The state of contactless payments in Latin America

Analysis, case studies and lessons for the development of a robust contactless ecosystem

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Contactless payments are the catalyst for the next generation of payments, as well as the gateway for the countless possibilities in the world of connected devices. They continue to gain traction among consumers, merchants and banks worldwide. This technology could streamline payments in Latin America and the Caribbean, producing significant benefits for the entire ecosystem.

Consumers are the biggest winners: contactless technology allows payments to be made simply by moving the card, device or mobile over the payment terminal via short-range wireless technology. There is no need to swipe or dip the card, and in many cases it isn’t necessary to enter a PIN or password. It has the same security standards employed by chip cards. Because of its speed and simplicity, contactless payment technology is especially beneficial for everyday purchases at supermarkets, fast-food restaurants, gas stations and in public transportation, helping consumers transform their lifestyles by streamlining their payment experience.

Contactless technology provides benefits to merchants, who can use it to ensure quick, smooth payments at the register and increased operational efficiency by reducing cash usage. This in turn improves the user payment experience and increases sales. Contactless terminals let merchants accept other payment methods too, including Apple Pay, Android Pay and Samsung Pay, since the infrastructure required to support contactless cards is the same as for payment with mobile phones and other devices.

This is an interoperability industry model, so functionality is key to the accelerated adoption of digital payments in the region. Without this technology, there is no interoperable platform for the growth of mobile payments regionally or the use of increasingly popular new payment devices, including bracelets, watches and rings. Consumers want to use those devices wherever they go, as it is currently done in more than 200 countries around the world when using their cards.

Additionally, contactless payments offer powerful benefits to issuer banks. Not only do they help banks penetrate small-ticket transactions and participate in new acceptance categories, but they also accelerate digital migration by driving preference for the banks’ products and developing new payment uses by combining tokens, biometrics, NFC and other available platforms to improve the user experience.

Latin America has one of the lowest levels of electronic payments globally in comparison to daily consumption. Accordingly, it’s one of the most compelling regions for the introduction of new technologies that can help eliminate cash transactions. The opportunity to expand contactless payments is huge, as it brings benefits to all ecosystem participants.
About AMI

Americas Market Intelligence (AMI) is the premier market intelligence firm for Latin America, providing powerful market and competitive intelligence-driven insights for companies to succeed in the region. AMI’s industry expertise includes payments, healthcare, logistics, resources/infrastructure, insurance, consumer/retail and more. Its customized research reports deliver data-based clarity and granular strategic direction based on expert sourcing.

AMI’s payments practice is focused on helping financial institutions, merchants and others navigate the unique payments landscape in Latin America and compete in a rapidly digitizing environment. AMI consultants are recognized thought leaders in verticals such as e-commerce, mobile payments, digital wallets, online banking, contactless payments and other digital payment technologies.
Definitions

Contactless payment

Contactless payment is a secure method for consumers to purchase products or services via debit card, credit cards, fobs and mobile phones by using radio frequency (RF) technology (ISO 14443A/B/C), near-field communication (NFC) or magnetic secure transmission (MST) technology. To make a contactless payment, a consumer simply taps his/her card or device at the contactless reader on a point of sales terminal—hence the nickname “tap-and-pay.” The majority of contactless payments do not require a signature or a PIN for low-value transactions; the experience is dependent on local regulations and issuers’ practices, among other factors.

While payments via QR code or six-digit code are also considered “contactless”—in that they do not require a physical connection between the payment credential and the POS terminal—the industry standard is to use the term “contactless” to refer to RF, NFC or MST payments. We follow this standard in this whitepaper.

Near-field communication (NFC)

Near-field communication (NFC) is a short-range wireless connectivity standard (Ecma-340, ISO/IEC 18092) that uses magnetic field induction to enable communication between devices when they are in close proximity, i.e. within a few centimeters of each other. Jointly developed by Phillips and Sony, the standard specifies a way for the devices to establish a peer-to-peer (P2P) network to exchange data. After the P2P network has been configured, another wireless communication technology, such as Bluetooth or Wi-Fi, can be used for longer range communication or for transferring larger amounts of data. NFC also supports emulation of RFID Tags and RF contactless cards (ISO 14443A/B/C). The latter functionality is what allows NFC to be used for contactless payment implementations.
Executive Summary

Globally, card-present transactions are evolving toward a contactless environment. In Australia, roughly 90% of card payments are made with a contactless card. About 50% of China’s GDP is processed via mobile QR code. Apple Pay in the US represents ~90% of all mobile payments. And the Central Bank of Costa Rica has mandated that by 2019 all payment cards be contactless-enabled. It is unclear which form factor will dominate, but the global trend toward contactless is evident.

In Latin America, contactless payments are still emerging. Just a handful of issuers have launched contactless cards. Several banks developed contactless mobile wallets but user uptake is minimal. QR codes and wearables are even more nascent. This presents the payments industry in Latin America with a rare and precious opportunity: to converge around one contactless payment technology and send a singular, unified message to merchants and consumers. This will ease and accelerate the transition to a contactless ecosystem.

Doing so is crucial in Latin America for banks to preserve their relevance. More than half of Latin American consumers are underbanked and up to 90% of retail payments still take place in cash. For banks to continue growing, they must learn to play in cash-dominated spaces.

This whitepaper posits that contactless payment cards are a fundamental component for achieving this. Because of their speed and efficiency, contactless payments are most effective for low-value, high-frequency transactions in which cash represents nearly 100% of spend.

Cash is difficult to usurp culturally—it is highly preferred among consumers—and practically no other payment method provides a better user experience for everyday purchases. EMV card payments are secure but slow. Mobile wallets require multiple steps and offer no real advantage over credit cards. To compete with cash, contactless payment methods must be secure, fast and effortless.

Issuers in Latin America have been quick to embrace closed-loop mobile payments, which confuse consumers and offer no added value. Instead, issuers should seek to offer customers the best possible user experience for all their payment methods, including both cards and mobile. A dual approach that embraces contactless payment cards and interoperable mobile wallets is the best way to nudge consumers away from cash.

With financial inclusion such a sticking point in the region, banks face the threat of outside competition that could render them obsolete. Mobile payments in China have done just this. If banks do not simultaneously protect their traditional merchants from competition, find new ways to service long tail merchants and improve the user experience for consumers, they risk losing relevance in today’s shifting payments landscape.

Global experience shows that contactless cards represent the path of least resistance toward combating cash in low-value transactions. Simultaneously, preserving interoperability via contactless cards guarantees compatibility with international payment systems, a most important tenet for any economy. These should be delivered to Latin America, but a coordinated effort on behalf of local issuers, acquirers, merchants and card networks is required to do so.
Introduction

Plastic: A Latin America success story—with a caveat

In the past thirty years, the credit card found fertile ground in Latin America. The Latin American elite quickly adopted airline cards to collect rewards and prestige. The mass affluent used credit cards to finance previously unattainable products such as electronics. The middle class is drawn to niche co-branded cards offered by department stores, soccer clubs and online marketplaces. Today, there are more than 240 million credit cards in the region’s top six markets alone, generating more than $320 billion in annual spend.

But credit card penetration remains limited in some cases due to the lack of comprehensive credit scoring and a risk-averse banking industry. Worse, nearly half of the region’s economy operates informally, slashing banks’ addressable market size. In the best case (Chile), credit card penetration has reached 55%; in the region’s largest economies, penetration hovers between 25% and 30%1. And credit card usage is limited. Premium cards are geared toward travel and large-ticket items, while mass affluent cards are reserved for financing major purchases.

