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Digital banking in Latin America: Best practices and the shift toward banking as a service

A whitepaper by Mastercard and Americas Market Intelligence

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A Word from Mastercard

The market-leading banks of tomorrow will look different than the banks of today, having benefitted from new digital capabilities, transformative business models, and enhanced customer experience. Established financial players offer scale, regulatory expertise, and decades of experience, reaching millions of consumers. But fintechs have established technology and development processes to go after the Latin America opportunity — millions of unbanked and underbanked consumers and small businesses— in an expedited manner that leverages innovative technology and global platforms. The payments and financial services sector are taking advantage of this multiplier effect, creating new collaborative partnerships, driving innovation, and building competition in the market.

The banks of tomorrow will offer the ability for consumers to sit in the center. They will harness the power of digital to put the consumer in control over their finances and preferred model for dealing with their bank while maintaining transparency over their services and information. Getting to this place where the consumer benefits from a high level of trust in their bank — combined with personalized banking experience — will not be an easy task. It requires the right level of adaptability in products and services offered by the bank, with a complete focus in giving consumers the confidence that their data is safe and secure.

Mastercard Latin America and Caribbean is pleased to present *Digital banking in Latin America: Best practices and the shift toward banking as a service*. The study, conducted by Americas Market Intelligence, assesses the state of digital banking in Latin America, taps into consumer expectations for digital banking, and spots opportunities for accelerating this trend. All of this will serve to drive greater inclusion for the underserved consumers and small businesses in this region. We trust that you find the report both insightful and valuable in informing your view of the future in Latin America.



Introduction

With 55% bank account penetration, 19% credit card penetration¹, and 70%+² smartphone penetration in Latin America, banks have never before faced such a palpable opportunity: to leverage the mobile channel to serve a chronically underserved population with financial services.

In the past five years, banking in Latin America has undergone a massive transformation, triggered by the arrival of fintech companies offering low-cost, digital-only banking services. In response, traditional banks have invested heavily in digital channels and in partnerships with new ecosystem players, becoming digital banking leaders.

