# Local Payments in Latin America:

A Guide to Increasing Conversion

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# Introduction

**A young consumer base and rapidly growing middle class – combined with the highest internet penetration globally – makes Latin America one of the most attractive e-commerce regions for businesses who want to tap into new markets.**

But the payments preferences of each country in Latin America vary widely from country to country, and each market has its own complex local regulatory and tax requirements.

These factors and more make increasing conversion in the region incredibly difficult.

In this report, we're breaking down the e-commerce culture in Latin America, revealing sharp insights into the payment behavior of certain countries, expert knowledge of the preferred local payment methods in the region, and tips for businesses who want to expand across borders.

> *"Latin America is one of the most attractive e-commerce regions for businesses who want to tap into new markets."*

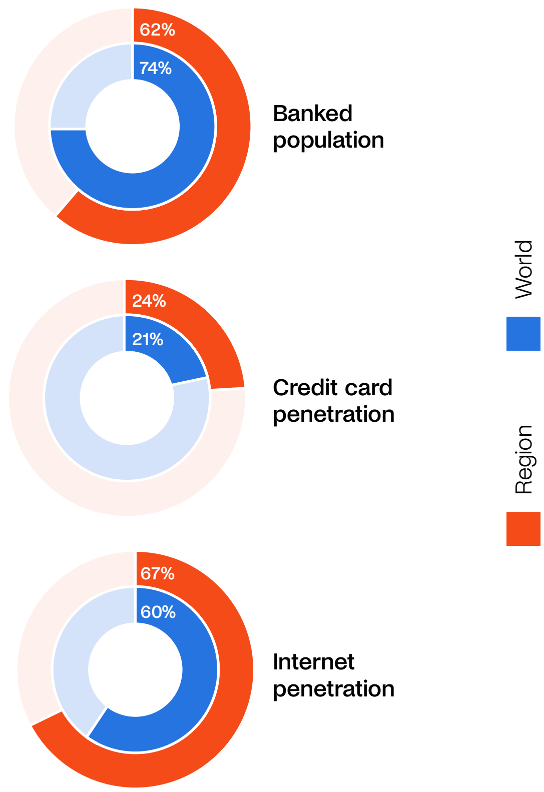
# LATAM facts & figures

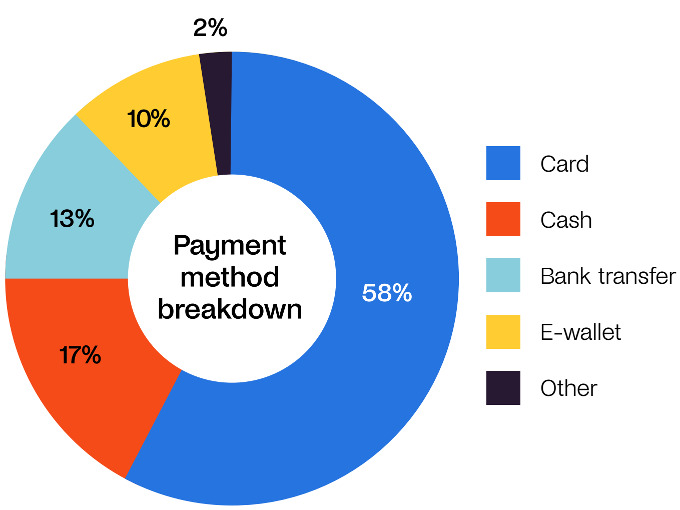
**LATAM's e-commerce is experiencing unprecedented growth.**

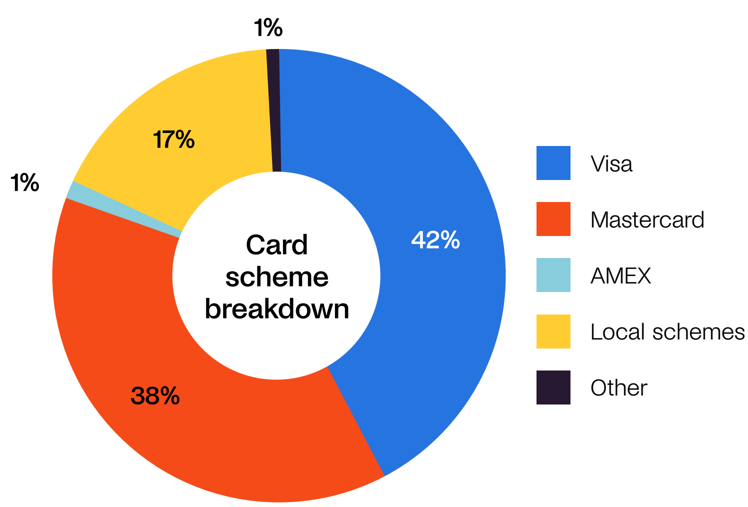
In 2019, 155.5 million people in the region purchased goods and services online, which is a dramatic increase from 126.8 million in 2016.

