

From Cash to Digital Wage Payments:

Win-win for Workers and Employers in the Philippines

March 2021



International
Labour
Organization



Women's World Banking

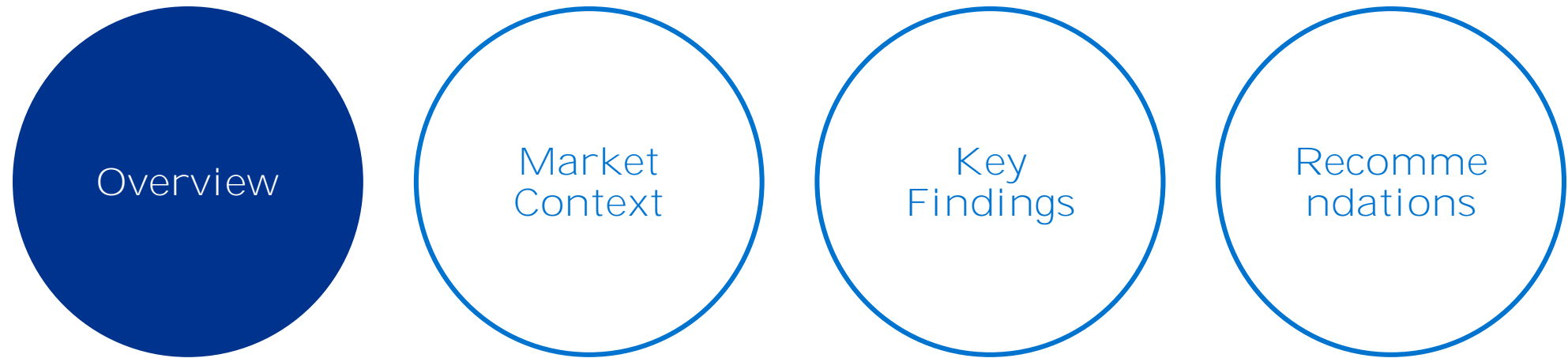


Australian Government

Department of Foreign Affairs and Trade

**Australian
Aid** 

Agenda



Project Objectives

- 1 Test whether there is a business case for enterprises to move from cash to digital wage payments
- 2 Assess whether the switch to digital wage payments contributes to the greater formalization of the enterprises, including the formalization of employment within the enterprises.
- 3 Evaluate the effect of digital wage payment on the financial inclusion of the workers, with a specific attention to their female workers.

Research Methodology

OBJECTIVE

SCOPE



Secondary Analysis
and Market
Assessment

*To understand current market conditions,
level of financial inclusion for workers and
businesses, government regulations
(including financial inclusion targets)*

Secondary Resources

- Reports (e.g., BTCA)
- News articles
- Data sources (e.g., FINDEX)



Stakeholder
interviews with
FSPs, and other
key market players

*To understand current market conditions,
strategic priorities, focus on women's market
and financial inclusion, and openness to
engage with factories on digitizing payroll*

25 Stakeholder Interviews

- Retail Banks
- MNOs
- Fintechs
- MFIs / Rural Banks
- Industry Associations
- Multilateral Agencies
- NGOs
- Thought leaders
- Government stakeholders



Enterprise
Interviews*

*To deepen knowledge of engagement, use
and awareness of current model and potential
digital wage payment; willing and commitment
to join digital payment platforms, anticipated
barriers and challenges*

12 Enterprise

- Key sectors identified through secondary
- Ranging from 30 – 1000+ employees
- Digitized and cash
- Larger factories and MSME enterprises



Worker
Interviews*

*To deepen understanding of
behavior and practices of employees*

50 Worker Interviews

- Key sectors identified through secondary research
- Age range – 20-59
- Married and Unmarried
- 22 Men and 28 Women

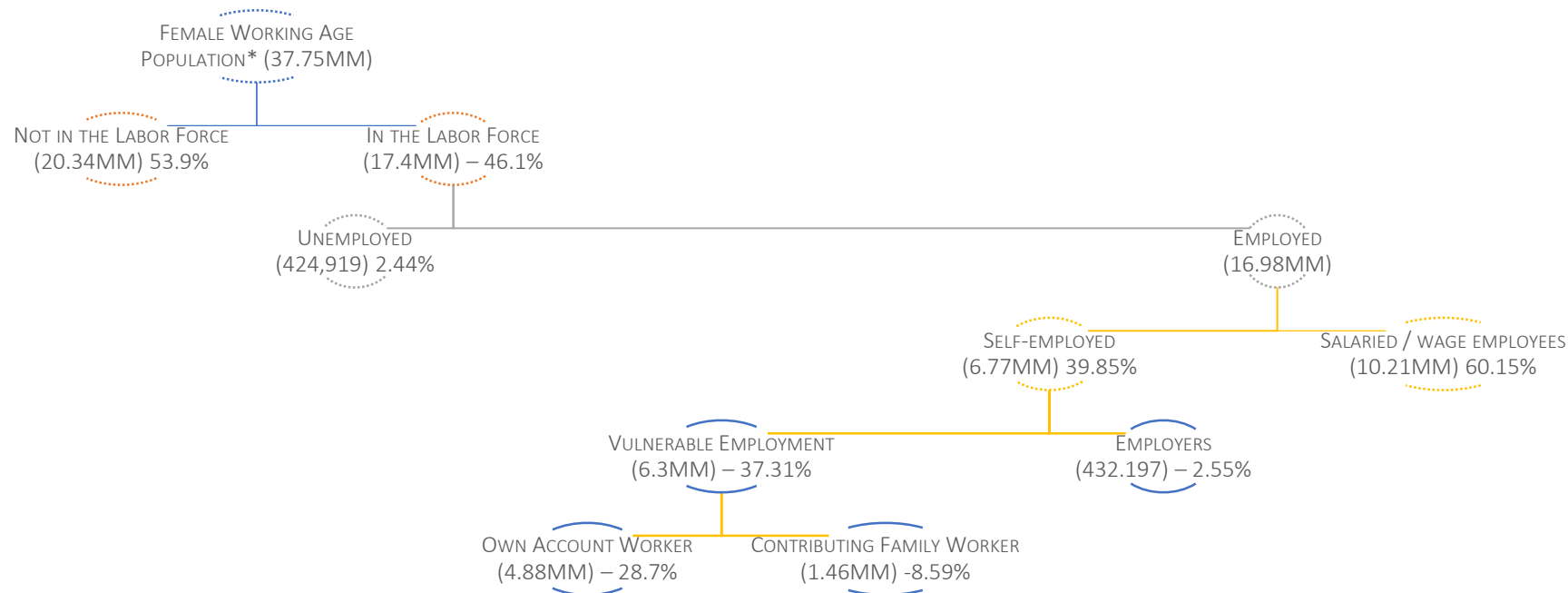
Note: Enterprise survey was removed from scope of work due to budget and other operational challenges

