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2023 Philippines Fintech Report

Overview

As a key driving force for financial inclusion and economic development, fintech innovation has become a hot topic of concern for many countries, financial institutions, and industry investors. Traditional financial institutions represented by banks are seeking to strengthen cooperation with fintech companies through direct investment or cooperation sharing models; a large number of government organizations are also actively developing regulatory technology, improving systems and processes, in order to better promote the development of the fintech industry and create more opportunities for local economic growth and employment channels.

Financial technology companies are innovative technology companies that develop advanced technologies and tailor Financial Services with technology as the core driving force for consumers and organizations. With the development of financial technology companies, the way people save, borrow, and consume in their daily lives has undergone disruptive changes. The governance pattern of the traditional Financial Services industry is also undergoing unprecedented changes with the support of technological power. Global capital is attracted by financial technology - more diverse business models have been born here, and more efficient enterprise operation methods have been created. With such development, global financial inclusion is no longer just a concept on paper, but a bright future with full promise.

Starting from the fourth quarter of 2022, global economies are gradually

recovering from the impact of the Novel Coronavirus (COVID) epidemic. However, looking ahead, the world's economic outlook is still full of uncertainty and development challenges. This is due to the intensification of geopolitical conflicts, which suppresses trade circulation and economic growth. However, even in such a complex international environment, the Philippines' economic growth performance in the post-epidemic era is very impressive. In the past three years, the average growth rate of the Philippines Gross National Product (GDP) has exceeded 6%. From 2022 to 2023, the growth rate of the Philippines Gross National Product even reached 7.6%, which is the highest economic growth rate recorded by the Philippines since 1976.

Thanks to the relaxed foreign exchange system and capital access policies, the Philippines has always been a highly attractive market for foreign investment in the Asia-Pacific region. As an important global labor exporting country, the Philippines also has a large number of English-speaking and internationalized labor resources. In the process of responding to the COVID-19 pandemic, which resulted in an increase demand for online services in various industries, the Philippines' fintech industry developed rapidly. From 2020 to 2023, the number of users of digital financial services in the Philippines has grown exponentially. With the active guidance of regulatory authorities, the Philippines has also become an emerging market for blockchain technology, digital asset service providers, and digital asset holders.

"One of the friendliest cities for Fintech companies in the world"

Findexable (2021)

In the global fintech center ranking list released by data company Findexable in 2021, Manila, the capital of the Philippines, ranked 14th in the Asia-Pacific region, and was dubbed "one of the friendliest cities for Fintech companies in the world".

Currently, digital payments, lending, digital wallets and remittances, and virtual asset services are the fastest-growing vertical business areas in the Philippines' fintech ecosystem. In addition, with the gradual completion of trade liberalization reforms and active participation in global trade agreements, the commercial attractiveness of the Philippines has been further strengthened, stimulating the demand for more digital Financial Services. The number of users of Philippines digital banks has also significantly increased in recent years.

Despite the above, the Philippines is still on the "grey list" of the Financial Action Task Force (FATF), an international anti-money laundering regulatory body. This means that the Philippines' anti-money laundering governance still does not meet international standards and the country is considered as a high-risk area for money laundering crimes. For companies operating financial services, trade services, or various digital economy services in the Philippines, it is recommended that to consider anti-money laundering and counter-terrorism financing as an important focus of the compliance strategy.

ADVANCE.AI Philippines Fintech Report 2023 will provide readers with a comprehensive understanding of the development status and fundamental value drivers of the Philippines' fintech industry, as well as a detailed analysis of local regulatory policies. In times of change, opportunities are always brewing. ADVANCE.AI report can help you:

- **Assessing current and future trends in the Fintech industry in the Philippines**
- **Systematic understanding of the current status of financial technology regulation in the Philippines**
- **Identifying Existing Risks and Challenges in the Philippines Fintech Market**
- **By clarifying the goals and priorities of the Philippines government's development of financial technology, local market participants can evaluate how to find their own advantages and seize development opportunities.**

Figure 1: The Philippines is located in the southeast of Asia. It faces Taiwan across the Bashi Strait to the north, Indonesia and Malaysia across the Sulawesi Sea and the Balabac Strait to the south and southwest, and is bordered by the South China Sea to the west and the Pacific Ocean to the east. The total area of the Philippines is 299,700 square kilometers, with a coastline of about 18,533 kilometers and more than 7,000 islands.

Source: United Nations Map Library

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Terminology and institutional abbreviations

Common abbreviations	Full name
FISC	Financial Inclusion Steering Committee
FSF	Financial Sector Forum
BSP	Bangko Sentral ng Pilipinas
AMLC	Anti-Money Laundering Council
IC	Insurance Commission
SEC	Securities and Exchange Commission
PIO	PhiliFintech Innovation Office
OFOC TG	Open Finance Oversight Committee Transition Group
PSE	Philippine Stock Exchange
NTC	National Telecommunications Commission
NPC	The National Privacy Commission
DICT	Department of Information and Communications Technology
BIR	Bureau of Internal Revenue
PDIC	Philippine Deposit Insurance Corporation
NCAIR	National Center for AI Research
PLDT	PLDT
BDO	Banco de Oro / BDO Unibank, Inc
WTO	World Trade Organization
APEC	Asia-Pacific Economic Cooperation
ASEAN	the Association of Southeast Asian Nations
ASEAN-FC	ASEAN Fintech Council
FATF	Financial Action Task Force
PHP	Philippine Peso, local currency
PhilSys	Philippine Identification System
PPTM	Philippines Privacy Trust Logo
NBFI	Non-Bank Financial Institutions
Coop	Financial Cooperatives

Common abbreviations	Full name
NBQB	Non-Bank Financial Institution with Quasi-Banking Function
NSSLAs	Non-Stock Savings and Loan Associations
OBU	Offshore Banking Units
MF NGOs	Microfinance Non-government Institutions
Pre-Need Company	Pre-Need Company
CSF	Credit Surety Fund
HMO	Health Maintenance Organization
EMI	E-Money Issuer
MSB	Money Service Business
OLP	Online Lending Platform
VASP	Virtual Asset Service Providers
FTSOVC License	Financial Technology Solutions and Offshore Virtual Currency License
ATIGA	ASEAN Trade in Goods Agreement
RCEP	The Regional Comprehensive Economic Partnership
BPO	Business Process Outsourcing

Legal Document Index *

1. Official Gazette of GOVPH
   - *Twelfth Regular Foreign Investment Negative List*
   - *Financial Products and Services Consumer Protection Act (Republic Act 11765)*
   - *Financial Institutions Strategic Transfer (FIST) Act (Republic Act 11523)*
2. Bangko Sentral ng Pilipinas
   - *Digital Payments Transformation Roadmap 2020-2023*
   - *The Manual of Regulations for Non-Bank Financial Institutions*
   - *Open Finance Framework (Circular No.1122)*
   - *Regulatory Sandbox Framework*
   - *Guidelines for Virtual Asset Service Providers*
   - *Summary Guide for Islamic Bank License Applicants*
   - *Amendments to Anti-Money Laundering Act (Republic Act 9194)*
3. Financial Inclusion Steering Committee: *The National Strategy for Financial Inclusion 2022-2028*
4. Philippines Financial Sector Forum
   - *Customer Identification and Verification Guidelines for Fintech Stakeholders*
   - *Consumer Protection Guidelines for Fintech Stakeholders*
5. SEC Gov PH: *Implementing Rules and Regulations of Financial institutions Strategic Transfer Act* (commonly known as FIST Act)
6. National Privacy Commission
   - *Data Privacy Act of 2012 (Republic Act 10173)*
   - *Implementing Rules and Regulations of Republic Act 10173*

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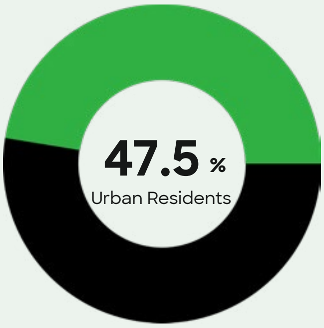
1. Philippines at a Glance

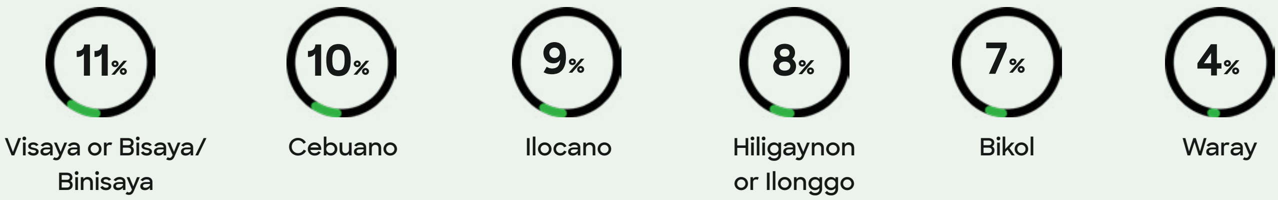
Total Population of the Philippines: Approximately 114 million[1]



- The top three cities by population are: Quezon City, Manila, the capital of the Philippines, and Caloocan City.
- Ratio of urban residents to total population: 47.5% [2]
- Median age: 25.7 years [3]

Language, ethnicity, and religion

- The national language of the Philippines is the Filipino language, a standardized variety of Tagalog. English is also used as an official language.
- The Philippines is a multi-ethnic country, with Tagalogs comprising 24% of the population. Other ethnic groups include:

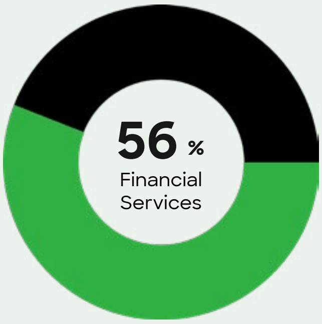


- According to the 2020 census, Roman Catholics account for 78.8% of the household population, another 6% of the population belong to Protestant denominations, making the overall Christianity is predominant religion in the Philippines. Amongst the other religions, 6.4% of the population are Muslims, and an estimated 2% are of Indigenous Philippine folk religions.

Communication and Internet penetration rate

- Internet population penetration: about 73.1% [4]
- Population penetration of social media users: approximately 72.5%
- Mobile phone population penetration: approximately 144.5% (including all communication formats)

Financial Services penetration rate: 56% * (includes bank accounts, digital financial accounts, informal financial accounts)



Recent statistics as of 2021:

- Philippines banking penetration rate: 23%
- Electronic money services population penetration rate: 36%
- Financial cooperatives serve population penetration rate: 5%
- Non-stock savings and loan societies (commonly referred to as NSSLAs) serve population penetration rate: 0.3%
- Small financial NGO service population penetration rate: 9%

Global Ranking: 95 out of 190 countries, for Ease of Doing Business[5]

System of government: The Philippines implements a presidential system, and the president is elected for a term of six years and cannot be re-elected; the Philippine Congress is the highest legislative body, composed of the Senate and the House of Representatives; the Philippines has more than 100 political parties, and the ruling party is the Philippines Democratic People's Power Party.

Trade unions: There are many labor-intensive industries in the Philippines, and trade unions are also more active. Important local trade union organizations include: Philippines Trade Union Congress, National Workers Anti-Poverty Alliance, Philippines Workers' Group, Philippines Workers' Union, etc.

Labour: With a large, educated, English-speaking workforce, the Philippines has a literacy rate of 97.75%, the highest in South East Asia.

