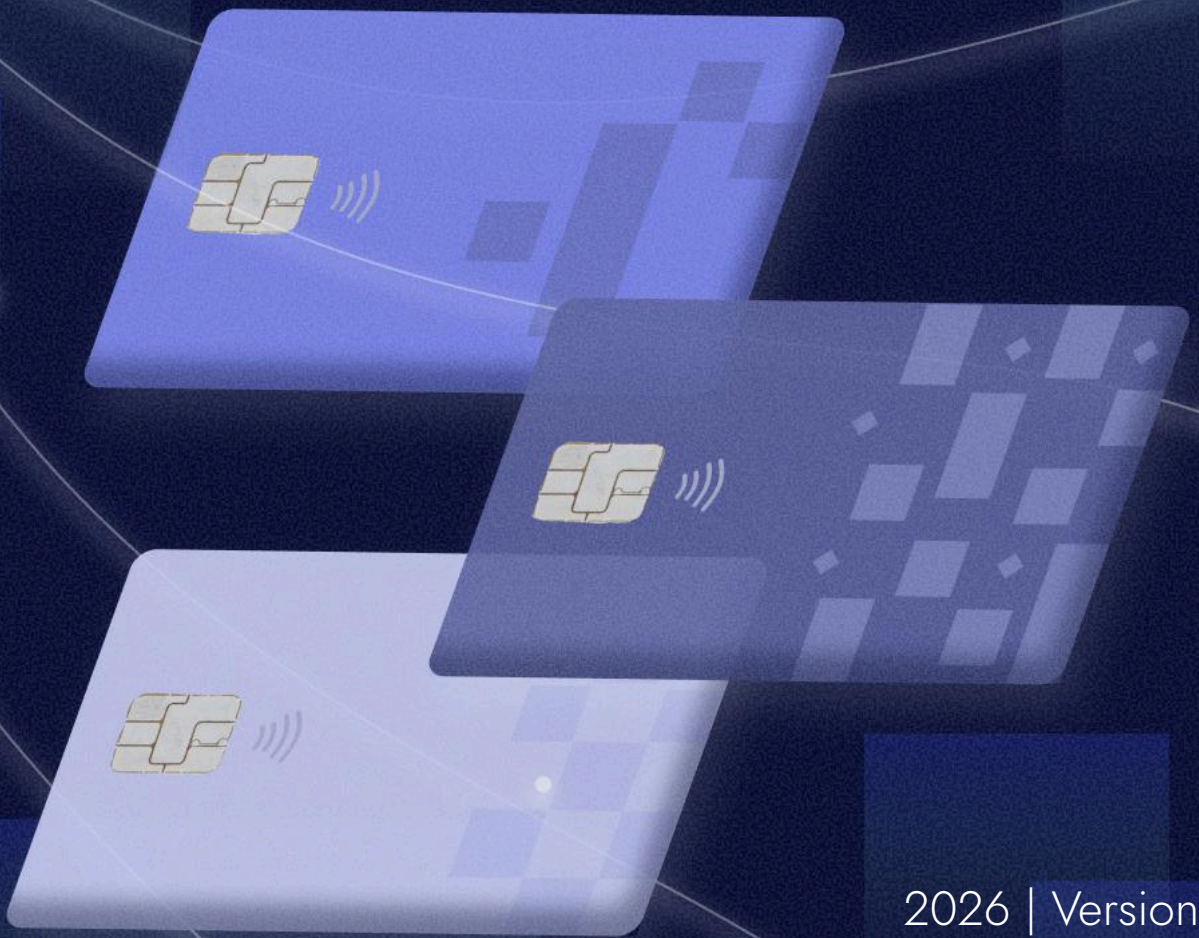
KAYA FOUNDERS

The Philippine Fintech Stack

By Connor Wen



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About Kaya Founders

Kaya Founders is an early-stage venture capital firm formed through a partnership of seasoned entrepreneurs and operators. We are in the business of building and investing in foundational companies that harness the power of technology to solve the most pressing problems in the Philippines and Southeast Asia.

True to our name, our founders lie at the heart of what we do. We embrace entrepreneurs from all backgrounds and believe that the world's stickiest problems will be solved not from an ivory tower, but by those closest to realities on the ground.

Since our founding in 2021, we have raised $30M in AUM and invested in over 40 portfolio companies across a wide range of industries—from fintech and e-commerce to healthcare and SaaS. As of 2026, we are most excited about three key themes:

1. **Frictionless Business:** AI-powered B2B platforms transforming the Philippines' largest industries and conquering global markets
2. **The New Filipino Consumer:** Tech-enabled B2C models for the emerging middle class
3. **Embedded Credit**: Foundational infrastructure fueling SME growth and empowering consumers

This report is an extension of the third thesis—an inquiry into the critical rails that will enable our financial services sector and digital economy at large to reach the next stage of growth. If you are building in this space, and want to join our robust and growing fintech portfolio (including companies such as Abli, Advance, Datung, Kita, LenderLink, Mochi, Netbank, OneLot, PayMongo, PEMO, Protech, and RuralNet), we want to hear from you. Reach out at hello@kayafounders.com.

Preface

Why, in 2026, are we still writing a million checks a month?[1] Why is e-commerce predominantly COD (cash on delivery)? Why are consumer and MSME interest rates sky-high despite the explosion of lending apps and fintech companies? Why is it so easy to open and use an e-wallet, but not a bank account? And, my personal pet peeve, why do we need to send screenshots to prove we've paid?

Fintech has emerged as the most vibrant vertical in the Philippine startup ecosystem, representing the highest number of deals and funding amounts.[2] And yet, across the financial services landscape, we seem to run into these "mysteries of life." I once asked a bank president the first question, and he asserted that it was the property developers that persisted in demanding post-dated checks. If it were only that simple. I felt it was akin to saying that jeepney modernization has stalled for a decade because the drivers persist in maintaining the status quo.

Too often, we attribute too much weight to Filipino cultural behavior. But Filipinos seem to adapt remarkably when placed in different settings, suggesting far more complex underlying dynamics. These counter-intuitive questions often conceal structural gaps, entrenched players protecting their positions, or opaque economic incentives. Whatever the root causes, policymakers face the recurring dilemma: should they mandate, nudge, or step aside?

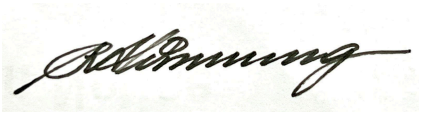
It is worth noting that fintech regulation has been among the most progressive in the Philippines. For over a decade, significant strides across the fintech stack have set a strong foundation for private sector innovation. Bold, comprehensive frameworks now govern identity (Philippine Identification System Act), banking (Digital Banks), payments (National Payment Retail System), data and consent (Credit Information System Act, Data Privacy Act, Open Finance), and applications (Anti-Money Laundering Act), alongside the forward-looking Regulatory Sandbox of the BSP, SEC, and IC. Targeted measures have also addressed key security vulnerabilities, such as the migration toward EMV chip cards and the SIM Registration Act.

Yet, the persistence of tangible, system-wide market challenges underscores that more thoughtful interventions are still needed. The questions above are not mere curiosities—they reflect fundamental forces that may be holding back national development.

Crucially, that Philippine fintech has lagged its Asian neighbors also presents a way forward. Filipinos have long demonstrated an ability to learn and adapt. By borrowing best practices from comparable markets—strategies that have been tried, tested, and refined—we can significantly shorten our learning curve.

In venture capital, we firmly believe that the first step in creating a successful startup is identifying the problem. At Kaya, we feel we are beginning to understand these challenges and aspire to be part of the solution. Through the insights we have shared here, we hope that all stakeholders—including investors, operators, policymakers, and industry leaders—devote a similar level of thought, rigor, and commitment toward addressing fintech challenges as has been done in the past.

We invite you to join us in building the future we want to see.



Ray Alimurung

General Partner, Kaya Founders

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1 Executive Summary

The Philippines has achieved what many markets struggle to do: widespread digital adoption across financial services. Wallets operate at scale, lending platforms are expanding credit access, and remittances are reaching record volumes. Underlying these trends are a consumer and SME base that are digitally engaged and willing to transact.

Yet this success masks a structural gap. Simply put, *the ecosystem is over-distributed and under-infrastructured*. Applications have scaled faster than the shared rails that make financial services cheap, reliable, and durable.

Core Thesis: Infrastructure Is the Margin Lever

The next phase of Philippine fintech is not a retreat from applications. The app layer will continue to grow, diversify, and compete. What changes is *where advantage comes from*. As products converge and competition intensifies, margins will be determined less by distribution and more by infrastructure efficiency—lower onboarding costs, better underwriting, cheaper settlement, and automated compliance. *Identity, Banking, Payments, and Data and Consent rails are the flywheel beneath the ecosystem*. They reduce risk and operating costs, turning scale into sustainable margin.

