

Digitizing Payments In Latin America

Playbook

February 2022

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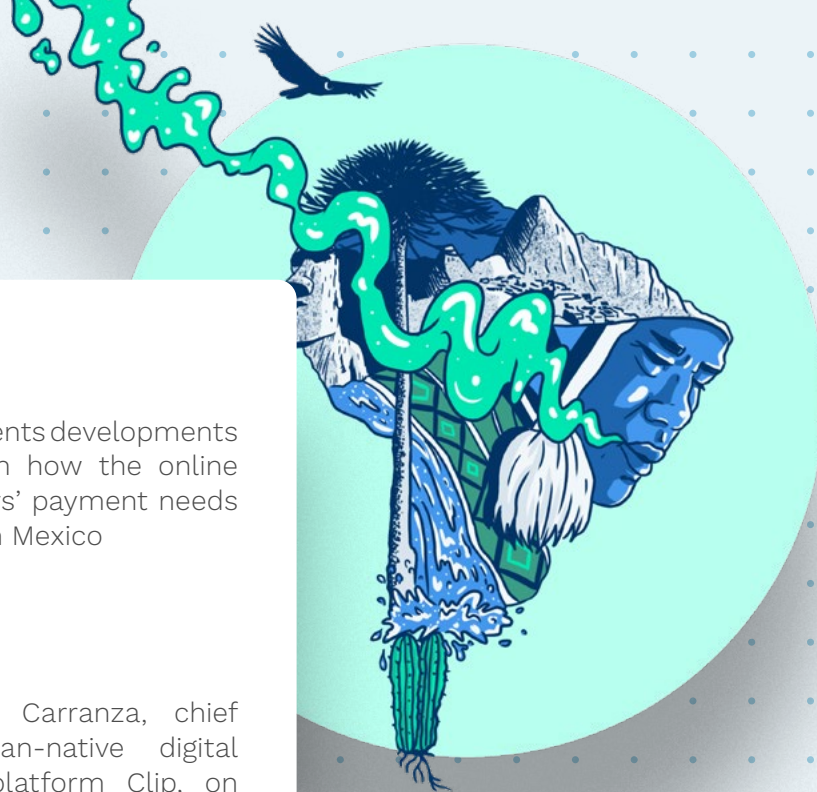
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PYMNTS.com



Digitizing Payments
In Latin America Playbook



What's Inside



Digital banking adoption is skyrocketing across Latin America (LatAm), though many consumers in the region [remain](#) unbanked or underbanked — including 40 million in Mexico. Mobile and internet penetration has continued to rise in the country, however, piquing consumer interest in digital payment methods.

Cash still [accounts](#) for the majority of transactions in Mexico, but its dominance has weakened, with 86% of Mexican consumers in a December 2020 [report](#) saying they used less cash that year than they did in 2019. Other [studies](#) point to increasing usage of mobile payment tools, including mobile wallet solutions that are not tied to traditional bank accounts.

This shift represents an opportunity for banks as well as online-only FinTechs or payments providers, many of which are taking steps to launch their services in the country. Mexico's online financial ecosystem has seen significant growth over the past year, with 512 FinTechs now [offering](#) their solutions to digitally curious

consumers. Financial institutions (FIs) and other entities looking to set up shop in Mexico will need to keep a close watch on the country's emerging digital payments space to compete successfully.

AROUND THE LATIN AMERICAN PAYMENTS SPACE

Cash remains the reigning payment method in Mexico, but online payments usage — especially mobile — has shot upward since the pandemic's onset. One recent [study](#) reported that 94% of Mexican consumers are using online or mobile banking apps, despite the country's large unbanked population. Alternative payment solutions such as digital wallets and PayPal have become particularly popular, with 96% of consumers in the country stating they have made payments through such tools. Smartphones, therefore, are likely to play a key role in Mexico's online financial ecosystem as it continues to evolve.