In many ways, the credit card in Latin America is not yet considered a payment method. It is instead a form of access: access to financing, access to rewards, access to an aspirational lifestyle. The credit card is comfortably positioned for high-ticket transactions, not for everyday purchases. To illustrate, credit card spend made up only 11% of Brazilian consumer spending in 2017, while in Mexico it accounted for a mere 4%2.

Despite banking advancements throughout Latin America, cash remains unequivocally the foremost payment method.

To expand the usage of plastic and bring this solution to more consumers, banks have turned their attention to debit (deposit access). With the support of governments seeking to improve their tax base, debit cards reached high penetration in some countries—71% in Chile, 69% in Argentina, 65% in Brazil3. In Argentina, banks are required by law to provide debit cards to all senior citizens, and as of April 2017, all merchants must accept them. In Brazil and Peru, obligatory payouts of government benefits via debit card have caused overall debit cards issued to balloon.

1 World Bank Findex, local banking associations, AMI analysis
2 Deloitte, Planet Retail
3 Local banking associations, AMI analysis
These measures have not resulted in ballooning debit usage, however. This becomes evident when we compare debit card point of sale (POS) spend to ATM withdrawals. In August 2017, at Colombia’s largest issuer, Bancolombia, debit POS transactions made up only 20% of all debit card volume; 80% was extracted from ATMs. For all banks in Mexico, between October and December 2017, these numbers were 22% and 78%, respectively.

On the card acceptance side, low POS terminal penetration contributes to low plastic usage. POS terminals have infiltrated the region’s modern retail establishments—department stores, big box supermarkets and the like. But in small neighborhood stores (where over half of retail spend is conducted), POS penetration is negligible. In Brazil, the most advanced country in Latin America for card acceptance, there are 2,438 POS terminals per 100,000 people (compared to 4,223 POS terminals per 100,000 people in the US.) In Colombia and Mexico, these numbers reach only 500 and 681, respectively.

Despite banking advancements throughout Latin America, cash remains unequivocally the foremost payment method—especially for low-ticket, everyday transactions. Various sources throughout the region report that cash represents anywhere from 70% to 97% of all retail purchases. Their value amasses hundreds of billions of dollars, all of which is untouchable by banks. Today, card penetration growth is slowing in Latin America because the market is saturated. To grow, banks must expand card spend to penetrate the massive cash volume within small-ticket brick-and-mortar retail.

5 Banxico, Sistema de Información Económica, December 2017.
6 Local sources, World Bank population data, AMI analysis

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Contactless: Lots of promise, little consensus

To this end, banks must offer an electronic payment method that is fast, convenient, secure and—most importantly—accepted everywhere. In short, they must provide an enhanced experience that can compete with cash. Throughout Latin America, banks are experimenting with the next generation of payment technologies, including mobile wallets, QR codes and wearables. The industry as a whole agrees that contactless technology is rich with opportunity but is at a crossroads as to the optimal approach. Card-based or mobile? NFC or QR code? What about wearables? Samsung Pay? Apple Pay? Interoperable or closed-loop?

Strikingly, the region has largely bypassed contactless credit and debit cards, which have enjoyed success elsewhere in the world. Contactless cards are not as sexy as mobile wallets, but they may do a better job at achieving speed, convenience, and universal acceptance—all necessary elements for banks to conquer new frontiers and for consumers to transition to contactless technology.

Such experimentation with form factors aligns with the interests of the card networks, which have a razor-sharp focus on conquering cash. Visa and other networks are working with the Latin American payments ecosystem to develop contactless payments in all of their iterations, including plastic. In mid-2017, Visa issued an official mandate to its issuers that all newly issued Visa credit and debit cards must be contactless-capable by Q4 2018. This is an aspirational move to migrate the industry to a fully contactless environment. Mastercard followed suit by announcing similar ambitions of reaching 100% contactless by 2023.

Whitepaper objectives

This whitepaper has two objectives. The first is to explore the evolution of contactless technology in Latin America from the perspective of the four key stakeholders: issuers, acquirers, merchants and consumers. The report provides an overview of the state of the industry today, an analysis of challenges and best practices, as well as lessons for the development of a robust contactless ecosystem. As such, the whitepaper will focus on three main themes: that cash is the greatest threat to the payments industry today; that changing consumer payment behavior in Latin America is a difficult undertaking; and that overcoming these challenges calls for a coordinated effort from the entire payments industry.

In mid-2017, Visa issued an official mandate to its issuers that all newly issued Visa credit and debit cards must be contactless-capable by Q4 2018.

The secondary objective is to make the case for contactless cards over other form factors and demonstrate the primary thesis: migration to contactless cards is the most competitive strategy for reducing the use of cash and accelerating the penetration of digital payments in Latin America.
Methodology

Research for this whitepaper took place between November 2017 and February 2018. It consists of in-depth interviews with payments industry executives representing issuers, acquirers, processors, card networks and merchants in Brazil, Mexico, Colombia, Argentina, Chile, Peru and Costa Rica. AMI researchers also consulted a consumer panel of credit and debit card holders in six markets to gauge consumer attitudes toward contactless technologies. Finally, AMI worked closely with Visa to understand the card network’s commitment to contactless payments in Latin America and its efforts to this end.

Whitepaper contents

This whitepaper begins with an overview of the state of contactless payments in the region. It then analyzes the perspective of issuers, acquirers, merchants and consumers. Next, the report narrates Visa’s specific view and its own efforts in the region to promote contactless payments. Finally, the whitepaper looks at the competitive implications and what could happen to the payments industry in Latin America if issuers and acquirers do not take steps to move toward contactless payments.
1.

Overview of contactless payments in Latin America today

Contactless in Latin America: Barely getting started

Despite the region’s laggard tendencies, Latin America was an early adopter of the EMV chip standard, which issuers and acquirers prioritized as early as 1999. Mexico reached 100% migration to EMV contact cards by 2013 and Brazil did so by 2015. Colombia and Argentina will do so around the year 2020. Consequently, for most Latin American cardholders—and cashiers—inserting a chip card into a reader is an ingrained habit. Changing this habit will be a major challenge.

If transition to EMV was the trend of the past ten years, the emerging trend in POS technology today is transition to contactless. Brazil leads the charge. Beginning in 2013, acquirers Cielo and Rede began implementing contactless POS terminals; today, that process is 75% complete, with more than three million terminals installed. Chile and Costa Rica have undergone a similar transformation, and Mexico, Colombia and Peru are in full-swing transitions to contactless. Across the region, around half of all POS terminals are now contactless-ready.

Migration to contactless cards is the most competitive strategy for reducing the use of cash and accelerating the penetration of digital payments in Latin America.

But while contactless POS penetration is maturing quickly, the issuance of contactless-enabled payment cards remains in its earliest stages. Only a handful of banks issue contactless-enabled credit and debit cards. Some banks have invested in NFC-enabled mobile wallets, but uptake thus far is minimal. Other issuers are still defining their contactless strategy or have yet to develop a strategy at all. There is an evident and acute lack of coordination between issuers and acquirers to co-develop the contactless ecosystem—as a result, today less than 1% of credit and debit card volume in Latin America is spent using a contactless payment method.
The global state of contactless payments

Latin America is far from alone. In the US, most banks have yet to implement contactless cards. In most developing regions, including Southeast Asia and Africa, contactless barely exists, with the notable exception of public transportation cards. And yet several markets have achieved success in proliferating contactless payments, thanks to a concerted (and organized) effort by regional banks and merchants. Globally, several examples stand out.