*Factories and employees were all located in Region 4A (NCR), Mindanao, and Northern Philippines

Agenda



Despite strong economic growth and advances for women, female labor force participation is extremely low



Key Takeaways

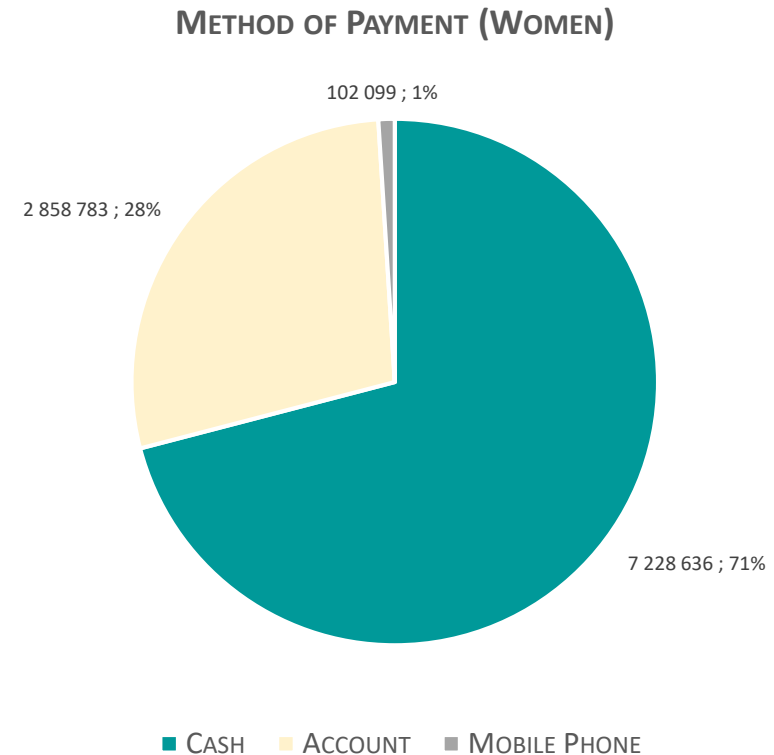
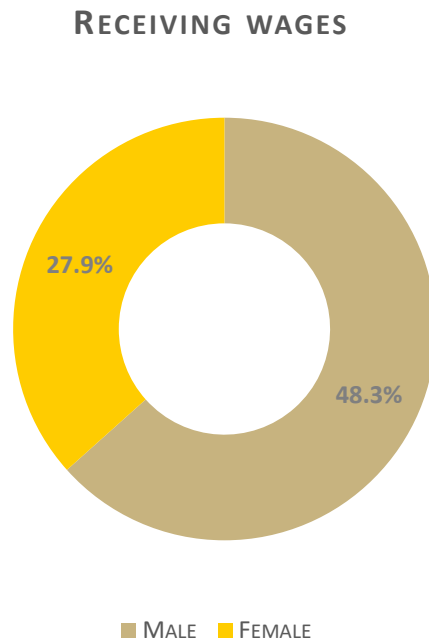
- Filipino women are backbone of families, **often controlling financial power within the household**
- **However, only 46.1% of adult women participate in labor force**, compared to 73% men
- Roughly 17MM women are employed, divided between wage / salaried workers (10.2MM), employers (432,000), own-account workers (4.88MM), and contributing family workers (1.46MM)

*Female Working Age Population = Female Adults 15+
Source: World Bank World Development Indicators 2019

Key sector for female employment include wholesale and retail trade, textile and garment, and electronics

		Manufacturing	
	Wholesale and Retail	Textile and Garment	Electronics
Size	<ul style="list-style-type: none"> ▪ Largest employer within in service sector ▪ Contributes \$175M in sector 	<ul style="list-style-type: none"> ▪ Total output of \$466M 	<ul style="list-style-type: none"> ▪ Output of \$28.6B (accounting for more than 50% of total exports)
Employment	<ul style="list-style-type: none"> ▪ 7.9MM employed in sector ▪ 4.76MM women 	<ul style="list-style-type: none"> ▪ 529K people employed in textile and garment industry ▪ 396K (74%) are women 	<ul style="list-style-type: none"> ▪ 2.2M employed across entire sector ▪ 98K women employed in electronics components industry (as of 2016)
Digitization	Mix of cash / digital	Predominately cash	Mostly digital

Across the Philippines, majority of women still receive wages in cash, providing opportunity to digitize wages



Key Takeaways

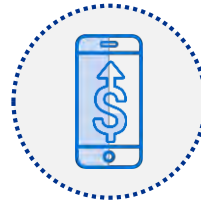
- Only 27.9% of women receive wages, compared to 48.3% of men
- Of those who receive wages, majority (70.8%) continue to receive wages in cash compared to 28% via financial account and 1% through mobile money account

The market for Payroll Accounts is dominated by commercial banks, but new players such as MNOs and Fintechs are entering this space



- The low-income segment for payroll are traditionally viewed as unprofitable and banks typically go after larger enterprises due to the potential economies of scale –
- However, digital payments are incentivizing banks to serve the low-income market
- Some banks have rolled out simpler products with lower account opening requirements to serve this segment

Wage payments are not high value transactions. These are low value transactions. With digital, now the cost of digital is lower - 20% lower than branch – so I'm now prepared to serve lower wage earner because cost of digital is lower” – *Retail Bank*



- Mobile Money like GCash and Paymaya and also Fintechs (Salarium) are entering the space, but they focus on the smaller enterprises and also the informal sector to
- Simplified account opening process
- They are focused on driving usage of payment platforms and creating that ecosystem to ensure payments are accepted

“For lower end - where salary payments are smaller and affinity to smartphone is high- there's strong case to make salary case to e-wallet” – *Mobile Money*