What needs to be built is not conceptually complex. *The constraint is not technology, but execution*: aligning institutions, incentives, and sequencing so shared infrastructure actually works in practice.

Historical Precedents: Proof, Not Theory

Fortunately, this problem has already been solved elsewhere, including in other emerging markets. India's digital public infrastructure stack, often referred to as "The India Fintech Stack", and similarly, Brazil's Pix and Indonesia's national ID and payment systems, demonstrate what coordinated infrastructure can unlock: lower costs, broader inclusion, and thriving private innovation built on common rails.

The Philippine model will differ. Whereas India relied on strong public leadership, *a private-first, public-validated approach* is more likely to succeed in the Philippines. Regulated private operators will have to build and prove infrastructure in-market, while the public sector sets standards, validates data, and applies mandates where incentives are misaligned. The lesson from history is not imitation, but confidence: the path is known, and the outcomes are real.

Key Claims

1 The bottleneck has shifted. Application-layer activity—credit, e-money, instant payments, remittance platforms—are exploding, but weak rails now limit how far these products can scale.

2 This is an execution problem, not an innovation problem. The hard work ahead is coordination: agreeing on standards, ownership, incentives, and sequencing.

3 The private sector must be leveraged. The public sector should steward core data and define rules, while private actors build, distribute, integrate, and operate the infrastructure.

4 Timing is on the Philippines' side. Digital adoption is already high, the middle class is expanding, and modern AI tools have sharply reduced the cost of building infrastructure. The tailwinds are real.

Key Recommendations

Layer	Recommendations
Identity	1. The government should maintain a clean, authoritative National ID registry, while private operators build the verification, integration, and fraud infrastructure around it. 2. National ID should become the primary identity standard used across financial institutions, fintechs, and government agencies for onboarding, verification, and fraud prevention.
Banking	3. Make basic deposit accounts economically viable for banks through mandates, incentives, or both.
Payments	4. Provide clear implementation standards and adoption requirements for new payment features, so capabilities are not just built, but used consistently across the industry. 5. Continue supporting multiple payment switches, so competition pushes providers to lower cost, improve uptime, and increase speed and product innovation.
Data & Consent	6. Ground open finance in consumer data rights, so users can access and share their financial data. 7. Enable private consent and data-sharing intermediaries to make those rights usable in practice. 8. Modernize the national credit bureau by combining CIC's mandate power with private-sector execution.

2 Diagnosis: A Top-Heavy Stack

Philippine fintech has reached an unusual stage of maturity. The top of the stack—which spans wallets, digital banks, lending platforms, and remittance apps, among other applications—is thriving. Yet beneath this momentum lies a structural fragility: the infrastructure that makes these products durable has not kept pace. Apps are plentiful but the rails are thin.

Why the Application Layer Is Exploding

Demand is Real and Proven

Fintech adoption in the Philippines has reached mass scale, driven by the convergence of smartphone adoption, sharply declining cellular data costs, and an irreversible behavioral shift first triggered by the Covid-19 pandemic. E-wallets now serve over 70 million users, making digital payments a default behavior for a majority of adults.[3] Overseas remittances—long a backbone of household finance—are nearing US$40 billion annually, with an increasing share flowing through digital channels.[4] At the same time, InstaPay transaction volumes have more than tripled between 2024 and 2025, reflecting strong appetite for real-time payments.[5]

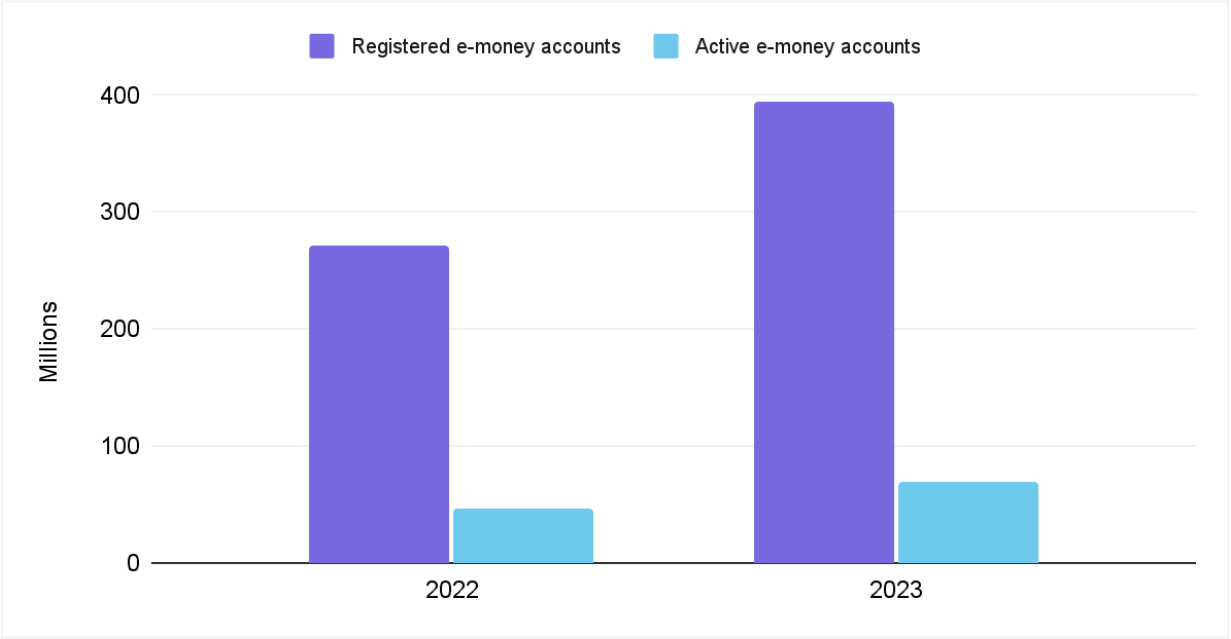

Figure 1: Registered and Active E-money Accounts in the Philippines[6]

Capital has Overwhelmingly Favored Distribution

Investment has flowed disproportionately to application layer companies—wallets, digital banks, and consumer lending platforms. Companies such as GCash, Maya, GoTyme, PayMongo, and Home Credit have raised hundreds of millions of dollars. More recent players such as Billease and Salmon continue this trend, reimagining digital banking through credit and deposit products. Meanwhile, infrastructure startups have attracted only a fraction of this capital to date.

Figure 2: Top VC-backed Fintechs in the PH

Incumbents are Logically Expanding at the Top of the Stack

GCash has pushed aggressively into merchant acceptance and lifestyle payments, expanding its QRPH footprint, as well as consumer lending. Maya has evolved from a wallet into a full-service digital bank, layering credit cards and merchant services on top. Netbank and Salmon have acquired rural banks in a creative effort to offer digital products. But they all rely on infrastructure that has changed little underneath. Without cheaper payment rails, reliable identity verification, or interoperable data standards, these expansions will hit natural limits of cost and risk.

Where the Infrastructure Breaks Down

Credit Remains Fundamentally Constrained by Poor Data Infrastructure

Credit is one of the clearest indicators of how underbuilt the system remains. The Philippines faces an SME credit gap estimated at around US $221 billion[7], yet anecdotes from lenders cite approval rates that hover as low as 1%, driven by thin credit files and limited underwriting capability.

Country	MSME loans as a % of total portfolio [8]	MSME financing gap as a % of GDP [9]
Thailand	20.1%	10.0%
Indonesia	20.6%	19.0%
Malaysia	16.7%	7.0%
Philippines	**4.1%**	**76.0%**

Figure 3: Regional MSME Funding Gap

Lenders rely on manual documentation, incomplete bureau data, and proxy signals such as telco or payroll records. The result is high default losses, conservative credit limits, and exclusion of thin-file borrowers. Without shared identity, interoperable credit data, and cross-institution fraud signals, lending remains costly and difficult to scale.

Payments Are Growing—but Shallow by Global Standard

The Philippines has made progress with QRPH, InstaPay, and PESONet, but merchant adoption remains limited and B2B payments are still dominated by checks. InstaPay volumes grew from roughly *1.4 billion to 4.6 billion transactions between 2024 and 2025*, yet eight years after launch, scale remains modest by global standards. Comparable systems moved far faster: India has surpassed 250 billion annual transactions[10], while Brazil grew from approximately 6 billion to over 60 billion in its first five years [11]. Controlling for population, as seen in Figure 5 below, this translates to 14 and 25 monthly transactions per person for India and Brazil, respectively, compared to a meager 3 transactions for the Philippines.