Interest in alternative payment methods such as cryptocurrency also is on the rise within Mexico. Businesses and financial providers in the region are considering



the potential benefits of digital currencies, especially for cross-border payments. San Francisco-based financial startup Tribal Credit recently [announced](#) a partnership with Latin American cryptocurrency exchange Bitso to create a cross-border payments system within the country, for example. The system aims to allow smaller businesses to send and receive funds more easily between Latin American countries, as well as to other markets such as the United States, via the use of digital stablecoins.

Rising interest in digital-first solutions also is prompting a significant number of FinTechs to open their virtual doors in Mexico, with one recent [study](#) finding 512 FinTechs now operating in the country. This represents a 16% increase from 2020, making Mexico one of the most financially saturated markets in Latin America. The influx of new financial businesses and services also appears to be driving digital development even further, with 59% of FinTechs in Mexico saying they saw an increase in either revenue or users over the past year. Payment providers and other entities wishing to expand

into the market will want to watch the FinTech scene in Mexico closely as it unfolds.

For more on these stories and other developments in the LatAm payments space, read the Playbook's News and Trends section (p. 12).

HOW PAYMENT PLAYERS CAN CAPTURE MERCHANT LOYALTY AS MEXICO'S FINTECH ECOSYSTEM EXPANDS

Rising interest in emerging payment tools and growing smartphone penetration rates swiftly have made Mexico one of the most intriguing markets for FinTechs and payments players looking to win more customers and grow revenue. Standing out amid the country's increasingly saturated digital financial space requires payments players to offer merchants seamless access to an array of payment methods, however. In this month's Feature Story (p. 9), Mariano Carranza, chief financial officer of Mexican-native digital payments and commerce platform [Clip](#), explains how Mexico's digital financial ecosystem is taking shape and why offering payments choice and flexibility is key for payments players as they look to expand within the market.

DEEP DIVE: HOW PAYMENTS DIGITIZATION EFFORTS CAN EXPAND IN MEXICO

Digital banking is taking shape throughout Mexico, with a recent [study](#) reporting that 94% of consumers in the country utilize some form of online banking. Interest in neobanks and other digital-first services also is on the rise,

indicating consumers' and businesses' willingness to engage with new digital banking technologies. Several challenges still hamper digital payments' expansion in the region, however, including the problem of how to bring financial tools and technologies to unbanked individuals. This month's Deep Dive (p. 16) examines the obstacles that stand in the way of digital payments' further growth in Mexico and how to overcome them.



Executive Insight

What makes the online financial space in Mexico unique, and what must payment providers or merchants take into account when they look to set up services in the country?

“Mexico is unique because of various aspects, including the young, [tech-savvy] population that is around and is part of the workforce, as well as high internet and smartphone penetration... Also, because [of its proximity] to the U.S., there [are] a lot of... brands that have local stores or that make cross-border sales. Mexico’s [digital] bancarization, via [the emergence of mobile] wallets [and] neobanks, is becoming a trending topic in the country. Moreover, all of these digital services are helping Mexico move towards [higher] online payments [adoption], and that is why it is a huge and great market to be in or come to [in order to] process payments or have your own eCommerce platform.”

Interest in digital payment solutions and banking is rising, yet cash remains the dominant payment method for Mexican consumers, even on eCommerce platforms. How do you see cash use changing as online services and payment tools become more widely available?

“In Mexico, cash is still king. A huge amount of the population uses cash daily for every transaction. Because of [the growth of] neobanks and [digital] wallets and the [country’s] younger population (millennial, Gen Z), this is changing. [Younger consumers] want to access services that are not only in Mexico but are global. This is creating the shift from cash to cards or transfer-to-pay for products or services. All of the biggest retailers have a store or online store in Mexico, so this makes it a faster, dynamic and attractive country. Moreover, after COVID-19 hit, a lot of people, both young and old, started doing card or transfer-to-pay transactions. [Most people] who had never done an eCommerce transaction, now they have. And if the first transaction was satisfactory, they continue with this trend and grow the eCommerce world in Mexico.”

What are some of the challenges or friction points that could hamper the expansion of digital banking or payments in Mexico, and how can they be countered?

