Digital payment trends in Latin America in 2023

PCMI Payments & Commerce Market Intelligence

KUSHKI

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INTRODUCTION

Latin America in 2023 is entering one of the most challenging and also exciting years ever on record for the payments industry. Following the impact of the pandemic combined with concerted efforts of banks and fintechs, **for the first time in history, cash no longer represents the majority of payments in the formal economy but has fallen to a startling 36%.** [1]Access to a digital account is now pervasive, exceeding more than 90% in the markets of Brazil, Argentina, Chile and Colombia. In Peru, Mexico, Andean markets and Central America, financial inclusion still has much room for improvement, but large strides have been made since 2019. **Today, over 80% of Latin Americans have access to a deposit account, making them official participants of the digital financial economy.**[2]

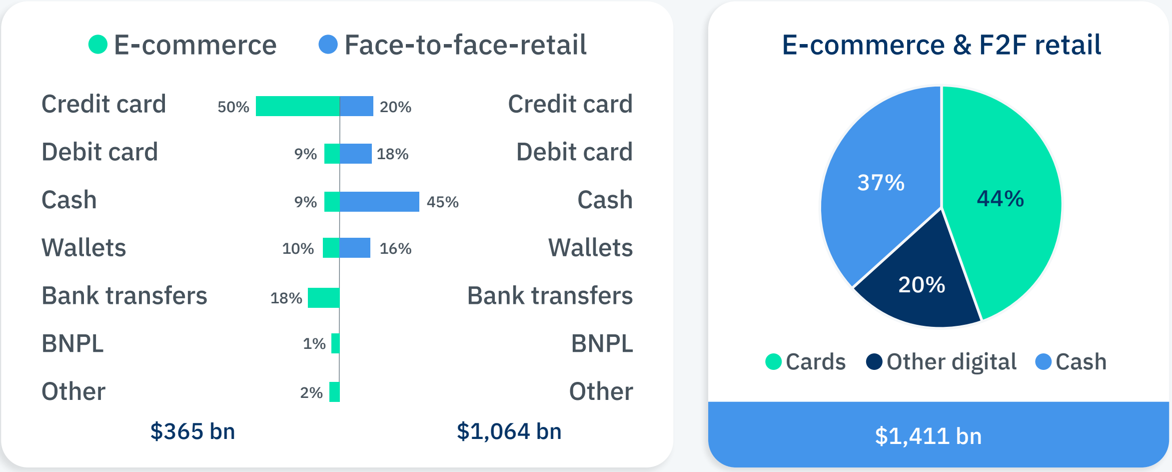
The struggle to get here has been long and arduous, with Latin America long recognized as a cash-dominant market with a large informal economy. And while many markets can still be described in this way, the largest countries have made huge progress in the digitization of payments, setting the tone for the next several years. With the fight for ***accessto* financial services nearly over, financial companies now face the challenge of differentiating in a crowded market by improving quality and value.**

Consumers' usage of digital payments depends heavily on merchants' acceptance of the same. And while the majority of consumers are today accessing digital payments, the same cannot be said about Latin America's merchants. Today, an estimated 26% of all businesses (including the informal sector) accept electronic card payments through a POS device. This low rate has prompted acceptance plays from Central Banks (Pix in Brazil), private P2P apps, and bank consortiums, seeking to enable low-cost payment system to expand the acceptance of digital payments. The results of this trend have been powerful: Pix in Brazil now serves 10 million businesses, and the trend of instant transfer schemes is growing all over the region. **Access from consumers has sparked demand among merchants and triggered innovative ways to accept payments and move money.**

[1] Payments and Commerce Market Intelligence, 2022.
[2] Payments and Commerce Market Intelligence, 2022.