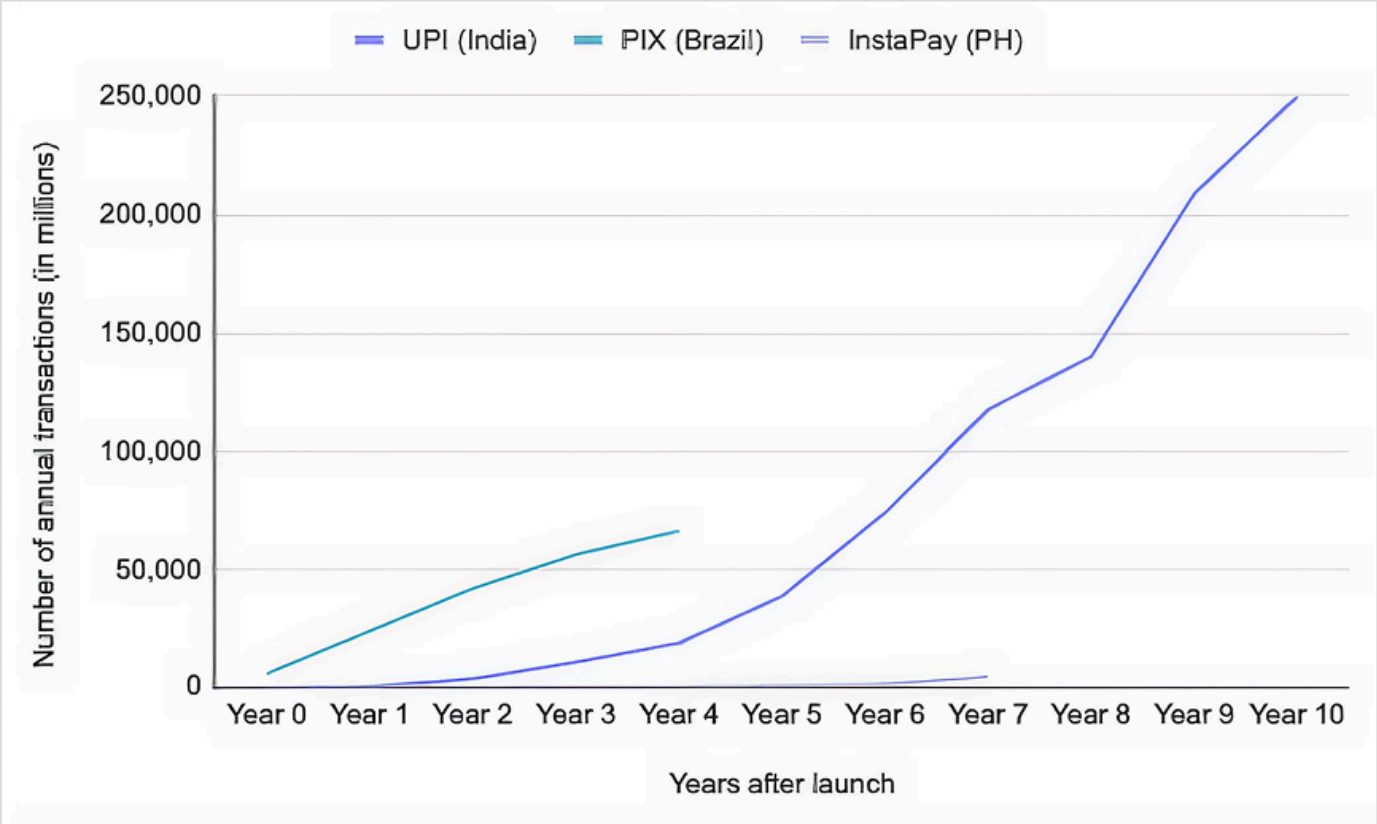

Figure 4: Annual UPI (India), Brazil (PIX) and InstaPay (PH) Transactions Post-launch [12]

System and Country	Monthly Transactions per Person
UPI (India)	14
PIX (Brazil)	25
InstaPay (Philippines)	3

Figure 5: Monthly UPI (India), Brazil (PIX) and InstaPay (PH) Transactions per Person

While population differences matter, structure matters more. When real-time payments are costly, rigid, and inconsistently interoperable, users and merchants limit usage to basic transfers. Indeed, this seems to be the reality today. One of the major use cases of InstaPay today is to top up users' own e-money wallets. That is, the sole real-time payments switch is largely being utilized by users to transfer funds to themselves, instead of for payments.

Until rails support cheaper, richer flows—subscriptions, B2B settlement, automation—payments will scale in volume without transforming commerce.

Digital Usage Has Not Become Banking Inclusion

Wallet adoption is widespread, but formal banking remains limited and has actually declined in recent years. As of 2024, only 34% of Filipino adults held accounts with regulated banks, down from 46% in 2021.[13] Many users transact digitally, yet remain outside the core financial system. In fact, the data suggests that Filipinos are abandoning their bank accounts in favor of e-money, with transaction account utility seemingly shifting to payments from savings.

E-money lowers payment friction but does not build durable financial standing. Credit histories are thin, KYC is not universally portable, and legal protections are limited. As a result, digital activity rarely translates into formal financial inclusion. Without formal accounts, users struggle to accumulate creditworthiness, access larger-ticket loans, or participate fully in savings and investment products.

Why This Matters

This imbalance compounds over time. As the application layer grows, infrastructure gaps widen rather than narrow. More users, transactions, and products are pushed through the same thin rails—amplifying fraud exposure, increasing losses, and driving up operating and acquisition costs. Growth continues, but resilience erodes.

For fintech to keep expanding rather than plateauing, these constraints must be addressed. Demand has already been proven. Infrastructure will determine whether that growth compounds or stalls.

3 The Missing Layers in the Stack

When people reference India's "digital miracle," they often forget how deliberate its sequencing was. The India Fintech Stack—comprising Identity, Banking, Payments, Data & Consent, and Applications—did not appear overnight. Each layer made the next one possible: Aadhaar enabled bank accounts; bank accounts enabled UPI and the underlying money-movement layer, the IMPS; UPI and IMPS unlocked open credit and data-sharing rails. By contrast, the Philippines' fintech stack grew in reverse: applications flourished before the rails were ever laid.

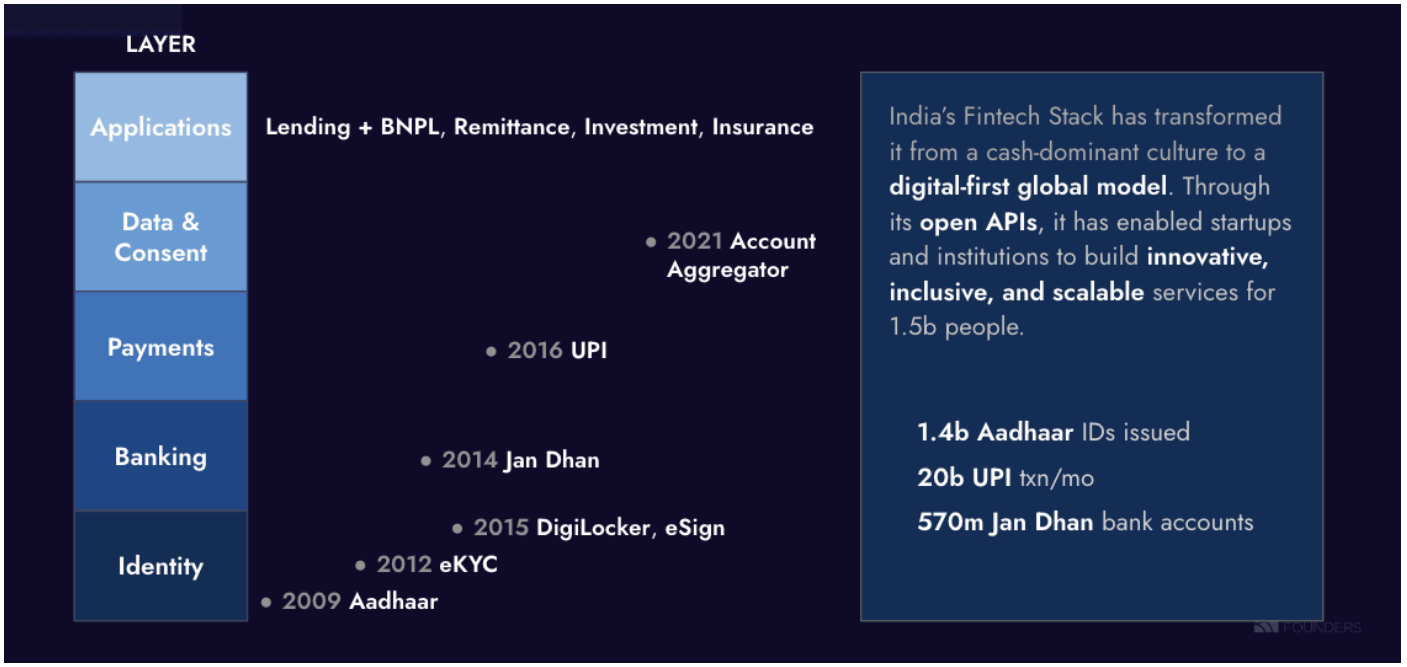

Figure 6: The India Fintech Stack

India's model provides a useful baseline for what remains unfinished in the Philippines. The gaps are not technical—they are institutional, and closing them will require coordination more than invention.

