Latin America Cards & Payments Trends Whitepaper

By

Americas Market Intelligence

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Introduction : Things are about to get interesting

Latin America cards and payment industry at a competitive cross-road

Over the last decade, Latin America's card industry has enjoyed explosive growth. Issuers (banks and others), card networks (MasterCard, Visa & Amex), large acquirers and processors as well as retailers have been the prime benefactors of expanding consumer credit, which grew at CAGR levels of >20%. During this time, Brazil became the most profitable credit card market in the world, buoyed by heavy consumer spending and some of the highest APRs found anywhere. The single product that has driven Latin America's card industry has been the consumer credit card, the prized possession of the region's aspiring middle class. For the incumbent players in the industry, growth has come relatively easily, as consumers clamored for their first, then their second consumer credit card, devoured retailer card offerings and reveled in the consumption power that credit access entitled them.

Going forward, the playing field will get tougher and more diverse. Consumer credit is reaching exhausted levels in Brazil and Chile. In both countries, falling commodities have weakened currencies and forced more hawkish monetary policy, especially in Brazil. Higher interest rates and climbing default levels in Brazil now worry both retailers and banks who for almost a decade have leveraged consumer credit through the promotion of parcelados. With consumer credit growth at risk, issuers need to embrace other customer targets with different products. But banks have been naturally hesitant to invest in commercial cards, consumer pre-paid products or any forms of digital payment products when consumer credit was running on auto-pilot for so many years. Issuer complacency has invited new competitors into these emerging product spaces.

Open loop pre-paid cards include a number of entrepreneurs who have focused on large scale accounts in government and corporate client circles. If new names can win over the most brand conservative customers, smaller clients will be even easier to gain. In digital wallets, PayPal is the dominant player in Mexico and growing aggressively in Brazil. New competitors in Brazil have grown out of the internet merchant communities, such as UOL's PagSeguro who sell digital wallets as a bolt-on product to a new e-commerce sites. Mobile Network Operators (MNOs), who long ago mastered the art of low cost acquisition of mass consumers, can easily outflank traditional issuers with mobile money products. As those customers load more credit onto their phone bills, their purchases will encroach upon the territory of traditional credit and debit cards, still dominated by banks.

Where banks continue to hold a compelling advantage is the issuance of commercial credit and debit cards including the still underexploited purchase cards for corporations and business cards for SMEs. Banks already serve these companies as customers of other products. Margins remain healthy and non-traditional issuers struggle to compete. However, banks need to hire and train far more salesmen to evangelize these products among their business clients, many of whom are skeptical about issuing cards to mid-level employees or remain loyal to consumer cards in their wallet (SME owners).

For card networks, the challenge is two-fold: i) will the uptake in commercial, pre-paid, digital payments and other new products be fast enough and profitable enough to off-set slowing consumer credit growth? And ii) which of the multitude of new products is likely to most succeed – i.e. where should they place their bets? Issuing banks also share these two challenges but cards are only part of their product mix so they choose to delegate the burden of product development to the card networks.

Ten years from now, Latin America's card and payment landscape will be unrecognizable. The region is home to well-financed and run MNOs, acquirers and retailers, all of whom have shown a willingness to vertically integrate into payments as a way to expand their revenue (MNOs), defend their volumes (acquirers) or strengthen customer loyalty (retailers). For technology companies in the payment space, any global strategy must include Brazil and Mexico, and once those two markets are conquered, most look to Colombia, Chile, Peru and Argentina next. In short, the competitive landscape is broadening both for issuing banks and card networks.

AMI consultants have had the privilege of watching the Latin American & Caribbean cards and payment industry evolve over a 20 year span, having conducted close to 200 consulting engagements in this industry, all of them in LAC. In this whitepaper, we chose eight trends that we believe are the most noteworthy in shaping the industry over the next three to five years. We welcome your feedback:
info@americasmi.com

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Fusion of mobility and payments

Low financial inclusion & high mobile penetration is generating a new payment ecosystem

In 2013, the World Bank announced that Latin America had more active mobile phones than people. Driven by falling handset prices, improved mobile coverage, and costly and inadequate fixed line infrastructure, Latin America is the 3rd largest regional mobile market in the world by volume, growing 13% annually since 2007[i].