In Australia, 92% of card-present Visa transactions are contactless. The dominance of just four banks and two supermarket chains that backed the implementation of contactless helped produce this result. In the UK, the implementation of contactless public transport payments and several mobile payment initiatives led to an annual contactless payment volume of over £400M and 500 million annual transactions. In Costa Rica, a 2015 government mandate declared that by 2019, all payment cards must carry a contactless-enabled chip. Other contactless standards, including QR codes, are making major progress in China. The Chinese consulting group iResearch estimated that mobile payments in China totaled USD $5 trillion in 2016 and projected that these would nearly double in 2017.

<1% of credit and debit card volume in LatAm is paid for by using a contactless payment method.

Clearly, the overall global trend is migration toward contactless payments. But the question remains: which type will dominate—contactless cards, NFC devices, wearables, QR codes, or something else? The battle between these form factors will play out over the next several years.

In these beginning stages, we can observe the following factors that catalyze migration toward contactless payments:

1. Simultaneous coordination between issuers, acquirers and merchants
2. Government regulation
3. Use of contactless in public transportation

Contactless in Latin America’s mass transit

Latin America currently lacks coordination, and, for the most part, adequate regulation (except in Costa Rica) around contactless payments. But when it comes to use in public transportation, contactless is gaining traction. Most mass transit systems in the region’s large markets already incorporate contactless payments, including São Paulo and Rio de Janeiro’s subway systems and buses, Bogota’s Transmilenio, Mexico City’s Metro, Buenos Aires’ Subte and Lima’s Metropolitano. But two major obstacles to wide-scale adoption persist.

First, in most Latin American mass transit systems, cash is still available as a payment method—meaning laggard adopters are not incentivized to use a contactless transit card.

Secondly, these transit payment systems are closed-loop. This means consumers learn to use contactless payments to commute, but not for...
other purchases. In this context, Visa partnered with the city of Rio de Janeiro to develop a prepaid card for the music event “Rock in Rio” that doubled as a contactless transit card. More ambitious still, in November 2017 Mexico City’s Metro collaborated with Mastercard and fintech start-up Broxel to launch a prepaid card with multiple functionalities. This initiative and others like it could be a catalyst not only for financial inclusion, but also for the growth of contactless payments far beyond mass transit.

Obstacles to contactless adoption in Latin America

There are many challenges to the implementation of contactless payments in Latin America. While many leading acquirers are committed, issuers are lagging. Merchant participation is also problematic. For the region to achieve a successful migration to contactless, issuers, acquirers, merchants and regulators must come together toward this common goal. The principal challenges toward this end, which we will discuss in greater depth throughout this whitepaper, include:

- A shortage of contactless-enabled payment cards
- High cost of contactless payment cards to issuers
- Low penetration of NFC-enabled smartphones
- Incoherent issuer strategies
- High merchant cashier turnover
- Lack of contactless payment system interoperability
- Lack of clear value of contactless to issuers, merchants and consumers
- Cultural factors

The last challenge is perhaps the most difficult to overcome, being simultaneously the least tangible and the most pervasive. Cash is still king in Latin America. Many—if not most—Latin American consumers prefer cash over any electronic payment method. But there
are other, less obvious cultural realities that complicate contactless implementation.

Latin American cultures are often service-oriented in nature, and self-service is rare. Even the lower echelons of the middle class are used to paying others to provide basic services. This is fueled by a wealth of inexpensive unskilled labor, a government prerogative to provide jobs and a pervasive—albeit largely unconscious—aspirational mentality which manifests in countless ways.

The extent to which contactless payments are successful in Latin America is dependent upon how ably merchants and banks can ease the transition to self-service in payments.

Across Latin America, middle class families have live-in domestic help. The affluent employ functionaries to stand in line and pay their bills. Consumers are not accustomed to pumping their own gas at service stations. And at the EMV POS, it is the cashier who receives the credit card, inserts the chip, and performs the transaction, not the buyer. In short, the culture of “self-service” does not yet exist in Latin America. This is in stark contrast to the United States, where consumers habitually do everything for themselves, ranging from pumping their own gas and printing luggage tags at the airport to checking themselves out at supermarkets.

Customer expectations and behaviors can change, however, with the intervention of merchants. Across Latin America, in response to customer nervousness around losing sight of their credit card when making a payment, restaurants have adopted wireless POS terminals so that they may charge the customer at the table. Consumers have gotten used to their card being in their control at all times, which is a step toward self-service and retaining agency in the payment process.

Contactless payments are a form of self-service that require the customer to be actively engaged in the transaction. This necessitates not only a behavioral shift, but also a cultural one, and is a barrier that will grow less formidable as self-service seeps into Latin America. The extent to which contactless payments are successful in Latin America is dependent upon how ably merchants and banks can ease the transition to self-service in payments. While the end result may well be inevitable, judicious consumer guidance—coupled with a unilateral message from the payments industry—will get markets there faster, cheaper and more comfortably.

In the sections that follow, we will take a deeper look at the specific issues and challenges faced by each stakeholder in the payments ecosystem: acquirers, issuers, merchants, consumers, and the card network.
2. Acquirer perspective

Acquirers consider contactless enablement essential to remaining relevant, especially in anticipation of the arrival of international digital wallets in the region. These include Android Pay, Samsung Pay and Apple Pay. Many acquirers have initiated, if not completed, the upgrade of their POS hardware to contactless-capable, and penetration in the region’s key markets ranges from ~37% in Peru to ~75% in Brazil.

TABLE 1: ESTIMATED % OF POS TERMINALS THAT ARE CONTACTLESS-READY (HARDWARE ONLY)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>75%</td>
</tr>
<tr>
<td>Mexico</td>
<td>60%</td>
</tr>
<tr>
<td>Argentina</td>
<td>60%</td>
</tr>
<tr>
<td>Colombia</td>
<td>40%</td>
</tr>
<tr>
<td>Peru</td>
<td>37%</td>
</tr>
<tr>
<td>Chile</td>
<td>75%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>56%</td>
</tr>
</tbody>
</table>

Sources: Interviews, AMI analysis
These numbers will approach 100% over the next several years. Incumbents will continue their migration to contactless. Incoming acquirers such as PagoGo in Colombia (a joint venture between First Data and Bancolombia) are going to market directly with contactless infrastructure, including a traditional POS terminal and an mPOS device. But there remain several impediments to making the card acceptance ecosystem contactless-capable in practice.

“Contactless-capable POS terminals” refers to hardware only. The software component, on the other hand, can be more difficult for acquirers to influence. Most standalone POS systems can be updated remotely, but terminals belonging to a larger merchant system, including electronic cash registers (ECRs), must be updated manually. This is particularly common for large department stores and supermarket chains—which can represent up to 50% of total credit card spend—and is an ever-present barrier to the spread of contactless. In Brazil, for example, Carrefour is one of the only large retail chains to have fully converted to contactless on the software side. In Colombia, acquirers report that convincing large chains to upgrade their software is difficult because of the time and costs involved. In the case of Mexico’s convenience store chain OXXO, most of its POS terminals are hardware contactless-ready but the necessary software upgrades will not be tackled until Q3 2018.