Identity

In India, Aadhaar collapsed the cost of identity verification from hundreds of rupees per customer to near-zero, turning KYC from a material expense into a commodity. In the Philippines, identity verification remains expensive and fragmented ranging from hundreds to over a thousand pesos once document checks, manual reviews, and fraud screening are included.

There is no clean, universally adopted anchor ID. PhilSys coverage remains incomplete, while existing IDs—driver's licenses, passports, SSS, TIN, GSIS—operate in silos and rarely verify against one another. Moreover, PhilSys' digitally native advantages remain under-utilized. It offers an API-based electronic KYC service called eVerify, which appears to have onboarded approximately 150 "relying parties", both public and private. However, most of these do not seem to use the service in practice, with some opting to treat PhilSys just like any other ID to be visually verified and photocopied.

At the same time, institutions rely on a patchwork of KYC vendors and bespoke workflows, each handling different documents and standards. The result is repeated verification, higher onboarding friction, and weaker fraud detection. Identity—the most basic unit of trust—remains costly to establish and easy to work around.

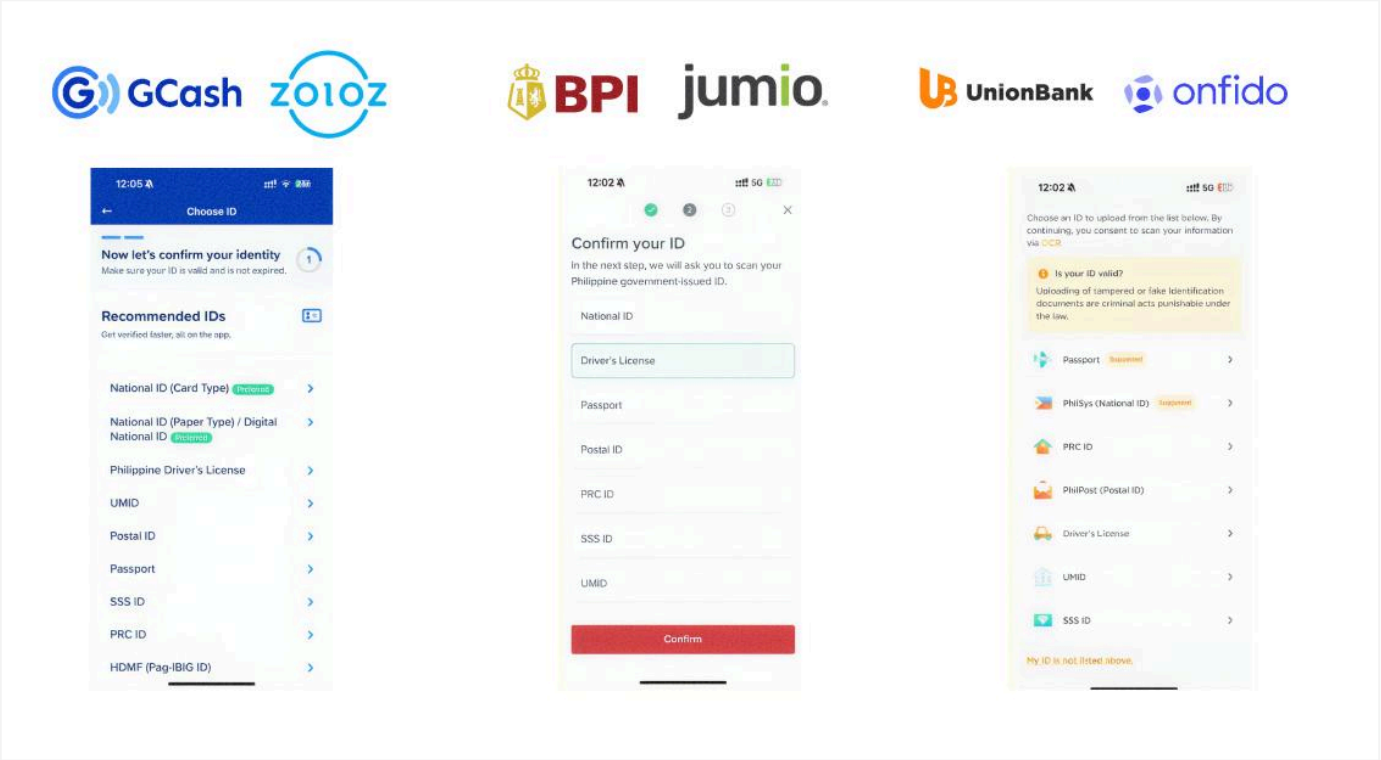

Figure 7: KYC Vendor Landscape Across Financial Institutions

A practical path forward is to separate ownership from execution. The public sector should remain the steward of national identity data, focused narrowly on data quality and integrity. The private sector should act as the deployment layer—building the verification services, consent flows, and integrations that allow banks and fintechs to access that data reliably. This model, where the government owns the data and private operators deliver the infrastructure, has worked in markets like Vietnam and Indonesia.

Once a clean primary ID exists, a second layer becomes possible: linking that ID to phone numbers and devices to detect fraud and money muling. Today, phone numbers often act as the de facto identifier, but they are easy to replace and poorly suited for risk assessment. Anchoring fraud detection to a stable identity allows risk to be identified early and shared across institutions.

Done right, identity infrastructure becomes a shared trust layer—publicly owned, privately delivered, and usable across the entire ecosystem.

Banking

India's Jan Dhan Yojana program (PMJDY) translated identity into banking access by design. Once Aadhaar existed, accounts followed—because state-owned banks were mandated to open them, even at a loss. Inclusion was treated as policy, not a product.

In the Philippines, that bridge remains incomplete. As shown earlier, while tens of millions of Filipinos use e-money wallets, formal bank account penetration remains far lower. The result is a familiar paradox: a population that is digitally active, yet financially shallow.

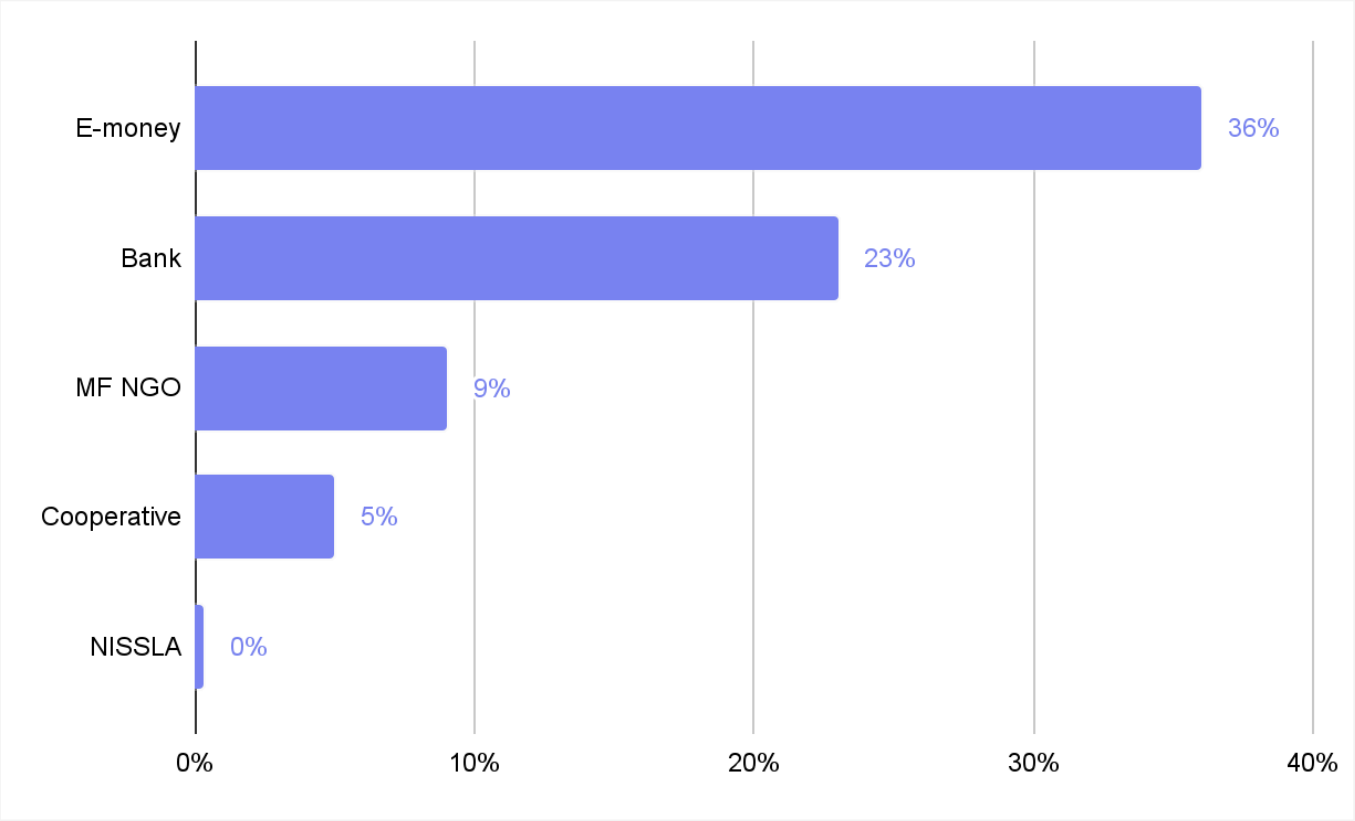

Figure 8: Financial Accounts Owned by Filipinos (2024)[14]