| | Region | World |
|---|---|---|
| **Population** | 357.8m | 7.6bn |
| **Population (15+)** | 277.4m | 5.6bn |
| **GDP** | 3.3tr | 85.8tr |
| **GDP per capita** | 9.216 | 11.299 |
| **B2C e-commerce** | 50.1bn | 3.4tr |
| **B2C e-commerce growth** | 23% | 18% |
| **Online population** | 239.3m | 4.5bn |
| **Smartphone penetration** | 62% | 58% |
| **Mobile e-commerce** | 34% | 50% |
| **Average online spend** | 471 | 2.594 |
| **E-commerce % of total retail** | 3% | 16% |

Currencies in this report are always depicted in $USD



# Cash-based payment methods driving e-commerce inclusion

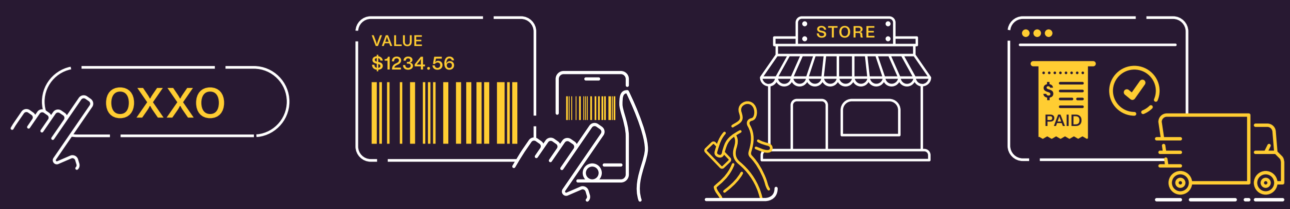
**Brands who want to expand business in Latin America, or anywhere in the world for that matter, need to take into account the way the regions' payment infrastructure is built. They also need to note the specific payment preferences of the region's consumers.**

Many consumers in LATAM are either underbanked or unbanked, which is reflected in the payment breakdown of the region showing 21% of e-commerce payments made with cash.

So, how do customers pay in cash for online purchases? Payment methods like Boleto Bancário (Brazil), OXXO (Mexico), or Rapipago (Argentina) enable LATAM consumers to use cash for e-commerce purchases.

> *Cash vouchers are the definition of innovation, adaptation and helping bridge gaps in global e-commerce.*

## The consumer experience




1 At online checkout, the consumer chooses for example, Boleto Bancário (BR) or OXXO (MX)

2 The consumer receives an instant voucher online, with a specific payment reference and barcode

3 The consumer takes the voucher to an OXXO store to make payment

4 The merchant receives confirmation of payment, then ships the goods or credits an account

# OXXO in Mexico

**Cash-based payment method OXXO is one of Mexico's favorite ways to pay online. OXXO is a chain of convenience stores from Mexico, with over 17,000 stores across Latin America.**

Over 60% of Mexicans don't have bank accounts, and just 10% have credit cards. But Mexico also has an internet penetration of 66% and consumers there spent 9.2 billion US dollars on cross-border e-commerce last year.

> *"By accepting OXXO, merchants can boost conversion in the market much more easily."*

## Overview

| | |
|---|---|
| Markets | **Mexico** |
| Payment flows | **Cash based** |
| Recurring payments | **No** |
| One-click payments | **No** |

## Currency

| | |
|---|---|
| Processing | **MXN** |
| Settlement | **MXN** |
| Consumer | **MXN** |

## Transaction Info

| | |
|---|---|
| Maximum amount | **MXN 10,000** |
| Timeout | **3 days** |

## Features

| | |
|---|---|
| Refunds | **Yes** |
| Partial refunds | **Yes** |
| Multiple partial refunds | **Yes** |

## Risks

| | |
|---|---|
| Payment guarantee | **No** |
| Chargeback risk | **No** |

# Boleto Bancário in Brazil

**Boleto Bancário is ubiquitous in Brazil – where only 27% of its 210-million-person population do not hold credit cards – generating 50 million transactions per month.**

It's a cash-based payment method that is especially popular for high-end transactions, as many consumers do not feel secure providing credit card details online.