Policy:

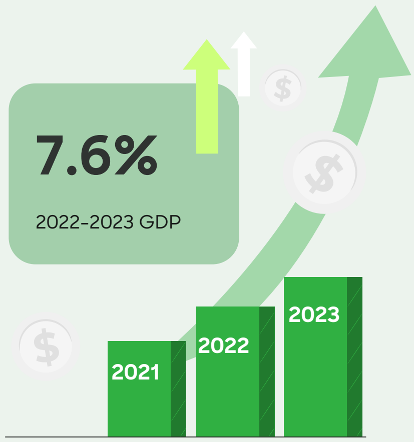
- The Ease of Doing Business and Efficiency of Government Services Act (Republic Act 11032) was enacted to simplify government service systems and procedures.
- The Philippines Innovation Act (Republic Act 11293) was enacted to support the development of multi-industry small and micro enterprises, including the digital economy.

- The Ministry of Trade and Industry, the Ministry of Science and Technology, and the Ministry of Information and Communication Technology of the Philippines jointly released the "Start-up Support Program (2019-2023) ", which aims to provide development funds and business licensing support for startups. [6]

Macroeconomic indicators [7]

GDP

- GDP from 2021 to 2022: $394.09 billion, with a growth rate of 5.7%
- 2022-2023 GDP: Growth of 7.6% [8], exceeding expectations, mainly due to the high economic growth in the fourth quarter of 2022, which is also the highest economic growth rate recorded in the Philippines since 1976.



GDP per capita

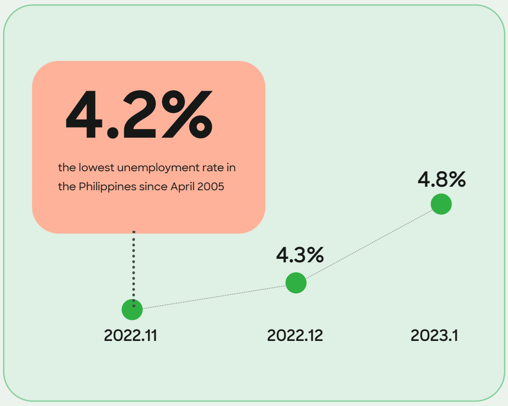
- GDP per capita from 2021 to 2022: US $3,460.5, with a growth rate of 4.1%
- GDP per capita 2022-2023: expected to exceed $3,600[9]

Inflation rate

3.93%
Average inflation rate in 2021

5.82%[10]
Average inflation in 2022

Unemployment rate



- In January 2023, the unemployment rate was 4.8%.
- In December 2022, the unemployment rate was 4.3%.
- In November 2022, the unemployment rate stood at 4.2 percent, the lowest unemployment rate in the Philippines since April 2005.

Poverty rate

- As of 2022, about 5.60 million Filipino households are still poor, equivalent to two-fifths of the total population. [11]
- The number of poor people in the Philippines is still growing. According to the standard of the Philippine government, the minimum monthly consumption of a family of five is less than 7,890 pesos (about 141.23 US dollars) for a poor family. [12]

International membership status

Members of the World Trade Organization (WTO)

APEC member countries

ASEAN member states

International economic and trade agreements

At the point of this report, the Philippines has signed various bilateral economic and trade agreements with nearly 40 countries and regions, and the treaties that have been signed and are in force include ASEAN Trade in Goods Agreement (ATIGA), Philippines-Japan Free Trade Agreement, Philippines-Kazakhstan Free Trade Agreement, Philippines-European Free Trade Association Free Trade Agreement.

On February 21, 2023, the Philippine Senate had formally approved the approval of the Regional Comprehensive Economic Partnership Agreement (RCEP), and the world's largest trade agreement also officially entered into force for the Philippines.[13]

Sovereign credit rating[14]

Moody's	S & P	Fitch
Baa2 with **"Stable"** outlook	**BBB +** with **"Stable"** outlook	**BBB** with **"Stable"** outlook

2. Industry development background

2.1 Financial Inclusive Development

In the 1950s, the International Monetary Fund and the World Bank imposed a large number of plans that did not conform to the actual development of the Philippines on the Philippines and required it to implement them, such as the bank privatization plan, the bank rediscount policy, etc., which not only led to the chaos of the internal financial environment of the Philippines, but also led to a large amount of national foreign debt.

In the 1970s, the Philippines implemented the policy of introducing foreign capital, but due to the lack of restrictions on the business development of foreign capital in the Philippines and the lack of market competition, it triggered the competition of foreign Financial Institutions for local credit funds in the Philippines, which has kept the local Financial Institutions in the Philippines at a disadvantage.

In the early 1980s, in order to promote economic growth, the Philippines increased its money supply significantly, causing severe inflation and eventually triggering a financial crisis. A large number of bank failures deepened the chaos in the financial industry.

So far, the Philippines' financial system is still influenced by past historical decisions, and the level of financial inclusion has lagged behind the world average in the past. In 2015, the Philippines officially launched the Financial Inclusion Promotion Strategy, which aims to promote coordinated development among various stakeholders, and hopes to establish a financial system that can meet people's diverse financial needs and has regional influence.

In 2022, the Philippines released the " **The National Strategy for Financial Inclusion 2022-2028**"[15] , which once again depicted the implementation plan for financial inclusion development in the Philippines in the next five years and the vision goal of further improving the country's financial resilience.

The realization of financial inclusion is the foundation for a country to achieve sustainable and fair development. An important indicator to measure the degree of financial inclusion is the number of financial accounts published, but the goal of financial inclusion is not only to popularize the opening of financial accounts, but also a means to achieve comprehensive social and economic development.

Therefore, in order to better promote financial inclusion, the Philippines has established the Financial Inclusion Steering Committee (FISC), which is an XFN governing body responsible for promoting the implementation and cooperation of the Philippines' financial inclusion development plan, and providing guidance for the formulation of relevant policies and regulatory frameworks.

The Central Bank of the Philippines (Bangko Sentral ng Pilipinas, commonly referred to as BSP) is the chair of the Philippines Financial Inclusion Steering Committee. By issuing regulations and policies that are conducive to enhancing the overall financial inclusiveness of the country, it improves the regulatory environment. By promoting the construction and implementation of financial inclusion projects such as the Credit Guarantee Fund, credit risk database, and national digital payment QR code (QR Ph), it ensures that the coverage of Financial Services can gradually expand and more people can enjoy Financial Services.

Overview of Financial Inclusion in the Philippines

According to a survey by the Central Bank of the Philippines (commonly referred to as BSP), the number of people with bank accounts in the Philippines has nearly tripled from 2019 to 2021, increasing from 12% to 23% of the total population.

The number of Filipinos with electronic money accounts (such as online banking accounts or various digital payment accounts) is also rapidly increasing. From 2019 to 2021, the proportion of Filipinos with electronic money accounts in the total population of the Philippines increased rapidly from 8% to 36%.

The number of Filipinos with financial cooperative accounts and NSSLAs accounts is also increasing slightly. As of 2021, the proportion of Filipinos with financial cooperative accounts reached 5%, and the proportion of NSSLAs account users reached 0.3%.

Only the number of accounts opened by Microfinance Non-government Institutions (MF NGOs) has decreased. From 2019 to 2021, the proportion of people holding such accounts in the total population of the Philippines has decreased from 12% to 9%.

In 2019, financial account holders in the Philippines mainly used savings services (76%), followed by payment services (47%). In 2021, financial account holders in the Philippines mainly used their accounts for receiving payments (56%), followed by non-cash digital payments (40%) and remittances (38%). [16]

2.2 Financial Services Market Structure

2.2.1 Banking

The banking industry in the Philippines consists of Universal banks, commercial banks, savings banks, and rural banks.

In the Philippines, comprehensive banks and commercial banks are mostly large banks. Comprehensive banks can engage in other financial intermediary activities such as Investment Bank. 90% of the capital resources in the Philippines are concentrated in comprehensive banks and commercial banks.

According to the statistics of the Central Bank of the Philippines (commonly referred to as BSP) as of the end of 2020, there are 46 comprehensive banks and commercial banks, 48 savings banks and 441 rural banks in the Philippines, with over 12,000 business outlets, including a large number of foreign banks.

2.2.2 Insurance industry

The types of institutions in the Philippines insurance industry include traditional insurance companies such as life insurance companies, non-life insurance companies, comprehensive insurance companies, mutual aid organizations (commonly referred to as MBAs), as well as institutions that provide emerging insurance service businesses such as Pre-Need Companies and Health Maintenance Organizations (commonly referred to as HMOs).

The asset size of the Philippines insurance industry is only equivalent to one-tenth of the Philippines banking industry, which is relatively small. Nearly 80% of the revenue in the traditional insurance market in the Philippines comes from life insurance premiums; the revenue in the non-life insurance field mainly comes from vehicle and real estate-related insurance products.

Top-ranked insurance institutions in Philippines Insurance Premium include: Grand Life Insurance Company, Sun Life Financial (Philippines), ICBC AXA Life Insurance (Philippines), United Kingdom Prudential Group Company, Philippines AIA, BPI-Philam Life Insurance Company, etc.

2.2.3 Securities trading

The securities trading industry in the Philippines is relatively under-developed. The Philippines Stock Exchange (commonly referred to as PSE) is the only stock exchange in the Philippines, and the listing sector is divided into the main board and the small and medium-sized enterprise sector.

In addition to general stock listing and trading, the Philippines Stock Exchange (commonly referred to as PSE) specializes in screening Islamic law-compliant stocks (commonly referred to as Shariah) for Muslim investors to trade, and provides products and services such as Philippines depositary receipts, exchange-traded open-ended index funds, bonds, warrants, real estate investment trusts, US dollar-denominated securities, financing and short selling.

The Philippines Stock Exchange has three Wholly-Owned Subsidiaries: Philippines Securities Clearing Company, Capital Markets Integrity Company, and Excellence Software Company. The Philippines Exchange also holds shares in Philippines Trading System Co., Ltd., which is the parent company of Fixed Income Exchange and Central Depository.

As of May 3, 2023, there are 289 listed companies on the Philippines Stock Exchange. [17]

2.2.4 Bond market

About 80% of the bonds in the Philippines bond market are Treasury, fixed-rate government bonds, and retail government bonds invited tenders published by the Philippine Treasury.

2.2.5 Non-Bank Financial Institutions

Non-bank Financial Institutions (NBFIs) include quasi-banking institutions (NBQBs), pawnshops, money service providers (MSB), non-stock savings and loan cooperatives (NSSLAs), international financial business branches (OBU), trust companies and other institutions, as well as their branches and affiliated enterprises.

2.3 The current state of digital infrastructure

2.3.1 Communication and Internet

73.1% Internet users

72.5% Social Media users

144.5% Mobile phone subscribers

As of January 2023, there are about 85.16 million internet users in the Philippines. The proportion of internet users to the total population is 73.1%.[18] From 2022 to 2023, the number of internet users increased by 10 million, an increase of 13.4%.[19]

As of January 2023, the Philippines has 84.45 million social media users. Social media users account for 72.5% of the total population of the Philippines. Combined with the age distribution of the population, the penetration rate of social media use among the population aged 18 and above has reached 102%.

As of January 2023, there are about 168.30 million mobile phone subscribers (including all communication standards) in the Philippines, and the proportion of mobile phone subscribers to the total population of the Philippines is 144.5%.[20]

Based on the above statistics, about 26.9% of the population in the Philippines still does not have access to the Internet.

The communication network standard of the Philippines is mainly 4G, covering about 96% of the Philippines mobile phone users, and there are 7,200 5G base stations stations[21], but due to communication costs, the popularization of 5G services in the Philippines is slow.