In 2012, smart phone penetration in Latin America reached 20%,[ii] and by 2016, 50% of all new handset sales will be smart phones.[iii]

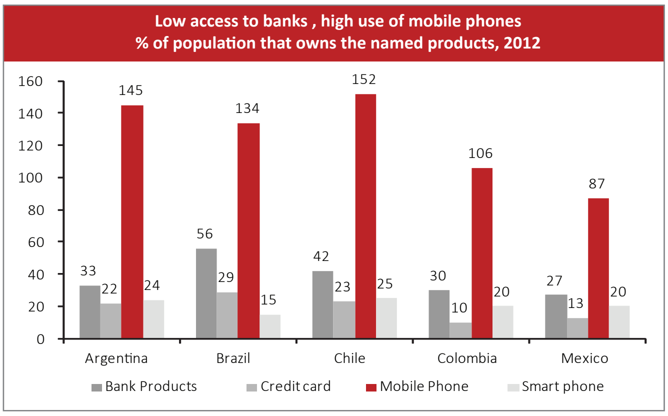
While almost all economically active Latin Americans sport a cellphone, the same cannot be said about bank products. **The unbanked population in Latin America remains stubbornly high at 70%.**[iv] Most banks struggle to either lower their acquisition costs and/or create compelling products and retail environments that are welcoming to the working class. After failed attempts to service the poor and lower-middle classes through prepaid cards and microloans throughout the 2000s, most banks have retreated from this segment and are focused on developing innovative solutions for their affluent and middle class customers.

On the merchant side, the lack of fixed line infrastructure reach to many independent retailers coupled with their informal legal status has limited the acceptance penetration of credit and debit cards in Latin America. Large acquirers, often owned or affiliated with legacy banks, have had limited success in penetrating the universe of small, informal merchants, particularly retailers and restaurants. They argue that independent stores lack the necessary paperwork to be processed as card accepting merchants. Furthermore, many independent merchants have preferred to operate in a cash-only environment, outside of the government's reach.

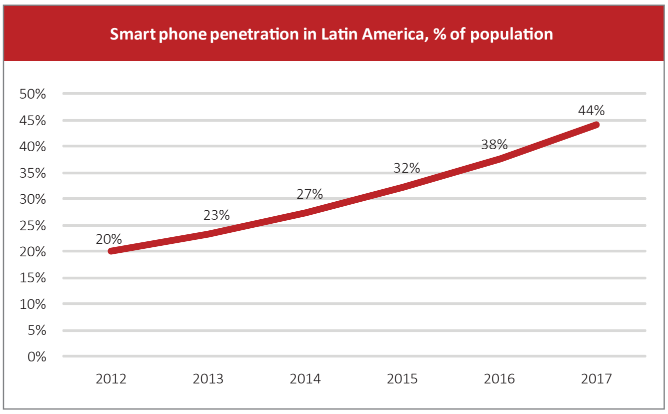
But the proliferation of issued cards, both credit and debit has changed the mindset of traditional small merchants. Many of their customers prefer to carry debit cards instead of cash, for safety's sake. Others receive government stipends loaded on prepaid cards. Increasingly, small merchants realize that their survival relies on the ability to accept both cards and cash at POS as well as provide cash-out services to reloadable cards.

The fusion of mobility and payments may soon bring into the e-payment fold both the under banked and small merchants. Leading the charge are ambitious mobile network operators (MNOs) who see payments as an exciting vehicle of new revenue. In contrast to banks, MNOs were built on low margin business models with relatively little overhead and a savvy approach to mass marketing. MNOs have mastered the process of educating consumers about new products, serving as distributors for the world's leading handset providers. Bolting on a payment product to their existing distribution channels is relatively easy and cost effective. MNOs can readily increase merchant penetration by delivering handset accessories that swipe cards. MNOs can store value in phones, creating mobile money, a new currency for consumers. MNOs are also a natural champion of card-on-file digital wallets that facilitate fast growing m-commerce. And MNOs will play a vital role in the eventual roll-out of contactless commerce.

MNOs will be both formidable competitors and strategic partners to the banking industry. Initiatives like Tu Dinero Móvil (Telefónica and MasterCard in Peru), Transfer (América Móvil and Banamex in Mexico) and Meu Dinheiro Claro (Claro and Banco Brandesco in Brazil) are all examples of MNOs seeking higher ARPUs (Average Revenue Per User) by dabbling in payments. Looking ahead, we can expect a lot more MNO activity in the digital payment space.



Source: World bank Financial Inclusion



Source: Credit Suisse

Questions that AMI consultants can help you answer

- What are the payment strategies and partnerships sought by leading MNOs in Latin America?
- How will banks defend their market position in light of new MNO competition?
- What best practices do MNOs employ to service the bottom of the pyramid?
- Who are the new payment enablers emerging in LatAm through m-commerce?

