwinner to live and work in Manila (or some urban centre), but send money back on a regular basis to family in another province. In the Philippines, money does flow in both directions between urban and rural areas.

⁸ The phenomenon of overseas workers is well documented, but even within the country there is a great deal of mobility – often tied to employment.

⁹ Morawczynski, Olga (2008). *Surviving in the Dual System: How M-Pesa is Fostering Urban-to-Rural Remittances in a Kenyan Slum*.

Part 3: Actions Taken By SMART, Globe and Bangko Sentral ng Pilipinas

There is no doubt that the market characteristics described above made the Philippines a fertile market for mobile money. But success would not have materialized in the absence of key decisions made by Globe, SMART and the Bangko Sentral ng Pilipinas. Three elements in particular have had the biggest impact – and the thinking behind them can be applied to regulators and mobile operators developing markets for mobile money beyond the Philippines:

1. Creation of regulations conducive to mobile money
2. Effective service design
3. Alignment of interests within an ecosystem

For readers who are not familiar with the SMART Money and GCASH services, a description is provided in Appendix A.

Regulation Conducive to Mobile Money

For years, the Bangko Sentral ng Pilipinas has been working with the mobile industry to create an environment that would facilitate the success of electronic money, and mobile money in general. It is important to consider that much of their work has taken place in the context of the Philippines being placed on the FATF list of non-compliant countries and territories in 2001. Major efforts were taken by the financial services regulator to become FATF compliant (and the country was subsequently removed from the watch list in 2005). On one hand, this has resulted in regulations conducive to mobile money since the BSP does have a strong financial inclusion mindset. On the other hand, being placed on the FATF watch list has led to strict rules being imposed which, relative to some other markets, provide a challenging operating context, though of course, one in which there is also very strong consumer protection.

With this context in mind, the BSP's efforts to enable mobile money success can be captured in one phrase that encompasses five key elements:

The Bangko Sentral ng Pilipinas (BSP) has contributed to the success of mobile money by 1. enabling non-banks to offer financial services, and in particular to 2. do so at scale through licensed remittance agents in a way that is 3. convenient and 4. commercially viable as a going concern over the long term in 5. a competitive manner

1. Enabling Non-Banks to Offer Financial Services

GCASH and SMART Money would not exist in the absence of the BSP's willingness to enable mobile operators to experiment with new models of delivering financial services. This willingness stems from the importance of financial inclusion in the BSP's mandate and their approach to conceptualizing mobile money as simply 'another channel' – one that is delineated from deposit taking (that would require prudential regulation). Three broad approaches to regulation¹⁰ have been observed in different markets:

1. Ex Ante: wherein markets are regulated in advance
2. Short leash: wherein some ability to try new models is provided but strict (and often prohibitive) limits are applied on what can be done

¹⁰ Michael Tarazi, CGAP at the 2009 GSMA Mobile Money Leadership Forum

3. Test and learn: wherein operators are provided with a letter of no objection for their proposed model for a pilot operation. The risks and benefits have been thoroughly discussed with the regulator and the regulator has concluded that the risks of the pilot operation have been sufficiently mitigated. Following a test period in which learnings are incorporated, regulations are passed after it becomes clear which way the market is developing

The Bangko Sentral ng Pilipinas have used the 'test and learn' approach to regulating mobile money in the Philippines and this was an important first step in making the industry a success, because this approach promotes innovation and a clear understanding of risks.

2. Remittance Agents Can Perform Cash In/Out

Equally key to the success of SMART Money and GCASH has been the BSP's approval for non-bank agents to perform cash in/out. This rule enables mobile money providers to scale their agent distribution network by leveraging the ubiquity of pawn shops, rural banks, money changers and airtime resellers¹¹ whose rural reach is significantly greater than that of a commercial bank. In accordance with BSP Circular 471, which was issued in January 2005, non-bank agents must first attain a Remittance Agent license to perform cash in/out. However, the rules governing the process by which agents attain this license have posed somewhat of a barrier to scaling the agent network. Prospective agents must first submit an application form in which incorporation papers, business license and other key documents are included, and then attend a seminar on anti-money laundering which is typically held in an urban area at pre-set times during business hours.¹²

3. KYC Must Only Be Performed Once; Customer Only Needs to Present One Valid ID

The rules created by BSP to govern valid identification documents and the requirements to present ID during a business relationship have been key enablers for Globe and SMART. In accordance with BSP Circular 608, customers wishing to use mobile money services must present valid ID on a one time basis only, or at the commencement of a business relationship. Further, customers are only required to present one ID document from a list of 20 types approved by the BSP. The SMART Money and GCASH models operate differently with consideration for this rule: with SMART Money, KYC is done prior to personalization of the account; with GCASH, personalization is done each time a transaction is made as the customer presents their ID.