“The bigger challenges in Mexico are old regulations that [are now] changing very fast. We now have Fintech law, open banking and other regulations that are coming into place to help the ecosystem grow and expand faster. Also, [dispelling consumers’] fear of making online transactions via credit or debit card, because many think their information could be easily stolen from any website. This [fear] is also getting surpassed because of how the new generations make transactions. Lastly, a lot of people that did not have a bank account because of the [processes of] the banks, [their banking needs] are being fulfilled by neobanks. Neobanks and [mobile] wallets are providing an easy way for [consumers] to get either a credit card, a prepaid card or a debit card, so that [they] can transact online. All the challenges that we see right now will be overcome in the next few years, and Mexico will [become] an even more desired country to come to and create new businesses.”

Andres Obando

Vice resident
payment partnerships

[Kushki](#)



5 Five Fast Facts

FINTECHS SURGE IN MEXICO

512 FinTechs now are active in Mexico, up 16% from 2020.



UNBANKED POPULATION REMAINS HIGH

40 million Mexican consumers remain unbanked, even as internet and mobile penetration increases.



CASH USE DECLINES

86% of Mexicans used cash less frequently in 2020 than they did in 2019.



CASH AND eCOMMERCE

Cash still is key for online transactions in Mexico, representing 67% of payments sent through payment service Conekta.



BNPL'S POTENTIAL

BNPL could offer an opportunity to expand financial inclusion in Mexico.



Feature Story



Clip On How Payments Players Can Capture Digital-First Businesses, Consumer Loyalty In Mexico

Digital payments providers and FinTechs have flocked to Mexico in recent years, inspired to enter the market by Mexican consumers' growing use of online channels. Cash has long dominated the country's payment ecosystem, but the pandemic pushed consumers to experiment with digital payment methods such as credit or debit cards, Mariano Carranza, chief financial officer of Mexican-native digital payments and commerce platform [Clip](#), said in a recent interview with PYMNTS. This, in turn, increased businesses' interest in supporting cards and other emerging digital payment methods, rapidly accelerating digital payments adoption within the country.

"During the pandemic, a shift in customer behavior occurred that we think is here to stay: Customers are more willing to pay [for] their everyday purchases with cards," Carranza said. "Businesses were equally compelled by customers to start adopting card payments, as government lockdowns often forced them to operate online."

Offering consumers innovative payment experiences both in-store and online is becoming an imperative for Mexican businesses. As more competitors emerge, competition has increased and merchants are recognizing that they must offer compelling payment experiences to stand out. This trend, in turn, represents an opportunity for payments and financial services providers such as Clip.

KEEPING PACE WITH SHIFTING CONSUMER BEHAVIOR

Capturing consumers' attention in Mexico's increasingly digital market requires merchants and their would-be payments partners to understand how swiftly consumers' needs and preferences have changed and why. Cash has remained a dominant payment method for decades, and only recently has this begun to shift as consumers make way for plastic credit and debit cards as well as digital-first payment tools such as mobile wallets.

The pandemic's impacts have altered legacy ways of thinking, Carranza explained, inspiring consumers to move away from cash and demand that their favored merchants

accept debit or credit cards. Data from Mexico's National Institute of Statistics And Geography (INEGI) [revealed](#) that the segment of the population making card payments grew from 12% prior to the pandemic to 52% by the end of 2021, showing just how rapid the move away from cash has been.

"Consumer habits have also been hard to change, but the pandemic has really helped accelerate this," he said. "For example, it has taken time for people to realize that they don't need to go to a branch to open a bank account or execute a simple transaction or that they don't need to touch cash to make a payment."

Staying on top of changing payment methods also is imperative for businesses, and merchants now understand that they must support a variety of emerging payment options rather than just cash or even plastic cards. Growing smartphone penetration within Latin America — about 70% of the region's population now has [access](#) to mobile phones — has made mobile wallets and virtual payment apps increasingly popular. However, there still are several challenges, such as innovations to digital payments infrastructure, that must be met within the financial industry before businesses can implement these tools at scale.