## Benefits of Boleto Bancário for PSPs

- *Low fraud risk*
- *Payments not subject to chargebacks*
- *Good conversion rates of up to 70%*

### Overview

| | |
|---|---|
| Markets | **Brazil** |
| Payment flows | **Cash based** |
| Recurring payments | **No** |
| One-click payments | **No** |

### Currency

| | |
|---|---|
| Processing | **BRL** |
| Settlement | **BRL** |
| Consumer | **BRL** |

### Transaction Info

| | |
|---|---|
| Minimum amount | **EUR 0.01** |
| Maximum amount | **None (bank can reject)** |

### Features

| | |
|---|---|
| Refunds | **Yes** |
| Partial Refunds | **Yes** |
| Multiple partial refunds | **Yes** |

### Risks

| | |
|---|---|
| Payment guarantee | **No** |
| Chargeback risk | **No** |

# How paying in installments became the norm in LATAM

**High inflation rates, devalued currencies, and consolidation of the banking industry in the 1970s triggered small credit limits and restrictions on international purchases.**

The restricted access to credit together with high unemployment rates created another particularity in the LATAM market: a huge popularity for installments.

Consumers couldn't afford to pay for expensive goods all at once or didn't want to commit to a large debt once they couldn't rely on a steady income.

Consumer credit attracted one of the highest interest rates in the world and so retailers started offering installment payments to shoppers.

This was later adopted by the banks and incorporated as a key feature on local cards.

The mindset of paying in installments is still so ingrained in the payment culture of LATAM, that even consumers who can afford big-ticket purchases in a single payment often opt to pay in installments on a card.

And installments aren't limited to big bills, either. Examples of installments can range from your standard installment to extreme cases of 48-month credit installments in Chile for common goods like a week's worth of groceries.

> *"The mindset of paying in installments is ingrained in the payment culture of LATAM."*

# The importance of local cards

**Local credit cards are a commonly used payment method in Latin American e-commerce, making up 62% of online payments.**

The unsteady economic climate of LATAM's modern history triggered high interest and fraud rates, which caused local banks to issue cards with small credit limits and bigger restrictions – such as disabling international purchases.

All this drove down authorization rates for foreign currency expenditures. Soon, as the vast majority of the transactions were domestic, banks realized there was no need to keep paying higher fees to international card schemes for every transaction.

That model has persisted. Brazil, for example, currently only has 30% of cards enabled for international purchases, and those are usually high-end cards with elevated credit limits and authorization rates.

In the early 2010s, three of the biggest issuers – Banco do Brasil, Bradesco and Caixa Economica – created a joint venture of a new local card scheme (Elo), which has since taken a significant share of all newly issued cards in the region.

In addition to Elo, Hipercard in Brazil, Naranja in Argentina, and a few local schemes in Chile have been growing steadily in recent years.

> *" Local credit cards are a commonly used payment method in Latin American e-commerce, making up 62% of online payments. "*

# The difference between local and international cards

**Local cards, even those issued by Visa and Mastercard, may seem like international credit cards, yet these cards are restricted to local purchases and cannot be used cross border.**

There are a few additional differences as well: authorization rates for local cards are higher, only high-limit international cards can process in the local currency, and – of course – local cards are popular due to much lower fees than international cards.

Retailers who wish to sell goods and services to LATAM consumers need to offer access to these specific local card schemes, or risk missing out on a majority of the LATAM market.

> *"Retailers who don't accept local cards in LATAM risk missing outon a majority of the market."*

## Popular card schemes in LATAM

# The barriers to doing business in LATAM

**It's clear: offering the preferred payment method is essential to converting customers in LATAM. But the diversity of each country's market makes this easier said than done.**

Many merchants are not aware of the nuances of the region and barriers to capitalizing on this booming market. Each country in Latin America has different cultural, regulatory and technical factors that influence the success of a merchant expanding into LATAM.

For example, in the US or EU, it is a simple process to connect to a card acquirer, while improving in Brazil, this process is still fairly slow and unaccommodating for foreign merchants.

Further, in Latin America, merchants must be domiciled in order to reach the market's consumers. This means establishing entities in the countries they are looking to offer their products and services, and meeting each country's unique rules, regulations and technical nuances.

These factors make entry into this region difficult for merchants, but not impossible.

*"Each country in Latin America has different cultural, regulatory and technical factors that influence the success of a merchant expanding into LATAM."*

# PPRO powers doing business across borders

**In addition to providing the technology and services that makes it possible to accept local payment methods – including locally issued cards – PPRO offers a complete, compliant, and tax-efficient solution for helping payment service providers and merchants with their expansion into LATAM.**

> *"PPRO enables you to increase conversion rates in LATAM, essentially, with the push of a button."*

## Eliminate all the hassles inherent to setting up a local operation, such as:

- *Setting up a local entity*
- *Ensuring compliance with the complex regulatory and tax requirements in each country*
- *Assembling teams with local market knowledge and local payments expertise*
- *Integrating with local payment methods and managing technical documentation*
- *Ensuring better authorization rate by processing transactions in the local currency, directly with local acquirers*

PPRO builds local payments infrastructure designed to help businesses gain access to new markets and new customers – because payment choice drives sales.

For us, it’s local payments. All day. Every day.

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