“[In industries with] high amount of contractual or informal workers - security guards, housekeeping, drivers, delivery boys - setting up bank account for each contractual is difficult” – *Mobile Money*



- Pawnshops and MFIs are not offering separate payroll products but some are working with banks to offer cards that can link to peoples' payroll accounts –

“We go after the Big company multinational etc. – 50000-10000 employees - FMCGs (Nestle, Unilever). Over time we moved to BPO - what we found happening is quality of payroll business was less high quality. If we were dealing with employees with big multinational they would keep their deposits with us - as we expanded the business and took more clients - the numbers look good /look big but quality of business became less attractive” – *Retail Bank*

COVID-19 has accelerated the push towards digital payments out of necessity and convenience, especially during **lockdowns...**



Governments used bank accounts to disburse aid and relief funds

Need for digital disbursements / digital process



Financial institutions (e.g., MFIs) who had not digitized had to transition to digital

Decrease in face-to-face interaction and loan collections



Customers sign up for bank and mobile accounts spiked

Account activity increased and types of transactions expanded

Importance and priority of digitization of process and interactions accelerated

“Since COVID, we’ve seen nearly 2x in terms of registrations. **But we’re also seeing increased usage (nearly 700% growth) across all our use cases** - such as sending money, cash-in cash-out, bank transfer, online payments. **We’re also seeing an increase in user adoption in terms of merchants payments as well**” –*Mobile Money*

“Between March and April, **we saw 4 million new digital accounts open remotely**. More people are recognizing the importance of digital accounts” –*Central Bank*

“Pre-COVID, [we had] 50-60% of transactions executed through digital channels. **Now, we have 92% of transactions happen digitally or via ATM.** What the pandemic has done is changed behavior of customers for the better - we’re asking ourselves now do we need all the branches?” –*Retail Bank*

...but key barriers remain to adoption of digital payments



Ecosystem



Lack of infrastructure and connectivity

- Especially outside the major metro areas, internet connectivity is a challenge



Nascent digital ecosystem for transactions and use case for customers

Lack of National ID



Financial and business



Entrenchment

- Paper-based transactions entrenched in commercial systems



Burden of payroll account maintenance

- Required balances in payroll accounts are burdensome for enterprises



Individual + behavioral



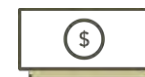
Lack of Trust and Awareness

- Lack of trust in the system and concerns around fraud unclear recourse mechanisms)



Lack of Accessibility

- Rural women and customers have less financial services access points



Preference for Cash

- Lack of appropriate use cases (e.g., widely accepted merchant payments)
- High fees and costs associated with accounts

“There are no FSPs allowing digital payments through feature phones. Everything is app based.”

–Central Bank

“Operationalizing takes a long time and is a huge barrier to digitization. It’s a frustrating process for those who want to do it fast. This doesn’t help the business and the workers.”

–Industry Association

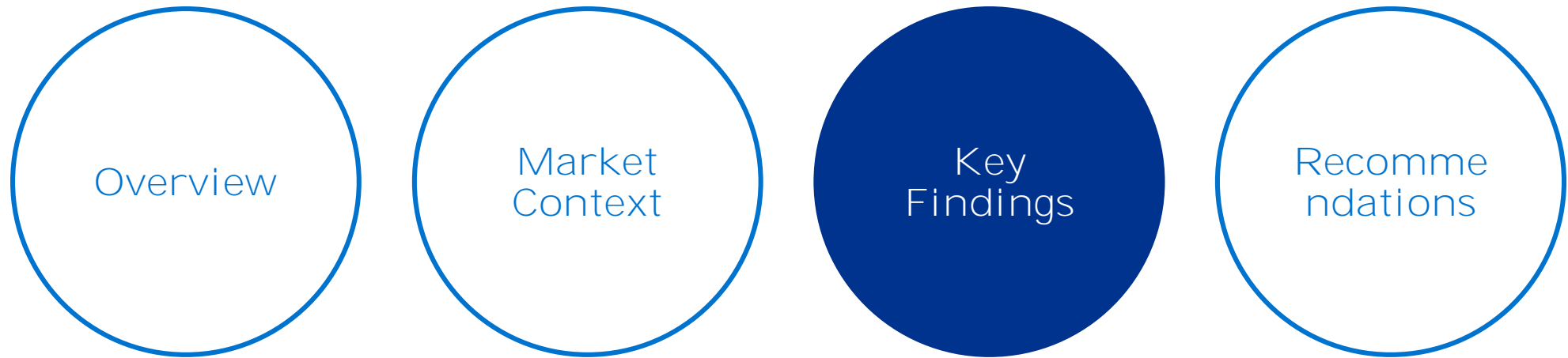
“[The [b]asic problem is the connectivity in certain areas.” –Retail Bank

“[Customers have] distrust in institutions, [and] cash is still more secure under the mattress, banks can still take money and run’ mentality.” –FinTech

“If you open at a branch and you go to a different branch, there’s a transaction cost.” –FinTech Association

“To provide accounts to the country’s most vulnerable customer, the experience has to be flawless – the value proposition has to be clear. **We have a one time opportunity to get this right**” –Central Bank

Agenda



- **KEY FINDINGS**



- Financial Attitudes and Behaviors

- Perceptions and Use of Financial Institutions

- Employment

- Wage Payment

Women employees save mainly in cash, with a few using financial institutions or cooperatives



- Most women are **saving at home** because it is **easier and cheaper to access** (especially during COVID, to avoid going to the bank)
 - In piggy banks
 - Directly in purse
 - With her mother

“My mom [saves] for me, since she knows how to do that better. I give her my ATM card. So what dad saved up and what mom saved up from my salary, is what we are using right now, during the lockdown. We keep the cash at home, because there was a time that the bank charges me money” –Female, 22, Electronics

“[The bank] is favorable, but I don’t know the process of getting an account.” –Female, 22, Retail

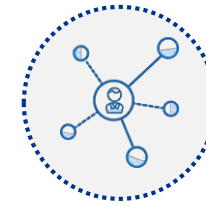


- Some save at **formal bank or non-bank financial institutions** as a **safe and secure method** and to **prevent overspending**

“It’s safer to keep it [at a bank] than at home. It might get lost or stolen at home.” –Female, 42, Garments

The **bank account is a good idea for savings, but I really like my salary in cash**, so I can budget my money better for my day-to-day. Whatever I put in my bank account is my savings.” –Female, 23, Electronics