Today in Latin America, consumers have a multitude of ways to pay, from sophisticated e-commerce and contactless transactions, to simple paylinks and P2P apps, there is more choice in the market than ever. 2023 will be characterized by some consolidation of the best and most efficient payment experiences, as well as payments methods being matched to certain use cases and verticals. And with cash now in the minority, **the adoption of digital payment methods will continue thanks to powerful network effects.**

Figure 1. E-commerce and F2F retail by payment method, 2022
Considering the region's top 6 markets



Source: AMI Payments Data Library
Excluded from analysis: F2F travel, F2F services, government, healthcare, transit, B2B

Given this context, now is the time for companies to invest in ***quality and value.*** Cash now has mega competition, including contactless cards, central bank instant transfer schemes, P2P apps, digital wallets, and to some extent crypto, and merchants have more options than ever. This is creating payment disintermediation, the disruption of legacy players, and a reorganization of the industry as a whole. **In this context, Kushki set out to map the major trends characterizing the industry in 2023 and partnered with consulting group Payments and Commerce Market Intelligence to document them.** In this report, we provide analysis of four large trends taking place in the region, including a discussion of:

1. Interoperability
2. Contactless technology
3. Pix
4. P2P payments

Concluding with five major takeaways for merchants and payment providers seeking to compete in the region. **2023 will be a year of consolidation and value creation, as old paradigms are shifted, prices decline, and companies with poor technology are weeded out.** With prices at an all-time low, quality, value and differentiation will be the guiding lights, **in a region still very much under digital transformation.**

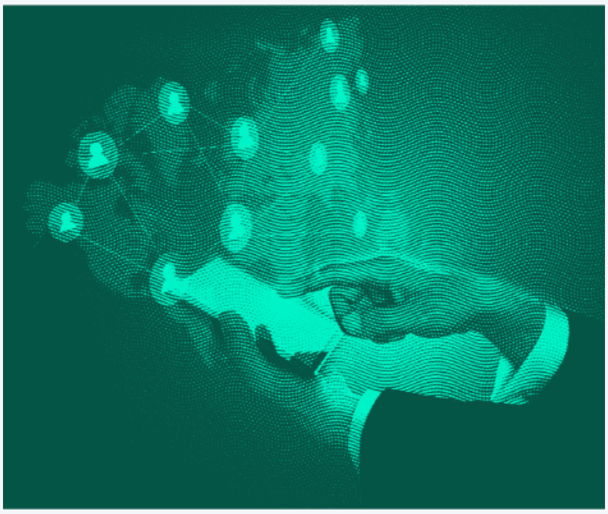
1. IMPROVING INTEROPERABILITY BREAKING BARRIERS

Interoperability is a cornerstone of a healthy and competitive payments environment. **By opening up exclusive networks, merchants and consumers have more choice, which forces market players to compete. It brings down price, increases quality and incentivizes innovation.** Incumbents hate it, because it takes away their market leader advantage; newcomers beg for it, because it places them on an even playing field.

Interoperability has been slowly taking place across Latin America for over a decade, **challenging the dominance of banks, who in nearly every market, own the only licensed card acquirers.** Brazil was the first to open its acquiring networks in 2010 thanks to a mandate by regulators. As a result, today Brazil is home to over 30 domestic and international acquirers, many of whom operate more like fintechs than financial institutions.

Regulators in the rest of the region have followed slowly Brazil's example slowly, **putting an end to exclusive acquiring networks:** Colombia in 2012, Peru in 2018, Argentina in 2019, and Chile and Peru in 2020. **This has helped promote the entrance of new acquirers and PSPs, increase card usage and acceptance, and reduce the role of cash.**

Yet card network interoperability is not fully realized. **Mexico, Colombia, Argentina, Peru, Uruguay and Guatemala, still operate under card processing duopolies.** In Chile, while newplayers have entered the market since 2020, Transbank is still by far the dominant player. Mexico has made the greatest progress in breaking down its duopoly, attracting international non-bank acquirers, as well as Visa and Mastercard, looking to establish their local switches. Bogged down by regulatory rigmarole, **these projects are advancing slowly, but do bring promise of a more open acceptance landscape.**



With the concentration of access to payments, large and longstanding merchants—supermarkets, department stores, airlines—who have developed decades-long relationships with bank-owned acquirers, have not had access to new technologies that can help them improve their operations. For this reason, payments remain, clunky, slow, and expensive. **New payment methods, digital onboarding, flexibility based on APIs, recurring payments, one-click payment, payment automation and reconciliation, tokenization, enhanced fraud tools, loyalty programs, and various SaaS offerings are some of the capabilities they are missing.** As Gabriele Zuliani, Head of LATAM Market Development at Kushki explains, **non-bank acquirers and PSPs can help bridge this gap for merchants who are looking for new solutions.**