This gap is not explained by identity alone. While eKYC and reusable identity are necessary, the binding constraint is economic. For private banks, basic deposit accounts (BDAs) are often unprofitable: balances are small, transaction volumes are low, and compliance costs are fixed. Unlike India—where state-owned banks could be mandated to absorb inclusion losses—the Philippine government created the product but left execution to private institutions without meaningful incentives. As a result, BDAs exist largely on paper.

Closing this gap requires aligning trust with incentives. Lower onboarding costs help, but banks must also be compensated—through subsidies, float economics (interest income on aggregated deposits), government disbursements, or reduced compliance burden. Without that alignment, inclusion will continue to stall at the boundary between wallets and regulated accounts.

Payments

India's UPI and Brazil's Pix show what happens when instant payments are treated not only as foundational, but as evolving infrastructure: costs fall, features compound, and usage deepens across the economy. The Philippines has the early ingredients—InstaPay, PESONet, and QRPH—but results remain partial.

Transactions are still expensive by global standards. While UPI and Pix charge near-zero fees—roughly ₱0 to ₱0.50 per transaction—InstaPay can cost *20 to 50 times more*, at ₱10 to ₱25 per transaction. PESONet can cost up to a whopping ₱50 per transaction. This reflects how the rails have been built and governed. InstaPay uses Vocalink (now part of Mastercard) as a technology service provider, a relatively high cost model that has delivered stability but slowed iteration. New features—bills pay, aliases, direct debit—have rolled out gradually and unevenly, with inconsistent adoption across institutions. The numbers are striking: less than a fifth of over 500 banks and e-money issuers in the country are InstaPay participants. And out of the 93 financial institutions that are connected, only 61 are in person-to-person (P2P) QRPH, 49 in person-to-merchant (P2M) QRPH, and 29 in Bills Pay. Integration remains fragmented, raising costs and weakening network effects.

The stakes for upgrading this infrastructure go beyond costs and transaction volumes. Improving the payments layer directly enhances the efficacy and viability of broader financial products. For example, the integration of auto-direct debit has been shown to improve loan repayment rates.[15] Until the Philippines levels up its payments infrastructure, these "network effects" will remain out of reach, leaving the economy with a foundational layer that is functional, but far from transformative.

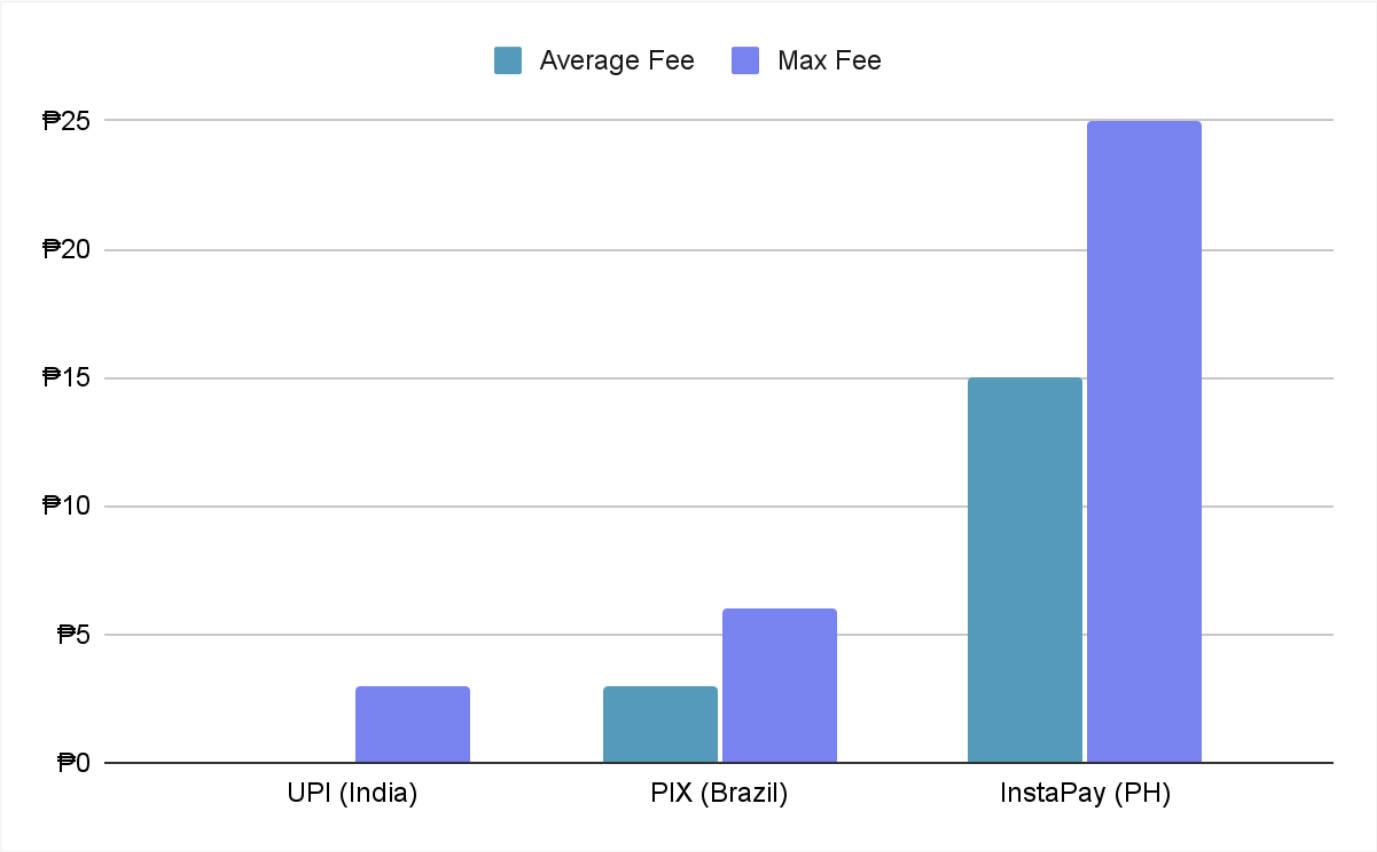

Figure 9: Consumer Fees per Transaction by Transaction Rail (₱)

If adoption cannot be mandated, execution should be standardized and onboarding made seamless. Clear BSP guidance on how payment features are implemented—not just that they exist—would reduce fragmentation and integration cost. Today, banks already contend with inconsistent request formats and response handling when integrating with BancNet, forcing custom logic for what should be common flows.

In parallel, the ecosystem should encourage alternative payment switches built on modern, lower-cost technology. New rails can experiment with cheaper settlement, richer metadata, and faster iteration—particularly for institutions excluded from existing networks, such as rural banks. Efforts like Abli illustrate how competition at the infrastructure layer can help reset cost and capability benchmarks.

Without more adaptable payment rails, application-layer innovation—from lending to remittances—will continue to scale in volume while remaining constrained in depth.

Abli

Case Study

One response to fragmented execution, high integration and operating costs, and limited use cases supported is to introduce competition directly at the infrastructure layer. Abli is one such example.

What is Abli?

Abli is clearing infrastructure that institutions can seamlessly integrate with the national instant payment rail, InstaPay. Its primary objectives include simplifying connectivity for financial institutions, standardizing technical processes, and enhancing the economics and reliability of instant payments—particularly benefiting participants facing significant cost and operational barriers under current conditions. Additionally, Abli's infrastructure will be further developed by incorporating value-added services (VAS) to broaden supported use cases and leveraging open finance principles to extend participation to fintechs, beyond traditional banks and EMIs.