1 World Bank Findex

2 GSMA

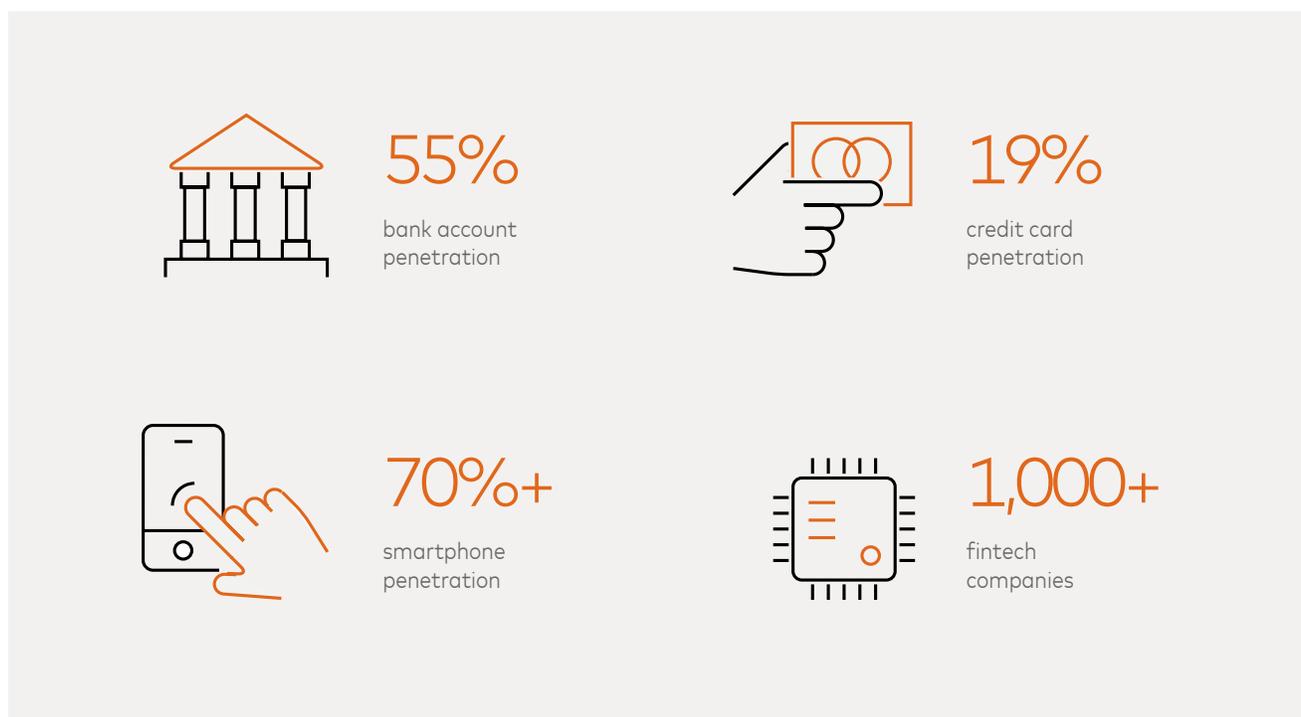
About this research

- **Timeframe:** Research conducted October-November 2019
- **Markets:** Brazil, Mexico, Colombia and Argentina
- **Methodologies:**
 1. Scan of 35 neo- and traditional banks' in-branch, online and in-app capabilities
 2. Online surveys with 1,200 consumers, including traditional bank customers, neobank customers and unbanked consumers

Today, in Latin American markets like Brazil, digital banking channels account for more than 50% of all banking transactions, revealing eager adoption of online and mobile banking by consumers across the board.

Considering the accelerating pace of digitization within financial services, in this report, we will take a look at some best practices in enabling world-class digital banking, the region's transition toward banking as a service and key trends that will shape digital banking in 2020 and beyond.

FIGURE 1
2020 in Latin America





Digital banking best practices

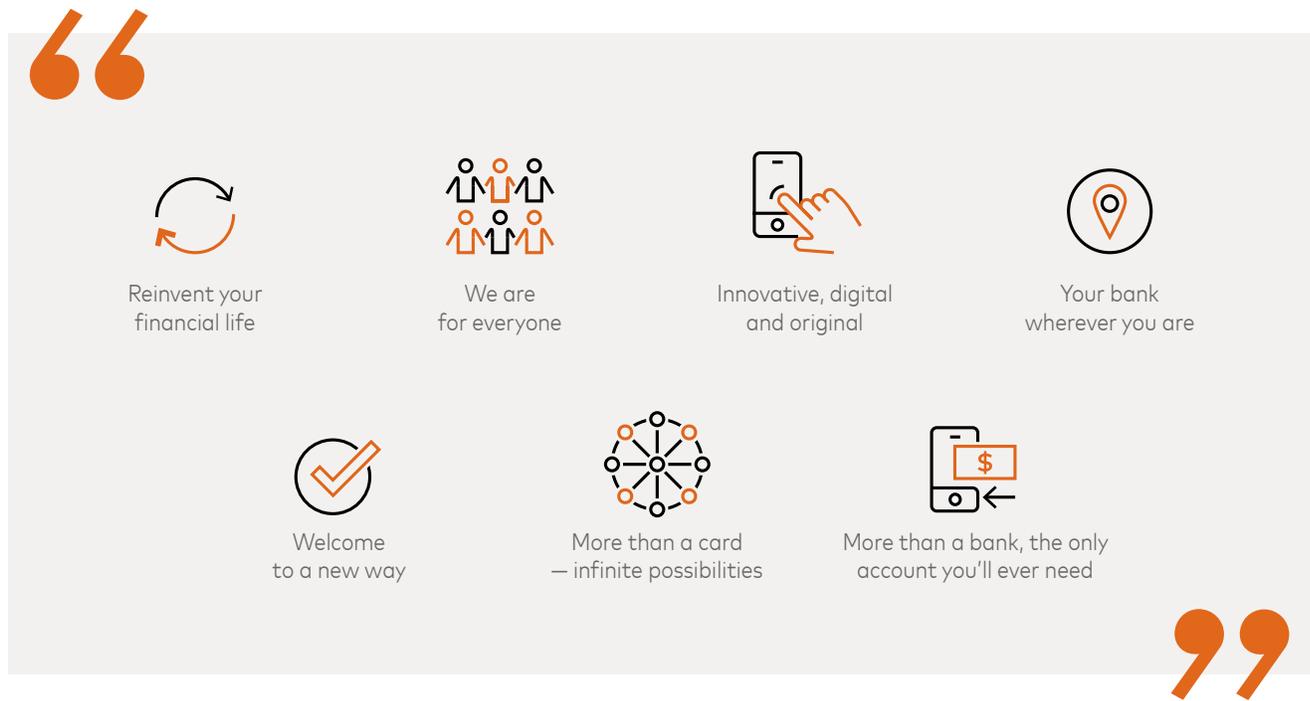
Alignment with customer values

With Internet and smartphone penetration nearing 70% of the population in Latin America, consumers have greater opportunity than ever to access high-quality goods and services, delivered instantly and affordably via smartphone. And values are changing too. Younger consumers increasingly value self-actualization, empowerment and freedom—the values of an ever-accelerating and increasingly connected world.