“I opened an [bank] account to save more and I know that the money is safe there because I **won’t have to spend it if I want to buy something.**” –Female, 20, Garments

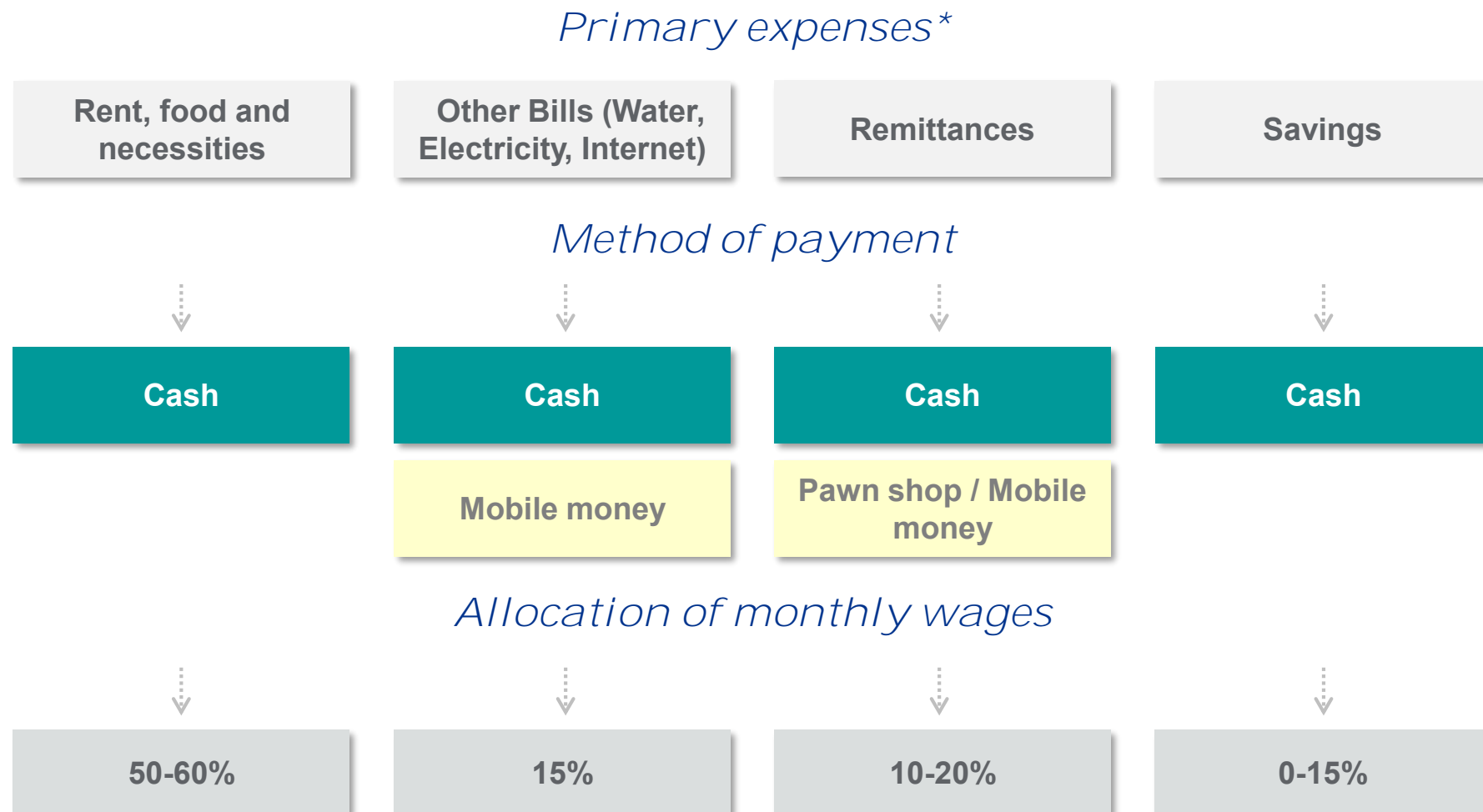


- Some enterprises have encouraged workers, or workers themselves, have set up **small cooperatives to save and earn interest, and access loans**
- Prevents employees from **asking advances on salaries**

“I actually taught them how to use the co-op, to save money and for them to at least have a money pool, where they can get money. And at least with a co-op, they can earn interest on it.” –Garment, Small, Digital

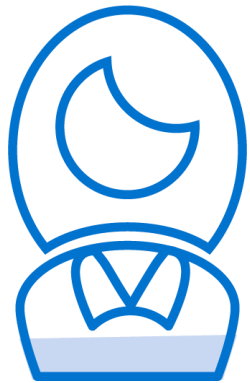
“Our employees set up a cooperative. **They tell us the amount they want to deduct to go to the cooperative**” –Electronics, Small, Digital

While most employees recognize the convenience of payment in digital, majority of expenses are still paid for in cash



*based on PHP 6-10K (USD \$125-208) monthly salary

However, the risks of keeping money in cash far outweigh the costs of digital transactions



She earns PHP 6,000-10,000(USD \$125-208)/

~8-10 hours per day, 6 days a week



She loses: PHP10-50

.01% - 0.83% of Her earnings

- PHP10-50 for interbank transfers
- PHP10-15 for ATM withdrawal
- PHP15-20 for mobile money cash out fees



She risks: PHP 900-1500

~15% of her earnings

- Risk of losing cash
- Risk of theft
- Inability to build assets at home (risk of spending)

- **KEY FINDINGS**

- Financial Attitudes and Behaviors



- Perceptions and Use of Financial Institutions

- Employment

- Wage Payment

Banks are perceived as trustworthy, but emotionally inaccessible while mobile money is seen as accessible but untrustworthy



MFI's / Pawnshops

- + Trustworthy
- + Accessible
- Limited offerings
- Face challenges with digitization

"They are someone you can **entrust your money to**. I also think that my money can get interest if I put enough money in it, I heard." –Female, 22, Electronics

"[A bank] is **a luxurious place for them**, and it seems like there's an **invisible barrier between them and the bank**. I actually told them to open a bank account before, like two years ago, but they said no, they won't go to that place. They are really scared." – Garment, Small, Cash



Banks

- + Trustworthy
- + A safe and secure place to save money
- Banks are seen only for the rich, or those with money
- Process to sign-up is tedious and approval takes a long time