Currently, the main operators in the Philippines' communication market are Smart, Globe, DITO, and Now Telecom. According to a survey conducted by mobile analytics company Opensignal in Quarter 1 of 2023, operator Smart provides the best download speed experience for communication networks, and can provide better network usage experience when playing multiplayer mobile games, watching videos, and using voice applications. [22]

As of March 2023, the average download speed of mobile Internet in the Philippines is about 25.63Mbps, and the average download speed of fixed broadband is about 90.57Mbps.[23] From 2022 to the beginning of 2023, the mobile Internet network connection speed in the Philippines increased by 5.86 Mbps; the fixed broadband network connection speed increased by 34.98 Mbps, showing a significant speed increase.

In addition, the Ministry of Information and Communication Technology of the Philippines has launched the "PipolKonek" project, which plans to open free wireless networks in 13,000 public places across the Philippines. [24]

2.3.2 Smartphones

According to the mobile phone tracking report released by consulting firm IDC, in 2022, the shipment volume of smartphones in the Philippines market was 16.3 million, with a year-on-year decrease of 8.6%. In the Philippines, the top five mobile phone brands that are most popular among local residents and have the highest market sales share are: realme, Transsion, OPPO, Samsung, and Xiaomi.[25]

2.3.3 Data center

Driven by the digital transformation process of government entities and small and medium-sized enterprises, the data industry in the Philippines has also made certain development in recent years. Two telecom giants, the Philippine Long-Distance Telephone company (PLDT) and communication operator Globe, have dominated the data service market for many years. [26]

Data center operators must cooperate with these two companies to ensure network connectivity. According to Cloudscene data, there are currently 28 hosting data centers and 31 Cloud as a Service providers in the Philippines, mainly distributed in Manila and Cebu.[27]

According to the 2020 Cloud Readiness Index released by the Asia Cloud Service Association, the Philippines ranks 11th out of 14 Asia-Pacific economies. An earlier estimate from technology company IBM showed that Cloud Services accounted for 13% of the Philippines' information technology service market in 2020.

2.3.4 Power level

Compared with other countries in the world, the Philippines still has a relatively serious power shortage. The electricity prices for residential and industrial use are also relatively expensive compared to other countries in the world.

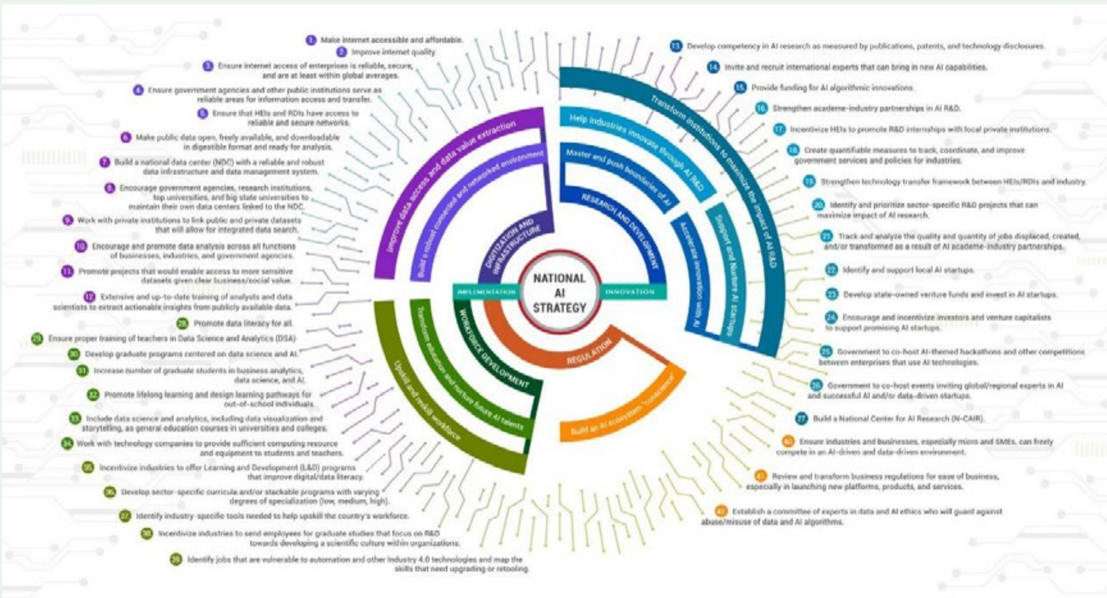
As of 2020, the total installed capacity of electricity in the Philippines is 2625 M egawatts. Among them, the installed capacity of coal-fired power is 10.944 million kilowatts, accounting for 41.69%; the installed capacity of clean energy such as geothermal and wind power is 7.617 million kilowatts, accounting for 29.02%. [28]

Currently, the electricity demand in the Philippines is steadily increasing year by year, and the annual electricity consumption is growing at a compound annual growth rate of 5.8%. According to the Philippines' "2012-2030 National Renewable Energy Plan", by 2030, the Philippines plans to increase its hydropower capacity by 160%, wind power capacity to 2.345 quadrillion watts, and photovoltaic capacity to 1.528 quadrillion watts.

2.3.5 Artificial Intelligence development plan

According to research by professional services firm PricewaterhouseCoopers, by 2030, Artificial Intelligence can contribute about $15.70 trillion in industry revenue to global economic development and more than $92 billion in industry revenue to the Philippines.

In May 2021, the Philippines officially released the "Artificial Intelligence Development Roadmap", aiming to build the Philippines into an excellent artificial intelligence development center in South East Asia, and to provide high-value data analysis and artificial intelligence services to the world. It is expected to develop the artificial intelligence industry into another national pillar industry that can create high value and high income for the Philippines after the labor service outsourcing (BPO) industry.



Philippines artificial intelligence development roadmap

According to the Philippines artificial intelligence development roadmap, the development of artificial intelligence will be enhanced in the following four aspects, including: strengthening infrastructure and investment, active research and development, improving the level of labor force, and improving supervision. In addition, the Philippines will establish a national artificial intelligence research center (N-CAIR) led by the private sector, which will encourage enterprises to develop new products and processes by adopting artificial intelligence technology to further improve their operational efficiency and innovation capabilities.[29]

On August 5, 2022, the University of the Philippines (or U.P.) announced via social media that the academic institution has established the Philippines' first doctoral program in artificial intelligence.

3. Overview of industry development

3.1 Popular business models

With the Philippines government's active promotion of financial inclusion and the development of artificial intelligence technology, the Philippines fintech industry is gradually expanding its market size and releasing more influence to Southeast Asia and the world.

As of December 2022, the number of registered fintech companies in the Philippines has reached 261[30], covering common fintech business areas. Among them, the business areas with the most participants are digital payment and lending services. Since 2021, the number of participants in the blockchain and digital asset industry, e-wallet and other business areas in the Philippines has also increased rapidly.

3.1.1 Digital payments

The Philippine government has played a key role in promoting the development of financial digital transformation in the Philippines. The outbreak of COVID-19 pandemic has once again accelerated the overall digital transformation process in the Philippines.

According to the vision and goals set out in the Digital Payments Transformation Roadmap 2020-2023 released by the Central Bank of the Philippines (BSP), by 2023, the Philippines aims to achieve:

- 50% of social retail transactions are conducted through digital payment methods.
- 70% of the adult population of the Philippines has access to Financial Services.
- The ability to apply consumer data innovatively to promote the development of payment service products.

- Philippines National Identity Card (commonly referred to as PhilSys) must be able to apply KYC (Know Your Customer) identification verification.

- Establish a new generation of payment and settlement systems.

In order to achieve the goal, the Philippine government has "clarified the direction of digital payment flow development".

Continuous efforts are being made in three aspects: "Establishing and improving digital financial infrastructure" and "Improving digital governance and standards". As of April 2023, the digital payment transformation achievements that the Philippines has achieved include:

- In November 2019, the Philippine government released a national QR code system called "QR Ph", which can be used for digital fund payments and transfers between "individuals".

- Subsequently, the Philippine government launched the EGovPay government service Payment Instrument, which allows individuals to make digital payments through EGovPay when using government services. As of 2021, 90% of government bills are paid through EGovPay.

- In June 2021, the new generation of peso real-time gross settlement system PhilPaSS plus was officially launched. The system complies with the ISO 20022 format specified by SWIFT and can settle a large number of financial transactions of various types and complexities.

- During the COVID-19 pandemic, the use of electronic funds transfer systems PESONet * and InstaPay * under the Philippines National Retail Payment System has increased significantly.

- After the COVID-19 pandemic, the Philippines government is seeking to accelerate the construction of the national identity card system. Being able to apply KYC (Know Your User) identification verification will also help organizations or businesses in the Philippines with money laundering risk exposure implement Anti Money Laundering compliance.

- According to the latest statistics as of 2021, the population of the Philippines with electronic money accounts (such as online banking accounts or various digital payment accounts) has grown significantly. From 2019 to 2021, the proportion of the population with electronic money accounts in the Philippines has rapidly increased from 8% to 36% of the total population.[31]

Philippines digital payment projects

BDO Pay is a digital mobile wallet launched by BDO Unibank, in March 2021. It is also the first mobile wallet in the Philippines that supports the banking system. In practical applications, users can open a BDO Pay account with only their ID number, without the need for initial deposit or minimum deposit requirements. BDO Pay has cooperated with more than 12,000 merchants to scan the code for consumption, and can also pay utility bills, thus attracting a large number of new users, especially consumers in remote areas of the Philippines. In December 2021, the Philippines Financial Bank integrated the InstaPay service into the BDO Pay application. In the future, the Philippines Financial Bank plans to expand the InstaPay service from the "person-to-person" transaction mode to the "person-to-merchant" and "personal statement" transaction mode to further expand the applicable scenarios and scope of digital payment.

Official website address: https://www.bdo.com.ph/personal/digital/bdo-pay

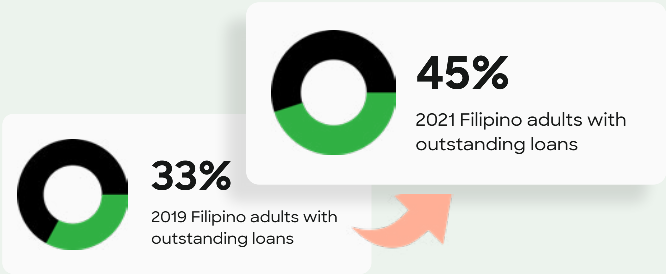
GCash is the first fintech company in the Philippines to reach the scale of "unicorn" (i.e. a company valued at more than $1 billion). Currently, parent company of GCash, Mynt, is valued at more than $2 billion and is committed to building a cashless ecosystem. As of April 2023, the number of registered users of Gcash has exceeded 55 million users and has connected more than 4.50 million merchant customers.

Official website address: https://www.gcash.com

PayMaya - As the only end-to-end digital payment company in the Philippines, PayMaya and Maya Bank have jointly created an integrated currency service platform named Maya, building a unique comprehensive Financial Services ecosystem, providing Filipino users with comprehensive Financial Services including credit, payment, "enjoy first, pay later" payment, virtual asset trading, digital banking, etc. As of June 2021, Voyager Innovations Group behind PayMaya has 38 million users, and the number of users has doubled in 18 months.

Official website address: https://www.maya.ph

3.1.2 Online Lending



Nearly half of Filipino adults and their families or friends have outstanding loans. After the COVID-19 pandemic broke out, as of the latest statistics in 2021, the proportion of Filipino adults with outstanding loans has soared from 33% in 2019 to 45% of the total population.