How Abli addresses fragmentation

Abli provides enhanced consistency at the infrastructure level, which decreases integration complexity and improves reliability for all stakeholders. The platform features institutional transaction fees at roughly half those of the incumbent network, and supplies advanced digital tools such as dashboards, forecasting, and automated reconciliation. Abli also targets a 99% service availability with throughput capacities reaching up to 10,000 transactions per second—ten times higher than the incumbent provider. Collectively, these capabilities create more predictable operating environments and deliver increased value for institutions utilizing the instant payment rail.

Why this enables depth and scale

Abli's architecture is built to accommodate future growth and increased transfer volumes. It supports extensions beyond basic P2P and P2M transactions, such as aliases, debit pulls, direct debits, automated bill payments, and disbursements, complemented by operational and compliance solutions. This enables high-frequency, low-value payments to be processed economically by a wider range of institutions. The inclusion of fintechs, which drive

innovation and enhance customer experience, is expected to increase competition and create new market opportunities.

Why this matters system-wide

Abli illustrates the role that adaptable infrastructure can play in moving the payments ecosystem from partial adoption toward deeper, more functional usage, while fostering a broader ecosystem that unlocks room for application-layer innovation without being constrained by the limits of the rails beneath it.

Data & Consent

Consent infrastructure is the connective tissue of financial inclusion. Consumers and businesses generate data that proves credibility—income flows, repayment behavior, utility payments—but without a practical way to access and share that data, its value remains trapped.

India shows what effective execution looks like. Its Account Aggregator framework is regulated by the state but executed by licensed private firms that compete on technology and distribution under common standards. The result is a functioning data market: underwriting costs fall, strong borrowers are rewarded, and credit decisions rely more on verified behavior than proxies.

The Philippines still lacks this layer in practice. Open finance exists on paper, but users and businesses often cannot retrieve and share their financial records digitally. Credit data remains fragmented, borrowers can stack loans across institutions, and lenders still underwrite with limited visibility. Losses rise, decisions stay conservative, and access remains constrained.

Fixing this requires three moves.

1. Anchor open finance in *consumer data rights*, following models like Australia's Consumer Data Right, which guarantees users the right to access and share their data across sectors.
2. Encourage *private intermediaries* to operationalize consent, as India has done—networks like LenderLink show how decentralized, consent-based credit exchanges can work in practice.
3. *Modernize and integrate the national credit bureau*: pairing CIC's mandate power with private-sector execution to improve coverage, timeliness, and usability.

Done right, consent completes the stack: identity verifies who you are, payments show what you do, and consent allows your financial data to move with you.

LenderLink

Case Study

One way to operationalize consent in practice is through private intermediaries that enable data sharing under certain standards while preserving user control. LenderLink illustrates how this can work in consumer credit.

What is LenderLink?

Instead of acting as a traditional credit bureau, LenderLink operates as an API-based credit data network that allows lenders to both contribute and access borrower data with consent. Data remains decentralized; staying with the originating institution, and is shared only when a borrower authorizes access. This structure aligns with Open Finance principles while avoiding the delays and rigidity of centralized reporting systems.

How LenderLink operationalizes consent

LenderLink enables real-time, consent-based access to credit records contributed by participating lenders, collection agencies, and other data providers. Borrower data is queried directly from the source via secure APIs, ensuring timeliness while allowing contributors to retain control over proprietary datasets. Incentive mechanisms reward data contribution, helping offset underwriting costs and encouraging participation across the network.

What changes for lenders

By expanding visibility beyond thin or fragmented bureau files, LenderLink allows lenders to observe active borrowing behavior across institutions. This improves risk differentiation, particularly for first-time and underbanked borrowers, reducing blind spots that lead to stacked borrowing, elevated delinquencies, and conservative rejection rates. For lenders, underwriting becomes both cheaper and more accurate, with decisions grounded in verified, recent behavior rather than proxies.

Why this matters system-wide

LenderLink demonstrates how consent-based data exchange can function as living infrastructure rather than static reporting. As participation grows, borrowers accumulate portable financial reputations that move with them across lenders, while institutions gain a clearer, shared view of credit risk. In doing so, networks like LenderLink point toward a more inclusive credit system, where access expands not through looser standards, but through better information.

The Stack, Reversed

The Philippines did not build its fintech stack in neat sequence. Applications scaled first because demand was real, and that success exposed the rails that were missing underneath.

That inversion is now the market signal. High onboarding costs, payment friction, conservative credit, and fragmented data are no longer abstract infrastructure gaps; they are visible constraints on margins, scale, and user experience.

The lesson is not to rebuild the stack from scratch, but to respond to what the market has already revealed. The next phase of growth depends on turning application-layer momentum into shared infrastructure—so innovation can compound instead of leak value.

4 Unit Economics: Where Infrastructure Creates Profit

Infrastructure progress happens because it improves unit economics. In fintech, each improvement in rails—whether identity, banking, payments, or data—translates into better economics for the businesses that sit on top as well as for the end customers.

To understand where infrastructure investment will matter most, we can look through the lens of the three largest fintech applications in the Philippines today: *lending, merchant payments, and remittances*. Each has a simple economic equation at its core, and each equation points to the same conclusion—*infrastructure is what turns growth into margin*.

Lending: Yield vs. Losses

At its most basic, every lender's economics can be summarized as:

Net Revenue = Interest Income - (Losses + Cost of Capital + Opex + Customer Acquisition Costs)

In the Philippines, losses dominate this equation. Consumer and SME lenders regularly face default rates in the 20-30% range—an order of magnitude higher than in more data-rich markets. With that much drag, even generous yields can't offset the cost of capital and operations.

Why are losses so high? Because underwriting still happens in the dark. Credit bureaus are incomplete, identity data is inconsistent, and fraud detection is fragmented. A bank or fintech can spend ₱1,000 to verify a user and still not know whether that person exists in another database under a different spelling or ID.

Infrastructure fixes that. A *unified credit bureau and data-exchange network* reduces losses by improving visibility. *Open-banking APIs* lower operational costs by automating credit pulls and reconciliation. A *shared identity graph* cuts down on duplicate or fraudulent applications.

The implication is straightforward: build first where infrastructure most directly improves the math.

Payments: Merchant Margin Pressure

Payments, from the perspective of merchants, run on a different formula:

Net Revenue = Gross Revenue - Merchant Discount Rate (MDR)

where MDR is the fee charged by payment providers to the merchant per transaction

In a low-margin economy like the Philippines, merchants will only adopt digital payments if MDR is small enough to justify switching from cash. Today, that isn't the case. QRPH and InstaPay transactions cost 1-2%, GCash and Maya charge ~2%, and credit cards still average ~4%. By comparison, UPI and Pix operate near *₱0-₱0.50 per transaction*—essentially zero.

The difference isn't technology, but infrastructure. Zero-fee systems rely on efficient real-time settlement rails and shared clearing infrastructure. The Philippines' existing rails are slower and more expensive, burdened by intermediary fees and fragmented standards.

Lowering MDR means lowering the cost of moving money through cheaper rails, faster settlement, and more reliable dispute resolution. Merchants don't care how payments work—only how much they cost. Infrastructure is the only sustainable way to make that cost negligible.

It is worth acknowledging that moving toward a near zero MDR model fundamentally disrupts the incumbent business case for payments providers, pushing them to pivot from earning a spread on every PHP moved to exploring other revenue engines. This is not necessarily bad news, as the "lost" transaction revenue can be offset by a more robust ecosystem:

- **Volume & Float:** Increased transaction volume compensates for lower per-unit margins and boosts float income for aggregators.
- **Lending:** Higher deposit balances (for banks) allow players to aggressively cross-sell loan and credit products, where the real margins reside.
- **Value-Added Services:** Revenue shifts toward high-utility tools like payroll and bulk pay-out, direct/auto debit, reconciliation, invoicing, and fraud prevention.

Ultimately, infrastructure is the only sustainable way to make payment costs negligible for the merchant while simultaneously unlocking the higher-value financial services—like credit—that a fragmented, expensive system currently stifles.

Remittances: The FX and Fee Equation

For cross-border transfers, the math, from the perspective of the recipient, is as follows:

Net Take-Home = Gross Remit – Fees – FX Spread – Last-Mile Costs

where every peso of friction comes out of the recipient's pocket

Traditional cash-out networks like Western Union or Cebuana charge medium-to-high fees plus wide FX spreads to cover cash handling and partner payouts. Account-to-account services like Wise or Remitly are cheaper but require both sender and recipient to have digital accounts—a constraint in markets where many remain unbanked. The result: *2.5 % to 5 %* leakage on each remittance.

Given that overseas Filipino remittances are approaching *US $40 billion annually*, every 1% of friction removed translates into roughly *US $400 million* of value retained by Filipino households.