Another challenge is a lack of interoperability. In Mexico, while all BBVA Bancomer, Banorte and Citibanamex terminals are contactless-ready, they are enabled only for contactless products issued by each respective bank. In Peru, acquiring networks VisaNet and ProcesosMC are not interoperable and the former is much more advanced in contactless penetration than the latter. In Colombia, Credibanco, an acquirer that enjoys 60% POS market share, invested in One Time Passcode mobile payments, while its competitor Redeban focused on QR codes. This lack of interoperability hinders contactless acceptance among merchants and this patchwork ecosystem creates confusion and frustration for consumers while eroding value. Cash is accepted everywhere; non-interoperability makes contactless payments substantially less competitive.

Despite these hurdles, acquirers have taken the correct first step to trigger contactless payment adoption market-wide. The creation of a new network must start with the supply side; in the case of contactless, that is acceptance. The disruptive car-sharing titan Uber illustrates this approach. When launching in a new city, Uber begins with intensive
groundwork to first recruit and train drivers long before it makes the service available to consumers. Such preparations do much to ensure a positive initial user experience. The same is true for Airbnb, Postmates and other platforms dependent on a robust supply-side network. And in the same way that Uber drivers quickly need riders to confirm their viability, acquirers and merchants need issuers to deploy contactless-enabled payment products to kick-start demand.

Unfortunately, issuers in Latin America have not tackled the demand side with nearly the same vigor. A time lag of several years persists between contactless acceptance and contactless issuance. Mexico, Brazil, and Argentina all have nearly nonexistent issuance of contactless payment cards; in Peru, contactless cards make up less than 1% of total cards in circulation. In Mexico, Colombia and Chile, BBVA opted to prioritize its NFC mobile wallet instead of cards, which requires a far steeper learning curve for consumers. Without a greater investment of behalf of issuers, acquirers’ investment in contactless will have been in vain.
3. Issuer perspective

In comparison with acquirers, issuers in Latin America have been slow to migrate to a contactless environment. In fact, even the earliest adopter of contactless acceptance, Brazil, still has almost no contactless card issuing. This is true of Mexico as well, which boasts the second-highest penetration of contactless-enabled POS terminals. Except for rare outliers, the availability of contactless-enabled payment methods remains scarce in Latin America.
The contactless dilemma for issuers

Issuers have many options when creating a contactless strategy, a factor which contributes to their dawdling. The issuer contactless dilemma can be modeled as such:

First and foremost, banks are split when choosing between card-based or mobile-based contactless strategies. In markets like Mexico and Brazil, where smartphone and Internet penetration are high, issuers are intent on developing mobile contactless solutions. Bankers feel strongly that consumers will leapfrog contactless cards and go straight to mobile. They are therefore averse to migrating card portfolios to contactless—especially considering the 20%-50% price hike over EMV cards. The fact that large economies have attracted the likes of Samsung Pay, Android Pay and Apple Pay contributes to this belief. In contrast, in mid-sized markets like Colombia and Peru, where the mobile economy is less developed, issuers are equally or more interested in contactless cards.

For issuers choosing a card-based approach, the second question is which card products to migrate to contactless. But herein lies a conflict. Since contactless cards are costly, issuers find it logical to first migrate their most profitable card BINS, i.e. credit products for the affluent. This is problematic for two reasons.
Bankers feel strongly that consumers will leapfrog contactless cards and go straight to mobile. They are therefore averse to migrating card portfolios to contactless.

Firstly, across the world, the most successful use cases for contactless payments are high-frequency, low-ticket transactions, including public transportation and fast food restaurants (see the “Merchant perspective” section on p. 25 for more.) These transactions are relevant for all types of cardholders, not just the most elite.

Secondly, younger consumers (under the age of 35) are at once the most likely to adopt a new payment technology and among the least likely to possess a premium credit card. Thus, a wiser approach for issuers may well be to prioritize mass affluent credit cards and debit cards. Bancolombia leads the region in this regard, en route to converting its entire (eight million) debit card portfolio to contactless. This is equal to 31% of Colombia’s total debit card stock, and likely represents the largest migration to contactless cards in Latin America.

Below, Figure 4 supports this argument, illustrating contactless use cases and the corresponding types of payment products that best service each of them.
Contactless cards versus mobile wallets

With the rapid advance of smartphone usage, the Internet, and the app economy in Latin America, the contactless mobile wallet is in some ways more alluring than contactless cards. Banks and merchants across the region are eager to develop their own mobile wallets to stay current. At first glance, this looks like a wise approach, but the evidence demonstrates otherwise: to prioritize a mobile-based contactless strategy over cards is a misstep that will hinder the growth of contactless payments in Latin America.

The problem with this strategy is that using a card at the POS is a deep-seated behavior; to entice consumers to change, wallets must offer a significantly better checkout experience. So far, mobile wallets in the region struggle to achieve this. Most wallets offer no special incentives or benefits. Poorly trained cashiers may easily botch a transaction, deterring all future use by the customer. Mobile payments require consumers to unlock their phone, open an app, authenticate themselves, and sometimes scan a QR code or enter a passcode, a cumbersome process. Contactless cards, on the other hand, require the consumer to simply “tap and pay,” they have a less steep learning curve and are the natural evolution of the current EMV payment.

Furthermore, mobile wallets are largely focused on credit cards, designed to appeal to an affluent, tech-savvy customer base. This is a demographic mismatch with wallet users, since the population most likely to adopt a mobile payment is millennials. However, this group is more likely to own a debit card than a credit card. Additionally, credit cards are often reserved for high-ticket items, while the best contactless use cases are for low-ticket items, for which debit cards are better suited. Contactless cards got their start as a mass payment product (i.e., public transit prepaid cards) and therefore are better prepared to transition to debit and work their way up the socioeconomic ladder, instead of the more challenging top-down approach.

Finally, global case studies reveal that plastic persists even when mobile payments are widely available. In London, around 80% of mass transit payments are made using plastic, even though all contactless mobile payment applications are accepted. In Australia, roughly 90% of all card payments are made using a contactless card, while only 3% are made using mobile.

As Rubén Salazar, Senior Vice President, Products and Innovation at Visa Latin America puts it: “The largest contactless use case is happening in plastic everywhere in the world.”

The largest contactless use case is happening in plastic everywhere in the world.”

–Rubén Salazar, Senior Vice President, Products and Innovation, at Visa Latin America

Mobile wallets in the region have gained very little traction, due to the challenges described. Despite a huge marketing campaign, BBVA Wallet in Colombia and Peru has scant user adoption. Other wallets from issuers Davivienda, Bancolombia, Grupo Aval and Citibanamex tell a similar story. While it’s true that these products are in their early days and adoption
may improve with time, even in the US, adoption is disappointingly low. As Fortune reports, only 8% of Apple Pay users and 6% of Samsung Pay users make a mobile payment once a week. Thus far, consumers have simply not derived enough value from mobile wallets to largely shift their behavior.

This is not to say that banks should abandon mobile payments altogether. A better idea would be to outsource them to third-party wallets offered by tech giants Samsung, Google and Apple, all of which are well-trusted brands that aim for interoperability. In tandem, banks should focus their efforts on promoting contactless cards, which are easier for consumers and cashiers to adopt. Taken together, these two strategies create optimal conditions for scaling contactless payments market-wide. The goal should be to provide the best user experience for every payment method in the customer’s wallet, including both cards and mobile.