> *Innovation for markets is **fostered when new players enter to participate alongside traditional acquirers,** they bring first-class technology and new service standards. **Interoperability invites the development of neo banks and super apps and allows digital service providers to easily integrate payments into their ecosystems.***

Beyond cards, Latin America is experiencing another wave of interoperability, that of bank accounts and fintech accounts. Pix in Brazil has demonstrated the impact of achieving this: rapid and massive adoption and payment volume. **Interoperability of deposit accounts removes huge barriers to money movement and enables endless use cases, from P2P to merchant payments to government disbursements.**

The region is currently in the throes of a push toward deposit access interoperability. The rise of access to financial services has accelerated this trend and alerted regulators to the need for open money transfer infrastructure. Colombian regulators have openly stated they want to replicate Pix in their market. Peruvians have committed to creating a real-time transfer banking system interoperable with leading digital wallets in 2023. El Salvador and Nicaragua are openly in talks about replicating SINPE Móvil, the successful real-time payment scheme in Costa Rica.

While there is increasing regulatory pressure on banks and fintechs to open their rails, doing so does not guarantee market transformation. Transferencias 3.0 in Argentina and Mexico's SPEI are two examples.

Despite its best efforts through QR code platform CoDi, the Central Bank of Mexico has not been able to translate its real time bank transfer platform, SPEI, to massified mobile payments. And while Argentina is a leader in bank account and fintech transfer interoperability, this has not succeeded in challenging the market dominance of leading payment ecosystem, Mercado Pago.

High market concentration still exists in Panama, where Banco General's P2P app Yappy, concentrates over 1.5 million users in a market with just three million adults. In Chile and Mexico, **lack of interoperability between bank accounts and fintech accounts limits the acceleration of digital payments and innovation being brought to market.** And despite regulators' announcements, there is high skepticism that Peru and Colombia will be able to implement a Pix model, considering resistance from leading banks. **As such, the entire region finds itself in a battle, one that is slowing being won by the global trend toward interoperability but facing many hurdles and bottlenecks.**

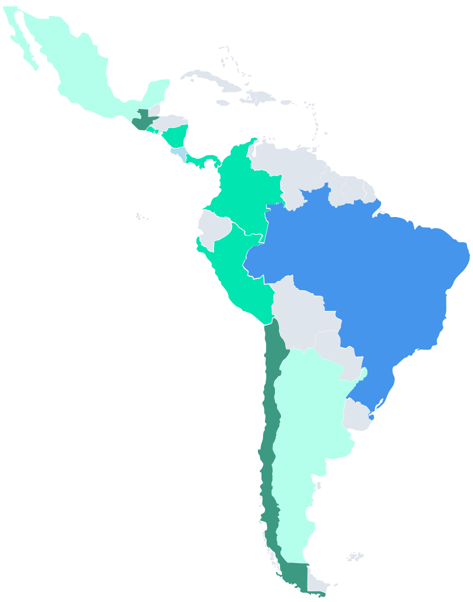


Figure 2. Spectrum of payment system interoperability in Latin America

Most Interoperable — Least Interoperable

Interoperability turns payment processing into a public service and payment rails into open highways. It forces companies to compete on other measures, including user experience, customer service, branding, loyalty, and additional services. **It invites the development of neobanks and superapps and enables digital service providers to easily embed payments into their ecosystems.**

Truly, interoperability makes it possible to scale digital payments to new heights and promote mass. It also invites the interoperability of financial data, otherwise known as open banking, as well as banking-as-a-service and embedded finance. While these technologies are only in beginning phases, **Latin America is making progress, on a slippery slope that most likely cannot be stopped, only slowed, or temporarily delayed.**

2. CONTACTLESS TECHNOLOGY WILL HELP CARDS MAINTAIN THEIR COMPETITIVE EDGE

Within this fragmented card environment, **credit cards were the first electronic payment method to be introduced, arriving in Latin America in the 1970s, and quickly became popular among the affluent and massively profitable for issuers.** The innovation of interest-free installment payments, enabled by partnerships between issuers, acquirers and merchants, helped the use of credit cards proliferate. **Today, credit cards are the leading electronic payment method in Latin America by volume, representing 50% of e-commerce and 20% of in-person payments.**[3]

Credit cards, however, are not universally accessible—only 20%-40% of the population in Latin America own them depending on the market. Where credit cards have failed to fully penetrate, debit cards have prevailed; today owned by 53% of the region's population, according to the 2021 World Bank Findex. Debit cards[4] have excelled in Mexico (where credit access is especially limited) and Chile, Uruguay and Brazil. They represent 14% of total commerce, highly used in everyday product categories like grocery, pharmacy, convenience stores and gas stations.