In the Philippines, loans are more common among the following groups:

- People aged between 30 and 59
- At least Vocational Education Experience
- Business operators or occupations are workers
- Women
- Residents of Mindanao

The Philippines Public Credit Registry currently has credit data for more than 30 million Filipinos. [32]

According to the notice issued by the Corporate Governance and Finance Department of the Philippines Securities and Exchange Commission (SEC) on January 27, 2022, the maximum interest rate for loans from loan companies, financing companies, and online lending platforms (OLP) in the Philippines shall not exceed 6% per month, or the maximum daily interest rate shall not exceed 0.2%, and the maximum actual interest rate (EIR) shall not exceed 15% per month, including service fees, handling fees, verification fees, etc.

If a loan is overdue, the overdue penalty is capped at 5% of the monthly outstanding amount. The total repayment is capped at 100% of the total amount borrowed - including all interest, fees, service fees and penalties, and does not take into account the time the loan is outstanding.

Philippines digital payment projects

JuanHand

JuanHand App has been downloaded for more than 5.79 million and has successfully processed more than 4 million loans. JuanHand provides small loans ranging from 2,000 pesos to 25,000 pesos (about 35.8 US dollars to 447.51 US dollars) to Philippine users. The loan term is 91 days to 180 days, with a maximum annual interest rate of 30%. There is no transaction fee, but a one-time service fee will be charged per transaction (minimum 0%, maximum 16%).

Official website address: https://www.juanhand.com

finbro.ph

Finbro.ph's customer base is mainly people aged 20 to 45, Finbro.ph provide Philippines users with loans ranging from 1,000 pesos to 50,000 pesos (about $17.9 to $895), with a maximum loan term of 12 months. Users can apply for loan amounts online through mobile phones or computers, and the approval is very fast.

Official website address: https://www.finbro.ph

TALA

Tala was founded in 2018. Its digital Financial Services currently covers the Philippines, India, Mexico, and Kenya regions. It has 6 million users who have paid more than $2.70 billion in loans and received millions of five-star reviews on major app stores. Tala provides loans ranging from $10 to $500 to Filipino users with interest rates as low as 4%. Even users without formal credit records can apply.

Official website address: https://tala.co

DIGIDO

DIGIDO offers small loans ranging from 10,500 pesos to 25,000 pesos (approx. USD 187.96~ USD 447.51) to Philippines users, with a maximum annual interest rate of 143% and a maximum loan term of 180 days.

Official website address: https://digido.ph

Akulaku

Akulaku is a shopping mobile application that provides installment consumer loans. It was officially launched in June 2016. So far, Akulaku has provided digital Financial Services to 6 million users in Indonesia, the Philippines, Vietnam, and MY, with an annual transaction volume of over 1.50 billion US dollars. Akulaku is also one of the earliest Chinese fintech companies to go global in South East Asia.

Official website address: https://www.akulaku.com

3.1.3 Virtual assets

Since 2021, the Philippines has become one of the countries with the fastest growing virtual asset industry in the world. The financial regulatory authorities in the Philippines are also one of the few regulatory authorities in the world that actively follow up on virtual asset investment.

In 2014, the trading of virtual currency in virtual assets (VC *) became popular in the Philippines, and the Banko Sentral ng Pilipinas (BSP) issued an advisory informing the public of the precautions, values, and risks involved in dealing with virtual currencies.

In February 2017, with the popularity of Bitcoin trading in the Philippines, the number of virtual asset holders in the Philippines rapidly increased. The BSP quickly drafted and issued Regulation No. 944, providing guiding documents and formal regulatory frameworks for trading platforms and virtual asset trading services. In September and October 2017, the license applications of digital platforms Betur, Inc., and Rebittance, Inc. supporting virtual asset trading were approved, respectively.

At that time, according to a survey by Bloomberg, only Japan and the Philippines had regulations for virtual asset trading, becoming pioneers in global judicial practice of virtual assets. Developed countries or regions such as the US, the United Kingdom, Germany, and Singapore, where virtual asset trading activities are also popular, only adopted a wait-and-see attitude at that time.[33]

By 2020, the global market size of virtual assets and the market value of virtual currencies have increased fivefold. Faced with changes in the industry, in January 2021, BSP issued Regulatory Regulation No. 1108, revising the regulatory regulations for virtual currency trading platforms issued in 2017. The revised directions include:

01 Include more types of virtual asset service providers (VASPs) in regulation.

02 Define "virtual assets" as digital units that can be digitally traded, transferred, and used for payment or investment purposes. However, this definition of virtual assets does not include digital units published by designated publishers that can only be used to pay for specified products or services, such as digital gift checks or game coins.

03 Virtual assets can be regarded as "property", "income", "funds", "funds or other assets", and have "corresponding value" that can be used as a medium of exchange or digital store of value.

04 The revised regulations also comply with the Anti Money Laundering and Counter Terrorism financing standards set by the Financial Action Task Force (FATF), the international anti money laundering regulator.

In addition, according to Section 901-N of the Manual of Regulations for Non-Banks (MORNBFI) in the Philippines, virtual asset service providers (VASPs) must also obtain authorization certificates as money service businesses (MSB) and comply with compliance requirements in the Non-Bank Regulatory Manual, including Anti Money Laundering, business continuity management, consumer protection, establishment of internal control systems, Liquidity Risk management, etc.

The minimum registered capital requirements for virtual asset service providers (commonly referred to as VASP) in the Philippines include:

50
million pesos

To provide custody services, the minimum registered capital must reach 50 million pesos (about 895,000 US dollars).

10
million pesos

For those who do not provide custody services, the minimum registered capital must reach 10 million pesos (about 179,000 US dollars).

As of April 2023, the Banko Sentral ng Pilipinas has approved a total of 19 licensed virtual asset service providers.[34] Future cooperation projects such as the "Crypto Regulatory Sandbox" may also be launched. The Philippines Securities and Exchange Commission also stated in early 2023 that it plans to develop a new regulatory framework to address the comprehensive issues of cryptocurrency publishing, blockchain technology, and digital asset trading platform regulation.

Philippines digital asset industry representative projects or companies:

PDAX

Philippine Digital Asset Exchange
(commonly referred to as PDAX)

Established in 2018, it is a compliance virtual currency trading platform approved by the Banko Sentral ng Pilipinas. In July 2021, the CEO of the trading platform, Nichel Gaba, stated that PDAX currently has over 450,000 users, an increase of 22.5 times compared to 2019. In February 2022, PDAX completed a Series B financing of $50 million, led by Tiger Global.

Philippines is a region that allows independent publishing of virtual currencies (An initial coin offering, commonly referred to as ICO). PDAX is the first trading platform in the Philippines to publish virtual currencies, launching a total of 7 types of virtual currencies.

The Bureau of Treasury (BTr) has partnered with PDAX and UnionBank to launch the Bonds.ph application, a government bond distribution application that uses distributed ledger technology. The cooperation between government administrative agencies and digital asset operation service providers has also pioneered in Asia.

UnionBank

UnionBank: In February 2019, UnionBank launched a two-way virtual currency ATM back in February 2019 that allows clients to buy and sell cryptocurrencies such as Bitcoin for fiat (Philippine peso).

The adoption of blockchain technology has been integral to UnionBank's future-proofing strategy, and the Bank has been actively exploring potential use cases, including cryptocurrencies, to adapt to evolving customer needs and financial trends.

3.1.4 Digital bank

In December 2020, the Banko Sentral ng Pilipinas (BSP) released a regulatory framework for digital banking, hoping to further accelerate the pace of digital transformation in the financial industry.

From 2020 to 2021, six financial institutions including OFBank (Overseas Filipino Bank), Tonik Bank, UNO Digital Bank, Union Bank, GoTyme, and Maya Bank have obtained operating licenses for digital banks in the Philippines.

In order to maintain financial stability, protect the competitive environment, and better evaluate the operating performance of existing digital banks, in September 2021, the BSP announced the temporary suspension of applications for digital bank licenses. So far, the application channel for this license has not been restarted. This also reflects to some extent the regulatory attitude of the Philippine regulatory authorities, which is "proactive and cautious".

As of the first half of 2022, the volume and value of electronic payments and financial services processed through the Philippines digital bank has reached 8.45 billion Philippine pesos (approx. USD 151 million) with 1.40 million transactions.[35]

Philippines Digital Bank Representative Enterprises:

OFBank (Overseas Filipino Bank) : OFBank is a Wholly-Owned Subsidiary of Land Bank of the Philippines, established in June 2020. OFBank's license is different from other pure digital banks. It holds a Rural Banking License but operates under digital banking rules. OFBank is the first digital-centric government bank in the Philippines without branches.

Tonik Bank: Obtained the digital banking license from the Banko Sentral ng Pilipinas in March 2021 and officially started operation. Tonik Bank's digital banking service has no minimum deposit balance requirement for users, no handling fees, and provides users with an annual deposit interest rate of 6%.

Tonik Bank is supported by Cloud Service technology solutions from Mastercard, Finastra, AWS, and Radar Payments, processing deposits of $140 billion and issuing unsecured retail loans of $100 billion. In 2021, it completed a Pre-B round financing of $17 million, with a total financing amount of $44 million. Investors include well-known venture capital firms such as Sequoia, Point72 Ventures, iGlobe, and Insignia.

UNO Digital Bank: Licensed by the Banko Sentral ng Pilipinas in June 2021, it officially operated towards the end of 2021. UNO Digital Bank also attracts users by providing high-interest deposit services, no handling fees, and convenient use.

3.2 Special service mode

Islamic Digital Bank: 6% of residents in the Philippines are Muslim. The country also has banks and financial institutions under the Islamic financial system; however, the BSP does not implement tracked management of Islamic finance. It adopts a single regulatory framework consistent with the traditional financial system. Therefore, Islamic Financial Institutions in the Philippines need to comply with the regulatory requirements of traditional Financial Institutions in addition to complying with the provisions of Sharia law.

Banks under the Islamic financial system in the Philippines are divided into seven types, including Islamic digital banks. According to the provisions of Republic Act No. 11439 of the Philippines, the business of Islamic digital banks will comply with Islamic law, and loans cannot charge interest. Commercial transactions with them need to follow the principles of Islamic law.

Non-performing asset management outsourcing/intelligent collection: On February 16, 2021, President Duterte of the Philippines signed the Financial Institution Strategic Transfer Act (commonly referred to as the FIST Act), which allows banks and Financial Institutions to outsource the management of their non-performing assets and Non-Performing Loans to third-party asset management companies established for special purposes, and hire third-party asset management companies to manage, operate, collect, and dispose of non-performing assets acquired from Financial Institutions, in order to lease, mortgage, transfer, sell, exchange, guarantee, secure, collect rent, and obtain profits from non-performing assets acquired from Financial Institutions.

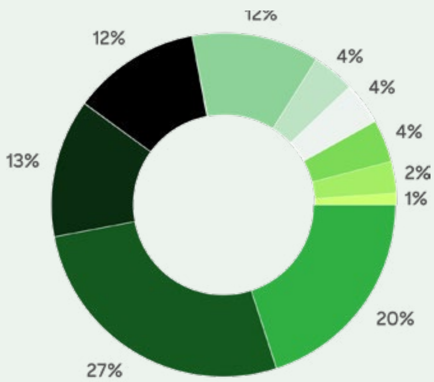
Financial technology, big data, and artificial intelligence technologies have also penetrated into the field of non-performing asset management. They not only help asset management companies optimize the non-performing asset processing process, but also help establish intelligent collection strategy models or investment models to help asset management companies make decisions. In addition, intelligent collection services (robot collection) are also becoming an emerging financial technology service industry.