Supporting issuers to embrace contactless cards

The overriding problem for issuers in the development of contactless cards is that their value has not become fully apparent. Card networks and acquirers must endeavor to correct this. Visa and Mastercard, in particular, should draw on their global experience to develop the use cases for issuers. Issuers are asking obvious questions: what value will contactless cards bring me? How will I justify the higher cost? Without compelling answers, banks will transition begrudgingly to contactless under the card networks’ mandates and their efforts to promote usage at the POS are likely to be anemic.

Just as issuers must incentivize consumers to adopt a new payment method, so must card networks incentivize their issuing partners. Card networks have the option of subsidizing the cost of contactless cards during an early adoption phase and are also well-positioned to broker deals with card manufacturers. Economic incentives are powerful, and banks are not immune to their influence.
Most importantly, card networks must foster closer coordination between issuers and acquirers. If banks issue contactless cards without a fully developed acceptance network, the effort is positioned to fail at the outset. Card networks, which are quite literally the bridge between issuers and acquirers, hold the keys to avoiding this outcome.

Governments have a role to play as well, as exemplified by Costa Rica. The Central Bank of Costa Rica’s primary objective was to reduce the use of cash. Central Bank data revealed that cash costs the country an estimated $500 million annually due to forged paper tickets in mass transit, modified or omitted receipts for retail purchases and the huge cost of processing cash. Thus, it developed a national strategy to increase financial inclusion, which included the implementation of simplified savings accounts (easier and cheaper to open, maintain and use than traditional bank accounts.)

Just as issuers must incentivize consumers to adopt a new payment method, so must card networks incentivize their issuing partners.

A second component to this strategy was to promote an electronic payment method well-suited to low-ticket transactions, i.e. which could compete with cash. In 2015 the country passed a law requiring banks to issue only contactless cards by 2019, which has successfully transformed the card-present ecosystem. Today in Costa Rica, 60% of POS devices and 60% of payment cards (1.5 million) are now contactless-enabled. But Costa Rica is unique in the region: thus far, other governments in the region are slow to follow suit. National governments with a clear financial inclusion strategy such as Mexico, Colombia and Peru may be those most prepared to do it.

Government support for contactless may also manifest via softer examples, such as partnerships to implement open-loop contactless payments for public transit or highway tolls. Requiring the use of contactless payments in public transit to the exclusion of cash would be a most effective strategy. Governments can also help establish clear rules around card payments that accelerate contactless adoption. Easing requirements on merchants to authenticate customers via PIN or signature for low-ticket transactions is badly needed to create a convenient and consistent contactless experience for consumers.
4. Merchant perspective

Use cases

During the transition to EMV chip card payments, fraud protection was the core selling point to issuers and merchants. Liability shift mandates issued by Visa and Mastercard—which in fraud cases held responsible the party that had not upgraded to EMV—encouraged both merchants and issuers to adopt it.

In the case of contactless payments, the core value offered to merchants is speed and convenience. Globally, the best application of contactless payments has been in public transportation, for which transaction speed is essential. It follows that the most successful use cases for contactless payments around the world have been high-frequency, low-ticket purchases. These include transactions made in fast food restaurants, coffee shops, convenience stores, supermarkets, movie theaters and vending machines, to name a few. Contactless makes less sense for boutique or luxury retailers, hair salons, hotels, and other merchants for whom transactional speed is not a primary concern.

Contactless works particularly well for low-ticket transactions that do not require a PIN (generally those under USD $25, varying by country); the added step of entering a PIN (or providing a signature) slows the transaction and diminishes the inherent value of contactless. On average, contactless reduces transaction time by five seconds, resulting in significantly increased efficiency and sales for high-traffic merchants. This is valuable in Latin America, where lines get prohibitively long. The issue is so key to merchant competitiveness that, at many establishments in the region, improving checkout efficiency and reducing wait time has become a primary key performance indicator.

In Costa Rica, Colombia and Chile, the strongest markets for contactless card issuing, supermarkets, fast food restaurants and price clubs (e.g., PriceSmart) are the use cases gaining the most traction. Redeban in Colombia is looking to implement contactless payments for vending machines in 2018. VisaNet in Peru enabled no-PIN and no-signature transactions under $19 for merchant verticals in the best contactless use cases: supermarkets, fast food restaurants, movie theaters and cafes. This will help to accelerate contactless adoption: removing authentication requirements maximizes transaction speed and preserves the value of contactless payments. These transactions are also safe; low-value, high-frequency transactions are not valuable to fraudsters.

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Contactless reduces transaction time by five seconds, resulting in significantly increased efficiency and sales for high-traffic merchants.

Retailers issuing co-branded cards are another contactless use case with enormous potential, since these merchants participate on both the issuing and the acceptance sides of the equation—they control the payments ecosystem existing within their stores. A major obstacle for contactless implementation is the chicken-and-egg dilemma facing issuers and acquirers: banks don’t issue contactless cards because of their weak acceptance network, and acquirers don’t enable acceptance because there are not enough contactless payment products in circulation. Stuck in the middle are consumers who, without a robust ecosystem, never adopt contactless payments. In an environment where one entity controls both issuance and acceptance and fosters a close relationship with consumers, contactless payments have a much better opportunity to scale. Thus, merchants like Falabella, Liverpool and Walmart are in a prime position to be contactless evangelists.

Merchant challenges

Most merchants do not yet enjoy the benefits of contactless payments because their usage is still too low to yield operational efficiency. Merchants face several challenges to contactless payment acceptance, including:

- High employee rotation
- Low levels of employee education and motivation
- Difficulty integrating contactless technology with merchants’ internal systems
- Lack of interoperability between various contactless/NFC products
- Lack of training and incentives from acquirers
- Low consumer awareness of contactless technology
- Competition from cash and EMV card payments
- Physical store infrastructure that does not support self-service contactless payments

These challenges can be overcome through a coordinated effort from acquirers, issuers and merchants. The following examples examine the differing degrees of such coordination found throughout Latin America—and their varying degrees of success.
PriceSmart in Costa Rica, a unicorn of contactless

PriceSmart is a membership-based warehouse club, with headquarters in San Diego, USA and 40 warehouse clubs across Central America, the Caribbean and Colombia. With annual sales of USD $3 billion and three million active membership cardholders, it is the largest warehouse club in the markets where it operates. PriceSmart is also a co-branded credit card issuer with 400,000 cards in circulation.

PriceSmart has its largest presence in Costa Rica and Colombia, with seven locations in each market. Its experience with contactless in these two markets is drastically different, however. In Costa Rica, both the government and PriceSmart’s acquirer (and credit card co-issuer), BAC Credomatic, are fully committed to contactless implementation. PriceSmart itself is also committed. The retailer suffers from chronically long lines that result in disgruntled customers and lost business; as such, reducing line wait time is of utmost importance.

With a transactional efficiency imperative and robust bank support, PriceSmart began its transition to contactless in April 2017. Today, nearly 70% of PriceSmart’s card purchases in Costa Rica are made using contactless cards, making it one of the most successful merchant case studies in contactless implementation in the region. Several factors contributed to this success, including efforts around card acceptance, card issuing, and customer (member) education.

Today in Costa Rica, 60% of POS devices and 60% of payment cards (1.5 million) are now contactless-enabled.

