

DIGITIZING PAYMENTS IN LATIN AMERICA PLAYBOOK

JUNE 2022



■ FEATURE STORY

CloudWalk on meeting Latin America's growing demand for digital payments

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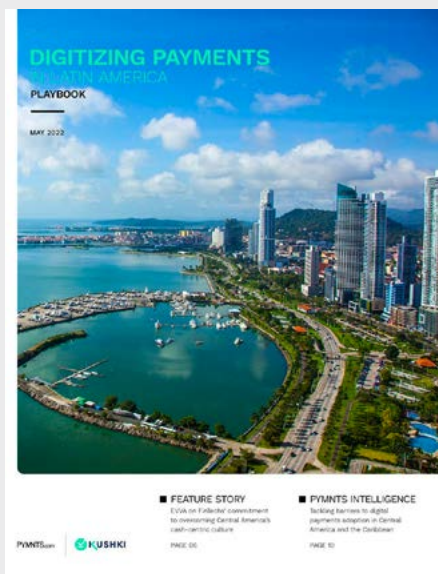
How demand for digital and contactless payments is rising across Latin America

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DIGITIZING PAYMENTS IN LATIN AMERICA PLAYBOOK

Read the previous edition



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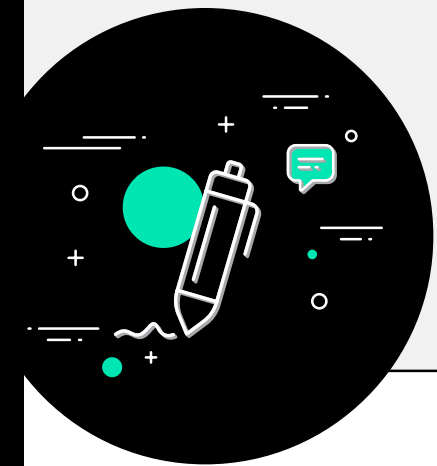
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EDITOR'S LETTER

DIGITIZING PAYMENTS IN LATIN AMERICA

PLAYBOOK

As the world adopts digital payment options at a breakneck pace, Latin American countries have typically lagged in the shift from cash to alternative payment methods, including digital wallets, QR codes and other contactless payment options. With recent [research](#) indicating that economic growth is more sluggish for cash-reliant societies than for those shifting rapidly to digital payments, the war against cash in the region is taking greater precedence than ever. Still, daunting challenges linger.

Among the factors that have [driven](#) a reluctance to switch to digital are the sheer volume of unbanked and underbanked citizens throughout Latin America, uncertainty of how digital payments work and doubts about the safety of noncash transactions. Nevertheless, there is a core group of citizens taking bold steps toward digital adoption across the region, proving their willingness to embrace the technology under the right circumstances — such as when governments, financial institutions (FIs) and businesses work together to promote the safety and accessibility of innovative payment methods.

Guided by the imperative to make digital payment systems a priority, adoption across a wider demographic is starting to take shape. These signs are especially clear in Argentina and Mexico, where locally connected QR codes have already been implemented and where nationally centralized cryptocurrency is developing. The excitement that new systems are generating among early adopters in the region has payment companies [chomping](#) at the bit to be the next piece in the technology puzzle of how to boost digital access for nontraditional banking customers.

This edition of the Digitizing Payments In Latin America Playbook, a PYMNTS and Kushki collaboration, delves deeper into the history of banking in Latin America and the obstacles the region faces during the current wave of digital adoption. It also illuminates the opportunities and advancements suggesting that the future of FinTech and digital payments is looking particularly bright across the region.

Thought Leadership Team

PYMNTS.com

■ Feature Story

CloudWalk On Meeting Latin America's Growing Demand For Digital Payments

BRAZIL IS BECOMING A LEADER IN DIGITAL PAYMENTS ADOPTION IN LATIN AMERICA, AND CONSUMERS IN THE COUNTRY HAVE HIGH EXPECTATIONS WHEN IT COMES TO THESE PAYMENTS.

Brazilian small to mid-sized businesses (SMBs) are poorly served by legacy banks, leaving room for alternative payment options to fill the void, according to Luis Silva, founder and CEO of payment network provider [CloudWalk](#).