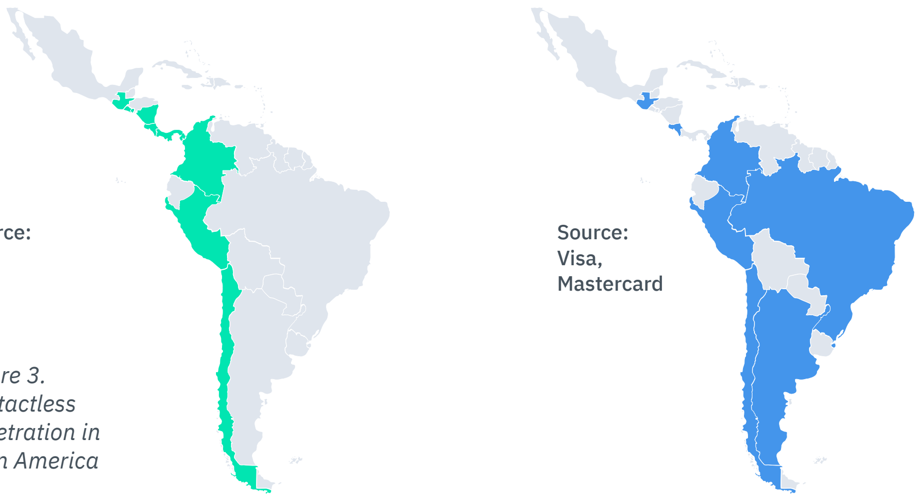
Despite their success, cards face extreme competition at the POS, especially in the physical channel where cash has traditionally been preferred. Traditionally, customers have faced an aggravating user experience when using a card, requiring a PIN number and/or signature, and using a clunky POS terminal. **Arguably, paying in cash has been faster and easier.** To improve this experience, in 2017, Visa and Mastercard rolled out contactless mandates that required Latin American issuers and acquirers to enable contactless, or NFC, technology. This would allow shoppers to simply tap their card (or NFC-enabled phone) **on the POS for a secure and nearly instantaneous payment experience.**

[3] PCMI, 2022. From invisible to visible: Cash, digital payments, and crypto in Latin America 2022.
[4] As well as open-loop prepaid cards, which have the same functionality as debit cards.

This transition required issuers and acquirers to invest in hardware, and due to cost, some markets have resisted the contactless trend. But nevertheless, in 2023, contactless transactions represent more than 35% of all in-store card purchases in the region, exceeding 70% in Chile, Guatemala and Costa Rica, and 50% in Peru, Colombia, Panama, Nicaragua and El Salvador.[5] **In August 2020, analysis by Americas Market Intelligence showed that 74% of POS terminals, were contact less-enabled.** Today, it is highly likely that this figure is closer to the global average of 82% reported in February 2022[6]. **This investment has helped to promote card spend (especially debit), displace cash, speed up checkout lines, prepare Latin America for the use of contactless digital wallets and wearables.**

Countries where contactless payments make up more than 50% of face-to-face card transactions

Markets with Tap on Phone or Tap to Phone deployment



Source: Visa

Source: Visa, Mastercard

Figure 3. Contactless penetration in Latin America

Despite these improvements, contactless POS devices have not overcome the persistent challenge of low POS penetration across the region. **Many small merchants consider POS devices to be expensive and fussy, requiring a contract with a bank, monthly fees, and management of a physical device.** And even though mPOS devices have solved some of these challenges, **78 million small merchants across Latin America still do not accept cards, out of 106 million total enterprises.**