Acceptance

With support from BAC Credomatic, PriceSmart began a three-phase migration of its POS terminals in Q2 2017. The first step was to upgrade its POS hardware to contactless-ready devices, the second was to execute the software upgrade, and the third was to update the physical configuration of its checkout lines. This last component has been the most critical in ensuring that the merchant’s investment in contactless produced results.
At most supermarkets across the region, an EMV chip reader is installed near the cashier, behind the belt where customers place their groceries. This enables the cashier to easily insert the customer’s chip card and execute the transaction. For contactless payments, however, the POS terminal must be within reach of the customer. In Costa Rica, PriceSmart installed rotating arms onto which the POS terminals are affixed, so that the POS can be positioned close to both the customer and cashier. This entire process took only four months, and 100% of PriceSmart’s Central American POS terminals are now fully contactless-ready.

To ensure that contactless transactions are executed seamlessly, both PriceSmart and BAC Credomatic are committed to intensive and continuous cashier training. PriceSmart training begins early, before stores open and includes presentations by BAC Credomatic, role playing exercises, games and quizzes. Cashiers also have print and digital educational tools at their disposal.

**Issuing**

PriceSmart decided to attack both acceptance and card issuing simultaneously. In Costa Rica, PriceSmart and BAC Credomatic jointly issue an American Express card that provides several benefits, including points to be redeemed at PriceSmart stores, installment payments, and concierge services. It also functions as the customer’s membership card, effectively promoting card use for in-store purchases.

BAC Credomatic has permanent presence to promote in-store issuing within many PriceSmart stores, and new card customers began receiving contactless cards in April 2017. BAC Credomatic also initiated a forced migration of its existing cards in the same year, which for PriceSmart’s portfolio, took less than six months. This simultaneous and rapid implementation of contactless-enabled issuance and acceptance helped PriceSmart to create a micro contactless ecosystem that it could monitor, control, and increasingly improve.

**Customer education**

The final and most challenging step in PriceSmart’s contactless payment implementation was customer education. PriceSmart cites its greatest challenge as the lack of cardholder awareness of a contactless-enabled chip in their card. An important lesson for merchants is that inducing customers to adopt contactless payments requires some intensive handholding. To do this, PriceSmart has activated several touchpoints in the in-store experience to promote contactless payments.

**Today, nearly 70% of PriceSmart’s card purchases in Costa Rica are made using contactless cards.**

The first touchpoint is in the co-brand card sales process. BAC Credomatic, which makes card sales in-store, is the first source of customer education on contactless payments. Additionally, PriceSmart places educational material throughout the retail space—particularly in the checkout line—to remind customers about their contactless card and how to use it. Finally, cashiers are actively involved in the contactless education process: they teach customers how to collaborate to reduce line wait time, which includes placing their membership card on the belt, arranging items on the belt in a certain way and making a contactless payment.
Lessons

The PriceSmart case provides some key takeaways. Most important is that a coordinated and intensive effort on behalf of all players is required to successfully influence customer payment behavior. Merchants who are also co-branded card issuers are in an excellent position to do this, because they can create a fully migrated contactless ecosystem within their stores. By converting a sizeable customer base, merchants evangelize contactless payments in the wider market. Intensive customer education and patience is required in this process, but when done correctly, the payoff comes quickly (for PriceSmart, it took less than six months).
OXXO in Mexico: preparing for contactless

OXXO, Mexico’s leading convenience store chain, has been a pioneering non-bank entity in the provision of financial services for over a decade, offering mobile top-ups, bill payments, prepaid cards, correspondent banking and more. With more than 16,000 stores across Mexico, OXXO is a well-known and well-loved brand. Customers depend on OXXO for their morning coffee and cigarettes, last-minute grocery items, on-the-go snacks and a multitude of services. Even so, customers on average spend less than 2.5 minutes in OXXO stores—it is a fast-paced, convenience-oriented environment. As one of the most customer-centric retail brands in Latin America, OXXO is under pressure to continually improve its in-store experience, including checkout.

Payments are an integral part of that effort. According to Asensio Carrión, the Head of Electronic Business and Financial Services at OXXO, the retail chain has one overarching objective: “To make it as easy as possible for customers to do business with OXXO.” This includes accepting any and all payment methods, which is progressively relevant as the number of available payment methods increases. While still in their infancy in Mexico, contactless payment providers are starting to proliferate. Banco Azteca issues contactless cards. Samsung Pay launched officially on January 17, 2018, and other contactless wallets including Transfer and BillMo are experimenting with barcodes and passcodes.

Although contactless payments are still incipient, OXXO understands that they are the next wave in POS technology. OXXO works with acquirer BBVA Bancomer to make its POS terminals contactless-ready, a process that is 60% complete as of February 2018. The last step, the installation of a required POS software upgrade, will occur throughout 2018 and represents a substantial investment. But OXXO believes the investment is worthwhile for three main reasons: 1) contactless payments will reduce transaction time; 2) it is a step toward a self-service model, which saves OXXO and the customer time and money; 3) contactless payments position OXXO as a leader in technology and will enhance its reputation as a leader in financial services.

Achieving their contactless goal is not without challenges, however. OXXO’s greatest obstacle is the training of its tens of thousands of cashiers to accept contactless payments, whether in plastic or mobile form. OXXO has more than 120,000 employees nationwide and an annual store employee rotation rate of 110%. OXXO cashiers range hugely in age with an average educational level described as “some high school.”

To overcome its HR challenges, OXXO developed intense training procedures, including in-person training sessions, online tutorials, videos, mobile phone training sessions and more. OXXO is considered best-in-class in Latin America for the variety and comprehensiveness of its training techniques and materials. From water bills to e-commerce purchases to lottery tickets, OXXO integrates with dozens of service providers’ systems, all of which cashiers must operate throughout the day. Thus, OXXO employees are already agile, quick learners. Learning to transact contactless payments will be relatively easier for OXXO cashiers versus employees at less versatile retailers.
Credit cards have enjoyed considerable success in Latin America, having penetrated the middle and upper classes. But their penetration of total retail spend remains limited—a maximum of 30% in Brazil and roughly only 10%, respectively, in Mexico, Colombia and Peru. Latin American consumers are vastly diverse, ranging from world-class jetsetters to neighborhood workers operating in a cash-only environment. And their consumption and payment behaviors are just as varied.

Their payment behaviors have also adapted over time. Ten or more years ago, consumers used magnetic stripe cards (fast transactions but susceptible to fraud), then migrated to chip and PIN payments (slow and inconvenient but highly secure). Now, the trend will be to adopt contactless payments, with no PIN or signature verification for low value transactions (both fast and secure).

To better understand consumers’ attitudes toward payment methods and contactless payments, AMI conducted surveys in Brazil, Mexico, Colombia and Peru. The only criterion for participation was ownership of either a credit or debit card. Participants were of varying ages, life stages, professions, socio-economic status and gender. The results are not designed to be statistically representative but rather to capture some of the prevalent attitudes and behaviors regarding payments and contactless technology. The research found that consumers face similar challenges as banks, merchants and acquirers in their adoption of contactless payments—lack of awareness, lack of perceived value and the pervasiveness of cash.

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When looking at the region as a whole, cash was found to be the most preferred payment method, followed by debit, followed by credit. Notably, Brazil is an outlier: only 15% of Brazilian consumers listed cash as their preferred payment method, while 53% preferred credit cards. Across all markets, 64% of those surveyed said they use cash daily; for debit and credit cards, this was true for 30% and 21% of consumers, respectively. It’s important to keep in mind that these numbers represent the payment preferences of credit and debit card holders, which across the region represent only 30% of all consumers.