Infrastructure, again, is the fix:

- *Cheaper domestic payment rails* reduce last-mile payout costs;
- *Higher account adoption* enables A2A transfers rather than cash pickups; and
- *Market-rate FX liquidity pools*—potentially powered by stablecoins—can narrow spreads to near zero.

From the point of view of the remittance companies, lowering underlying transaction costs can also lead to higher volumes by incentivizing a shift from informal 'grey market' channels to formal digital ones. When the cost of a legal transfer nears parity with hand-carried cash or unregulated couriers, the security and speed of the formal system become an easy choice for the sender, benefitting both service providers and end users.

Sequencing the Build

The build sequence should follow the economics. In the Philippines, that means starting with the layers that reduce losses, fraud, and onboarding costs; then improving the rails that lower payment costs and increase adoption; and only then building higher-order systems for intelligence and liquidity.

Short Term (0–3 years): Build Trust and Data

The immediate bottlenecks are risk and friction. Losses, fraud, and onboarding costs are the biggest drag on fintech margins today, especially in lending. The first generation of infrastructure should therefore focus on identity, credit visibility, and account opening.

- Strengthen the National ID as the core identity layer, with the government maintaining the registry and private players building on top of it.
- Build a connected credit bureau or data exchange that gives lenders visibility into borrower performance.
- Make BDAs economically viable for banks through mandates, incentives, or both.

This is the foundation for trust: lower-cost verification, better underwriting, and broader account access.

Medium Term (3–6 years): Build Speed and Cost Efficiency

Once risk costs begin to come down, the next lever is efficiency. This means payments infrastructure—real-time clearing, direct debit, automated settlement—as well as broader adoption of open finance. Together, these layers lower merchant MDR, improve working capital, reduce reconciliation costs, and make digital acceptance more

viable for small businesses. In addition, more efficient payments lowers loan repayment costs and delinquency, which in turn lowers lending interest rates and expands coverage.

At this stage, open finance becomes far more impactful. As identity and data become more reliable, lenders can underwrite against transaction history and cash flows, businesses can build credit through payment activity, and remittances can settle more directly into wallets and accounts. The ecosystem shifts from isolated apps to a more connected financial fabric.

Long Term (6–10 years): Build Intelligence and Liquidity

Only once identity, credit, and payment economics improve do higher-order systems become viable at scale:

- Consent frameworks can evolve from basic data access into deeper data portability and user control.
- Multi-institution fraud and AML networks can begin aggregating signals across the ecosystem.
- More interoperable and lower-cost payment rails can support advanced domestic and cross-border settlement, liquidity, and new money movement models.

At this horizon, infrastructure stops being plumbing and becomes intelligence. The system starts learning from itself, detecting risk earlier, lowering operating costs, and enabling capital and information to move more efficiently across the economy.

The Economics of Timing

Each layer compounds the one before it. Without reliable identity, data-sharing does not scale. Without cheaper payments, digital commerce stalls. Without shared data, fraud prevention remains fragmented.

The Philippines can compress the timeline seen in more mature markets by building in the order that fixes the economics first: losses, cost, and friction. When the math works, adoption compounds.

5 Build the Stack as an Ecosystem

What determines success is not whether the public and private sectors collaborate—everyone agrees they must—but *how responsibilities are divided, when mandates are applied, and where incentives are aligned.*

Clarity on What the State Owns vs. What the Market Builds

Successful infrastructure starts with clear ownership. The issue is not who leads, but what the state should own and what the market should build.

The Philippines' National ID shows the cost of ambiguity. PhilSys has progressed slowly in part because the government has tried to serve as data steward, product owner, and deployment channel at once. A clearer model—public ownership of a clean identity database, paired with private-sector execution of integration and distribution—could have delivered utility faster.

Payments hints at an alternative approach. By allowing multiple payment switch operators rather than a single monopoly, the BSP created room for players like Abli to serve institutions excluded by InstaPay's cost and integration requirements. Even within InstaPay's QRPH P2M framework, a wide range of players have been accredited as merchant acquirers. The lesson is simple: clarity on ownership and openness shapes outcomes.

Sequence Infrastructure Before Mandates

Mandates work only when the rails are ready. If sequencing is wrong, compliance becomes shallow and data quality suffers.

Indonesia built workable national ID and eKYC rails before enforcing SIM registration. The Philippines did the reverse, imposing SIM registration before identity infrastructure was mature. The result was rushed compliance with limited trust gains; today, SMS scams riding on fraudulent SIM registrations remain rampant. Build the rails first, then mandate behavior on top of them.

Be Realistic About Incentives—and Mandate When Needed

Not all coordination failures resolve on their own, especially in concentrated markets. Open finance is one example: adoption remained limited because incumbents benefit from keeping data closed.

The same is true for basic deposit accounts. Banks are not naturally incentivized to open and support low-balance accounts. If inclusion is a policy goal, it must be mandated—and paired with mechanisms that offset provider costs, whether through subsidies, float economics, or lower compliance burden.

The Lesson

Infrastructure succeeds when roles are clear, rails come before mandates, and mandates are used where incentives are misaligned. When those conditions hold, coordination becomes execution. When they do not, even well-designed initiatives stall.

6 Regional vs. Local: What Travels, What Doesn't

The Philippines is often viewed as a natural expansion market for regional fintech infrastructure given its scale, digital adoption, and English-speaking population. In practice, infrastructure outcomes are far more constrained by structure than execution. Two factors are consistently determinative: *dependence on authoritative government data* and the *degree of ecosystem-wide distribution required*. When plotted together, these dimensions explain why some categories are inherently local, others favor incumbents or consortia, and only a narrow subset are meaningfully portable across markets.

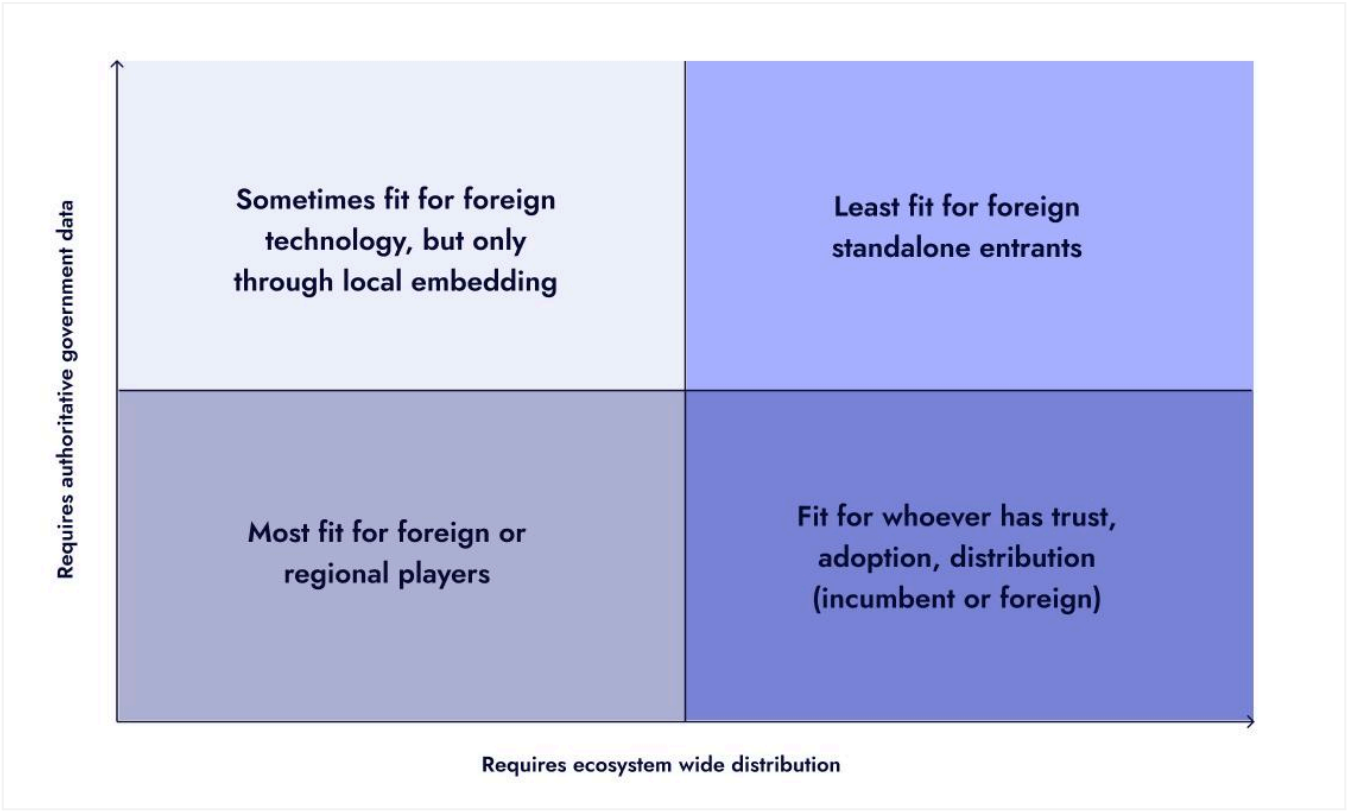

Figure 10: Regional vs. Local Infrastructure

High Government Data × High Distribution — Sovereign Rails

Infrastructure in this quadrant sits closest to the state and requires both privileged access to sovereign data and broad adoption across the financial system to function. Success depends on political trust, formal data-sharing agreements, and coordinated participation from major banks and institutions, resulting in long timelines and high institutional inertia. These dynamics strongly favor local players with deep regulatory relationships, and such systems often evolve into quasi-public utilities; foreign entrants face overwhelming odds without government sponsorship and local partnership.