Rules governing valid ID and KYC requirements in the Philippines have evolved to the benefit of mobile money providers. The most recent circular, issued in May 2008, represented important progress towards enabling financial inclusion: rules now dictate that one (instead of two) ID cards are required, and that company-issued identification documents are accepted valid IDs.

¹¹ Given the current process and cost for attaining a Remittance agent license, it is not yet economically practical to accredit airtime resellers as cash in/out agents. As such few of them currently perform cash in/out, aside (presumably) from some informal agents whose money laundering / terrorist financing risk is mitigated by their wallet limits. A more economically effective accreditation process (which would require regulatory approval) would be remote AMLA administration

¹² Recent changes have enabled mobile operators to take responsibility for their agent networks and improve the ability to scale.

While ID requirement rules have generally been progressive, one identification element (that stems from the Philippines efforts to become FATF compliant) has constrained growth somewhat. BSP rules mandate that cash-in and cash-out can only be made with the filling out of KYC forms and presenting a valid ID even when mobile wallet limits have been set. This rule is in place to prevent money laundering or terrorist financing activities, but it does make the Philippines' network more constrictive than other markets (i.e. in Kenya, M-PESA users can send money to an unregistered user on any network, whereas this cannot be done in the Philippines).

4. Mobile Operators Provided with Legal Certainty via Formalized Rules

In March 2009, the BSP issued Circular 649 which provides guidelines governing the issuance of e-money and the operations of e-money issuers in the Philippines. This Circular played another important role in further facilitating the success of mobile money in the Philippines since it provided SMART and Globe with a framework within which they know they will be regulated.

5. Competitive Business Models Allowed to be Tested

The BSP has allowed very different business models to be tested in the Philippines: SMART follows a bank led model with BDO as the issuing bank whilst Globe follows a REMCO model through the creation of GXI. Enabling both of these models to be trialled created a competitive environment which has benefited the market overall.

Effective Service Design

Beyond the BSPs efforts to create enabling regulation in the context of a fertile market, success can be attributed to SMART and Globe's utilization of good service design principals in creating and promoting their offerings. The five important areas include:

1. Conceptualizing mobile money as a non-typical value-added service

Globe and SMART do not conceptualize mobile money as a value-added service in the traditional sense. Though not obvious, this has been an important enabler of success. Traditional value-added services are launched to an initial flurry of marketing support, gain some traction in the market, and are replaced the following quarter by a newer and more exciting proposition for the customer. As it must be, mobile money has been treated differently in the Philippines. Sustained marketing support has been provided and dedicated staff have been allocated to support the initiative.

2. Embedding the Mobile Money Application on SIM Cards

The GCASH and SMART Money applications are embedded on each new SIM distributed by the mobile operator's respective brands. This eliminates the need to conduct a SIM swap, which often poses a barrier to adoption. It also enables SMART and Globe to run SMS marketing initiatives wherein the customer can instantly experiment with the service. This is particularly important for GCASH since their model enables customers to register on their handset from any location.

3. Positioning Mobile Money as an Aspirational Service

GCASH and SMART Money are both positioned as aspirational services. GCASH is aspirational – particularly for those at the base of the pyramid – who have never had access to formal financial services. Through partnerships with rural banks, GCASH can offer customers formal financial services that were previously unattainable – like salary and loan disbursement, deposit taking, micro-SME merchant and bills payment.

With no national ID system in the Philippines, a SMART Money card truly becomes a part of the customer's identity. Several months ago, SMART introduced non-personalized cards to the market. These cards were designed to offer customers an ability to transact immediately after registration rather than waiting for a card to be mailed to their home (i.e. if a customer was sent a remittance, they could withdraw the value instantly). However, although it addressed the requirements to transact immediately and increase usage levels, the adoption of these non-personalized cards has been slow, with customers strongly preferring to receive a card bearing their own name even if they had to wait for a few more days to consummate the transactions.