"Another element that needs to improve is the infrastructure for online [or Card-Not-Present] CNP payments," Carranza said. "Today, [CNP] acceptance rates in Mexico are significantly below





average, partially due to [the] lack of system-wide investment in risk management tools.”

Mexico’s businesses are working to find tools and services that can help them juggle the growing number of unique payment methods they must offer without causing friction. This represents yet another opportunity for the industry’s financial players.

WINNING THE NEXT-GEN PAYMENTS GAME

Competition to capture the attention of the country’s customers is becoming fierce for payments players looking to set up shop within Mexico. The country’s rapid digitization and the rising familiarity with online banking and

payment solutions mean consumers quickly have become spoiled for choice. Those that already have the infrastructure in place may have a clear competitive advantage over players that recently entered the market, however.

“Now customers can choose from a variety of digital wallets, credit cards, digital loan [or] payments providers. ... All [of] these products are gaining traction fast,” Carranza explained.

Keeping pace with how consumers are tapping emerging digital payment methods and how their financial needs and preferences may continue to change, therefore, is key for payments players in Mexico.

News & Trends



Changing consumer preferences

MOBILE PAYMENT APP USAGE SURGES IN MEXICO

Interest in online payment and banking tools is surging among Mexican consumers, especially when it comes to mobile-optimized features. One recent [report](#) found that 94% of Mexican consumers are using mobile banking apps or online banking services, although the country's unbanked population remains high. The study also found that alternative mobile payment services — those not connected to traditional bank accounts — are even more popular in the country, with 96% of Mexicans using them.

These findings suggest that smartphones likely will continue to play a key role in Latin America's online banking ecosystem, particularly as social commerce — purchases made through social media apps or platforms — is on the rise as well. The report noted that 50% of consumers surveyed

across Argentina, Brazil, Colombia and Mexico have made social commerce purchases, signaling that this channel also may see significant growth in the next few years.

CASH REMAINS KING FOR MEXICAN ONLINE PAYMENTS

Digital payment services are becoming more widely available and popular throughout Mexico, but this does not mean consumers are willing to let go of the familiar payment methods they have been using for years. Cash accounted for 67% of the online payments Mexican consumers made in 2021 through digital payment service Conekta, according to a recent [report](#) from the service.

Purchasers typically make such payments by presenting cash in exchange for items at key locations, and the method remains a staple — especially for unbanked consumers who wish to take advantage of eCommerce's conveniences. Approximately 60% of Mexican consumers

remain unbanked, according to the report, indicating that cash likely will continue to be a dominant payment method in the country even as digital-first payment options and services proliferate.

Emerging payment tools

MEXICAN SUPERMARKET CHAIN GRUPO ELEKTRA TO ACCEPT BITCOIN

Mexico's merchants also are studying new payment preferences and trends, including cryptocurrency's potential, as interest in such payments continues to expand. Grupo Elektra, a supermarket and banking chain with locations throughout the country, recently [announced](#) it has begun accepting Bitcoin payments, for example. The chain currently is offering a 20% discount on any purchases made with the virtual currency.

This development indicates that Mexican businesses as well as consumers are becoming more intrigued by emerging payment methods and digital channels. Merchants and payment providers will want to keep pace with consumers' preferences as these methods become more widely available throughout the country.

TRIBAL CREDIT, BITSO TEAM UP TO DEVELOP CROSS-BORDER CRYPTO PAYMENT SYSTEM

Other financial entities in the region also are considering cryptocurrency for cross-border payments. Latin American crypto exchange Bitso

recently [partnered](#) with San Francisco-based FinTech Tribal Credit to develop a cross-border payments system using digital currency for transactions between Mexico and the U.S.

The system will allow small to mid-sized businesses (SMBs) in Mexico to send funds to other countries, including the U.S., converting Mexican pesos to the USD Coin (USDC) stablecoin cryptocurrency. Tribal currently provides corporate credit card services to SMBs and operates in Chile, Colombia and Peru as well as Mexico. The system's launch date has not yet been announced.