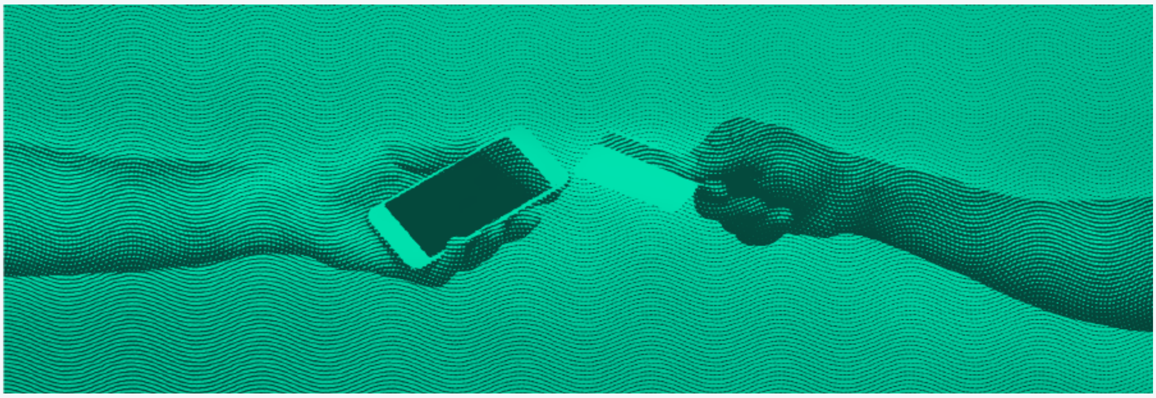
This challenge is actively being addressed by acquirers, PSPs and card networks, in an exciting development in contactless technology: converting the region's 401 million smartphones[7] into POS devices, through Tap to Phone or Tap on Phone (Visa and Mastercard brands respectively). **Through this technology, merchants can leverage their NFC-enabled smartphone to accept card payments, creating the easiest card payment experience available on the market.**

[5] BN Americas, 2022. "According to Visa, use of contactless payments in Latin America and Caribbean doubled in 2021".
[6] RBR London, 2022. "COVID-19 speeds up contactless rollout worldwide".
[7] According to GSMA's "The Mobile Economy Latin America 2022" report, there were 401 million 4G connections in Latin America at the end of 2021.

The technology is being rolled out in both the region's most nascent and digitally developed markets, ranging from Guatemala, to Peru, to Brazil. **It is transformational because it has the potential to drastically change the card acceptance landscape in Latin America in two primary verticals:**

1. **Longtail merchants who have resisted payment digitization.**
By removing the need to acquire a POS terminal, tap on phone removes one of the key barriers to entry for small merchants. This is especially true in markets where a mobile-based P2P app or instant bank transfer platform has not yet gained major traction (Mexico, Chile, Colombia, Ecuador).

2. **Industries in which the cashier is mobile.**
Here, there are dozens of potential use cases: delivery agents, waiters, flight attendants, salespeople in a department store, roadside assistance providers, traveling salespeople, food trucks – literally anyone who wants to charge on the move and can use their personal smartphone.



Enabling card acceptance for these use cases is strategic, because, despite the proliferation of mobile-based alternative payment methods across the region (Pix, P2P apps, digital wallets), millions of consumers in Latin America still prefer card payments over other alternatives, **to accumulate points, to access credit, to have purchase protection and simply out of habit.** As Alex Guizar, CEO of Kushki's Billpocket explains,

> *"Cards will maintain their stronghold in particular niches—entertainment, restaurants, and retail where the ability to make a return is needed.* ***Consumers are very attached to their points and card benefits and also see the credit card as a type of protection in case something goes wrong."***

Going forward, there is still work to be done to fully enable the region for contactless payments. This includes:

1. A shift to online PIN (not available in Mexico, for example) to be able to instantly authorize transactions);
2. An increase of the maximum threshold transaction size for contactless transactions—right now it ranges from USD 20 to 50 depending on the market.

Card networks have been working on their guidance to local banks and acquirers to help support these changes, and in 2022, Mastercard set rules requiring that POS terminals support online PINs as a customer verification method applying to specifically Brazil, Mexico, Chile and Colombia.[8]

Another trend is the renewal of the smartphone park and full penetration of NFC-enabled smartphones. Sources estimate that today in Mexico, an estimated 75% of active smartphones are already NFC-enabled, and this number increases monthly as consumers replace older smartphone models with new ones. Globally, two-thirds of smartphones are NFC-enabled, with Androids being replaced every 33 months.[9], [10].