Slow adoption of the digital wallet

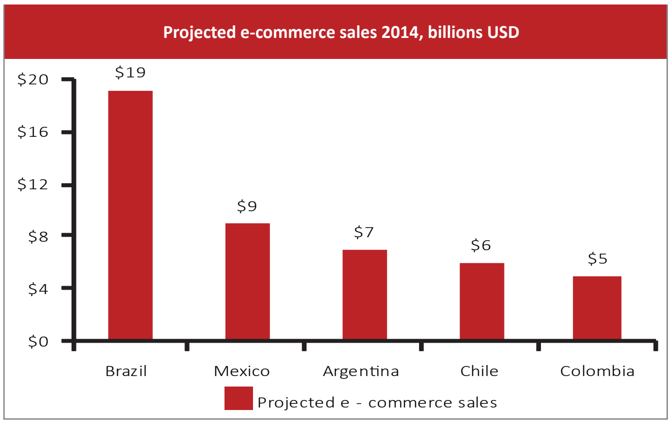
Despite glowing growth expectations, many barriers stand in the way of the DW's success

In 2013, e-commerce sales in Latin America reached $69 billion. Growing at an annual rate of 45%, online shopping is the fastest growing retail channel in the region.[v]

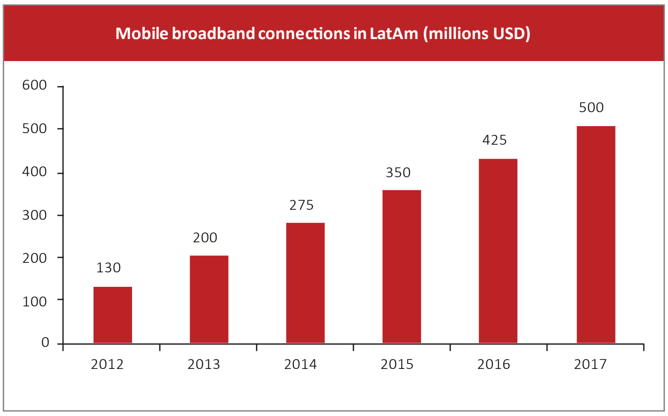
Companies in the payment space are eager to service the Latin American online shopper with a digital wallet. In Brazil alone, there is close to a dozen digital wallets active including PayPal, Pag Seguro, b-Cash, Mercado Pago, Banco de Brasil's Stelo, and Oi Carterira. Providers of Digital Wallets (DWs) hope that adoption levels will climb as e-Commerce websites launch their mobile commerce sites. The value proposition of the digital wallet (convenience & safety) is more compelling in an m-Commerce world than it is for e-Commerce merchants.

According to the European Travel Commission, less than 4% of online purchases in Brazil are made via a mobile phone, even though there are as many active smart phones as there are computers.[iv] Some analysts estimate that less than 5% of e-merchants have developed a mobile site, which makes mobile shopping clumsy and inconvenient. As Latin Americans increase their use of mobile broadband, growing at 31% annually,[vii] merchants will need to play catch-up and launch an m-site.

Digital wallets for physical purchases at merchants (also known as contactless commerce) has significant support from Brazil's giant acquirers, Cielo and Rede, who are purported to be investing heavily in NFC points of sale to be installed in their merchants. NFC (near field communication) is the platform that most advocates of contactless commerce in Latin America endorse, given the still sketchy coverage of 3G needed to support Bluetooth. In many large cities, Latin Americans are accustomed to using NFC rendered cards to access public transit. However, making the switch to contactless commerce via NFC enabled phones faces multiple hurdles: i) only a small fraction of smart phones sold today come with a NFC chip; ii) credit cards are widely and profitably used in Latin America, providing little impetus to issuers, processors, acquirers and merchants to change; iii) the learning curve for small merchants and consumers is significant; and iv) in contrast to Asian markets where NFC contactless commerce is catching on via private-public collaborations in public transit, **in Latin America, there is insufficient industry-wide cooperation and joint promotion of NFC.**



Source: Visa, America Economía



Source: GSMA

Despite the hurdles, there is so much investor capital being thrown at digital wallets, some of the initiatives are likely to break through the clutter and build a viable business. A good example is Argentina's Monedero, which is changing the way NFC and mobile phones interact by physically attaching the prepaid card to a user's cell phone. This negates the need for a NFC chip installed in the phone. With aggressive consumer marketing and merchant acquisition, by the end of 2012, Monedero had enrolled one million devices and 70,000 merchants,[viii] mostly in Buenos Aires. Adapting a global solution to meet the particular needs of Latin America, as Monedero has done, will be a prerequisite to success for other digital wallets.

Questions that AMI consultants can help you answer

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Mobile money for the unbanked - still not profitable

Banks are uninterested but telcos and others are investing feverishly

First experiencing success in Africa, mobile money has now reached the markets of Latin America, where about 70% of the population does not have a bank account. Roughly 90% of mobile subscribers in the region are on a prepaid plan, illustrating just how financially excluded most Latin Americans remain. Mobile Network Operators (MNOs) see this as an irresistible opportunity to expand their ARPU (average revenue per user) in a traditionally low margin business.