4. Accommodating Different Types of User Segments and Needs

Important accommodations have been made to ensure GCASH and SMART Money are relevant for customers with unique usage needs. One example of this is the range of encashment options offered to customers with high and low technology savvy. For the 'technologically challenged' customer, SMART offers SMART Padala. The service is available at SMART Wireless Centres and enables customers to hand cash to an agent to be sent to the mobile of a registered SMART Money user. For customers with high technology savvy, SMART enables customers to load e-value onto their accounts using an auto-reloader machine that is fast and eliminates the need for contact with a person. For GCASH, customers also have access to its 3,000 cash-in and cash-out locations nationwide. GCASH subscribers could simply go to any of these GCASH outlets and get assisted service for crediting another person's GCASH Wallet over the counter. GCASH also has a dedicated 24x7 hotline (2882) for assistance anytime and anywhere.

5. Driving Awareness, Understanding, and Trial through Marketing Activities

SMART and Globe's marketing strategies exemplify the adoption framework detailed in the 2009 Mobile Money for the Unbanked Annual Report. The framework recommends above the line marketing and promotion for the initial stage of a mobile money launch to drive awareness, followed by below-the-line marketing and promotion to drive detailed understanding of what the service can be used for and to encourage trial. When Globe launched GCASH in 2004, they made extensive use of billboards, point of sale and radio. They still use above-the-line marketing channels, operating a regular spot on a popular daytime television programme, but have increasingly turned to below-the line marketing activities. These include targeted SMS campaigns to promote the use of GCASH as a tool for airtime purchase, and roaming staff that educate prospects on the uses of GCASH. The marketing for GCASH has often emphasized the benefits of a 'full-service electronic wallet', though increasingly marketing is more feature-oriented.

To simultaneously drive awareness and understanding of SMART Money, SMART designed a series of spots featuring an animated user. Each 1-minute spot would showcase the way that SMART Money 'came to the rescue' of a customer with a specific need – from airtime purchase to money transfer. The animated character would then proceed through each step involved in completing the transaction. This campaign effectively showcased the specific applications of SMART Money and educated users on the steps involved in completing a transaction.

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Alignment of Interests within Ecosystem

Beyond designing a good service to address a fertile market that was provided with enabling regulation, SMART and Globe took one final critical step to enable their success: they assembled and properly aligned the interests of multiple external partners that comprise their ecosystems.

An ecosystem is defined as a network of organizations and individuals that must be in place for mobile money services to proliferate and achieve scale.¹³ While the composition of SMART and Globe’s ecosystems differ immensely, both are aligned on two key elements: the definition and outcome of good ecosystem design. An effective ecosystem is one in which each participant has a clear financial incentive to participate in and actively promote the service.¹⁴ The desired outcome of this engaged network of participants is a ubiquitous ecosystem that makes registration, and the sourcing of funds and use of funds convenient and inexpensive.

A detailed description of the SMART Money and GCASH ecosystems is provided in Appendix B. SMART and Globe use very different approaches to attaining the ubiquity and alignment that are the keys to an effective ecosystem. Their approaches are summarized in Figure A:

Activity	GCASH	SMART Money
Registration	Anywhere via handset	SMART Money Centre ¹⁵
Cash In (Descending Priority)	Globe Business Centre, Pawnshop agents, Rural Bank partners, Non-bank remittance agents, Bancnet, ATMs, Mobile Banking	ATM , BDO Bank branch, SMART Money Centre, Non-bank agents, Mobile banking
Cash Out (Descending Priority)	Globe Business Centre, Pawnshop agents, Rural Bank partners, Non-bank remittance agents, ATMs (linked to mobile banking)	ATM , BDO bank branch , SMART Money Centre, Non-bank agents
Use	Money transfer, Airtime purchase, Retail via mobile, Utilities, Salary disbursement, Donations, Payment to Schools, Internet Purchases, Loan Payments	Money transfer, Airtime purchase, Retail via card, Utilities, International remittance, ATM withdrawals, Salary disbursement, Donations, Internet Purchases(with mobile lock/unlock capability), Loan Payments/Disbursements, Reloading from MBS accounts Trade settlement

¹³ Developing Mobile Money Ecosystems

¹⁴ Mas, Ignacio. 2009 - The Economics of Branchless Banking.

¹⁵ Registration at the Smart Money Centre is done for personalization of accounts. From a mobile, any Smart subscriber can activate an account and do immediate transactions within certain limitations. The objective of the limitation is to bring the subscriber to the wireless centre to get their account personalized by presenting credentials for KYC.