To be sure, card payments are entering a more competitive environment, in which consumers have more options to pay, including digital wallets, bank transfers, P2P apps and even crypto. Cards are still the number one non-cash payment option, but by a declining margin, and to maintain their position, acquirers, PSPs, and card networks must work together to guarantee an instantaneous and friction-free payment experience for shoppers—on top of benefits like points, cash back and credit. **Contactless technology has helped cards keep their edge over the past five years, and the advance toward a hardware-free card payment experience, will support this going forward.**

[8] Mastercard Transaction Processing Rules, 2022.
[9] Blue Bite, 2022. "The State of NFC in 2021"
[10] El Español, 2022. "Cat Phones: 'La vida media de nuestros telefonos es de hasta 48 meses"

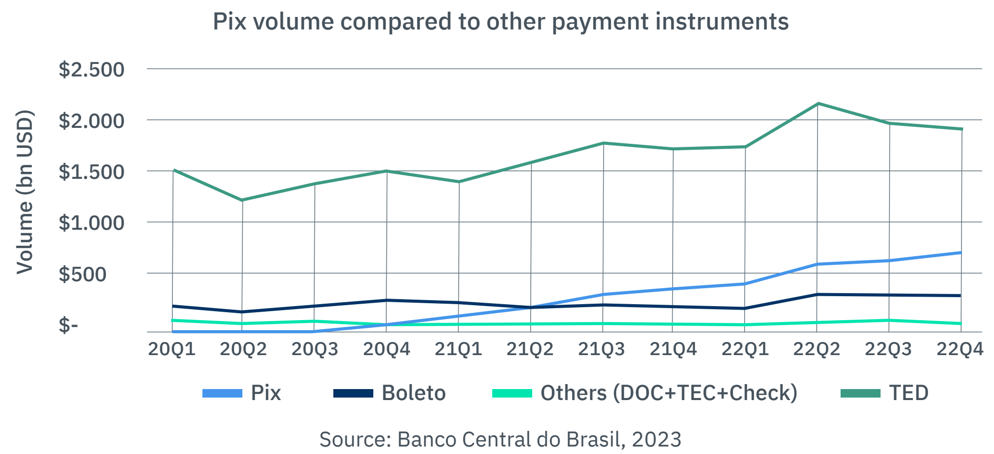
3. SUCCESS OF PIX TRANSFORMS BRAZIL AND INSPIRES OTHER MARKETS

The launch and implementation of Pix **is considered to be one of the most transformational events of the last decade in the payments industry.** Brazil's visionary Central Bank created Pix for several reasons:

1. **To increase the efficiency of money movement,** by providing a low-cost, instantaneous, and interoperable payment method.
2. **To increase financial inclusion by providing a free-to-consumers,** accessible, mobile payment.
3. **To reduce the use of cash in the economy.**
4. **To enable an alternative option to cards,** which are considered expensive and dominated by international corporations.

Since its launch in 2020, Pix has experienced stellar success, already being used by 80% of Brazilians and 25% of businesses (more than 50% if we consider only formalized companies). In 2022, it reached total transaction volume of $2.1 trillion in 2022, is greater than Brazil's GDP. In terms of usage, P2P transactions are by far dominant, representing 69% of transactions,[11] but the P2B vertical, or payment to merchants, has also had positive results, rivaling credit and debit card expenditure and leaving industry observers asking the question, ***How far can Pix go?***