"The bank has a lot of money because it's a bank... **As long as the person has money, they can use it**. Just them, compared to us, who don't have money, we don't." –Female, 32, Garments

"Considering the **enrollment processes in the bank, they need a lot of requirements**, like the NBI [background check] clearances, the two valid ID's, and the employee needs to go to the bank, too. Whereas in GCash, you'd just need to enroll and verify it. You can even do the verification online." –Garment, Small, Cash



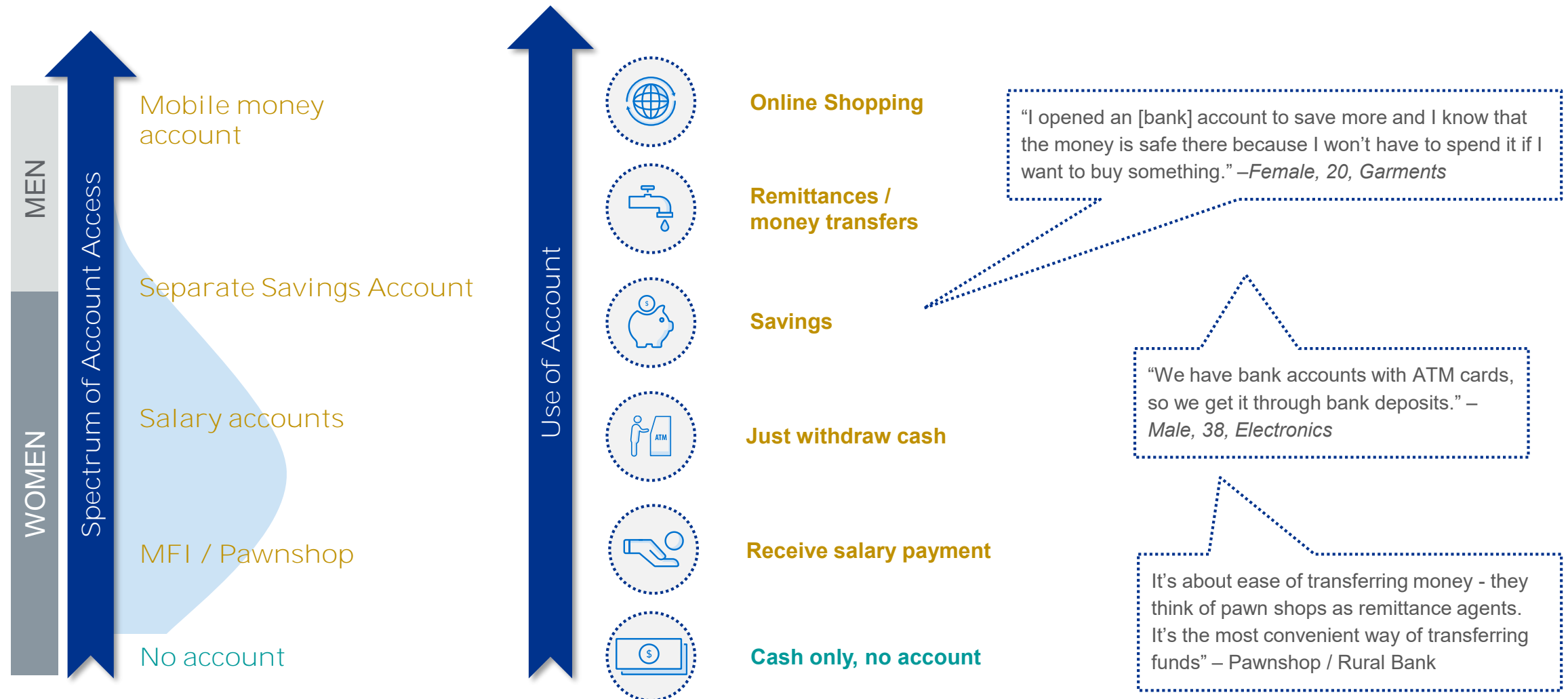
Mobile Money

- + Provides convenience of transactions
- + Accessible
- + Easy onboarding
- Inexperience leads to mistrust
- Ability to overspend with online shopping

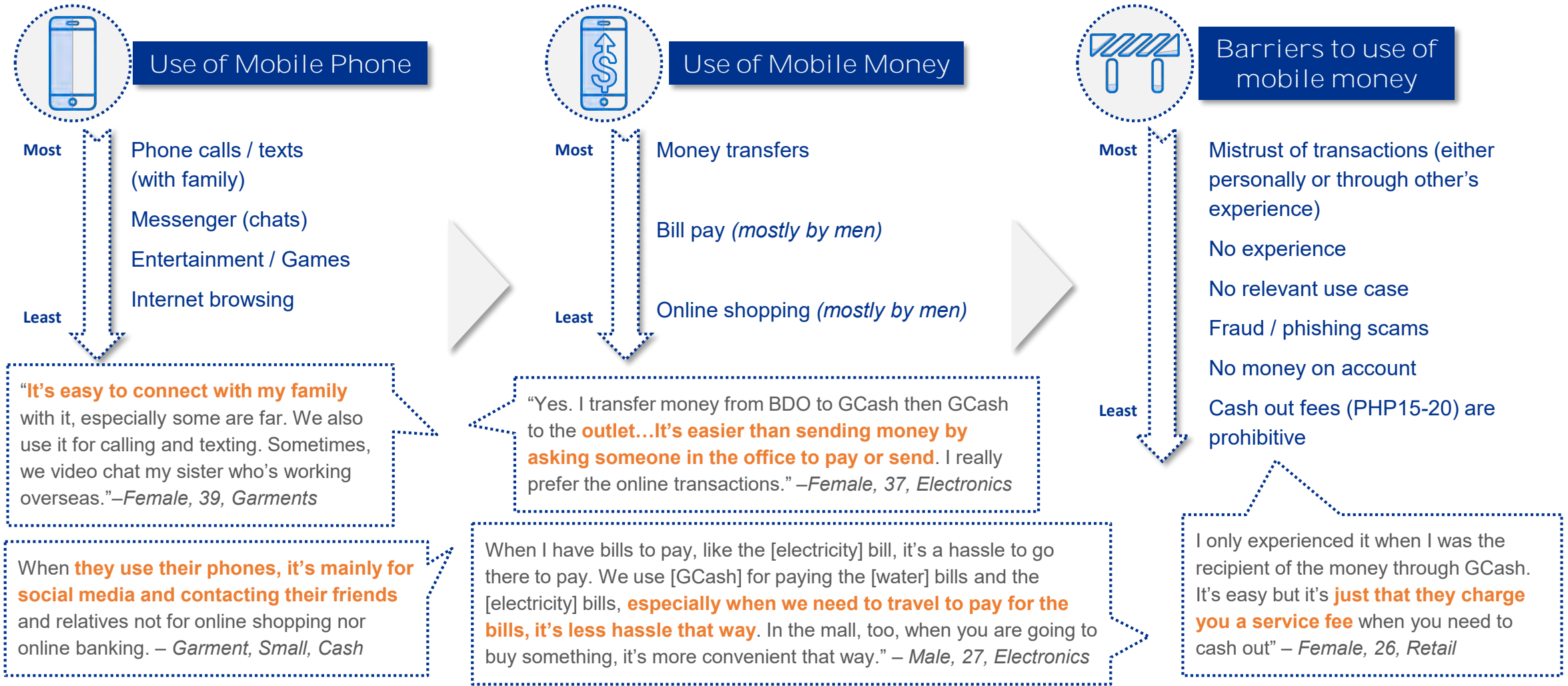
"What **we're really trying to do is build the ecosystem**. Once they have funds, we want them to use it. For example, we've worked with malls to onboard them for payment acceptance" – Mobile Money