Cash is still deeply rooted as a payment method in the region, especially in Mexico, Colombia and Peru, and banks have failed to reach certain merchant segments—especially those in which small average tickets prevail. As seen in Table 2 below, cash is most often used in public transportation, street markets, parking lots and taxis, merchant verticals that require payment speed and agility. Credit is most prevalent in higher-ticket use cases, where speed is not as valued, including formal restaurants, clothing stores and department stores.

**Figure 6: % of consumers surveyed who use each payment method on a daily basis**

<table>
<thead>
<tr>
<th>Cash</th>
<th>Debit Card</th>
<th>Credit Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>64%</td>
<td>30%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: Visa Consumer Community, January 2018

<table>
<thead>
<tr>
<th>Type of purchase</th>
<th>Cash</th>
<th>Debit Card</th>
<th>Credit Card</th>
<th>Digital Wallet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Street market</td>
<td>73%</td>
<td>14%</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>Taxi</td>
<td>70%</td>
<td>7%</td>
<td>12%</td>
<td>3%</td>
</tr>
<tr>
<td>Convenience store</td>
<td>57%</td>
<td>21%</td>
<td>17%</td>
<td>2%</td>
</tr>
<tr>
<td>Public transportation</td>
<td>78%</td>
<td>4%</td>
<td>4%</td>
<td>-</td>
</tr>
<tr>
<td>Beauty salon</td>
<td>55%</td>
<td>21%</td>
<td>18%</td>
<td>1%</td>
</tr>
<tr>
<td>Parking</td>
<td>71%</td>
<td>7%</td>
<td>9%</td>
<td>1%</td>
</tr>
<tr>
<td>Coffee shop</td>
<td>48%</td>
<td>25%</td>
<td>18%</td>
<td>2%</td>
</tr>
<tr>
<td>Pharmacy / drugstore</td>
<td>37%</td>
<td>33%</td>
<td>27%</td>
<td>1%</td>
</tr>
<tr>
<td>Fast food / informal restaurant</td>
<td>38%</td>
<td>35%</td>
<td>24%</td>
<td>-</td>
</tr>
<tr>
<td>Supermarket</td>
<td>16%</td>
<td>45%</td>
<td>37%</td>
<td>1%</td>
</tr>
<tr>
<td>Department store</td>
<td>15%</td>
<td>28%</td>
<td>52%</td>
<td>-</td>
</tr>
<tr>
<td>Apparel / clothing store</td>
<td>11%</td>
<td>32%</td>
<td>52%</td>
<td>3%</td>
</tr>
<tr>
<td>Formal restaurant</td>
<td>22%</td>
<td>40%</td>
<td>35%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Visa Consumer Community, January 2018
The survey reveals new opportunities for banks and card networks in their war against cash. To compete with cash in low-ticket merchant verticals, banks must offer a user experience that is fast, convenient and universally accepted. Contactless card payments have this potential—with added security to boot.

But today, the contactless user experience does not yet deliver. It is a mistake to prioritize upscale retailers and restaurants for contactless payments, as some Latin American acquirers do, since such transactions require a PIN or signature. According to Visa executives, PIN and signature authentication are the “kryptonite of contactless.” Requiring these authentication features eliminates the greatest inherent value offering of contactless payments: speed.

Conversion to contactless: Lack of consumer education

Contactless adoption faces other challenges, the greatest being a lack of awareness of the product. Forty-one percent of consumers across the four markets were aware of contactless cards, compared to 51% who were aware of contactless smartphone payments. This may be due to strong consumer awareness of Samsung Pay and Apple Pay. This is also a problem, as contactless mobile payments in Latin America currently offer an inferior customer experience to that of cash, EMV card payments and contactless card payments. To persuade consumers to adopt a new payment method, survey respondents overwhelmingly agreed that it must be perceived as secure first and foremost, as well as being easy and convenient.

Consumers are unlikely to ask to use a new payment method of their own volition—use is almost always prompted by the merchant. Thus, the inconsistency of contactless acceptance by merchants is a serious hindrance. Mónica in Mexico elaborates: “When I got my new B-Smart Citibanamex card, it already had the contactless option, but I didn’t realize this until they told me at Palacio de Hierro that I could pay using contactless. I tried it and I loved it, but I’ve only been able to use it at that one store.”

Growing affinity for contactless

One positive result from the surveys is that 66% of consumers who reported owning a contactless card have used it at least once. Many respondents report liking the idea of contactless cards because they believe them to be more secure. Constantly retaining possession of the card makes them feel safer, whereas inputting a PIN actually makes some feel less secure. As Rocío in Peru states, “[Contactless cards] are faster, safer. You never lose sight of your card.” Additionally, consumers admit that contactless has appeal because of the “cool factor”—contactless is innovative. Leyla in Peru elaborates: “I want to try that new experience [contactless cards] and see what advantages it has. I’m sure it’s innovative in security and speed. Everyone wants to be on the cutting edge of technology to look cool.”
However, the data also reveal that initial success is critical to reuse of the payment method. If the POS terminal does not work or the payment experience is otherwise unsatisfactory, consumers are unlikely to initiate a contactless payment again.

Finally, most consumers who used a contactless card payment did so at high-ticket merchants, such as department stores. This is reflective of the cardholders themselves—the affluent—since in most cases only premium cards have been converted to contactless. Contactless has yet to penetrate other merchant verticals where cash is prevalent, such as taxis and convenience stores.

### Table 3: Use of Contactless Payments

<table>
<thead>
<tr>
<th>Merchant Type</th>
<th>% of Contactless Card Owners Who Report Having Used Their Contactless Card at Select Merchant Types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department store</td>
<td>32%</td>
</tr>
<tr>
<td>Supermarket</td>
<td>25%</td>
</tr>
<tr>
<td>Apparel / clothing store</td>
<td>21%</td>
</tr>
<tr>
<td>Formal restaurant</td>
<td>13%</td>
</tr>
<tr>
<td>Coffee shop</td>
<td>11%</td>
</tr>
<tr>
<td>Fast food / informal restaurant</td>
<td>10%</td>
</tr>
<tr>
<td>Pharmacy / drugstore</td>
<td>8%</td>
</tr>
<tr>
<td>Beauty salon</td>
<td>4%</td>
</tr>
<tr>
<td>Street market</td>
<td>0%</td>
</tr>
<tr>
<td>Taxi</td>
<td>0%</td>
</tr>
<tr>
<td>Convenience store</td>
<td>0%</td>
</tr>
<tr>
<td>Public transportation</td>
<td>0%</td>
</tr>
<tr>
<td>Parking</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Source: Visa Consumer Community, January 2018*

In short, consumers look favorably upon contactless payments, but at this point, they are still a novelty. They have not been incorporated into consumers’ payment behavior, nor have they penetrated non-traditional merchant verticals. There are clear steps to achieving these goals: 1) contactless acceptance must be widespread; 2) merchants must take an active role in prompting consumers to use contactless; 3) contactless must be perceived as secure, fast and convenient; and 4) the payment experience must be flawless on the first try.
Visa’s perspective: Commitment to a plastic contactless environment

As the world’s largest payment network, Visa’s mission is to continually expand the electronic payments universe. Both Visa and Mastercard insist that their biggest competition is not each other, but cash. In Latin America, cash still provides the best customer experience for small transactions such as those made at corner stores; cash is accepted everywhere and requires no authentication. No one wants to punch in a PIN to buy a kilo of tomatoes; providing a signature seems superfluous for a $5 meal on the go. Paying cash for these small purchases is the easiest option today.