3.3 Restricted or prohibited services

The Philippines currently does not have any types of fintech businesses that are completely banned or restricted.

4. Current status of industry participants

4.1 Enterprise characteristics



As of 2022, there are 216 registered fintech companies in the Philippines, and the distribution trend of business services provided is as follows: 51 digital payments (about 20%); 65 providing fully digital online lending services (about 27%); 29 e-wallets (about 13%); 28 blockchain (about 12%); 29 remittance services (about 12%); 11 KYC/regulatory technology (about 4%); 10 insurance technology (about 4%); 9 financial management (about 4%); 6 digital banks (about 2%); 3 crowd funding and real estate technology (about 1%)[36].

4.2 Industry financing

According to a report released by UOB, PwC Singapore and the Singapore Fintech Association, Fintech companies in the Philippines raised about $344 million in financing in 2022, accounting for 8% of the total financing in the ASEAN fintech industry in 2022[37].

The Philippines has become the third largest fintech investment destination in South East Asia, which demonstrates the confidence of global investors in the Philippines fintech market's growth prospects.

Foreign-Funded Enterprises registered in the Philippines have no legal barriers to local financing, and the likelihood of successful financing depends on factors such as company qualifications, project benefits, threat and risk assessments.

4.3 Foreign investment

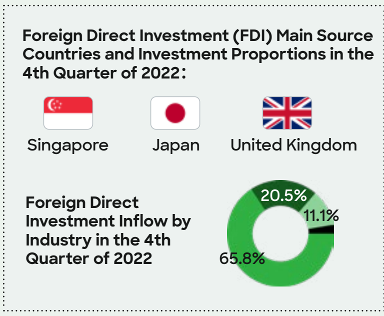
According to the data released by the Philippine Statistics Bureau on February 15, 2023, the total amount of approved foreign investment in the Philippines in the fourth quarter of 2022 reached 173.61 billion pesos (about 3.107 billion dollars), an increase of 30.1% from the 133.47 billion pesos (about 2.389 billion dollars) reported in the same period of 2021.

In the fourth quarter of 2022, the main sources of foreign investment in the Philippines were Singapore (committed to invest 111.47 billion pesos, accounting for about 64.2%), Japan (committed to invest 37.41 billion pesos (about 670 million US dollars), accounting for about 21.5%), and the United Kingdom (committed to invest 10.22 billion pesos, accounting for about 5.9%).

Foreign investment inflows are concentrated in the following industries: information and communication (receiving committed investment 114.29 billion pesos, accounting for about 65.8% of the total investment commitments), real estate (receiving committed investment 35.57 billion pesos, accounting for about 20.5%), and manufacturing (receiving investment commitments 19.30 billion pesos, accounting for about 11.1%).

30.1%

In the fourth quarter of 2022, the approved total foreign direct investment in the Philippines increased by 30.1% compared to the same period in 2021.



The advantages of attracting foreign investment in the Philippines are :

01 No exchange controls

Most countries only implement complete capital opening in the free trade zone, but the Philippines has implemented complete capital opening throughout the country. On the one hand, the Philippines has lifted foreign exchange controls, and its currency, the Philippine peso, can be freely exchanged. Outside the banking system, foreign exchange can also be freely bought and sold.

Foreign companies registered in the Philippines can open foreign exchange accounts with Philippine banks for import and export settlement, and all payment methods for imported goods do not need to be approved by the Banko Sentral ng Pilipinas.

Foreigners working in the Philippines can freely transfer all their legal after-tax income. Carrying cash in Philippine currency into and out of the country needs to be declared, and the amount is 10,000 pesos (about 179 US dollars). Carrying foreign exchange 10,000 US dollars or more needs to be declared, but there is no carrying limit.

02 Capital Markets has lower entry barriers

On the other hand, Philippines Capital Markets has fewer restrictions on the entry of foreign capital.

According to the Republic Act No. 10641 issued by the Philippines in 2014, in terms of financial investment, the Philippines has fully lifted restrictions on foreign investment in the banking industry, that is, there is no limit on the upper limit of foreign shareholding, allowing the establishment of wholly foreign-owned banks, but foreign banks cannot set up more than six branches throughout the Philippines. In addition, according to the Republic Act No. 10881 of 2016, the Philippines also allows the establishment of wholly foreign-owned adjustment companies (Adjustment Company), loan companies (Lending Company), financing companies (Financing Company), and investment institutions (Investment House).

To protect the interests of small and medium-sized enterprises in the Philippines, Philippine law requires that Filipino enterprises with more than 40% foreign ownership must have a registered capital of no less than 200,000 US dollars. However, according to the provisions of the "Negative List of Foreign Investment" (12th edition) released by the Philippines in June 2022, the registered capital requirement for small and micro enterprises involving the use of advanced technology, or institutions recognized by the Ministry of Trade and

Industry, the Ministry of Information and Communication Technology, and the Ministry of Science and Technology of the Philippines as start-ups or start-up accelerators, or employing no less than 15 local Filipinos, can be reduced to no less than 100,000 US dollars.

The Philippines also allows foreign companies to directly participate in securities investment transactions on the Philippine Stock Exchange (PSE), but sets a limit of 40% on foreign ownership of stocks in Philippines Listed Companies. The Philippine Stock Exchange publishes a monthly report on foreign ownership of stocks. For details, please refer to the website: www.psei.com.ph

03 Abundant labor resources

Philippines is a populous country in South East Asia, with a large number of educated and English-speaking labor force, and the local wage level is low, so it has attracted a large number of overseas companies, especially European and American companies, to transfer their business to the Philippines.

According to the latest statistics from the United Nations, the literacy rate of residents in the Philippines has reached 97.75%, ranking first in South East Asia and among the top in the Asia-Pacific region.

5. Industry Regulatory Analysis

5.1 International evaluation

According to the regulatory index statistics released by the Global System for Mobile Communications Association (GSMA) in 2021, the Philippines received full marks in the regulatory scores of "Know Your User (KYC) " and "Authorization and Licensing"; high marks in regulatory measures such as "Agency Network" and "Transaction Restrictions"; low marks in "Infrastructure and Investment Environment"; and the lowest marks in "Consumer Rights Protection". The overall score of the Philippines regulatory environments is 82 points (out of 100 points)[38].

https://www.GSMA 2021 Philippines Regulatory Index Statistics.com/

82
points out of
100 points

2021 Philippines Regulatory Index Overall Score

1.	Authorized license	100 points
2.	Consumer protection	40 points
3.	KYC	100 points
4.	Infrastructure and investment climate	63 points
5.	Transaction restrictions	88 points
6.	Agency network	94 points

*GSMA 2021 Philippines Regulatory Index Statistics

According to the rating from the business think tank Economist Intelligence, since 2019, the opening rate of financial accounts (including electronic money accounts and non-bank Financial Institution accounts) in the Philippines has increased rapidly. The regulation of financial marekized services related to non-Financial Institutions is relatively in place, ensuring stability and market integrity. Data and privacy laws have been set up to deal with cyber attacks. Therefore, it received high scores in areas such as "government and policy support", "stability and integrity", and "products and distribution". However, the infrastructure construction of the Philippines' national identity authentication system is not yet perfect, and it received low scores in areas such as "consumer protection" and "infrastructure building"[39].

In the corruption index ranking of 180 countries in the world in 2022, the Philippines ranked 116th in the corruption index, with a score of only 33 points (out of 100)[40].

5.2 Regulatory landscape

5.2.1 Financial regulatory authorities

01 Banko Sentral ng Pilipinas

In the early 1990s, the Philippines carried out a financial system reform and established the current Banko Sentral ng Pilipinas (BSP), replacing the old central bank (commonly referred to as CBP).

According to the 1987 Constitution of the Philippines and Republic Act No. 7653, which came into effect on July 3, 1993, the newly established Banko Sentral ng Pilipinas will focus on providing policy guidance in the areas of currency, banking, and credit, supervise the operation of bank funds, and exercise administrative powers over financial companies and other non-bank financial institutions in accordance with the law.

Institutions under the supervision of the BSP include: all banks in the Philippines, some Non-Bank Financial Institutions (NBFIs), Banks and Non-Bank Financial Institutions with Quasi-Banking Functions. (NBQBS), pawnshops, money service businesses (MSB), Non-Stock Savings and Loan Associations (NSSLA), Offshore Banking Units (OBU), trust companies, and their branches and affiliated enterprises.

However, because the Philippines has long been burdened with huge government foreign debt, its financial regulatory system must follow the setting or changes of loan conditions, and there has always been strong external constraints.

02 Philippines Securities and Exchange Commission

Philippines Securities and Exchange Commission (Securities and Exchange Commission, SEC): responsible for regulating the Philippines securities institutions, investment and financing companies, and is also responsible for the registration of Philippine entities.

03 Philippines Insurance Commission

Philippines Insurance Commission (Insurance Commission, commonly referred to as IC): responsible for regulating the Philippines insurance industry enterprises, service agencies, agents, etc.

5.2.2 Financial Joint Regulatory Cooperation Forum

In 2004, in accordance with the requirements of the International Monetary Fund (IMF), the Banko Sentral ng Pilipinas, the Securities and Exchange Commission of the Philippines, the Philippine Insurance Commission, and the Philippine Deposit Insurance Corporation (PDIC) jointly established the "Financial Sector Forum" (FSF) to promote the coordination of the regulations and policy construction of the four financial sectors mentioned above, and to coordinate the exchange and sharing of information between departments, in order to better regulate large financial groups and prevent some financial groups with different financial entities from taking advantage of loopholes or inconsistencies in segmented supervision to implement regulatory arbitrage.

In October 2021, the Financial Sector Forum (FSF) released a reference guide for financial technology stakeholders, including:

“FSF - Customer Identification and Verification Guidelines”
(Customer Identification and Verification Guidelines for Fintech Stakeholders)

aims to provide financial regulators and fintech participants with the basic principles and requirements for electronic customer due diligence measures related to fintech. The guidelines state that fintech participants should develop and strengthen their own customer due diligence systems and processes so that they can securely establish and record the true identities of their customers.

“The FSF”
(Consumer Protection Guidelines for Fintech Stakeholders)

aims to provide effective consumer protection measures to mitigate consumer protection-related risks associated with the increasingly digital environment of financial products and services, thereby strengthening consumer trust and confidence in the fintech industry.

5.2.3 Financial Technology Self-Regulatory Association

There are two well-known fintech associations in the Philippines, namely the Fintech Alliance and Fintech PH. **These two serve as windows enable regulatory agencies to promote and interact with the public** They provide professional industry-related information to regulatory authorities and advocate taking "future-oriented" friendly regulatory measures to ensure the prosperity and development of the industry.

- **Fintech Alliance**: The association is composed of mainstream digital finance companies with clear industry aspirations operating locally in the Philippines. Currently, there are about 25 member units of the association, including GCash invested by Ant Financial, Paymaya invested by Tencent, Home Credit, Grab and other well-known enterprises.

- **Fintech PH** is a non-profit organization and a member organization of the ASEAN Fintech Council. The association aims to vigorously promote the Philippines' fintech innovation achievements, cultivate more local internet finance talents, connect the Philippines' fintech leaders with the world, better achieve industry goals, and promote more financial start-ups to land and develop in the Philippines.