“Consumers look for a combination of best price, product and customer experience,” he told PYMNTS in a recent interview. “In Brazil, we have been using EMV chip and PIN cards for more than a decade. Now banks are issuing contactless cards, and the central bank launched Pix, the Brazilian instant payment network, with huge success. So basically, contactless payments and Pix are the favorite payment methods here, because they are cheap and fast.”

The success of these payment innovations is not surprising, Silva explained, considering that Brazil is on the vanguard of payments worldwide.

“Our central bank had a [major] success with the launch of Pix, which is being used by hundreds of millions of shoppers and merchants every day,” he said. “We have released our own stablecoin, called Brazilian Digital Real, in our own blockchain, the CloudWalk Network, which is being used by hundreds of thousands of shoppers and merchants. Our mission is to move money at the speed of light, and the technology we are developing is cutting-edge — not just in the region but worldwide.”

MEETING THE NEEDS OF BNPL-SAVVY CONSUMERS

Payment providers trying to enter the Latin American market do face challenges, according to Silva, a key one being the need to support consumers who expect to pay in installments, a long-time and common practice.

“I can speak for Brazil, which is the biggest country in the region by far,” he said. “Payment providers [new to our market] have a hard time understanding the concept of installments, which is our version of [buy now, pay later, or] BNPL, something that all card issuers have been doing in the last 20 years here. Also, Pix and instant payments are new for those who come to our country.”

In Latin America, payment providers also face fraud threats, which they must actively address and find ways to mitigate, Silva added.

“Fraud is a big problem in our industry,” he said. “The faster you move money, the more fraud attacks will occur. So your technology should be ready to evolve and deal with this. Nevertheless, we have been using machine learning to detect and prevent bad actors. We have been training [artificial intelligence] models for a while to recognize fraud threats that are impossible to be detected by humans.”

TAKING THE LEAD IN PAYMENTS INNOVATION

Silva has high hopes for the burgeoning digital payments market in Latin America — and Brazil, in particular.

“Brazil is the best country in the world right now with regard to technology and innovation in the payment space,” he said. “Our central bank is really innovative with the launch of Pix, and the rate of adoption is unprecedented on the planet. Also, a whole ecosystem of issuers has supported BNPL for dozens of years already, while it is [only] starting to get traction in North American markets. We have so much to teach other countries about how to move money faster and in a safe way.”

Silva added that achieving that safe and swift money movement is exactly what CloudWalk is doing, and for that purpose, he said the company is hiring the best people worldwide.

“One of the fears is inflation, but that is something every country is facing right now,” he noted. “Nevertheless, we do believe that technology can fix that with more efficiency and productivity.”

The optimism that new payment systems such as Brazil’s are generating in the region gives every reason to anticipate a bright future for digital payments in Latin America.

How Demand For Digital And Contactless Payments Is Growing Across Latin America

THE PANDEMIC **ACCELERATED** THE DIGITIZATION OF COMPANIES' CUSTOMER INTERACTIONS BY AS MUCH AS FOUR YEARS AND THE SHARE OF THEIR DIGITAL PRODUCT OFFERINGS BY AN ASTOUNDING SEVEN YEARS.

As companies across the globe worked double time to develop digital- and mobile-first platforms to adapt to pandemic-related restrictions, consumers readily shifted their primary payment methods toward digital technologies. The result is that cashless transactions are projected to **double** globally by 2030, with the Asia-Pacific region showing the biggest appetite for contactless, digital payments.

Despite widespread payment changes and restrictions on cash usage in the midst of the pandemic, Latin American countries were hesitant to embrace digital payments with open arms. Reports on digital adoption in Brazil during the crisis, for example, **showed** around one-quarter of banked citizens still avoided mobile payments due to concerns about their safety or uncertainty around how the process works.

Brazil was not unique in the region in its trepidation toward the digital shift. In Mexico, for example, while debit cards are **used** for online purchases 88% of the time, cash payments upon delivery are still a close contender at 74% — a gap that feels too narrow for promoters of digital transformation. The rivalry

between cash and digital has been Latin America's key obstacle in the quest to become a digital-first economy. Adding to the region's traditional cash dependence are unbanked and underbanked citizens, who present an impediment to increased digital adoption.