As world leader in mobile money, Tigo was one of the pioneers of the service in the region, followed by America Movil, with mobile money platforms in both Mexico and Colombia, Claro in Brazil and Peru, and Digicel and Voila in Haiti. Third-party payment network operators are also fighting for a piece of the pie, including Mi Plata in Colombia, and Yellow Pepper, based in Miami. So much is the excitement surrounding mobile money in Latin America that the GSMA, a global association of mobile operators, reports that there are currently 29 live mobile money services in Latin America and 19 launches are planned for the region in 2014. [ix]

However, a hard look at the numbers reveals that these competitors are chasing a tiny market. Worldwide, more than 200 million users have signed up for mobile money, but only 60 million of these were active in 2013.[x] **In Latin America, a continent of 500 million+, 8.4 million people are enrolled in mobile money, and of this, only 2.4 million accounts were active in the last 30 days.** Most of the stored value on their phones is used to top up their prepaid mobile

Number of mobile money accounts per 100,000 people

	Jun-11	Jun-12	Jun-13	CAGR
World	1542	2315	4361	68%
East Asia	1067	1387	1657	25%
Europe and Central Asia	63	75	416	157%
LatAm and Carib	319	878	2165	161%
Middle Easr and North Africa	924	2729	15164	305%
South Asia	578	1445	3485	146%
Sub Saharan Africa	12024	15832	24652	43%

Source: GSM Association

account. Getting users to use their mobile money accounts at the point of sale has proven to be a formidable challenge for service providers, one that requires a change in behavior among consumers. This is especially difficult amongst the poor, some of whom are illiterate, slow technology adopters, and accustomed to a cash economy. Low customer awareness, limited small merchant acceptance and the lack of a legal framework to govern mobile money are key challenges that telcos and banks must overcome to bring these services to scale. Some experts believe that only MNOs like Claro, Telefonica, and Tigo have sufficient size to both educate consumers and lower transaction costs sufficiently to take on mobile money's greatest competitor – cash.

Latin American governments who struggle against the undertaxed informal economy and support financial inclusion, are keen to see mobile money operators succeed. So far, mobile money legislation, which explicitly allows non-bank entities to issue e-money, has been passed or is in consultation in Bolivia, Peru, Brazil, Mexico, Colombia, Paraguay and El Salvador. Additionally, Peru has joined the Better than Cash Alliance, a non-profit that lobbies for electronic payments. As governments continue to get behind mobile money, MNOs, banks, and others must deepen their cooperation to create a cross-border, homogenous mobile money network that will incentivize both consumers and merchants to transition to this payment system in larger numbers. Unless mobile money soon takes off and reaches a much larger scale, even the most enthusiastic mobile players will lose faith. For a decade, banks tried unsuccessfully to convert bottom of the pyramid consumers into profitable customers. The jury is still out as to whether MNOs can achieve what banks could not.

Questions that AMI consultants can help you answer

- What do consumers buy with their mobile money in Latin American markets?
- Which mobile money providers in Latin America are winning share and why?
- How ready are merchants to accept mobile money?

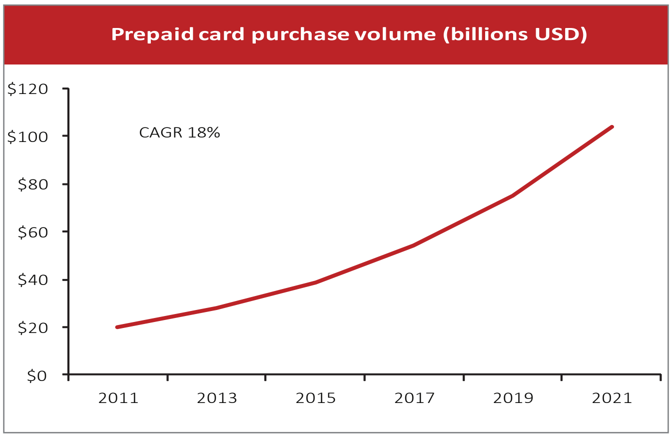
Prepaid is ready to launch

Latin American governments have created a viable user base

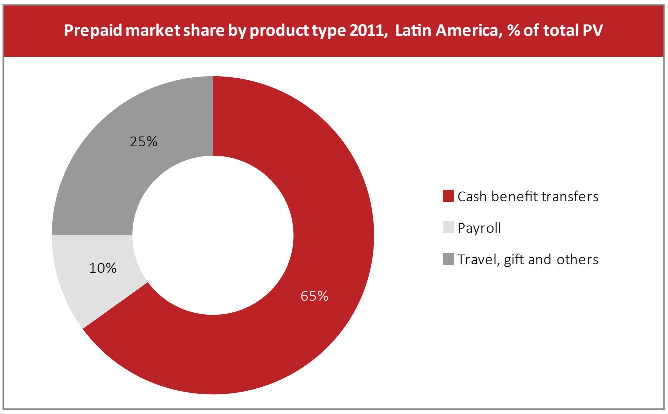
Prepaid cards gained traction in Latin America over the past decade, with card networks diversifying the supply available in the market. In 2011, the Tower Group estimated the prepaid market to be worth $20 billion, dominated by Brazil, Mexico, Chile and Peru. Over the next ten years, it is expected to grow at 18% annually, reaching $110 billion by 2021.[xii]