Part 4: Enablers of Future Growth

Analysis of the current SMART Money and GCASH models reveals three key areas that, if addressed, could enable future mobile money growth. A change to each of the areas listed below would be complex given that existing rules are closely linked to the efforts regulators went through to become FATF compliant in 2005. However, it is important to list these areas as opportunities for change so that mobile operators and regulators in other countries can understand their impact on the success of mobile money.

1. Authority and Incentives for Agents to Perform Customer Registration

In Kenya, M-PESA has been able to scale quickly in part because Safaricom was able to authorize their (now) 11,000 cash in/out agents to register new customers and provide meaningful incentives (the equivalent commission of providing cash in/out for an average sized transaction) to do so. Growth in the Philippines could occur if such a motivated and accessible participant was tasked with registering new customers (and driving active use). Several barriers exist to transitioning to this Kenyan-like model exist, namely that:

- a. Existing agents are not currently permitted to perform account openings
- b. Agents currently earn very high commissions (over 10%) on airtime sales, so prioritizing this activity for airtime agents would be a challenge. It is worth noting that another side to this argument exists – that mobile money is looked at by agents simply as an additional offering to sell and that it should not be compared directly to airtime.

Nonetheless, incentivizing agents to register new customers could make mobile money more competitive at the ‘point of sale’. Many Remittance Agents offer several choices for money transfer, and typically one competitive option will enable the customer to send or receive money without any form of registration. Currently, Remittance Agents have no incentive to encourage customers to register for mobile money, and can instead promote the option which is easiest and fastest for them – as well as the customer.

2. Rules Impacting Ability to Scale The Number of Non-Bank Cash In/Out Agents

For a Filipino business to become a mobile money cash in/out agent, they must first attain a remittance license, which involves submission of business paperwork and attending a 1-day AMLA training seminar, typically in an urban area. While these rules do ensure that agents appreciate the importance of preventing money laundering or terrorist financing, they do impede the ability to scale the non-bank agent network somewhat. In any market, mobile money providers should work with regulators to seek innovative (but equally effective) methods of administering AMLA training



if such training is deemed to be necessary. Examples of innovative solutions could include remote AMLA administration, tiers of agent authority and wallet limits. Globe has been working closely with the Bangko Sentral ng Pilipinas and the Anti Money Laundering Council and has recently received approval for their own staff to administer AMLA training remotely (i.e. Globe staff can visit a prospective agent at their business premises). This will enable Globe to scale their agent network rapidly and cost effectively, while eliminating the need for prospective agents to sacrifice a day of income (in some cases) to get accredited.

3. Brand Identification and Relevance to Base of Pyramid Markets

GCASH and SMART Money have already been widely adopted at the base of the pyramid. Sustained and increased growth in this segment will come from ensuring that offerings are aspirational, but also relevant and attainable. Customers must feel that the mobile money offering is designed for 'people like them'¹⁶– particularly those at the base of the pyramid – which comes from emphasizing the fact that features address needs that transcend income bands. Growth in this market will also come from the ability to amplify the visibility and ecosystem size in base of pyramid communities, something that would be faster and easier with flexibility around agent licensing rules. Growth will also come from offering sophisticated financial services – like savings and access to credit – that the market has indicated a demand for.

¹⁶ The 2009 CGAP-GSMA survey confirmed that 27% of unbanked survey respondents believe mobile money is a service for people like them.

Appendix A: Overview of Market Players

GCASH

Globe Telecom launched GCASH in 2004. The service provides Globe and TM subscribers with a cashless and cardless method of facilitating money remittance, donations, loan settlement, disbursement of salaries or commissions, and payment of bills, products and services, via text message. Customers access GCASH through an SMS syntax, or a menu from a SIM tool Kit integrated in the SIM, or by a menu that can be retrieved via an over the air facility that pushes the menu to the subscribers SIM.

Registration

Customers can register for the service anywhere and at any time using a handset with an active Globe or TM SIM. A sequence of screens prompts customers to enter the personal information required to conduct KYC (i.e. name, year of birth, address) and upon completion they receive notification that they are registered for GCASH.