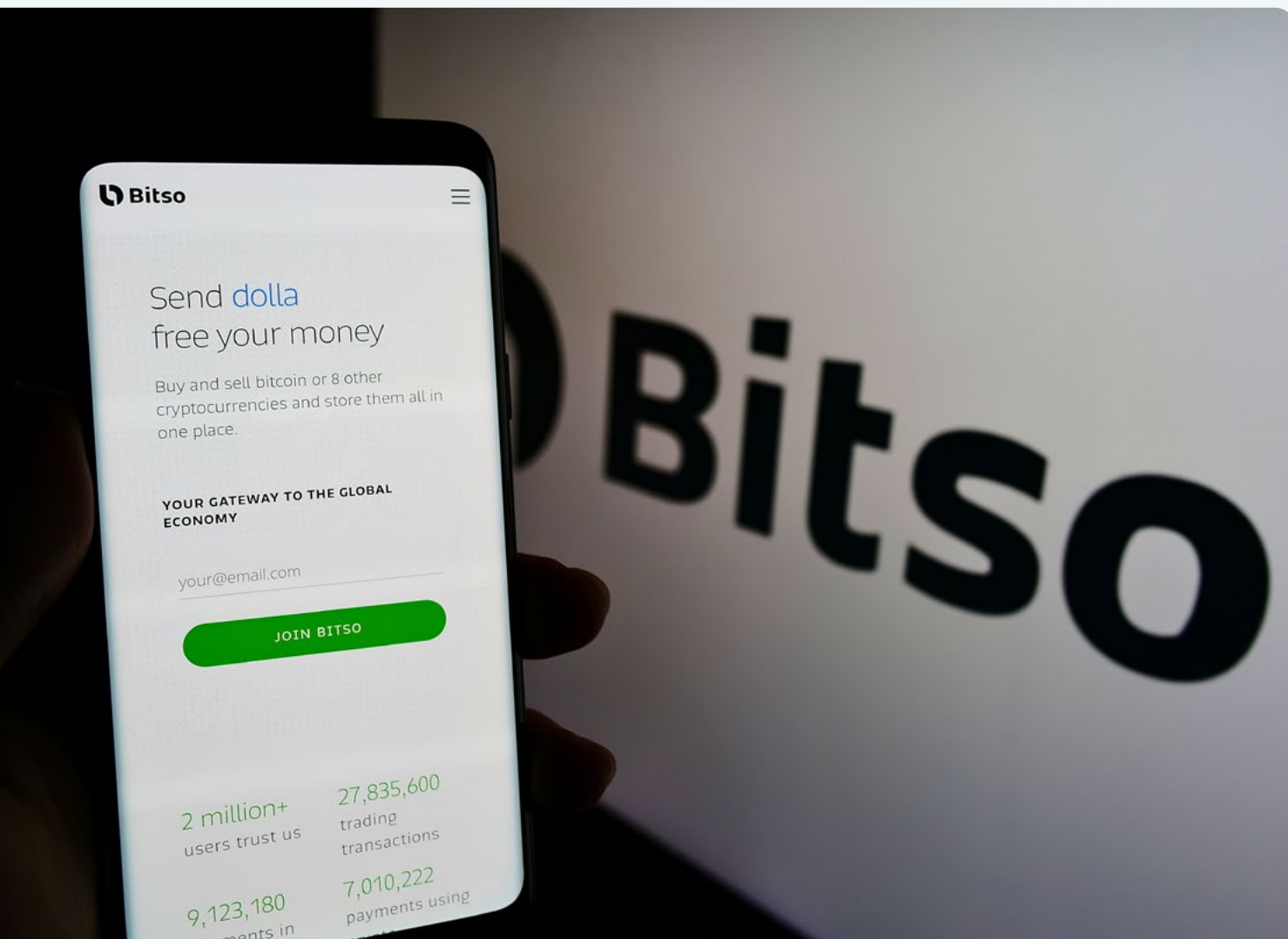


FinTech and technology developments

MEXICO'S FINTECH ECOSYSTEM GREW 16% IN 2021

The rising popularity of digital-first banking and payment methods also is prompting a growing number of FinTechs and online-only financial entities to set up shop in Mexico. One [recent](#) report noted a 16% year-over-year increase in