Gift, travel, and general-purpose prepaid cards have low adoption rates in Latin America when compared to developed countries, but banks have seen success in government prepaid cards, specifically for the disbursement of conditional cash transfers. In 2011, social benefit programs accounted for approximately 65% of the prepaid market in Latin America. [xiii]Currently, *Bolsa Familia in Brazil, Asignación Universal por Hijo in Argentina, Programa Juntos in Peru, Familias en Acción in Colombia, Oportunidades in Mexico, and SNAP* in Puerto Rico together pay out an estimated $14 billion annually to 24 million households.

Making the switch to prepaid translates to significant savings on administrative costs for governments, up to 40% per transaction when compared to cash payouts. According to the Center for Financial Inclusion, the conversion of Brazil's Bolsa Familia to prepaid reduced its administrative costs from 14% to 3% of the total grant value, and in Argentina, the incidence of beneficiaries bribing public officials to receive their benefits fell from 4% to below 1% as a result of switching to prepaid. [xiv]



Source: Tower Group, as



Source: Partners in Prepaid

Prepaid social benefits disbursement still has room to grow. Within Bolsa Familia, only 20% of beneficiaries have opted to receive their benefits electronically, and in Colombia, another 1.2 million families can still be absorbed into the prepaid program. As more governments learn about the benefits of prepaid cards, additional programs will be converted, and the prepaid pot will grow. Health benefits, meal benefits, and cash for gasoline are other employee payouts that could be distributed via prepaid cards, both for existing public sector clients and new private sector commercial customers.

Although current use is low among businesses, prepaid has significant potential for the private sector, especially for employers who would like the convenience of plastic but are concerned about employee abuse of a corporate credit card. Travel and entertainment and fuel costs are all well suited for a pre-paid card. In many Latin American countries, banks are wary to issue credit to SMEs given their default risk, so a prepaid card may be an efficient solution for SMEs with little credit history.

Despite healthy growth, challenges abound for prepaid issuers, the number one being merchant acceptance. The poor are most likely to consume goods at informally operated corner stores that do not accept payment cards. Additionally, the poor tend to be suspicious of electronic payment methods, unaware of their use and benefits. Companies are also largely unacquainted with prepaid cards and their potential benefit. Pre-paid cards are a much less profitable product than credit cards. For that reason, issuers have been reluctant to invest in educating and acquiring corporate, let alone SME customers.

In some Caribbean and Central American markets where drug trafficking and money laundering play a larger role in the economy, and legislative efforts to deal with pre-paid cards are underdeveloped, the future of pre-paid is less hopeful. Drug enforcement agencies in these countries as well as the US worry that pre-paid cards offer an easy and anonymous channel for money laundering. Those agencies have been instrumental in helping to draft tough regulations (such as printing the card users name on the pre-paid card), rules that lessen the fungibility of pre-paid, its greatest feature.

Questions that AMI consultants can help you answer

- What are the most viable commercial segments for the issuance of pre-paid in Latin America?
- What do social benefit pre-paid card holders tend to purchase or do they simply withdraw cash?
- What obstacles exist to expanding the use of pre-paid cards by governments in Latin America?

Issuers to embrace commercial cards

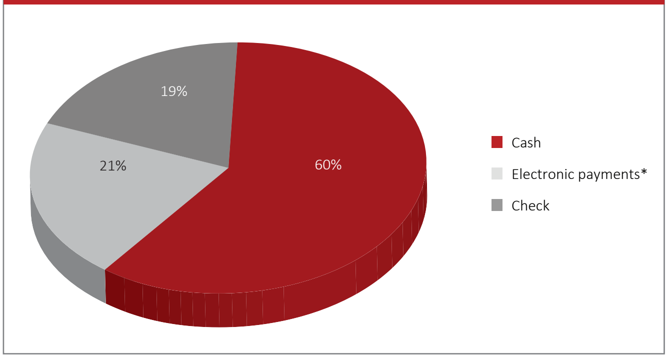
The untapped potential of commercial cards is poised for exploitation

Commercial card penetration in Latin America is low, especially among small and medium-sized enterprises (SMEs). America Economía estimates that only 16% of registered SMEs (excluding micro-enterprises of <10 employees) in the region currently own a commercial credit card, and when the informal economy is considered, this number falls to less than 10%. Issuers across the region express an interest in boosting commercial card issuance, but the number of SMEs using a commercial credit card is barely growing, increasing only two percentage points from 2010 to 2012, according to same America Economía 2013 survey.