Cash In/Out

Whereas SMART partnered with Banco De Oro to create a cash in/out network, Globe has not partnered with a commercial bank and instead relies largely on non-bank agents¹⁷ for this function. Pawnshops, department store outlets, and Globe Telecom stores are used to perform cash in/out in both urban and rural areas. Globe has also partnered with many rural banks¹⁸, which play a key role in facilitating cash in/out in rural areas. Customers must present valid ID that matches the information originally entered in their handset each time they perform a cash in/out transaction at an agent. Customer wallet limits are at P40,000 (US\$840) per day or at any given time and up to P100,000 (US\$2,400) per month.

Use

Customers can access GCASH through either a SIM browsing menu or SMS. To date, customers have strongly preferred the SMS option. Any type of transaction is initiated (whether it's a money transfer, tuition payment, or retail purchase) by first entering the recipient's phone number and then the required information in an SMS message. For a money transfer, the transaction log information that would be entered in the SMS message is simply the amount followed by the user's m-PIN. For a tuition payment, the syntax would also include the student's name and ID number. After each transaction, customers receive confirmation details¹⁹ as well as a reminder to delete their SMS history since sent messages may contain their m-PIN.



¹⁷ In this context, a non-bank agent refers to non-commercial banks. Rural banks do factor in significantly in Globe's distribution strategy.

¹⁸ Through USAID supported project

¹⁹ The confirmation SMS informs the user of the name of the person they just sent money to. This provides peace of mind to consumers, who often fear sending money to the wrong number.

SMART Money

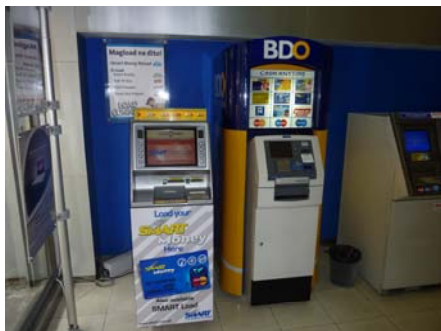
SMART Communications launched SMART Money in 2001. The service includes a reloadable payment card linked to a SMART mobile phone and enables customers to use their mobile to send and receive money domestically and internationally, buy airtime, receive salaries, repay MFI loans, and pay bills. Customers can also pay for goods at merchants using a SMART Money card.

Registration

The process of activation (menu based or by texting MONEY to 343) is the first step for registration. There are immediate transactions (i.e. airtime reload, money transfer) that can be done as a result of this initial process whereby a 16 digit SMART Money account is made available to the customer. To get their personalized account and/or a card, customers visit one of 95 SMART Wireless Centres to fill out an application form that captures their name, age, gender, marital status, residential address and employment/education information. Applicants do not need to have a bank account to register, but do have the option of linking their account if they are with one of 14 banks that have a partnership with SMART. This makes the process of loading cash onto an account simpler and more convenient for the customer.



When a customer registers, they have the option to instantly receive a generic SMART Money MasterCard, or to wait for a personalized card to be mailed to them. Customers who receive a personalized card are not required to subsequently show ID when transacting because KYC has already been performed. Customers who receive a personalized card can then link it to their mobile in a few steps using their mobile phone.



Cash In/Out

Loading cash into a SMART Money account or converting e-value into physical cash is done differently by urban and rural customers. In urban areas, Banco De Oro (BDO) branches, Shoemart stores, ATMs and SMART Wireless Centres serve as the primary cash in/out network. In rural areas where these types of locations are less accessible, SMART relies on MFIs, pawn shops and money changers to perform cash in/out.

Use

Customers access SMART Money through a SIM browsing menu on their handset. All transactions are initiated using the menu, but confirmation messages that result from any action taken on the menu are delivered and displayed to users in SMS format. For money transfer, both the sender and a receiver must be registered with SMART Money (and thus, must be customers of SMART or Talk n Text). The maximum amount of money that a customer can send per day is P50,000 (USD\$1,020), and the maximum amount that can be withdrawn is P30,000 (USD\$612).

Appendix B: Composition of SMART and GCASH Ecosystems

Overview

SMART and Globe both conceptualize and build their ecosystems with consideration for three key areas:

1. **Source of funds**
i.e. Family member who sends a remittance; Corporation who distributes salaries
2. **Recipient of funds**
i.e. Family member who receives remittance
3. **Uses of funds**
i.e. Merchant who accepts mobile money; corporations who accept mobile money for bill payment; airtime purchase; money transfer

In many cases, unique ecosystems are built in specific geographic areas, so that across the Philippines multiple different ecosystems could exist, each with a slightly different composition.