Innovative Latin American companies are changing the way they present themselves publicly to reflect these values. Banks in particular seek to transition away from their long-held image as lofty, distant gatekeepers, preferring to be seen as being partners and helpmeets in their customers' lives. The industry is migrating toward "banking as a service": financial services at consumers' fingertips with the click of a button, anytime, anywhere.

FIGURE 2

Innovative taglines used by banks in Latin America



Top trends in Opening a Bank Account

- 100% digital experience
- Online identity authentication, including selfies and online signature verification
- Instant account approval
- Zero barriers to entry

Onboarding and overall ease of use

Online account opening is rapidly becoming an industry standard. More than half of survey respondents prefer a digital channel to open a bank account. Nevertheless, many banks lag in terms of their online offerings, still requiring an ink signature, in-person ID verification, or app or card activation at an ATM.

The length of the application process and approval times are key differentiators for the region's most innovative players. Seven out of 10 banks researched for this study have online applications that take less than five minutes to complete. Yet some others require up to 24 hours, with final approval taking another three business days.

Overall, customers of digital-only banks report a positive onboarding experience: 82% of them opened their account in less than one hour, compared to 59% of traditional bank customers. As digital onboarding becomes standard, consumer willingness to tolerate onboarding barriers will most certainly decline.

Top trends in Channels

- Traditional banks closing branches
- Onset of virtual assistants
- Customer service powered by AI
- Chatbots used for increasingly complicated tasks

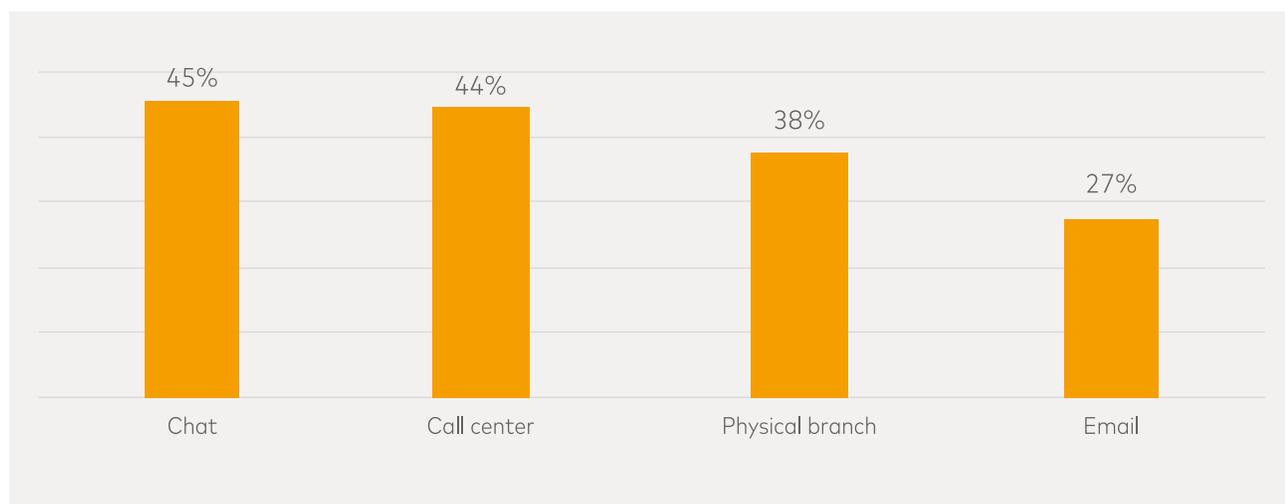
Channels, communication and customer service

Mobile is now an essential tool to promoting customer engagement. AI-powered chatbots have become commonplace: 100% of banks researched for this study have either a proprietary chatbot or enable a chatbot functionality over WhatsApp or Facebook Messenger. 45% of survey respondents report using their banks' chat function to contact their bank when needed, and 95% indicated that push notifications from their bank are relevant to their lives. It's clear that digital banking services include an element of 24/7 availability for consumers.

FIGURE 3

Channels used for communication with banks

What is your preferred channel for getting in touch with your bank?



Top trends in Digital Product Offering

- Online card application and activation
- Contactless cards
- Dual-function credit and debit cards
- Instant, virtual card disbursement
- All services offered in one app
- Increasingly complex functions offered in-app, like transaction disputes

Digital product offering: Cards, payments, insurance, investments, and more

Card portfolios are rapidly being digitized as well. Just like opening an account, the region's most digital-savvy banks accept online credit card applications and issue cards with no manual steps. The banks of the future are also embracing contactless and dual credit and debit functionality cards to further simplify the lives of their clients.

Across the region, banks need to embrace the opportunity of achieving unichannel functionality in which everything is available in one simple digital interface. Consumers no longer want to jump between websites, mobile apps and physical branches to complete their banking operations.