SME business owners often shy from commercial cards due to the lack of perceived benefits. 80%+ total card spend by SMEs is likely conducted on a personal credit card by the company's owner and senior executives. In an effort to migrate spend to a commercial product, banks are encouraging business owners to separate business and personal expenses and have started to develop business cards with equal, if not superior rewards programs. One example is Banco Santander in Mexico, who in 2013, released a Platinum business card to appeal to affluent small business owners. Santander's goal was to issue 45,000 of these cards in the first six months.

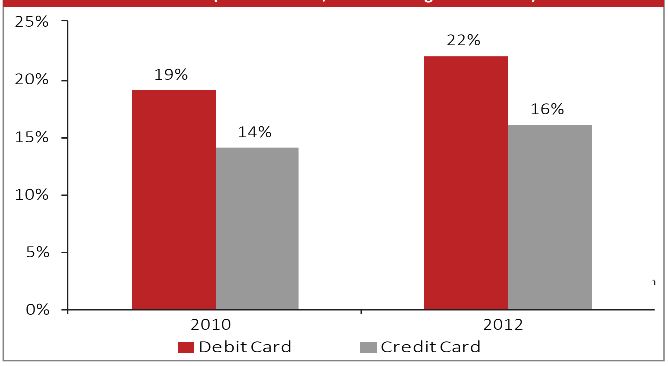
In smaller LatAm markets with underdeveloped credit bureaus and borrower friendly laws, issuers are skeptical about extending unsecured credit to SMEs and often steer small business owners towards personal card options.

Payment method used by registered SMEs Latin America, % of total transactions



Source: Visa, as reported by T21mx
Note: *includes bank transfers, credit and debit card payments

Registered SMEs that have a business credit or debit card (Latin America, % of total registered SMEs)



Source: America Economia

Corporate cards are more commonly found in large Latin American companies. But card usage tends to be limited to T&E (travel and entertainment) expenses and cards are normally given only to senior executives. Most Latin American business owners, even large ones, cling to the belief that a corporate card represents a blank check to employees and should be a privilege offered to only the most trusted senior officers.

Office supplies, utility payments, insurance, IT/telecom, and inputs for production all represent cardable spend categories. While many companies are culturally adverse to credit cards for internal payments, more progressive ones are embracing their benefits, which include greater control and transparency of spend, reduced risk of fraud, and lower administrative costs. If more companies become interested in these benefits, the potential opportunity could be huge. According to research by Kaiser Associates published in a recent Treasury Management International article, **commercial card spend in Brazil totaled $26 billion in 2011, just under 1% of the estimated $2.7 trillion in spend by all Brazilian companies and government.**[xvii] If banks and card networks work together to educate corporate customers and design better purchase cards, commercial card spend could increase dramatically in coming years.

Until now, from the issuer's standpoint, commercial cards have taken a back seat to consumer cards. Most banks have small commercial sales teams with very few who understand cards. The sales cycle for commercial cards is long and complex versus consumer cards where customers walk in the door asking for product. Now that consumer credit growth in Latin America is slowing after a decade of scorching growth, banks are starting to take a closer look at commercial cards, beginning with the thousands of business banking clients already on the books who have yet to adopt a corporate card, business card or purchase card. Better portfolio management, rather than new customer acquisition, will drive commercial card growth for the next several years.

Questions that AMI consultants can help you answer

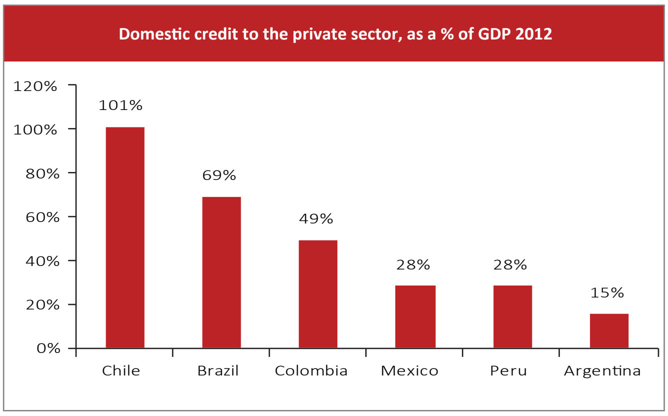
- What steps must banks take to more aggressively pursue commercial card opportunities?
- Why are large companies in Latin America afraid to deploy more corporate (travel) cards?
- How viable are payment and pre-loaded commercial cards in Latin America?
- What drives SME adoption of commercial cards in Latin America?