Key differences between the SMART Money and GCASH ecosystems include:

1. **Role of banks**
SMART's banking partner and e-money issuer, BDO, is highly visible, contributing heavily to their cash in/out network, issuing cards, and providing acquiring POS terminals for merchants. Globe has created its own ledger system facilitating information within its customers and also runs its proprietary settlement system that connects to all commercial banks in the Philippines. GCASH has remained an open platform that is able to enter into bi-lateral agreements with many banks for specific transactions or target customers.
2. **Approach to customer registration**
SMART relies on wireless centres to perform customer registration. GCASH users can register from anywhere on their handset.
3. **Approach to cash in/out**
SMART's 'first line of defence' for cash in/out is commercial bank branches and ATMs. While GCASH also provides cash-in access through ATMs, their model relies more so on the 3,000 cash in/out points²⁰.
4. **Approach to developing retail payment network for customers**
For the most part, SMART leverages retailers who already accept cards for their retail network. GCASH has acquired retailers, and thus a transaction does not include issuing or acquiring banks – just a customer and a merchant.

²⁰ Includes Globe business centres, pawnshops, rural banks, and non-bank remittance agents

SMART Money Ecosystem

Key Participants:

Banco De Oro (BDO)

Contribution:

- a. Network of BDO Accredited Merchants: Banco De Oro has the largest network of accepting merchants in the Philippines.^[1] This means that when a SMART Money customer uses their card on a BDO POS device, no bank interchange fee is required to be paid by SMART Money or BDO on the transaction.
- b. Card Issuance: BDO is the issuer of the SMART Money MasterCard. When this card is used at merchants who have been accredited by a bank other than BDO, interchange revenue is earned.
- c. Cash in/out: BDO's 675 bank branches^[2] are the 'first line of defence' for cash in/out in urban areas of the Philippines. Additionally, they provide SMART users with access to 1,299 ATMs^[3] via the Plus, Expressnet, Megalink, and BancNet networks. SMART's relationship with BDO also enables all BDO customers to link their bank accounts to SMART Money to simplify and expedite the cash-in process.
- d. Promotion: BDO promotes the SMART Money MasterCard in their bank branches. BDO also issues non-SMART Money branded MasterCards, so it is vital that branch staff are educated on what types of customers should be pitched the SMART Money card.

Incentives: BDO has a share on the financial revenues when SMART Money cards are used at merchants who have been accredited by a bank other than BDO. Their strategic and "ahead of its time" partnership with SMART also precludes another bank from issuing the card, which would result in the requirement to pay interchange fees whenever it is used on their large network of accredited merchants.

MasterCard

Contribution

- a. Interbank Account Settlement: Provides interbank account settlement when SMART Money cards are used at a merchant who has not been acquired by BDO.
- b. Access to Mastercard enabled ATMs and POS: Enables SMART Money card users to transact outside of the Philippines on ATMs and POS enabled by Mastercard

^[1] Source: SMART Money

^[2] <http://www.bdo.com.ph/aboutus/pdf/RANKING.pdf> - BDO has the third largest network of bank branches

^[3] <http://www.bdo.com.ph/aboutus/pdf/RANKING.pdf> - BDO has the second largest network of ATMs

Incentive: Interchange revenue. Smart Money is the first and considered most successful Mastercard effort mobile money

SMART Wireless Centres

Contribution

- a. Customer Registration: SMART Wireless Centres (SWC) are the sole location where customers can register for SMART Money.
- b. Cash in/out: Customers can cash in at an SWC for no charge, and can withdraw funds for a 1% fee.
- c. Service and Support: Staff at SWC can help customers troubleshoot problems and serve as a contact point for issues that cannot be resolved over the help line.

Incentives

SMART corporate directive.

Mobile Banking Bank Partners and International Bank Partners

Contribution

- a. Cash in: SMART has developed relationships with 14 additional commercial/ universal banks in the Philippines to enable banked customers to link their bank accounts to SMART Money to simplify and expedite the cash-in process.
- b. Mobile Customer Acquisition: Customers of SMART's commercial banking partners that wish to conduct mobile banking can only do so using a SMART or Talk n Text SIM, thus this exclusive relationship helps SMART acquire new mobile customers.
- c. International Remittance: SMART has development relationships with multiple international banks like NCB, AUB, BDO International, PNB Global, etc. directly and/or through its local commercial bank partnerships that enabled Filipinos in countries with high concentration of OFWs to remit via text.