the number of FinTechs operating in Mexico in 2021, for a total of 512. This represents almost half of the 1,102 FinTech startups in Chile, Colombia, Mexico and Peru, making Mexico one of the most highly saturated markets in the region. The study also found that 59% of Mexico's FinTechs reported a post-pandemic uptick in either revenues or users, indicating that challenger entities are becoming more established in the country's financial ecosystem.





FINTECH KAPITAL LAUNCHES DIGITAL PAYMENT INITIATIVE FOR MEXICAN FARMERS

FinTechs and FIs also are partnering to expand access to digital payments throughout the Mexican countryside. Mexican FinTech Kapital recently [announced](#) an initiative to champion the use of Banco de México's Cobro Digital (CoDi) electronic payments service for the nation's farmers, for example.

The initiative's goal is to persuade farmers to utilize CoDi for their daily operations to smooth out friction points and payment delays. Kapital also is looking to increase farmers' financial inclusion and improve their access to credit, according to the announcement. The CoDi service, which enables users to make payments or electronic transfers through their mobile phones, currently has approximately 11 million users.

Deep Dive

How Payments Digitization Can Gain Ground In Mexico



Improved financial services are top-of-mind for many families and individuals in Latin America, and online banking forms the core of many FIs' strategies to deliver these services. A recent survey found that approximately 90% of bank customers throughout the region [leverage](#) some form of digital banking, with Brazil taking the top slot at 98% and Mexico following close behind at 94%.

Mexico presents a particularly interesting case regarding digital payments' evolution in Latin America. Most Mexican bank customers said they would be willing to [migrate](#) to fully digital banks within the next few years, indicating that online digital banking at established FIs may be a steppingstone to wholly internet-based transactions and loans.

Despite these promising findings, however, digital payments penetration has a long way to go in Mexico, largely due to the country's

still mostly unbanked population. The following Deep Dive explores the factors leading Mexican consumers to embrace digital banking and payments, the obstacles holding many back and how current initiatives could improve digital payments penetration.

MEXICAN CONSUMERS' FAVORED DIGITAL PAYMENT METHODS

Digital payments are growing rapidly in Mexico, with 2021's total digital transaction value of \$54 billion [expected](#) to rise to \$90.1 billion by 2025. Mexican consumers' favorite digital payment method is digital wallets, which account for 19% of all payments, but these fall far behind credit and debit cards, which make up 47% of all transactions.

Cash, nevertheless, still is the single most popular payment method in Mexico. The vast majority of bank customers leverage digital access methods, but just 37% of Mexicans have bank accounts, according