5.2.4 Digital economy regulatory authorities

Philippines Department of Information and Communications Technology (DICT): In 2016, the Philippines established the Department of Information and Communications Technology (DICT), which consists of three affiliated agencies: the National Telecommunications Commission, the National Privacy Commission(NPC), and the Cybercrime Investigation Coordination Center(CICC). The DICT of the Philippines serves as the policy, planning, coordination, implementation, and management body in the communication field, with the main responsibility of planning, promoting, and facilitating the development of national information and communication technology.

The National Telecommunications Commission (NTC) is an independent regulatory body for the telecommunications industry in the Philippines. It is a unit under the Ministry of Information and Communication

Technology and has independent regulatory powers for specific telecommunications affairs. It is mainly responsible for regulating the installation, operation and maintenance of private and public broadcasting stations, and regulating and supervising the provision of public telecommunications services.

Regulatory measures to promote the development of the digital economy in the Philippines:

July 2018

The Philippine government released **the "2022 National ICT Ecological Environment Framework"** (The National ICT Ecosystem Framework 2022 sets out a roadmap for data management and development in the Philippines.

August 2018

The President of the Philippines signed **the National Identification System Act** , which aims to provide all Filipinos and residents with valid identification.

February 2019

The Philippines released **the "Digital Transformation Strategy 2022"**, planning to which aims to complete the full coverage of the e-government system in 2022.

June 2019

The Philippines released **the "Digital Government Plan 2022"** (the E-Government Masterplan 2022), dedicated to building an interconnected government ICT network and system.

July 2019

The Philippines passed **the Philippines Innovation Act** to help MSMEs stay innovative and competitive in the digital age.network and system.

May 2020

The Philippine House of Representatives submitted **the Digital Economy Tax** Bill, which proposes to tax digital services to fill the digital service tax loophole.

October 2020

the Philippine government issued and implemented **the Philippine Identification System Act (The Philippine Identification System Act)** . As of July 2021, the Philippine government has collected information on more than 37 million Philippine national identity cards (commonly referred to as PhilSys ID). According to recent statistics, as of the end of 2021, the Philippine government has collected nearly 50 million to 70 million Philippine national identity cards, laying the foundation for the establishment of a digital national identity system.

5.3 Regulatory measures

5.3.1 Classified supervision

01 **The Banko Sentral ng Pilipinas** coordinates the development of digital payments, virtual assets (encrypted digital currencies), online lending, crowd funding and other fields, and is responsible for issuing licenses for payment and currency services.

*List of Banks and Non-Bank Financial Institutions under the supervision of the Banko Sentral ng Pilipinas: https://www.bsp.gov.ph/SitePages/FinancialStability/DirBanksFIList.aspx

02 **Philippines Securities and Exchange Commission (SEC)**: responsible for the filing application and licensing of online lending by non-bank institutions in the field of financial technology, and managing financial technology enterprises registered as lending companies, financing companies, and providing securities services.

On July 30, 2021, the SEC established the Philifintech Innovation Office (PIO) under the Corporate Governance and Finance Department (CGFD), which will focus on regulating the application of financial technology in the Philippines.

In early 2023, the Philippines Securities and Exchange Commission also stated plans to develop a new regulatory framework to address the comprehensive issues of cryptocurrency publishing, blockchain technology, and digital asset trading platform regulation. This means that after the regulatory framework is released, the Philippines Securities and Exchange Commission will also participate in the regulation of virtual assets. To help draft the regulatory framework, the US Securities and Exchange Commission is collaborating with the University of the Philippines Law Center on the drafting work[41].

03 **Philippines Insurance Commission**: Filing application for financial technology companies that provide online insurance services or insurance technology.

04 **Special Economic Zone Management**: There are more than 200 different types of Special Economic Zones in the Philippines. For some blockchain and virtual asset services, the Philippines only allows relevant companies to operate offshore compliance in designated Special Economic Zones after obtaining a license. In 2019, the Cagayan Economic Zone Authority (CEZA) announced plans to create the "Crypto Valley of Asia" to attract companies from Japan, South Korea, Australia and other countries to invest in the zone, and to establish a blockchain and financial technology university in the zone.

5.3.2 Business licensing system

01 **Digital Payment Financial Technology Services** : To operate digital payment financial technology services in the Philippines, you need to apply for an Electronic Money Publisher License (EMI License) from the Banko Sentral ng Pilipinas

02 **Online lending financial technology services** : In the Philippines, the entities that can provide online lending financial technology services include banks and non-bank institutions. The online lending business of banks is regulated by the Banko Sentral ng Pilipinas, and Financial Institutions that have obtained bank operating licenses do not need to apply for additional online lending licenses.

Non-bank institutions conducting online lending business in the Philippines need to apply for an Online Lending Platform Licensee (OLP license) from the Securities and Exchange Commission. According to the Philippines' Loan Company Law and Financing Company Law, non-bank online lending enterprises can register as a Lending Company or Financing Company after obtaining a business license.

Financing company:

can operate direct loans, discounts or factoring services, is a company that provides financial convenience for private credit, but the nature of the enterprise is not a bank, nor is it a financial institution such as investment companies, insurance companies, cooperatives, etc.

Lending companies:

can use owned funds (i.e. Paid-Up Capital) to provide loan services to the public. However, the nature of the enterprise is not a bank, nor is it a financial institution such as an investment company, insurance company, cooperative, etc., and the Philippine regulatory authorities have certain restrictions on the sources or composition of funds used by lending companies for lending.

Whether it is a financing company or a lending company, starting from 2022, it is required to obtain an online lending platform license before opening an online lending platform and promoting corresponding businesses in the Philippines.

It is worth noting that to apply for the OLP license, the applying enterprise must have at least 5 directors and at least 2 independent directors. If the number of board members exceeds 10, the proportion of independent directors must reach at least 20%. The applying enterprise must also make a detailed business operation plan and present it to the regulatory department for roadshow display. It also needs to simulate the actual process and experience of user loans and the process of processing user data to the regulatory department.

In addition, online lending services in the Philippines can only be conducted through owned funds, Paid-Up Capital, or bonds published under the permission of BSP to obtain funds. This regulation actually formally denies the P2P lending service form.

03 **Virtual Asset Operation Services:** To operate or provide statutory virtual asset services in the Philippines, it is necessary to apply for a Virtual Asset Service License (VASP License) from the BSP. In addition, according to Section 901-N of the Philippines Non-Bank Regulatory Manual (commonly referred to as "MORNBFI"), VASPs in the Philippines must also obtain

authorization for Money Service Businesses, and comply with the requirements in the Non-Bank Regulatory Manual, including Anti Money Laundering, business continuity management, consumer protection, establishment of internal control systems, Liquidity Risk management, etc.

In the Cagayan Special Economic Zone in the Philippines, in order to establish the Crypto Valley Asia as a blockchain center in South East Asia, the local regulatory authorities have issued the Digital Asset Token Offering Rule (DATO Rule). According to this regulation, virtual asset service providers operating in the Cagayan Special Economic Zone in the Philippines need to apply for both financial technology solutions and offshore virtual currency licenses (FTSOVC License).

5.3.3 Implementation of open financial

Open Finance is an important measure taken by the Banko Sentral ng Pilipinas (BSP) to support the development of the fintech industry. In January 2022, the BSP of the Philippines announced the establishment of the Philippines Open Finance Supervisory Committee by issuing Circular No. CL-2022-002, which will be responsible for participating in the supervision of open finance pilot enterprises in the future

In July 2021, the BSP released the Open Finance Framework (Republic of the Philippines Act No. 1122) . This framework is seen as a key measure for the Philippines' digital transformation and promotion of financial inclusion. With the implementation of the open financial system, banks, financial institutions, or various third-party service providers in the Philippines can use data that has been approved and shared by customers and consumers to customize and develop innovative financial solutions, such as real-time payments and precision marketing.

The Banko Sentral ng Pilipinas has launched the "Philippines Open Finance Pilot" cooperation, aiming to explore the wider application of financial API technology. The pilot collaboration accepts voluntary participation from Philippine Financial Institutions. The activities of the "Philippines Open Finance Pilot" will be governed by the Philippines Open Finance Framework and supervised by the Transition Group of the Philippines Open Finance Supervisory Committee (OFOC TG).

5.3.4 Strengthen tax supervision

In November 2021, the Philippines Securities and Exchange Commission and the Philippines Internal Revenue Service launched a joint action to strengthen tax supervision of financial technology companies in the Philippines, while also encouraging industry market growth and continuous innovation.

5.3.5 Set up regulatory sandbox

The Banko Sentral ng Pilipinas (BSP) approved the release of the "Regulatory Sandbox Framework" in Notice No. 1153 of 2022. This framework improves and implements the "test and learn" method that the BSP has been implementing for many years into regulations.

The Philippines has officially launched the "regulatory sandbox" system, creating a better business environment for technological innovation practices in the Philippines' financial industry and giving positive impetus. The BSP will also establish a sandbox supervision team (referred to as SOT) as a liaison point for supervising the implementation of sandbox at all stages. The responsibilities of the sandbox supervision team include managing the implementation of sandbox projects, assessing the risk situation of applications, providing technical advice or assistance to sandbox project participants, and implementing the regulatory sandbox guidelines.

Understanding the Banko Sentral ng Pilipinas regulatory sandbox:

- To participate in the regulatory sandbox, one must go through four stages of participation: application, evaluation, testing, and withdrawal.
- Click to view **the draft Regulatory Sandbox Framework (Regulatory Sandbox Framework)** website

Anyone with the following qualifications can apply to participate in the regulatory sandbox:

- Financial Institutions Regulated by the Banko Sentral ng Pilipinas
- Third Party Service Providers of the Above Financial Institutions
- Developers of innovative financial products intended to use emerging technologies to provide services that may fall within the purview of the Banko Sentral ng Pilipinas

Sandbox project applicants need to meet the standards:

- The applicant's financial solution must use emerging technologies or make innovative use of Prior Art.
- The applicant's financial solution has market differentiation or can fill a market gap or gap in products or services.
- Applicants must demonstrate that they have the technical capabilities to match the sandbox project they are applying for, and provide an initial test plan (including test case scenarios and expected experimental results).
- The applicant must have the ability to identify significant risks and provide identification indicators (including indicators for identifying money laundering and terrorist financing risks, cyber security risk indicators, data integrity and privacy indicators, consumer protection and other safeguards and risk mitigation strategies) and key performance and performance indicators that can be used to monitor project progress.
- The applicant needs to provide an exit and transition strategy.

Notes

Applicants for the Philippines' fintech regulatory sandbox may be advised to accept other methods, such as evaluating according to existing licensing systems and then conducting innovation testing.

If the applicant for the regulatory sandbox is a Financial Institution (commonly referred to as BSFI) that is already regulated by the Banko Sentral ng Pilipinas, it may be recommended to join the "lite regulatory sandbox" (Regulatory Sandbox Lite). The "lite regulatory sandbox" shortens the testing time of the end-to-end process of the sandbox project, mainly to encourage local Financial Institutions to digitally transform or participate in the use of store services or financial products that are already within the regulatory scope.

5.4 Compliance focus

5.4.1 Anti Money Laundering and Counter Terrorism financing

Philippines is a country market with outstanding attractiveness to foreign investment in the Asia-Pacific region and an important global labor export country. However, the status and influence of the Philippines have also attracted the attention of many international criminals who have been trying to use the country's financial system to launder money.