GCash is friendlier for the general masses, while the bank is a bit luxurious. GCash is not. Garment, Small, Cash

MFI and pawnshops are the predominant channels for low-income women; use of accounts is limited to salary payments and withdrawals



While ownership and use of mobile technology is ubiquitous, use of mobile money is very limited



- **KEY FINDINGS**

- Financial Attitudes and Behaviors

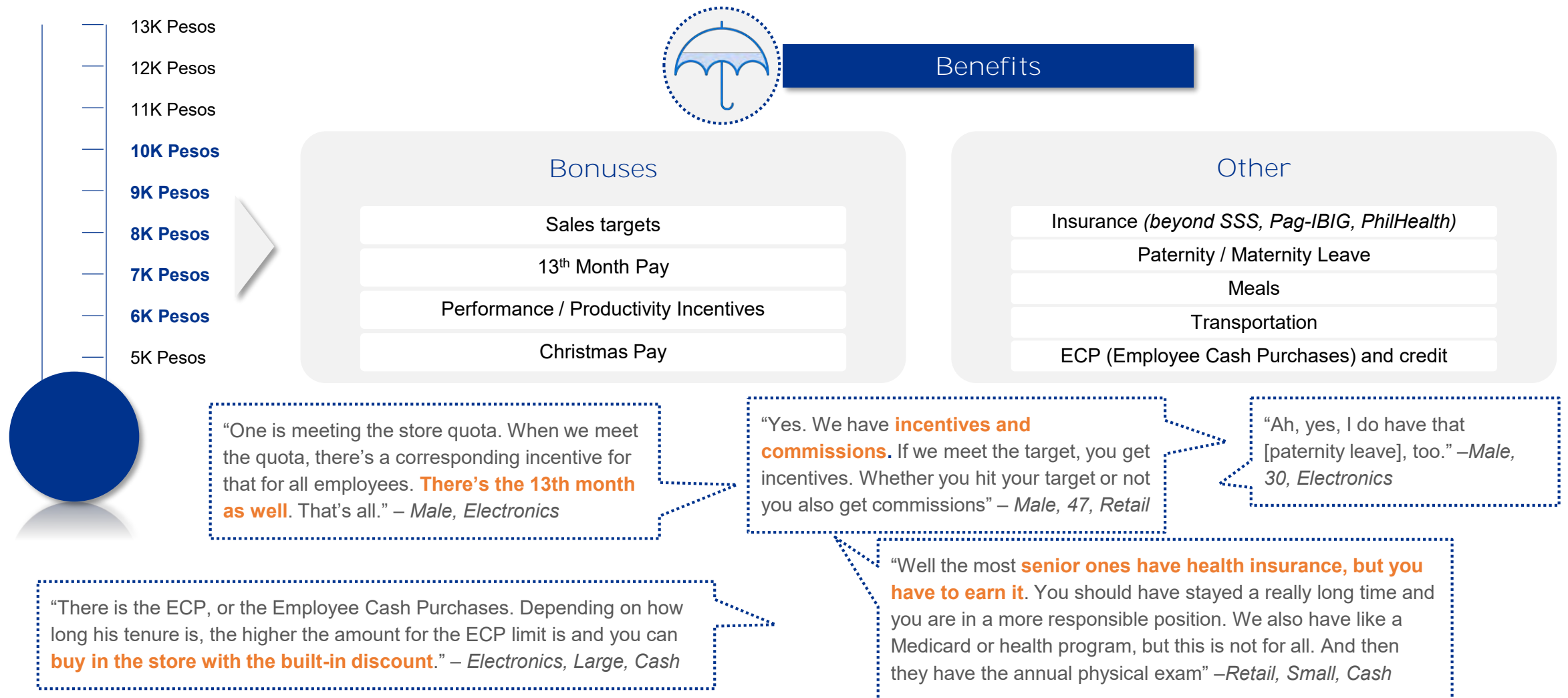
- Perceptions and Use of Financial Institutions



- Employment

- Wage Payment

Average salary is 6-10K PHP per month, with opportunities to earn bonuses, although this varies by factory/industry



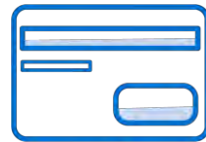
Factories typically pay salaries in one of three ways; there is limited use of mobile money to pay salaries



Cash

“I think it’s because **mainly we are provincial based and everything is done in cash and that this is what we are used to** - but I’m sure fashion houses based on the city have more access to ATM and online payments.” – *Garment, Small, Cash*

“Even if they have that card and they need to physically go to the bank to get their cash which is 10 to 15 minutes away, it’ll be something that they are not used to because **they really are on a cash based society specially in rural areas**” – *Garment, Small, Digital*



Pre-Paid Card

“There’s no issue with the bank, but **some employees, since the card is nameless, they take it with them when they leave the company**. So that’s also a burden, because we have to restock, and replenish it” – *Electronic, Large, Digital*