Brazilian credit growth plateaus

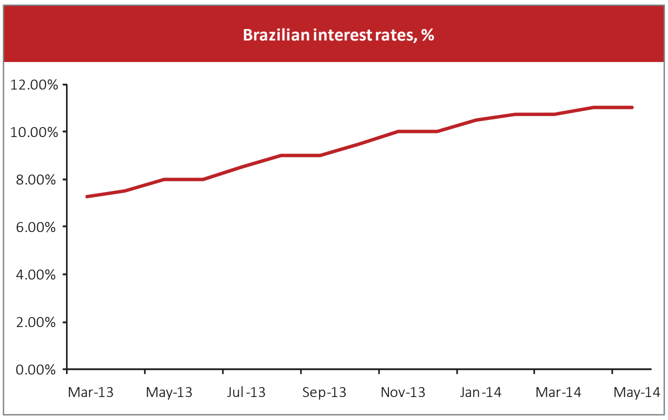
Brazilian consumers have become over-indebted just as the cost of lending is likely to rise

Thanks to a decade of impressive economic growth, high commodity prices, generally sensible macro economic governance and redistributive wealth policies, Latin America's middle class is larger and better off than ever. Coupled with low interest rates, these conditions have created a credit boom in the region, with banks and retailers bending over backwards to get money into the hands of the middle class. As a result, from 2010-2013, television sets, home appliances, electronics and furniture found their way into many Latin American households for the first time, and new cars, home renovations, and vacations became reality for many Latin American families. As commodity prices have waned, domestic growth has relied increasingly on consumer debt with private consumption accounting for well more than 50% of GDP in Brazil, Mexico, Chile, Colombia, Argentina, and Peru. [xviii]

A key facilitator of the consumption growth is the use of interest free installment plans, issued in conjunction by banks and retailers. A $500 flat screen television that was once only a fantasy for a middle income family is now well within reach, payable in 24 payments of $30 USD. This trend is most evident in Brazil where installment payments were first introduced to retailers by the card industry over a decade ago; from 2009 to 2013, consumer loans jumped from $300 to $600 billion, and in 2012, more purchases were made using installment plans ($113 billion) than without ($108 billion) for the first time. [xx] This retail frenzy has reached such heights that in 2013, nearly 25% of Brazilian household income was dedicated to servicing debt, and 60% of Brazilian households have made an installment payment at a retailer.[xxi]



Source: World Bank



Source: Banco Central do Brasil

But Brazilian debt fuelled consumption is slowing as defaults inch upwards, and both banks and retailers reign in their loose lending practices. **In 2013, Brazilian private consumption fell by 2.2%,** as Brazilians began to pay down painful debt levels, curbing their spending. By the end of 2013, 5% of Brazilian consumer loans were 90 days overdue. [xxii]

Macroeconomic factors are exacerbating the consumption slowdown. Falling commodity prices and over-spending by both consumers and government have weakened the Real, sparked higher inflation, and triggered the Central Bank to raise interest rates. That drives up the cost to households of servicing debt, further curbing the appetite for new spending. Most economists anticipate low growth and high inflation in Brazil through the end of 2016, until such time that households and the government can put their fiscal houses in order.

Questions that AMI consultants can help you answer

- How is the use of parcelados in Brazil exacerbating default risk? Who assumes that risk?
- In light of rising default risk and national interest rates, will ADR rates rise in Brazil?
- Which companies in Brazil are buying issuer card portfolios that are in default? At what discounts?

Continued success of branchless banking

Latin America leads the world with its correspondent banking model

"Branchless banking" is a great success story in Latin America, where the majority of the population does not use traditional bank branches. In what is also known as correspondent banking, banks authorize merchants to conduct transactions on their behalf, such as bill payment, person to person payments, and mobile phone refills. First observed in Brazil in the 1970s, branchless banking has proliferated and **Latin America is currently the world leader in this distribution channel.**

Brazil has seen the greatest success in branchless banking, with over 400,000 authorized banking agents[xxiv] scattered throughout the country, which are accessed primarily by working class consumers. In Peru, branchless banking has seen rapid success, with the number of transactions conducted by a banking agent now 16% greater than transactions conducted by bank tellers.[xxv] In Mexico, bank agents can most often be found at Walmart, and popular chains Oxxo and Soriana. In Colombia, the number of correspondent banking agents is growing at an annual rate of 44%, while the number of bank branches is expanding by only 6% per annum.[xxvi] With their inconvenient locations, restricted hours, and long lines, traditional bank branches repel working class customers who live further away, travel by slower means (public transit) and have less free time in the day than their middle class counterparts. Branchless banks are not only more physically accessible to the working class than traditional bank branches, their staff are more welcoming, an important consideration in class-divided Latin America.