In 2016, hackers robbed the Central Bank of Bangladesh, during which the $81 million robbery was divided into four installments and remitted to four accounts of the Philippines Rizal Commercial Bank in a branch in Manila, and then exchanged for Philippine pesos. Eventually, the illegal gains flowed into the casino and were completely laundered.

Since then, the Financial Action Task Force (FATF), the international anti-money laundering regulatory body, has once again included the Philippines in the "FATF gray list" (the Philippines was included in the FATF blacklist in 2000 and was removed from the blacklist in February 2005). The inclusion of the FATF black and gray list indicates a significant increase in the risk of money laundering and terrorism financing in this country, and may face additional economic sanctions.

To date, the Philippines is still particularly vulnerable to money laundering and terrorist financing. Firstly, it is due to the increasing organized activities such as illegal drug trafficking and arms trafficking in the Philippines, it has which has developed into an industry worth billions of dollars. Moreover, due to the implementation of very strict bank secrecy laws in the Philippines, most drug transactions through the Philippines are conducted using credit cards, which accelerates the circulation of illegal gains and increases the difficulty of tracking. Secondly, local government officials also have certain corruption and concealment behaviors. Lastly, as a global labor-exporting country, there are a large number of Filipinos living around the world who need to remit money back to the Philippines. This also increases the management responsibility of local anti-money laundering regulatory departments.

Considering the above national conditions, **Anti Money Laundering must become an important compliance concern for financial services and fintech service companies operating in the Philippines.**

01 Major regulatory acts

The Anti Money Laundering Law (Amendment) of the Philippines, 2021 (Republic of the Philippines Law No. 9194, amending Republic of the Philippines Law No. 9160, promulgated in 2001).

Philippines Terrorism Financing Prevention and Suppression Act of 2012 (Republic of the Philippines Act 10168).

02 Regulatory authorities

The Philippines has the Anti Money Laundering Committee (AMLC), which is a body specifically responsible for enforcing the Philippines Anti Money Laundering Law.

The Anti Money Laundering Committee is chaired by the Governor of the Banko Sentral ng Pilipinas, with the Commissioner of the Philippines Insurance Commission and the Chairperson of the Philippines Securities and Exchange Commission as members. The Anti Money Laundering Committee shall act in concert in performing its functions under the Anti Money Laundering Act.

03 Regulatory approach

The Philippines Anti Money Laundering Commission is both a regulatory and law enforcement agency, as well as a financial intelligence unit, responsible for protecting the Philippines' financial system from criminal activities and cooperating with international financial regulatory agencies in law enforcement.

According to the newly revised Philippines Anti Money Laundering Law, the Philippines Anti Money Laundering Committee has been granted a "freezing power" to issue freezing orders to freeze illegal assets that may involve money laundering, terrorism financing, and trafficking in weapons of mass destruction.

According to the Anti Money Laundering Law of the Philippines, the Banko Sentral ng Pilipinas, the Securities and Exchange Commission of the Philippines , and the Insurance Commission of the Philippines, will issue the "Implementation Rules and Regulations of the Anti Money Laundering Law" of each department. The International Criminal Court of the Philippines will also issue relevant guidelines to effectively implement the overall supervision of Anti Money Laundering and anti-terrorism financing crimes in the Philippines.

04 Compliance obligations

Fintech companies in the Philippines generally need to fulfill their Anti Money Laundering compliance obligations. According to the requirements of the Philippines Anti Money Laundering Law, the Anti Money Laundering compliance obligations that Fintech companies must fulfill include:

Customer identification requirements

- **Minimum Customer Identification:**

Philippines Anti Money Laundering Obligation Compliance Agency needs to require customers to provide original identification documents with customer photos issued by official agencies. The identification information that needs to be identified should include at least:

1. Name
2. Current address
3. Permanent address
4. Date and place of birth
5. Nationality
6. Nature of work/employer name or self-employment/nature of enterprise
7. Contact number
8. Tax ID, social security system number, or government service and insurance system number
9. Sample signature
10. Source/purpose of funds
11. If it is an insurance contract, the name of the beneficiary also needs to be identified

- **Minimum Company and Legal Entity Identification:**

Before establishing a business relationship, the Philippines Anti Money Laundering Obligation Fulfillment Agency should confirm that the customer of a legal entity is a normally operating company or legal entity by identifying relevant information; there is no situation of being cancelled, liquidated, or being cancelled or liquidated; its business or operation is not in the process of being closed, suspended, eliminated, or terminated; the identification of customers of shelf companies used for financial transactions should be more cautious. For companies and various legal entities, the identification information that needs to be identified should include at least:

1. Company/Partnership Articles of Association
2. Official address or main business address
3. List of directors/partners
4. List of major shareowners (at least 2% share capital)
5. Contact number
6. Beneficiary, if any; and authorization and identity verification of the person claiming to represent the client; authorization and identity verification of the person claiming to act on behalf of the client

- **When Identifying a Trustee, Nominee, or Agent:**

The insurance industry often encounters situations where trustees, nominees, and agents are involved in signing contracts or redeeming premiums. The Anti Money Laundering obligation fulfillment agency should verify and record the true and complete identities of these individuals.

If the Anti Money Laundering Obligation Compliance Agency suspects that the identity of the above-mentioned person is false, it needs to report it to the regulatory authorities immediately; if the Anti Money Laundering Obligation Compliance Agency suspects that the identity of the above-mentioned person is a special identity set up to evade existing Anti Money Laundering laws, the Anti Money Laundering Obligation Compliance Agency needs to conduct necessary investigations immediately to verify the actual identity.

Customer identification requirements

Institutions that are required to fulfill Anti Money Laundering obligations in the Philippines must conduct customer threat and risk assessments based on the sanctions lists issued by the Philippines Anti Money Laundering Committee and the Banko Sentral ng Pilipinas, the latest international sanctions lists, and watch lists issued by United Nations agencies to ensure that their customers and related transactions are not sanctioned, do not participate in terrorism, or have links with terrorist organizations.

Customer threat and risk assessment, sanctions screening needs to be ongoing.

Customer identification requirements

According to the Philippines Anti Money Laundering Law, the Anti Money Laundering Compliance Agency shall maintain continuous monitoring of transactions, and the monitoring process shall enable the Anti Money Laundering Compliance Agency to determine that the client's transaction activities are consistent with their known risk profile, and enable them to issue

suspicious activity reports as soon as possible when potential money laundering activities are discovered.

Specific contents that should be paid attention to during the continuous monitoring process usually include:

1. Suspicious transaction patterns (such as high-frequency transactions or multiple transactions in a short period of time)
2. Abnormal transactions that do not conform to the customer's daily business behavior
3. Transactions deliberately set up to circumvent Anti Money Laundering Regulations
4. Transactions involving high-risk countries
5. Transactions involving Politically Exposed Persons (PEPs) or persons on sanctions/watch lists, etc

Large and Suspicious Transaction Reporting

According to the Philippines Anti Money Laundering Law, transactions conducted in cash or other equivalent currency instruments with a total amount exceeding 500,000 pesos (approximately $8,950.31) must be reported to the Philippines Anti Money Laundering Committee. Real estate developers and brokers must report transactions exceeding 7.50 million pesos (approximately $134,300) to the Philippines Anti Money Laundering Committee.

Suspicious transaction report: Suspicious transactions refer to transactions that exist in any of the following situations, regardless of the amount, and are generally required to be reported to the Philippines Anti Money Laundering Committee within 5 working days.

1. Transactions without substantial commercial content, purpose, or reason
2. Transactions where the customer has not been correctly identified
3. Transactions that are not commensurate with the actual business and financial capabilities of the customer
4. It is believed that the client's transactions may be set up to evade Anti Money Laundering regulations
5. Abnormal transactions by customers that deviate from past trading habits
6. Any funds related to illegal activities, money laundering activities, or criminal acts, including illegal activities or criminal acts that are about to be, are being, or have been committed

Record Keeping

All transaction records of the Philippines Anti Money Laundering Compliance Agency must be kept for 5 years from the date of the transaction.

Financial institutions open new accounts and keep new transaction identification information for 5 years, calculated from the later date; customer identities, account documents, and business transaction records for closed accounts should also be kept for at least 5 years, calculated from the closing date.

If a money laundering case is brought to court, the relevant records should be retained as originals.

05 Punishment

Penalties for money laundering: Imprisonment of up to 7 to 14 years and a fine of not less than 3 million pesos (approx. 55,000 USD); the company or legal entity will also have its business license revoked. If the offender is a foreigner, they will be deported.

Administrative penalties for violations of compliance obligations: fines of 100,000 to 500,000 pesos (approximately $1,790 to $8,950.3).

5.4.2 Consumer protection, data privacy

In November 2021, the National Privacy Commission (NPC) of the Philippines launched the Philippine Privacy Trust Mark (PPTM) to increase public confidence in Philippine businesses and the public sector. This mark represents the highest level of assurance of data privacy compliance and secure cross-border transfer in the Philippines.

Currently, the key laws that need attention in terms of data protection for Financial Services and digital economic activities in the Philippines include:

- Data Privacy Act of 2012 (Republic of the Philippines Act 10173) and related implementing regulations

- Financial Consumer Protection Regulations of 2022 (Republic of the Philippines Act No. 11765)

Fintech companies in the Philippines must pay attention to and comply with the above-mentioned laws when processing data. Currently, there is a high demand from the Philippine regulatory authorities for revisions to the privacy law. The intended revisions include: redefining what "sensitive data" means, hoping to include biometric information, genetic data, political affiliation and other information as sensitive data; clarifying the extraterritorial applicability of the Philippines Data Privacy Act; using contract performance as an additional standard for processing sensitive data; re-examining the application of the consent principle; granting additional regulatory powers to the Philippine Parliament; modifying criminal penalties, etc.

5.5 Association requirement

5.5.1 Debt collection

The routine process of debt collection in the Philippines includes: Step 1, sending a collection letter; Step 2, telephone collection; Step 3, if the debtor does not answer the phone, continue to follow up with telephone collection; Step 4, if the aforementioned steps have not received a response from the debtor, on-site visits or legal proceedings will be taken.

According to the provisions of Philippine law, the statute of limitations for cases related to debt recovery in the Philippines is 6 years. Creditors must file lawsuits for unpaid debts within 6 years.

5.5.2 Labor employment

The Philippines has abundant labor resources and low costs, making it one of the world's major labor export countries. Therefore, the demand for foreign labor in the Philippines is extremely small. Foreign personnel who want to work in the Philippines need to obtain an Alien Employment Permit (AEP) issued by the Philippine Department of Labor and Employment, a work visa issued by the Bureau of Immigration, and apply for an ACR I-Card ID. Some occupations (such as management of foreign companies) can apply for an exception certificate.

In addition, according to the Foreign Labor Law revised by the Philippine government in July 2019, foreigners who come to the Philippines for employment not only need to obtain an employment permit, but also need to register with the tax department and pay taxes on time.

The Labor Law of the Philippines stipulates the wage standards and employment relationships for local workers. The average daily wage of ordinary workers in the Philippines is 500 pesos (about

8.95 US dollars), and the wage level in the capital Manila is the highest, with a daily minimum wage of about 600 pesos (about 10.74 US dollars).

The working hours of employees shall not exceed 8 hours per day or 48 hours per week, during which the employee's normal wages shall be paid. Employees shall enjoy 24 consecutive hours of rest after working continuously for 6 days. This requirement does not apply to government employees, managers, field workers, private service providers, and those who receive wages based on work results.
Employees who work overtime need to pay overtime subsidies in proportion. Overtime subsidies exceeding 8 hours on holidays or rest days can reach 3.38 times the daily wage. Employers need to pay social insurance for enterprise employees.