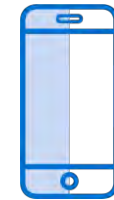
“The **advantage of the ATM card for the employees, they don’t get to spend it all right away**. You have to go to the ATM still to get money. So, there’s a little hassle, and encourage them more to save money.” – *Electronics, Medium, Digital*



Bank Transfer (Deposit)

Some of my tailors are hesitant to withdraw from the ATM’s. Like they would say that they don’t want to, because the ATM may eat the card. The **hesitation in using ATMs from the banks comes from thinking that these things are beyond their status**” – *Garments, Small, Digital*

“It’s **easier because you don’t need to fall in line anymore**. It’s very advantageous. You do not have wait in the bank to withdraw or deposit money. You can deposit and withdraw any time” – *Retail, Large, Digital*



Mobile Money

“I actually thought GCash. But if we were to use it for everyone, **the problem is that not everyone has a mobile phone here, not everyone has internet access**, and not everyone has a smartphone as well. So, I thought about it, but it’s seems impossible” – *Garment, Small, Cash*

“We thought that if that the business runs smoothly this year, we were thinking that instead of a weekly payment, we’d do it monthly, and do it through GCash. **It’s much cheaper than enrolling in a bank for an ATM card**” – *Garment, Small, Cash*

- **KEY FINDINGS**

- Financial Attitudes and Behaviors

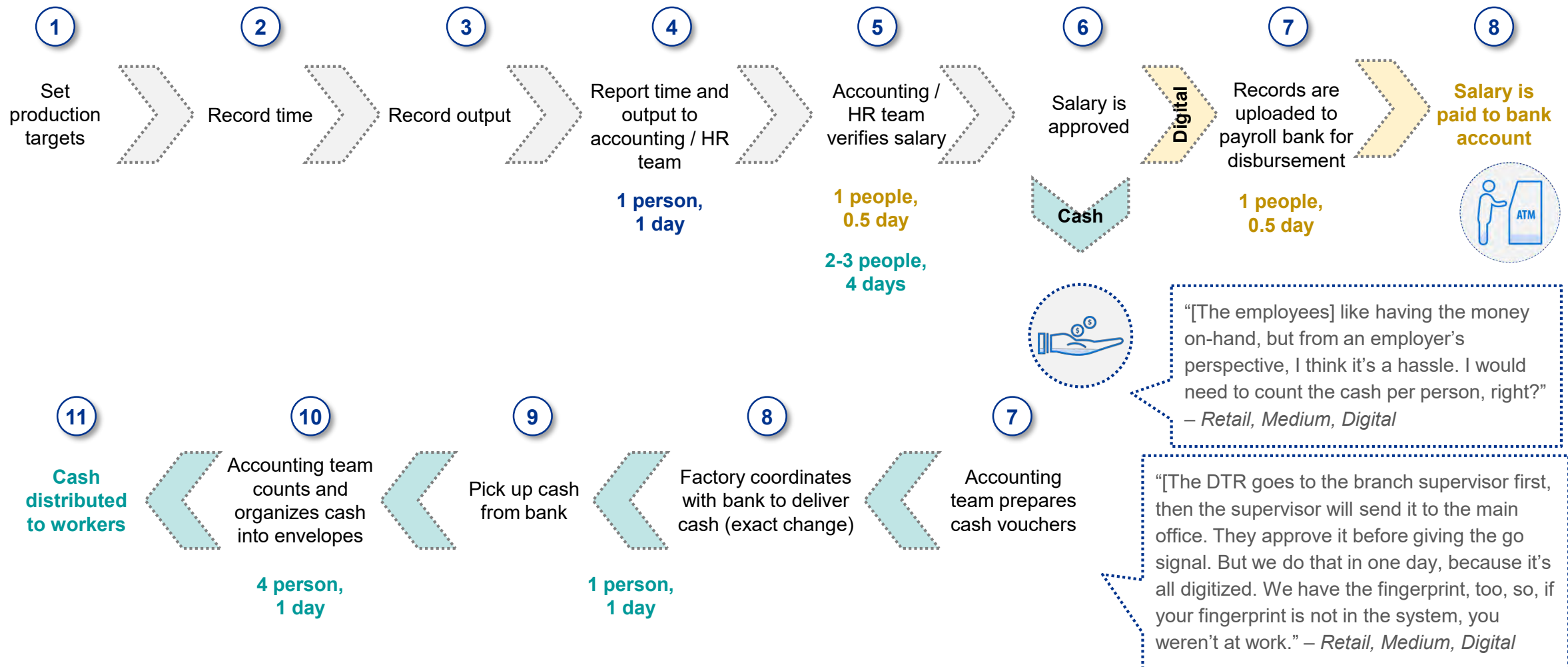
- Perceptions and Use of Financial Institutions

- Employment



- Wage Payment

On average, paying wages in cash results in 12-16 person-days more per month required than paying digital wages



Benefits and challenges of wage payments via digital payments



Employees

- Safer than cash
- Prevents over-spending
- Get wages instantly
- Ability to save more
- Still need / transact in cash
- Lack of accessibility of ATMs
- Tech and ATM problems
- Lack of trust

"For me, I prefer receiving my salary via ATM because **I can avoid over spending**, unlike when you have cash on hand, you tend to buy unnecessary things." – Female, 26 Retail

"It makes me angry sometimes, but that's just reality. **Sometimes the ATM isn't working**, and the bank is closed because of a holiday." – Female, 39, Garments

"**I don't really like mobile banking, because they are sneaky**. With GCash, my friends have a lot of reviews saying that they used GCash to transfer, and it didn't reflect, or the receiver didn't get it. They get confirmation texts that it was already sent or received, but it's not there." – Male, Electronics

"Sometimes, **if you run out of cash, you just have to go to the mall, or somewhere that has an ATM to withdraw cash**. I think that's not a hassle and that's easy." – Female, 39, Garments



Enterprises

- Simplified and centralized accounting
- Time saving
- Increased accuracy
- Burdensome account maintenance requirements
- A few switched back to cash due to COVID restrictions
- Risk of employees pawning ATM cards

It's easy for us because **we just set up separate payroll account where we transfer the specific amount for payroll** which is then debited and credited on the ATM accounts of the workers. **It's convenient for us because it's less paperwork** – Retail, Small, Digital