Banks offering a best-in-class digital experience have all-in-one apps that enable complete digital functionality—account and card management, P2P payment, QR payment at the point of sale, rewards, even shopping. Leading-edge digital innovations include the sale and management of investments and insurance over the mobile channel, real estate services, online currency exchanges, and proprietary social networks. As banking trends more toward banking as a service, it becomes increasingly important to create a seamless, unichannel experience to meet all of consumers' financial needs.

Rewards

Credit card reward programs are an area where large, incumbent banks tend to eclipse newer digital-only players. Armed with deep pockets, traditional banks drive loyalty through their powerful rewards programs: 41% of traditional bank customers report choosing their bank due to the rewards on offer.

Rewards therefore represent a prime opportunity for innovation. Moving beyond the traditional area of travel miles, they are transforming into resources for supplying daily needs and accommodating consumers' increasingly digital lives: mobile top-ups, food delivery and ride-hailing services, digital subscriptions and more. Some banks are even using proprietary online rewards platforms where points are directly redeemable and integrating with retailers to enable the use of points to pay for purchases in real time. As we look at the next evolution of the rewards space, one can expect personalized offers for a segment of one, as determined by the cardholder and delivered in real time.

Top trends in Rewards

- Banks building on-platform marketplaces to redeem points
- More relevant types of rewards: Points for use on digital platforms (e.g. Uber), digital subscriptions and other daily needs
- Debit cards earning rewards

Top trends in Fees

- Account maintenance fees, credit card fees and bank transfer fees trending toward zero
- Banks looking to monetize other services, like investments and insurance
- User data is becoming a key asset for monetization

Fees

Downward pressure on banking fees is perhaps the most impactful industry trend throughout Latin America, affecting monthly maintenance fees, annual credit card fees, and fees for both intra- and inter-bank transfers. Paying to use financial services is going out of style: 69% of banks in our research offer a free deposit account and 64% offer a free credit card.

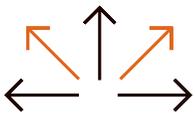
As margins get compressed, in the short term, banks must therefore seek alternate revenue generation models. Fees will flow to more sophisticated products like insurance and investments. Likely more significant, however, are monetization opportunities presented by the onset of open banking and data analytics.



Wrapping it up: Banking as a service

The most innovative banks understand they must embody the values that consumers identify with and they must create a user experience that reflects those values. To this end, they are putting into practice the five following principles that will shape the region in the near future.

Five major trends accelerating in the region throughout 2020 and beyond



Expanding beyond banking



Leveraging AI to create a more humanized digital experience



Moving from omnichannel to unichannel

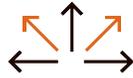


New monetization strategies



Building consumer trust





Expanding beyond banking

Consumers are interacting directly with brands more than ever before. Banks are therefore moving beyond financial services, into commerce, transportation and social media. To remain relevant, they can no longer operate in a silo; the race for the superapp is on and everyone must participate.



Leveraging AI to create a more humanized digital experience

Every customer wants to feel unique. But individual attention for each customer is not feasible in a low-cost environment that serves the general population. Banks must therefore endeavor to replicate personalized service digitally, using tools like chatbots and virtual assistants to open accounts, manage credit card applications and anticipate consumer needs, anytime, anywhere.



Moving from omnichannel to unichannel

Consumers want simplicity and have waning tolerance for the necessity of switching between channels for day-to-day banking. Powerful, all-in-one banking apps are the trend and the goal, irrespective of the point of origination, interaction or the interface.



New monetization strategies

Fees as a revenue stream are drying up and banks must make up the difference elsewhere. The single most important revenue stream will be monetization of customer data. Much remains to be done on the business and technical fronts to leverage banking data, but institutions with their sights on a 5+ year time horizon must prepare for this trend now.



Building consumer trust

Across the globe, trust is top-of-mind for consumers, irrespective of their ages. Trust and security will continue to be the foundation on which the banking industry rests and what new players need to build.

Conclusion

The data show that neobanks are doing a good job of enabling a seamless digital experience—and attracting new customers to banking while they're at it—while traditional banks are leveraging their massive brand recognition and trustworthy reputations to migrate traditional bank customers to a digital environment. Even if neobanks and traditional banks do this separately or in collaboration, the trends signal to a new reality in banking where digital experiences will become a primary way for consumers to interact with their preferred brand.

The ultimate winner of these trends is the consumer, who can expect an increasingly flexible, transparent and affordable suite of banking services while remaining in control of the overall experience. Banks are changing who and what they are, evolving from traditional brick-and-mortar institutions to agile digital providers, able to meet customers wherever and whenever they want to transact. Latin American consumers will benefit as they are provided with mobile banking platforms as dynamic as their own lives.



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. Its 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.

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