5.5.3 Intellectual Property

The intellectual property system in the Philippines developed relatively early. Before the country became independent, there were already legal measures for intellectual property protection, which were consistent with the laws and regulations of the US. In 1997, the Philippines officially promulgated the Intellectual Property Code (Republic of the Philippines Act No. 8293) and established an intellectual property office.

The Philippines is party to the following international treaties on intellectual property, including the Paris Convention for the Protection of Literary and Artistic Works (1948 Brussels Version), the Paris Convention for the Protection of Industrial Property (Lisbon Amendment), and the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations.

In the Philippines, violations of intellectual property regulations will result in a fine of 6,000 pesos to 100,000 pesos (about 107.4 US dollars to 1,790 US dollars), and losses exceeding 200,000 pesos (about 3,580.12 US dollars) will be subject to criminal prosecution.

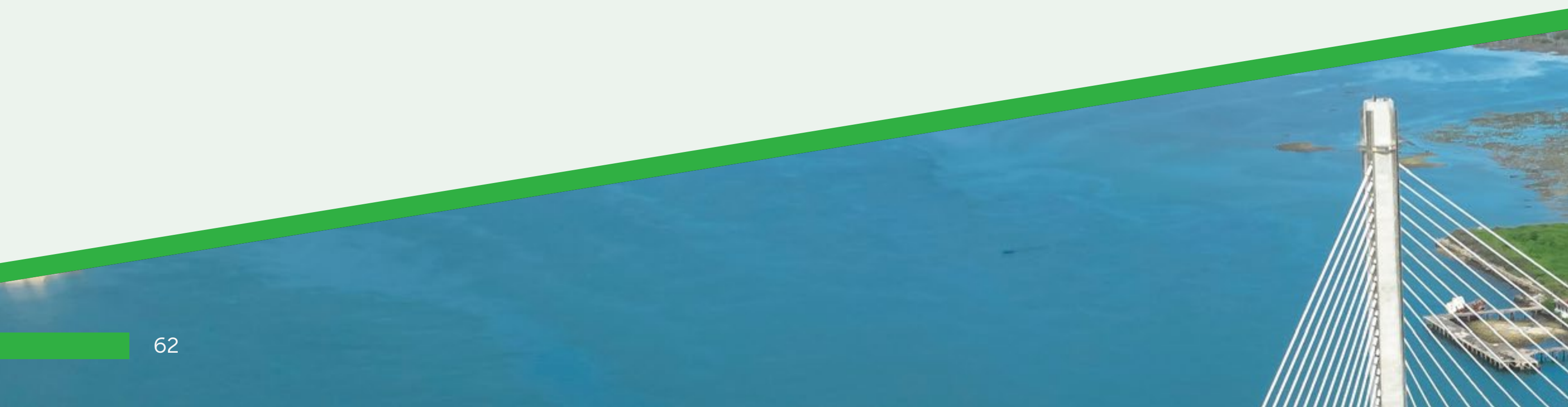
5.6 Notes

Note 1: Prevent exchange rate risks. Due to the constraints of economic scale and structure, the Philippines exchange rate market fluctuates greatly and has certain risks. Since 2012, the Philippine peso has steadily appreciated relative to the US dollar, and gradually depreciated after 2016. The exchange rate has remained at around 1 US dollar to 50 pesos in the past two years, relatively stable, but it cannot be ruled out that there will be significant fluctuations in the exchange rate in the future.

Note 2 : Connect with regulatory and judicial departments. The laws and regulations of the Philippines are very sound, but the implementation process is very arbitrary, and the situation of lax law enforcement and non-compliance with the law is very common. The court procedures in the Philippines are complicated and time-consuming.

Note 3: Prevent commercial fraud. Fraudulent activities are frequent in the Philippines, and there have been large-scale cases of Financial Institutions being cheated of huge assets in history. Relevant investigation reports show that in 2022, 8.7% of digital transactions in the Philippines were suspected of fraud[42]. Among all the countries and regions surveyed in the report, the fraud rate ranks in the top three. With the increase of online activities, companies operating in financial technology in the Philippines must continue to pay close attention to preventing fraud risks, especially to common online fraud methods targeting enterprises such as phishing emails and Ransomware.

Note 4: Strengthen Anti Money Laundering Compliance. Currently, the Philippines is still on the "grey list" of the Financial Action Task Force (FATF), an international anti money laundering regulatory agency, and is a country with a high risk of money laundering crimes worldwide. This also means that when Philippine companies cooperate with overseas partners, overseas partners usually require



Philippine companies to provide more or higher compliance guarantees.

According to the requirements of the Financial Action Task Force, an international anti-money laundering regulatory body, the Philippines needs to strengthen the supervision of casinos, casino intermediaries, some non-profit organizations, anti-money laundering, and anti-terrorism financing before January 2024. It also needs to develop better measures and plans to share financial institution information. More law enforcement actions and conviction records for money laundering crimes are needed to strive for progress in anti-money laundering supervision and withdraw from the "gray list".

Note 5: Pay attention to risk control and prevent financial crimes. The Philippines implements a very strict bank secrecy law, which sets strict confidentiality systems for the acquisition of depositor information and deposit information. However, this law creates obstacles for investigating the financial status of enterprises or individuals with fraudulent behavior, and also means that if financial crimes occur, it may be difficult to recover illegal gains. In recent years, with the escalation of efforts to combat money laundering and terrorist financing crimes, many financial regulatory authorities have proposed to require the revision of existing bank secrecy laws to help them combat financial crimes. Before the relevant regulatory measures are revised and new regulatory plans are announced, Philippine enterprises must pay attention to risk control deployment, actively introduce new technologies to strengthen enterprise risk control capabilities, and maximize the prevention of financial crimes and fraud.

6. Industry development prospects

6.1 Future trend outlook

Trends in Fintech development in the Philippines over the next 12 months may include:

01 Virtual Asset Trading in the Philippines continues to uptrend.

02 nternational Anti Money Laundering Regulators re-evaluate the progress of Anti Money Laundering work in the Philippines, and will propose new requirements for Anti Money Laundering and Counter Terrorism financing in virtual asset transactions.

03 Some Traditional Financial Institutions will join the Banko Sentral ng Pilipinas' regulatory sandbox program to accelerate business innovation in digital transformation using new technologies.

04 More fintech companies serving the Islamic financial system will begin to explore the Philippines market.

05 Philippines Financial Institutions will attract more financing.

06 The market size of collection business and non-performing asset management will expand, and the number of participants will increase.

07 The proportion of digital payments will further increase, especially among low- and middle-income groups, the proportion of using digital payments will increase.

Recommended innovative risk management solutions

ADVANCE.AI one-stop digital identity verification and risk management solution is precisely driven by advanced artificial intelligence models, using biometric technology and reliable big Data Analysis services. It can customize verification programs and background functions according to the actual needs of Financial Institutions or enterprise customers going global, flexibly and efficiently helping enterprises achieve automated and intelligent deployment of user registration, identity verification, KYC and Anti Money Laundering risk management, helping enterprises reduce costs and increase efficiency, and enhance risk response capabilities.

Application scenarios

Support 9 major industry risk control deployment

Bank | Payment | IoT | Travel | Health | Sharing | Shopping | Crypto | Gig

Quality certification

ISO
ISO/IEC 27001

Compliant with ISO/IEC 27001 information security management standard

ANAB
ANSI National Accreditation Board
ACCREDITED
ISO/IEC 17021-1
MANAGEMENT SYSTEMS CERTIFICATION BODY

Accredited by ANSI National Accreditation Board ISO/IEC 17021-1 Management Systems Standard

MAS
Monetary Authority of Singapore
SFA
SINGAPORE FINTECH ASSOCIATION

Awarded first place by Monetary Authority of Singapore (MAS) and Singapore FinTech Association (SFA) in the ASEAN Fintech category at the 2023 SFF Global FinTech Awards

Service advantages

200+
200+ integrated AI data services

99.4%
99.4% accuracy in real-time verification

100%
Global ID and AML coverage

$400M
$400M Series D funding

500+
500+ customers across the globe

4 million
4 million API calls per day

TECHNICAL FEATURES

ADVANCE Video Identification

A video identification process that identifies and verifies a digital identity through a live video call and document verification. It helps reduce online fraud and ensures the onboarding of a credible customer.

- **Deter the fraud**

  Video Identification deters the risk of fraud by ensuring that a real person is showing their documents in the camera.

- **How can ADVANCE Video Identification benefit consumers?**

  Consumers can use VideoKYC to authenticate and verify their identity and documents, without ever leaving their home.

- **How can ADVANCE Video Identification benefit businesses**

  Better customer service, faster onboarding and real-time fraud detection and prevention are some examples of how VideoKYC can help enhance business growth.

- **COVID-19 Social distance banking**

  VideoKYC can facilitate digital banking services, such as credit card applications, opening savings accounts and making fixed deposits.

ADVANCE ID Document OCR

ADVANCE ID Document OCR instantly and accurately extracts structured identity information from images of ID documents. It significantly improves users' accuracy and productivity in data recording, remote onboarding, real-name authentication and identity recognition.

- **Optimise resources**

  With instant and accurate capture of identity information from ID documents in mere seconds, It reduces manual filing efforts and significantly improves productivity.

- **Reduce human errors**

  With optimized solution for each ID document type, highly accurate results (99%+) are delivered. Auto filing of highly accurate results to avoid manual misfiling and fraud.

- **Simpler and better user experience**

  It supports all mainstream ID documents for local market. And there is no need to preselect ID document type, resulting in frictionless experience.

- **Robust OCR Capabilities**

  Supports complex backgrounds, varying lighting conditions etc. through image pre-processing to increase accuracy of data capture.

ADVANCE Liveness Detection

ADVANCE Liveness Detection verifies the presence of a live person in front of the camera and maximumly prevents the fraud attacks such as photos, videos or masks.

- **Safer online transactions**

  Increases confidence level of remote online transactions by blocking various presence attacks.

- **Simplify user experience**

  Optimize user experience by reducing friction. Allow application and verification to be completed in seconds.

- **Optimised solution specially for Southeast Asia and South Asia**

  Fit-for-purpose AI Model developed using over 5 million Asian facial images to achieve high performance and accuracy.

ADVANCE Face Comparison

Face Comparison checks for similarities between a real-time image against ID Documents to supercharge your eKYC journeys. Reducing friction and resources without compromising on performance and accuracy.

ADVANCE Face Comparison is the only biometrics service that is iBeta compliant and ranked by National Institute of Standards and Technology (NIST) for Facial Recognition and Ongoing Face Recognition Vendor Test (FRVT).

- **Is this a same person?**

  Check the similarity between two images to determine whether it belongs to the same person.

- **Simpler and better user experience**

  Moves identity proofing process from face to face to online, removing traditional business constraints.

- **Reduces human error**

  A person's face looks different at varying ages, lighting conditions, make-up and accessories, etc. AI powered algorithm is robust to these changes.

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About ADVANCE.AI

ADVANCE.AI is a leading AI company that provides digital transformation, fraud prevention, and process automation solutions for enterprise clients. A leader in Artificial Intelligence, risk management and digital lending solutions, it currently partners over 500+ enterprise clients across banking, financial services, fintech, payment, retail and e-commerce sectors.

ADVANCE.AI is part of Advance Intelligence Group, one of the largest independent technology startups based in Singapore.

Interested in our products?

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