Cash payments in brick-and-mortar retail are currently estimated at nearly one trillion dollars annually across Latin America—a prize that remains out of reach today for card networks and their partners across the payments ecosystem. To capitalize on this enormous opportunity, the industry must converge around one electronic payment method that can beat cash. This means providing speed, simplicity, security and access.

To this end, Visa is committed to enabling contactless payments across Latin America, especially in their plastic format. Visa sees many advantages to plastic over mobile: cards have no batteries to charge, no data to buy, they are long-lasting and durable, and they are more accessible than smartphone wallets. Visa’s mandate to issuers that all card portfolios must be converted to contactless-ready by Q4 2018 is a signal to all stakeholders that the future is contactless—and that Latin America will be ready. Mastercard’s contactless mandate, issued in February 2018, demonstrates that it is equally supportive.

In Brazil, Visa, in conjunction with Mastercard, has created an industry working group that brings together card networks and acquirers to establish standardized rules for contactless acceptance. Visa provides a cash-per-card incentive to issuers to help offset the cost of contactless cards and is also working with card manufacturers to secure preferential pricing. Across the region, Visa collaborates with the industry to eliminate signatures for all contactless transactions and actively supports governments to promote a market-wide shift toward contactless payments.

Cash payments in brick-and-mortar retail are currently estimated at nearly one trillion dollars annually across Latin America—a prize that that remains out of reach today for card networks and their partners.
Mobile wallets still have a role to play in Latin American commerce. Visa, Mastercard and American Express have worked closely with Samsung and banks to enable Samsung Pay in Brazil and Mexico; it is the card networks’ prerogative to enable customers to pay however they wish and to ensure the best payment experience for all their payment methods. The networks also support QR codes, wearables and other forms of contactless payments in the use cases where they are most applicable.

But interoperability remains the top priority. If a customer has one negative experience at the POS because their payment method was not accepted, banks can consider that customer lost to contactless payments in the short term. Interoperability reduces the chances of this happening, it fosters healthy competition and ultimately boosts customers’ loyalty to electronic payments.

Latin American banks may be under threat

Without a robust contactless ecosystem, Latin America runs the risk of another standard becoming dominant—as has already occurred in China with WeChat and AliPay, digital wallets offering merchant payments via QR code. These companies have altogether side-stepped card networks and banks. They essentially act as third party merchant acquirers, integrating directly with merchants and charging commissions of less than 1%. This is attractive to merchants who pay 3% or more to accept card transactions. Also, QR codes are simpler and cheaper to adopt than POS terminals. As such, AliPay and WeChat are internationally renowned for their success. As Chinese Internet research firm iResearch reports, 65% of mobile subscribers in China use mobile payments in lieu of cash, and total mobile payments exceed five trillion dollars annually, nearly 50% of China’s GDP.

These Chinese apps undermine not only credit card payments but the entire banking system itself. AliPay and WeChat actually suck money out of the banking system by offering higher interest rates than banks to store funds in their closed-loop systems. In late 2016, AliPay and WeChat both introduced fees for users to transfer funds back to their bank accounts for transactions exceeding a certain amount (for WeChat, this threshold is $150). Since both WeChat and AliPay are accepted ubiquitously by merchants (using a closed-loop standard) and can also be used to make P2P payments, users have little incentive to cash out.

WeChat started out serving long tail merchants, and AliPay began as a platform to serve the Alibaba marketplace, but both platforms have now expanded to traditional merchants. Everyone from taxi drivers and street vendors to upscale retailers and movie theaters accepts QR codes for payment. As experience in China shows, closed-loop systems based on QR codes have the potential to make the POS system obsolete. To stay in the game, banks need to serve both long tail merchants and protect their traditional client base from competition that could outwit them. This requires improving the customer experience at checkout, providing better checkout tools for small merchants (mPOS solutions), and guaranteeing interoperability.

Homegrown examples of QR codes in Latin America are attempting to emulate the China experience. Leading petrol retailers YPF and Primax in Argentina and Peru have developed their own QR-code payment systems. Redeban in Colombia is enabling QR-
Despite their astounding success in China, many argue that AliPay and WeChat’s QR codes are inferior to the NFC or EMV standards. They do not deliver the same level of security as NFC, nor is the customer experience as sophisticated. They restrict cross-border commerce, since today, their international reach is limited.

The Chinese apps’ ability to penetrate Latin America is also uncertain. Credit card users in Latin America are committed to their loyalty programs and would be difficult to convert to a payment system that doesn’t offer something comparable. The thin margins in AliPay and WeChat’s systems makes generous loyalty programs impossible. Secondly, bank account penetration in China is much higher than it is in Latin America (roughly 80% compared to Latin America’s ~50% overall). To succeed in the region, therefore, the two Chinese payment companies would need to build extensive cash-in networks, a costly undertaking. Finally, while WeChat is deeply embedded as China’s preferred messaging app, WhatsApp wears that crown in Latin America and would be

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code payment acceptance for taxis and other long tail merchants primarily accepting cash. TodoPago—a digital wallet owned by leading acquirer Prisma in Argentina—is offering QR code payments in the country’s largest pharmacy chain, Farmacity. Penetration is tiny thus far, but banks and card networks should be mindful of these evolutions in the region that threaten current POS infrastructure.
difficult to usurp. For WeChat, messaging acted as the gateway to mobile payments in China. Without this capability in Latin America, onboarding customers would be much more challenging.

Nevertheless, Alibaba’s and Tencent’s (the owners of AliPay and WeChat, respectively) global ambitions should not be underestimated. AliExpress, Alibaba’s version of Amazon, is already a leading cross-border e-commerce site in Latin America, especially in Brazil, and there is rumor that Alibaba may attempt to buy MercadoLibre, Latin America’s largest marketplace. This would set the Chinese group up to acquire market share in both e-commerce sales and payment processing. And as banks in Latin America continue to exclude large swaths of their populations, they leave the window open for competitors to pounce. The Chinese are proving that banks can lose their footing. If banks in Latin America do not take serious and rapid steps to provide greater financial inclusion and a suitable alternative to cash, a competitor might do it for them.

The migration to a new card standard is not easy, nor simple, nor cheap. But it is still worth pursuing. Visa today has more than 300 million EMV chip cards in circulation in Latin America; not long ago, these were all magnetic stripe-only cards. Contactless is the natural evolution of card technology, an evolution that will itself never be fully complete. Innovation is accelerating globally. Issuers who believe that card evolution has ended with EMV are naïve in their thinking.

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To conclude, card networks can help lead the migration to contactless but require the support of their partners to complete the mission. Required steps include the following:

- Issuers need to embrace card networks’ contactless card mandates and lead the education of their customer base about the benefits of contactless usage.
- Retailer associations must grasp the value of contactless and its role in boosting retailer efficiency, and ultimately, revenue.
- Merchants must commit to ongoing and scalable cashier training programs.
- Consumers need to receive a unified, clear and consistent message from their payment providers to impel them toward contactless and away from cash.

This essentially culminates in an industry convergence around promoting a universal contactless environment. With these ingredients in place, the entire payments ecosystem will reap the benefits.
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