Increasing the awareness and accessibility of digital payment methods in Latin America is a code that remains to be fully cracked. This month, PYMNTS Intelligence examines how leaders in the FinTech industry, government and legacy FIs across the region are seeking to decrease cash dependency to stimulate economic growth, keep pace with an increasingly digitized world and promote greater financial inclusion for Latin American citizens.

CONVENIENCE, ACCESS AND EDUCATION ARE KEY TO ADOPTION

While major strides still need to be made to promote financial inclusivity in Latin America, early [research](#) shows that for those citizens who are banked, digital transactions are slowly becoming the new norm. Citizens who began using innovative payment technology in the wake of the pandemic have become more accustomed to these safer, quicker and more convenient payment methods, offering proof that, with thoughtful implementation, next-generation payments can become more prevalent.

The earliest indicator of Latin America's ability to adapt to online payment tools [comes](#) by way of eCommerce, which is expected to grow in the region at a compound annual growth rate of 19% through 2025. Argentina's eCommerce market is expected to show the largest global year-over-year growth, with experts estimating 26% gains through 2025, thanks in part to Argentinians' willingness to download new apps.

While credit cards are currently the most commonly used payment method for eCommerce transactions across all of Latin America, [research](#) indicates that digital wallet usage will surpass credit and debit card usage in Mexico by 2024. Digital wallet adoption is taking off across many types of vendors, from global brands such as PayPal and Apple Pay to regional and local options including RappiPay, Mercado Pago and Yape. Digital wallets made up 19% of Latin American eCommerce spend in 2021, compared to credit cards' 39%.

TRENDING TOWARD DIGITAL ADOPTION

As the routine of leveraging digital payments becomes more ingrained in consumer habits and as more merchants implement the technology to allow for contactless payments — specifically with in-store, face-to-face transactions — signs indicate that Latin America is picking up the pace with the digital transformation. In fact, Visa recently released a [study](#) showing that eight countries in Latin America and the Caribbean are already extensively using digital payment methods, with contactless technology accounting for more than half of face-to-face transactions.

Though the pace of adoption is favorable, FIs, private and public companies and government entities must still work together to improve payment diversification, financial inclusion and awareness. This includes building interoperability into payment systems for even more convenience. Take, for example, the Transfers

3.0 system in Argentina, which [launched](#) in 2021. The program is designed to leverage QR codes that connect to all virtual wallets, whether from a bank or a FinTech, and could be accepted by any business, regardless of the organization providing the code. This advanced connectivity and versatility in payment methods [has proven](#) successful, as Argentina now has the third highest-ranking volume of online purchases in Latin America. Another example is Mexico's newly [launched](#) interoperable system for mobile QR code payments, which works similarly to allow businesses to connect with digital wallets and enable consumer payments through QR codes.

By pairing innovative technologies and increased convenience, the hope is that cash dependency will drop and the appetite for digital payments will continue to grow, benefiting all — from citizens to businesses to FIs and economies.



NEWS & TRENDS

DIGITAL PAYMENT DEVELOPMENTS

LATAM ECONOMIES SEE BENEFITS OF REAL-TIME PAYMENTS ADOPTION

As digital payment options expand in countries throughout Latin America, the efficiency and convenience of modern payment methods are reshaping the way these cash-dependent societies operate. With technology in place to provide real-time payments in seconds versus days or weeks, experts are seeing an improvement in overall market efficiencies in these economies.

The volume of real-time digital payments in Brazil **grew** dramatically during the last two years, for example, with 8.7 billion real-time transactions processed in 2021 alone. Research indicates that the number of transactions could rise to 82 billion by 2026, providing massive net savings for

consumers and businesses — to the tune of \$38 billion of economic output, or roughly 2% of Brazil's entire gross domestic product (GDP). Mexico's adoption of real-time payments is also showing economic benefits and savings. The country made roughly 1.6 billion real-time payments last year, with \$1.9 billion of economic output.

Latin America has room to grow as it relates to digital transformation, however. Many countries within the region have been slow to adopt real-time payments, but experts forecast that by tapping into the market, real-time payments will show significant gains to the GDP across all countries by 2026.