In a 2013 survey conducted by the Consultative Group to Assist the Poor in Brazil, 79% of unbanked respondents and only 12% of banked respondents claimed to have used a banking agent in 2013[xxvii], demonstrating that branchless banking is a distribution channel well suited for the unbanked. However, the scope of transactions used is thus far limited because the business model objective for now is to lower transaction

Market	Year legalized	Bank agent network size in 2013 [xxiii]
Brazil	1970s	400,000
Colombia	2006	20,000
Mexico	2008	21,000
Peru	2005	18,500

costs, not to promote financial inclusion. Transactions at bank agents most commonly include bill payment and remittances, and are almost always conducted in cash. While bank agents also frequently offer deposit accounts, accept deposits, issue withdrawals, and in some cases microloans, use of these services is the exception, not the rule.

Branchless banking in Latin America is attracting attention because of its penetration of Latin American's unbanked and the small merchants that serve them. While banks, phone and cable companies were originally the ones behind the branchless banking movement, the third-party network operators they hire are the ones who really command the system. With some reaching up to 500,000 small merchants, these payment aggregators, including GloboKas in Peru, Carvajal in Colombia, and GetNet in Brazil, have unmatched access and visibility into the unbanked sector, their needs, preferences and behaviors. With an already diverse service offering that caters to the bottom of the pyramid, including mobile phone and transportation card refills, lottery tickets and pins for online shopping, such companies are gaining visibility among card networks and telecoms who wish to partner with them. Going forward, not only can we expect further expansion of the bank agent network but more players entering this space, increased partnership between market players and the expansion of services provided.

Questions that AMI consultants can help you answer

- Will correspondent banking begin to consolidate? Who will emerge as the strongest players?
- What banking and other service products are viably sold via a correspondent network in Latin America?
- Do correspondent bank networks compete with remittance agents today? Will they in the future?

Governments embrace e-payments

Latin American governments are leading the "war on cash" in order to lower tax evasion and corruption

Governments across the region are embracing efforts to increase the use of plastic, promoting e-payments with both consumers and merchants. Their motives are many – by reducing the use of cash, sales tax evasion is lowered. By formalizing payments, governments can more easily track income tax compliance and lower the cost of collecting value added sales taxes. A cashless society is one far less riddled by money laundering and illicit activity in general. Without cash, corruption is hamstrung. Colombia and Brazil are often cited as the most forward thinking governments in the push to e-payments. More recently, administrations in Argentina, Uruguay and Mexico have led the charge.

In 2001, Argentine President Cavallo implemented "forced bankarization," a policy that instituted the reimbursement to consumers of a portion of the VAT on purchases made with a payment card. This provision is renewed every year, and currently, Argentines receive a reimbursement of 3% of the VAT on purchases made with a credit card and 5% on those made with a debit card. This policy helped incentivize the impressive expansion of debit cards (by over 600% since 2001).[xxviii] Similar policies also exist in Colombia and Uruguay.

In Uruguay, a campaign to subsidize the acquisition of POS for small merchants has been underway since 2011. The state provides a subsidy to POS importers and requires them to pass the savings on to the merchants who rent them. As a result, the number of merchants accepting card payments increased 25% from 2011 to 2013. [xxix]

More and more, governments are turning toward card payments for internal use as well. Within the last five years, most governments in the region, including Mexico, Colombia, Chile, Argentina, Guatemala, and Brazil, have begun accepting taxes via online card payments. In the first quarter of 2014, in part thanks to growing popularity of online tax payment among citizens, Brazil experienced record level tax collection, up 1.8% compared to the same period in 2013.[xxx] By increasing the ease of paying taxes, governments hope to increase overall tax collection.

In addition to electronic social benefit disbursement, governments are implementing direct deposit to pay out salaries. In an effort to reduce costs, improve efficiency, and increase citizens' access to a payment card, in 2013, the government of Mexico implemented the direct deposit of salaries for all government employees and social security beneficiaries, some four million people. The Mexican Treasury claims that this has generated $1.3 billion in savings annually[xxxi] and helps to ensure that wage and benefits reach the correct person. In 2014, the state plans to do the same for all teacher salaries. These two changes have led many Mexicans to open a bank account for the first time and is bolstering debit card purchase volume.

While governments have made steps to increase the use of electronic payments, there is still ample room to grow. Government purchasing is done largely via check and bank transfer, and similar to corporate purchasing, much of this spend is considered to be highly cardable, especially utilities, IT, telecom, office supplies, and travel and entertainment. Banks and card networks would do well to take advantage of the goodwill gained with governments through their disbursement programs and push government bureaucracies to streamline their internal procurement practices with the use of purchase cards.

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Contact the authors :
John Price, Managing Director - jprice@americasmi.com
Lindsay Lehr, Director - llehr@americasmi.com
Tel. +1.305.441.9300