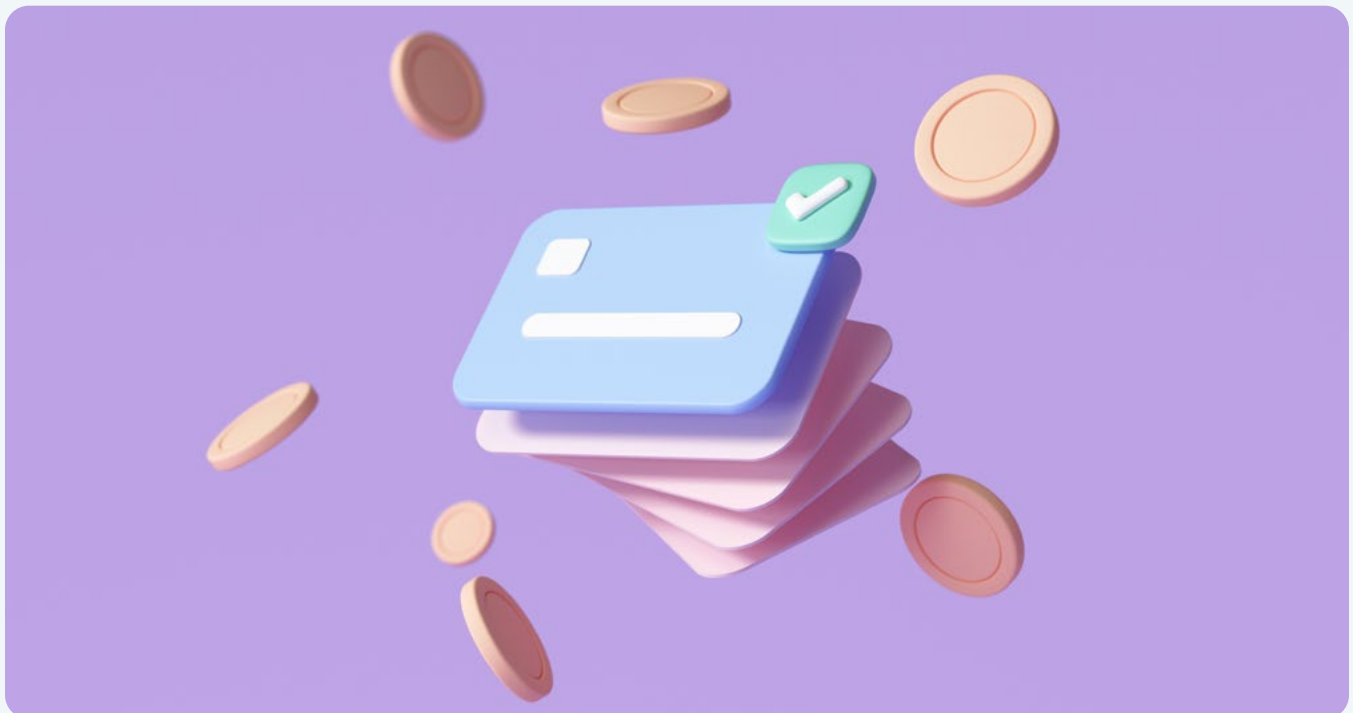
to a recent [study](#). Those who do have bank accounts tend to use several different traditional payment options attached to them. There are currently 0.99 debit cards in [circulation](#) per capita, for example, indicating that the average bank customer has multiple debit cards. Credit cards are much less popular, with just 0.19 in circulation per capita.

The pandemic is changing the payments landscape in Mexico as well. One [study](#) found that 93% of Mexicans used cash on a regular basis prior to March 2020, but 86% reported using this payment method less as the pandemic wore on throughout that year. Card usage also dropped from 28% to 26% for debit and from 14% to 11% for credit.

Digital payments could fill this gap, but Mexican consumers' lack of bank accounts makes this a significant challenge. FIs and payments players thus are taking many steps to overcome this disadvantage.

INITIATIVES TO IMPROVE ACCESS TO DIGITAL BANKING AND PAYMENTS

Many initiatives are underway to improve Mexicans' access to digital payments, but one in particular stands out. Banco de México recently [launched](#) its national digital payments platform CoDi to boost the usage of digital payments in the country and reduce consumers' reliance on cash, debit cards and other payment methods that easily can be stolen or otherwise compromised. CoDi leverages QR codes and near-field