Examples

- National ID authentication and eKYC rails (e.g. PhilSys)
- Credit registry access and propagation layers (e.g. CIC)
- Payment switches and operators for real-time payments (e.g. InstaPay, PESONet)

High Government Data × Low Distribution — Authoritative Point Services

This quadrant includes narrowly scoped infrastructure services that rely on government data but are sold to a limited set of regulated institutions rather than requiring ecosystem-wide adoption. The primary bottleneck is securing government access and maintaining compliance, security, and auditability; once access is achieved, distribution is relatively straightforward. Local specialists typically win, though foreign technology can succeed when embedded through local system integrators or government contractors.

Examples

- Point APIs for authoritative government-linked data, such as employment benefits records, police records, tax status, etc.
- Regulatory and supervisory reporting pipelines (e.g. BSP, AMLC)

Low Government Data × High Distribution — Network Infrastructure

Infrastructure in this quadrant does not depend on sovereign data, but its value emerges only once a critical mass of participants adopts the same standard or rail. Coordination, incentive alignment, and governance matter more than technical sophistication, and failure modes are driven by collective action problems rather than product gaps. As a result, incumbents, large platforms, or consortium-led entities with existing distribution and trust advantages are structurally favored over standalone technology entrants. Global platforms like Apple Pay or Google Pay can also succeed here because they enter with trust, adoption, and distribution already established at scale.

Examples

- Payments interoperability and routing layers
- Merchant QR acceptance infrastructure
- Open banking connectivity hubs

Low Government Data × Low Distribution — Horizontal Fintech Infrastructure

This quadrant contains the most portable forms of fintech infrastructure, which can be sold institution by institution without reliance on sovereign data or ecosystem-wide coordination. Success is driven by technical performance, security, reliability, and clear ROI rather than relationships or regulatory positioning. Global specialists with scale advantages and proven products consistently outperform local players, who struggle to sustain differentiation unless tightly coupled to higher-moat layers.

Examples

- OCR and document digitization
- Data normalization and ETL pipelines
- Fraud and transaction monitoring engines

Regional Takeaways

The closer fintech infrastructure sits to sovereign data and ecosystem-wide coordination, the more outcomes are predetermined—and the more local the eventual winner. Infrastructure that avoids both constraints is where regional and global players can reliably scale across markets.

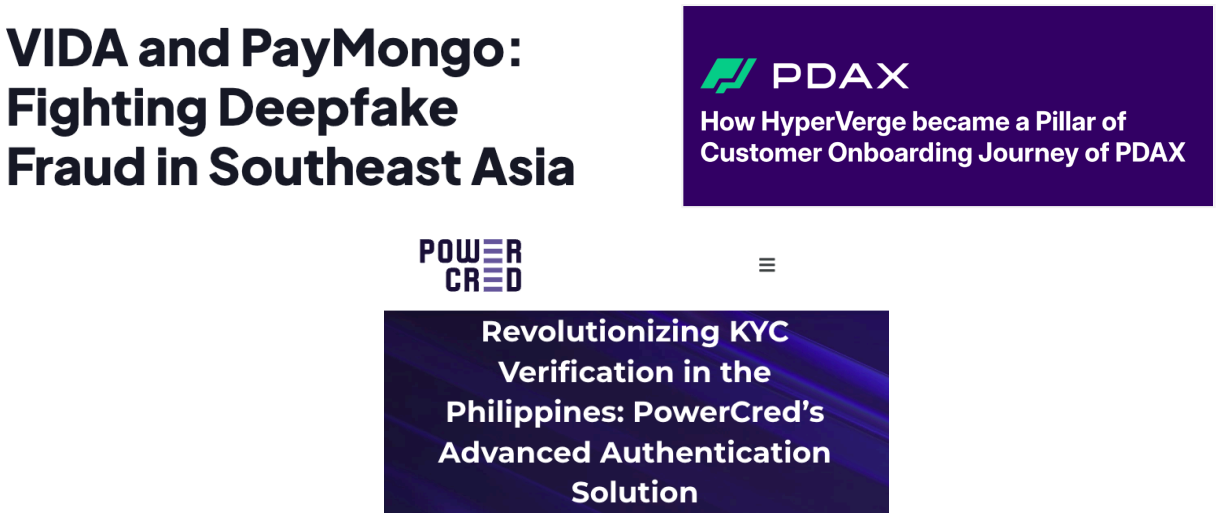

Figure 11: Foreign Entrants Offering Local Process Automation

7 AI and FinTech

The Philippines does not have India's concentration of technical talent inside the state, but it has a different advantage today: AI has sharply lowered the cost of building infrastructure-grade systems. This does not replace governance or coordination; it reduces the technical burden of solving many problems that once required large bespoke teams.

Where AI Actually Fits

At first glance, fintech infrastructure seems an unlikely place for AI. These systems are not complex math or consumer-facing products; they are databases, ledgers, and workflows that verify identity, move money, and record history.

AI's impact lies in *turning messy real-world data into structured, usable inputs*. Documents, receipts, handwritten forms, PDFs, and inconsistent records can now be processed reliably at scale. Tasks that once required custom pipelines or manual review—such as extracting data from paper statements or validating photographed IDs—are now largely automated. These improvements are invisible to users, but they materially reduce onboarding cost, reconciliation effort, and operational friction.

Case Study: Identity Matching

A uniquely Philippine challenge is the complexity of names—multiple given names, abbreviations, nicknames, and name changes after marriage. Historically, matching records across systems required brittle regex rules or bespoke machine learning models.

Today's LLMs change this by treating identity as *probabilistic rather than exact*. Instead of asking whether two records match perfectly, systems estimate how likely they refer to the same person using semantic, demographic, and biometric signals. What was once a difficult data science problem has become a tractable engineering task, allowing identity systems to scale despite imperfect data.

From Rules to Patterns

Much of today's financial infrastructure still relies on rigid rules and manual checks. AI enables a shift toward pattern recognition—learning what normal behavior looks like and flagging deviations. This is particularly valuable in credit and fraud, where data is sparse and certainty is rare. The result is not fewer controls, but *better judgment at scale*, with humans focused on true exceptions.

What This Means

The Philippines' advantage is not superior technology, but *lower technical friction*. AI reduces the cognitive and operational burden at the edges—onboarding, verification, reconciliation, and monitoring—where infrastructure efforts often stall. It will not replace institutions or coordination, but it makes building shared rails meaningfully easier.

The impact of AI in fintech will not come from flashy replacements, but from making the unglamorous parts of infrastructure cheaper, faster, and more resilient. In a system where coordination is already hard, that reduction in friction may be the difference between ideas that stall and infrastructure that actually ships.

8 Conclusion

The story of Philippine fintech is already being written in the numbers: adoption is soaring, but the rails beneath are straining. Every new wallet, lender, and payment app increases the need for better identity, cheaper settlement, and shared data standards.

We now know what needs to be built, which layers unlock the rest, and how profits will migrate to whoever reduces the cost of risk, operations, and acquisition. The path forward is not speculative—it requires building the right layers in the right order, with clear ownership across the ecosystem.

If you are an *investor or builder*, this is the roadmap for where returns will concentrate.
If you are a *policymaker*, this is how to enable innovation safely and at speed.
If you are an *industry leader*, this is the call to collaborate rather than duplicate.

The next phase of Philippine fintech will depend on a shared vocabulary—on everyone speaking the same language about rails, data, and trust. Once that alignment happens, progress becomes unstoppable. The infrastructure will not only follow—it will finally lead.

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Connor Wen is an operator and investor working at the intersection of fintech, AI, and emerging infrastructure. He previously worked on software procurement AI at BRM, founded Easely, a no-code smart contract builder, and served as a Director at Carta, where he focused on infrastructure for equity ownership and cap table management.

After moving to the Philippines in 2025, he immersed himself in the country's fintech and credit ecosystem. This paper reflects that work: a practical look at the infrastructure gaps, market incentives, and policy choices that will shape the next phase of Philippine fintech.

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