"Actually, **they liked the cash more when [the pandemic] started, because they are scared to use the ATM** and go out. So, the trend was like that during the peak, they asked for cash." – Garment, Small, Digital

"There is a **difference in the time range in receiving the cash or the salaries**, because it's digital. Before, it took a little bit of time to do that because of the processing." – Electronics, Large, Digital

"As HR, **I really want to shift to the ATM card, but we couldn't reach the bank requirement** of the minimum of P200,000 credit limit monthly, and you need that to open a payroll" – Garment, Small, Cash

There is a business case to digitize wage payments, even for small enterprises (10-99 employees)



Average payroll /accounting supervisor salary
is PHP 28,000 month (USD \$583) or PHP934
per day (USD \$19.50)

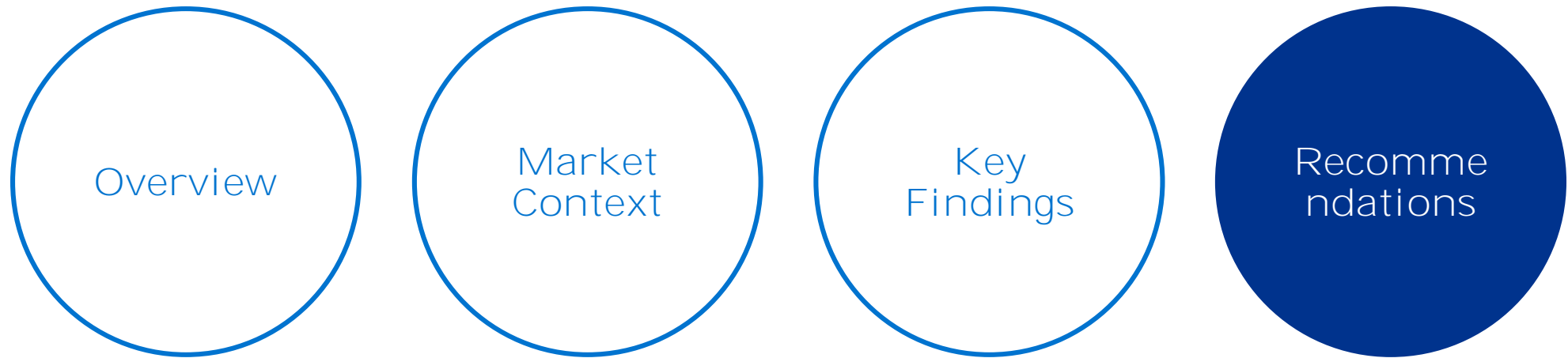


Cash wages takes 12-16 person-
days more per month than digital
wages



Cash wages costs PHP 11,200 – 14,933
(USD \$233-\$311)more per month

Agenda



General Recommendations



Enhance and strengthen the digital payments ecosystem



Strengthen the digital payments infrastructure

- Build on successes to ensure digital payments are widely accepted throughout the Philippines (e.g., merchant payments)
- Increase access points, particularly in rural areas



Promote opening and usage of Basic Deposit Accounts

- Understand the behavioral challenges to adoption and usage
- Raise awareness of accounts with easier opening requirements and incentivize FSPs



Promote adoption of innovative digital wage payment solutions among small enterprises



Develop the business case for payroll solutions for MSMEs

- Demonstrate the benefits to small enterprise of digitizing



Tap employers' and workers organizations to advocate for and promote digital wage payments

- Leverage aggregators with convening power and strong membership to amplifying benefits of digital wage payments and provide support (training) for members to transition



Enable women to actively use financial services to deepen financial inclusion



Create peer-to-peer ambassadors to build digital and financial literacy to enhance adoption by workers

- Leverage early adopters of mobile payments to educate peers through learning-by-doing and step-by-step visual trainings
- Launch awareness campaigns, leveraging key influencers, to educate customers



Embed relevant use cases to ensure customer "stickiness"

- Build habit-trackers, to ensure savings becomes a priority, particularly after COVID-19

Persona: “*DIGITAL DOLORES*”



Demographics

- **AGE:** 22-30
- **MARITAL STATUS:** *Unmarried / recently married*
- **CHILDREN:** *None*
- **HOUSEHOLD:** Parents

Employment Experience

- Recently joined (1-3 years)
- Motivation is primarily for independence and source of income
- Works for a medium to large sized factory
- Wages are paid in either cash / digitally

Household Budget / Expenses

- Limited expenses – some rent, limited food expenditures
- Feels the burden to contribute to household expenses (e.g., supporting younger siblings' education) but not in charge of financial decision making in the household

Attitude to Financial Services

- More intentionality to save due to less household expenses
- Seeks financial advice from family members
- Sees the bank as a place to save, but saves mostly informally

Pain Points

- Familiar with digital technology but need to be convinced of benefits of mobile financial services / digital accounts
- Negative experience (either personal or anecdotal) results in lack of confidence in digital financial services

Recommendations



Build relevant use-cases such as money transfer / remittances, e-commerce, mobile top-ups, savings etc.



Communicate accessibility and convenience of digital financial services



Focus on financial literacy and financial capabilities such as budgeting, saving etc.

Persona: “*Hesitant Honoria*”



Demographics

- **AGE:** 30-50
- **MARITAL STATUS:** Single / Married / Partnered
- **CHILDREN:** 2-4
- **HOUSEHOLD:** Spouse, children, and sometimes elder parents

Employment Experience

- Have more years of experience in her job at same factory (5-10+ years)
- Either referred to the job or as a result of having no other opportunity
- Works for a smaller factory
- Wages are paid mostly in cash

Household Budget / Expenses

- Responsible for decisions in the household; Manages household budget and expenses
- Main expenses include: rent, utilities, food and necessities, remittances

Attitude to Financial Services

- Prefers having cash-on-hand
- Sees the bank as a place for the rich
- Saves only after all expenses are paid
 - If she saves, she saves informally at home, in a piggy bank or a hidden location

Pain Points

- Little-to-no experience using mobile / digital financial services
- Limited awareness of digital transactions
- Lack of trust in digital
- Inability to save
- Time poor

Recommendations



Build relevant use cases such as savings, bill-pays



Communicate that digital accounts are safe, reliable, less time consuming means of saving



Focus on building digital *and* financial capabilities – step-by-step training on how to conduct transactions

Thank you!