Incentives

SMART enables banks to offer mobile banking functionality as a value-added service to their customers. This also enables banks to market to SMART subscribers who are not yet bank clients.

ATM Networks (Expressnet, MegaLink, BancNet)

Contribution

- a. Cash out: Customers can withdraw funds from their SMART Money account using ATMs.

Incentive

Fees from customer use.

International Remittance Partners

Contribution

- a. Cash in/out: Enables international senders and receivers to perform cash in/out

Incentive

Commissions from transactions.

Non-Bank, Non-Financial Institution Agents

Contribution

- a. Cash in/out: In rural areas where BDO has poor branch coverage, SMART relies on non-bank agents (i.e. pawn shops, money changers) to perform cash in/out.

Incentive:

Non-bank agents earn a commission when customers transact.

The SMART Money ecosystem also includes retailers, MFIs, Rural Banks, and Bill Payment partners who deliver variable contributions to the ecosystem depending on their geographic locations and target user base.

GCASH Ecosystem

Key Participants:

Non-Bank, Non-Financial Institution Agents

Contribution

- a. KYC: Since customers register for GCASH via their handset and KYC has yet to be administered by a person (though the information has already been captured), licensed cash in/out agents such as pawnshops, rural banks and non-bank agents, which are responsible for validating the identity of customers each time a transaction is made. Commercial bank branches are not used for cash-in and cash-out in the current GCASH model.
- b. Cash in/out: Commercial bank branches are not used in the GCASH model. Instead, non-bank agents like pawn shops and retailers are relied on to perform cash in/out.

Incentives

Agents earn a commission when customers cash in or out (P10 or 1% of the transaction value, whichever is higher).

1. Rural Banks²¹

Contribution

- a. Customer Acquisition: Rural banks who could not previously offer money transfer as a service to their clients add GCASH to their suite of services and in turn recruit new bank customers that can also have access to their own mobile phone banking services through GCASH
- b. Cash in/out: 60 rural banks with 800 branches provide cash in/out

Incentives

Offers rural banks ability to provide deposits, withdrawals, payments and payroll services to clients in areas where ATMs are not prevalent or no commercial banks exist via 'text-a-deposit', 'text-a-withdrawal' and 'text a salary' services.

2. Globe Centres

Contribution

- e. Cash in/out: Customers can cash in at a Globe Centre for no charge, and can withdraw funds for a 1% fee.
- f. Service and Support: Staff assist customers and serve as a contact point for issues that cannot be resolved over the help line.

Incentives

Globe corporate directive.

²¹ Globe has worked closely with Microenterprise Access to Banking Services (MABS) and USAID to execute their strategy working with Rural Banks.

3. Salary Disbursement

Contribution

- c. Customer Acquisition: Each organization that disburses salaries via GCASH drives adoption
- d. Volume for Agents: In many cases provides large financial flows for agents from which they can earn regular commissions.
- e. Catalyst for Retail Acceptance of GCASH as Payment: When an employee converts their GCASH salary payment into cash at a merchant, it catalyses merchants to begin accepting GCASH for retail payments.

Incentives

Using GCASH, employers can pay customers electronically, saving administrative time and risk involved in previous payment methods. Rural banks offer the service to employers to solidify relationships with customers and create opportunities to earn revenue from other services.

4. Retailers

Contribution

- f. Use of GCASH: Small merchants, as well as large retail chains, including Mercury Drug and SM Department stores, accept GCASH as payment and offer customers an additional use for their e-value. Payment is made via the mobile at these retailers (large retailers have integrated GCASH into POS devices).

Incentives

Offer cashless payment option to customers, while avoiding the 0-3% merchant discount fee.

5. Bill Payment Partners

Contribution

- g. Uses for GCASH: Offers customers an additional use for GCASH
- h. Volume for Agents: Customers who pay their bills using GCASH must load money onto their account at an agent. Agents earn a commission for providing the cash-in service.

Incentives

Makes it easier and cheaper for customers to pay for bills and use services by reducing travel time, reduces need for payment accepting infrastructure, reduced incidence of late payments.

6. ATM Networks (BancNet)

Contribution

- i. Cash in: Customers can transfer funds from their bank account into GCASH account

Incentive

Fees from customer use.

7. International Remittance Partners

Contribution

- j. Cash in/out: Enables international senders and receivers to perform cash in/out

Incentive

Commissions from transactions. Remittances at the speed of text