DIGITAL WALLETS TO BE MOST POPULAR PAYMENT METHOD IN MEXICO BY 2024, REPORT FINDS

Technological advancements fuel economies, driving growth and stability for consumers, businesses and government entities. Payment innovation that makes digital purchasing methods more accessible to retailers and businesses has already become a significant factor in eCommerce growth in Latin America. The next step in innovation is making even more diverse payment options available to citizens, such as by increasing digital wallet acceptance and providing more options to pay within store-specific applications. A recent **report** indicated that the growing number of Latin America-based eCommerce retailers will increase the number of ways in which consumers pay for goods and services.

In most LatAm countries, credit cards lead the pack in terms of transaction volume, for example, with debit cards close behind. Mexico, an early adopter of digital transformation, is seeing a different trend: Digital wallets are expected to become the most popular payment method by 2024. This trend is also expected to pick up steam in countries such as Colombia and Peru. Digital wallets enable consumers to store payment information and make transactions across multiple channels securely, whether shopping in-person or via eCommerce. As more technology options become available and consumers understand their convenience, cash use is expected to drop. Researchers believe cash transactions will fall 50% by 2025 as eCommerce rises by an annual rate of 19%.

MEXICO EMERGES AS INNOVATIVE BLUEPRINT

MEXICO'S DIGITAL ACCELERATION DRIVES MORE ROBUST PAYMENT ECOSYSTEM

While the pandemic played a strong role in moving cash-dependent consumers into the digital world, many Latin American markets are still seeking further buy-in of digitization to protect economic growth. Mexico is one such country that shows a growing appetite for digital transformation, with signs of strong digital acceleration **happening** during the last two years. Before the pandemic, for example, 93% of the Mexican population used cash as a primary payment method, but by the end of 2020, that figure was 86%.

Mexican consumers relied primarily on debit cards for online transactions, but the use of digital wallets and QR code payment options has risen as digital payments adoption has increased. This willingness to change payment preferences has opened the door to new opportunities for innovators in Mexico. The country is currently experiencing a boom in other areas of the FinTech industry, including the use of blockchain. With the innovations in payment technology, banks, governments and privately owned businesses are coming together to create a payment highway: a more robust payment ecosystem — including wallets, apps, near-field communication (NFC) and QR technology — that will increase the total number of digital transactions in the country.

BANXICO AIMS FOR FINANCIAL INCLUSION IMPROVEMENTS WITH PLANS FOR DIGITAL PESO LAUNCH

As Mexico works toward building its payment highway, key players are making strides in the country to expedite the process and encourage digital payments adoption. Banxico, the Central Bank of Mexico, recently **announced** that a digital peso will become available in 2024, for example. The goal of the digital peso is to provide citizens with more stable tokens of cryptocurrency, handled in a central repository to meet the growing demand for digital currency and support financial inclusion by allowing consumers to transfer pesos via a digital version of cash. Improving financial inclusion in Mexico and continuing to wean citizens off cash is the key concern as Latin American countries realize that without a push toward digital adoption, their economies are at risk of falling behind.



RAPPI LAUNCHES PROGRAM IN MEXICO CONVERTING CRYPTO INTO SPENDABLE CREDITS

Another way technology providers are connecting the payment highway in Mexico is via merchant innovation. One such innovator is Rappi, a Colombian delivery app, which recently **announced** a crypto payments pilot program in Mexico. Users can convert cryptocurrency into credits that they can use to make purchases through the app. This technological infrastructure could pair nicely with the digital peso in a future iteration of the system.

Rappi earned a valuation of \$5.3 billion in Series F funding last year and currently operates in nine Latin American countries. Rappi not only is making headway in the crypto space but also is in the process of earning approval to operate as a digital bank in Colombia, which could happen as early as this year.

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PYMNTS.com is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.



Founded in 2017 by Ecuadorian serial entrepreneurs Sebastián Castro and Aron Schwarzkopf, KUSHKI's platform has standardized payments interoperability throughout Latin America, enabling both local and cross-border payments via credit and debit cards, bank transfers, digital cash, mobile wallets and other alternative payment methods. As a result, the company has experienced exponential growth, tripling the size of its team in 2021.

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