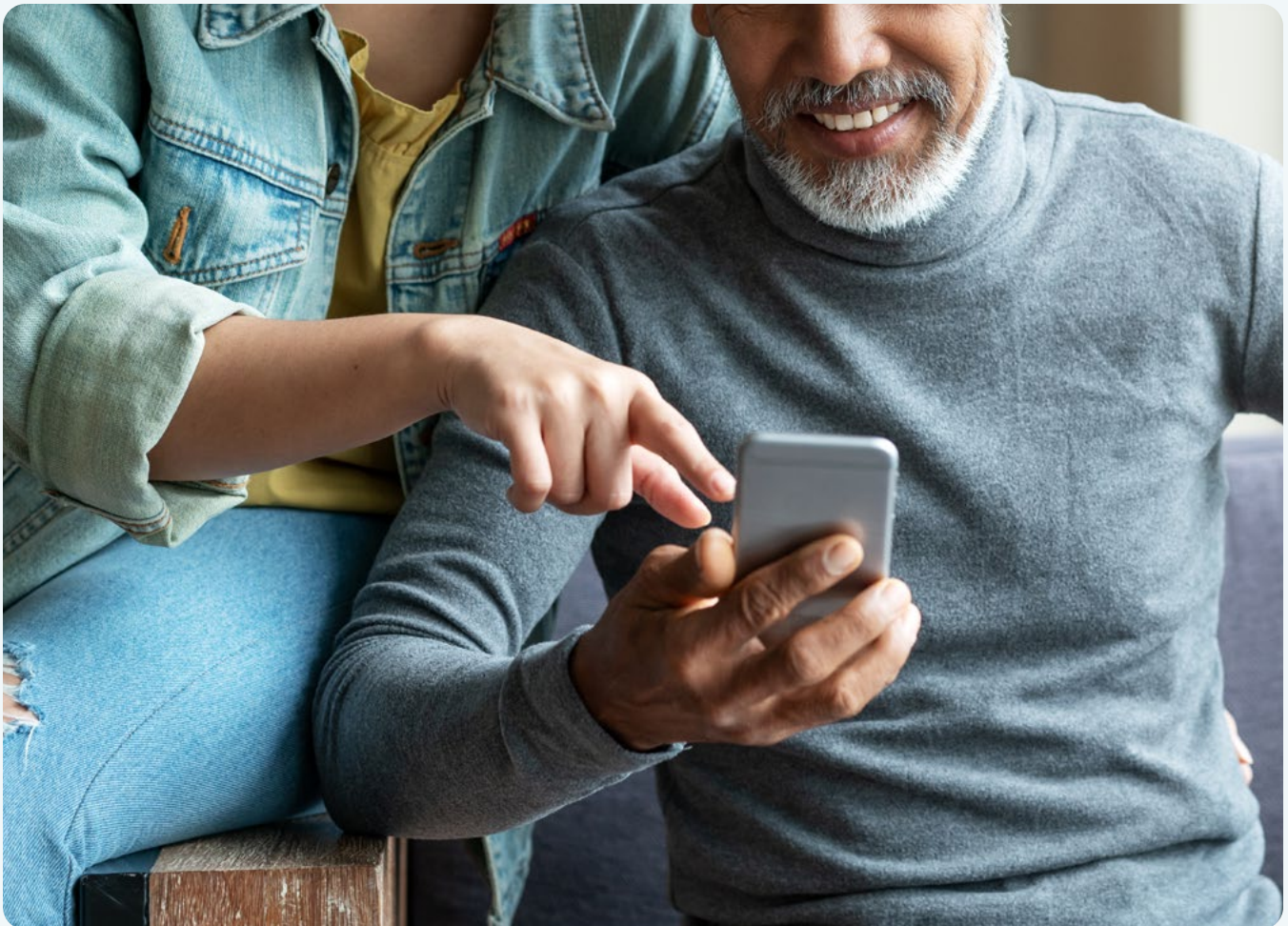


communication to allow consumers to use their smartphones for digital payments, with money moving via Mexico's real-time gross settlements payments system, SPEI.

CoDi has been slow to gain ground, however, with just 38 banks and 5 million users leveraging it from the country's population of almost 130 million. Miguel Diaz, Banco de México's general director of payment systems and market infrastructures, told PYMNTS in a recent [interview](#) that much of this sluggishness was

due initially to the platform's poor user interface, which required merchants to send 18-digit account numbers to each new customer during onboarding, for example.

Banco de México currently is exploring options to improve this user experience and increase its user base, but it cannot solve the problems facing digital payments on its own. Companies and banks will have to join forces to improve bank account access and expand digital payments adoption in the country as a whole.



About

PYMNTS.com

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 companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations 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.

We are interested in your feedback on this Playbook. If you have questions, comments or would like to subscribe to this report, please email us at feedback@pymnts.com.



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