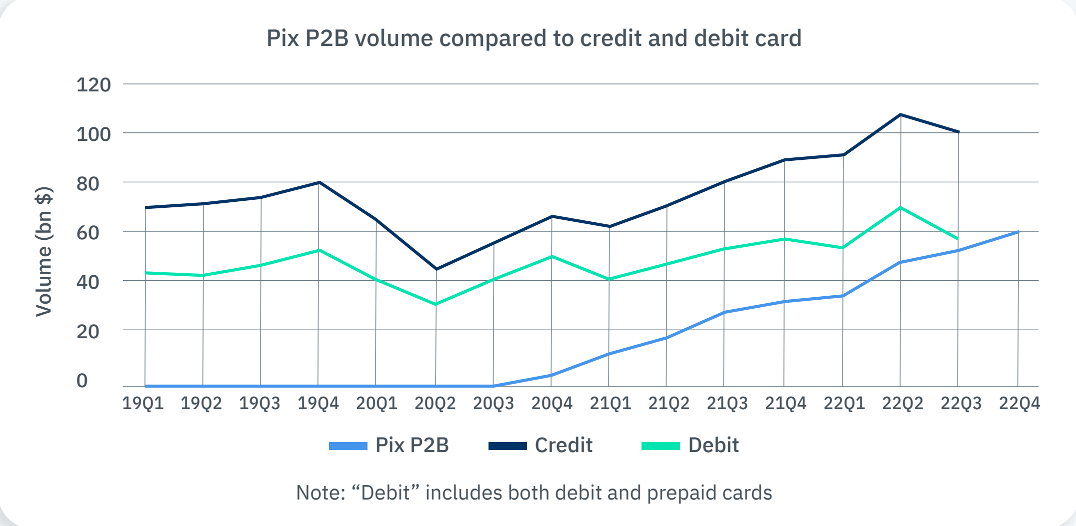
Figure 4. Pix performance 2020-2022



Source: Banco Central do Brasil, 2023

[11] Banco Central do Brasil, 2023.

Figure 4. Pix performance 2020-2022



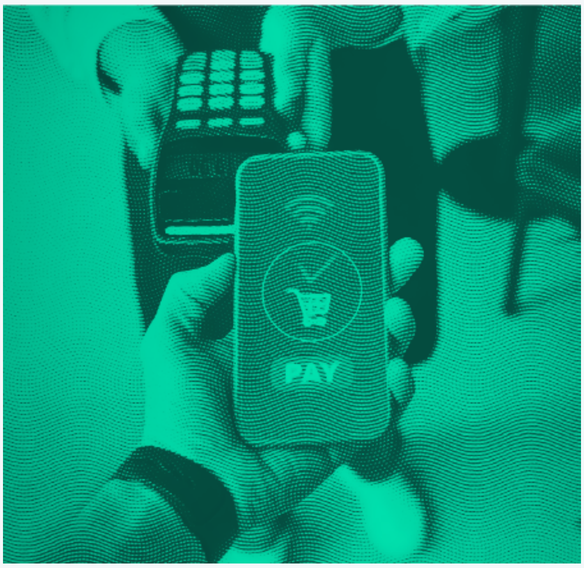
This is the question that haunts card networks and acquirers. **While Pix is thought to mostly have displaced cash, in Q4 2022, Pix transactions for purchases reached the level of debit card volumes, and don't show signs of slowing down.** Several factors indicate that Pix may continue to grow and begin to cannibalize cards. These include:

1. Payment initiation and the end of 'copy paste.'

In one of the first implementations of open banking, the Central Bank created a special license for payment initiation, enabling non-bank entities to access customers' bank accounts on their behalf to initiate a Pix transaction. This allows merchants, wallets, and other platforms to send a Pix transfer without requiring consumers to navigate to their online bank, "copy" a Pix code and "paste" it into the transaction flow. Currently over a dozen companies have payment initiator licenses, as this trend continues, **Pix transactions are becoming even more seamless and instantaneous.**

2. Merchants incentivizing Pix.

Because of the low merchant discount rate (averaging 1%), merchants are actively promoting payment with Pix by offering a 5%-10% discount, especially in e-commerce, **where debit cards are typically not enabled due to restrictions from issuing banks. This partly explains why Pix P2B has a high average ticket of USD $48--twice that of credit cards and nearly five times the average ticket for debit cards.**



3. Pix and credit.

With credit card penetration around 40% in Brazil, there are millions of Brazilians without access to point-of-sale lending, yet nearly all Brazilians (96% as per the Central Bank), have access to a digital account that enables Pix. **The logical evolution, then, is enabling credit with Pix transactions. A flurry of fintechs are actively innovating along these lines with "Pix Parcelado," including Nubank, and others who extend credit to the shopper and allow them to pay with Pix.**

Despite these advancements, **many believe that credit cards will maintain their market share, especially in verticals such as travel and entertainment, cross-border, and for the ease of returns.** In this sense, Pix still has several limitations. As Gustavo Monteiro, SVP of Product at Kushki explains,

> "***When comparing cards and Pix, we must understand that even though with Pix, the money reaches the merchant faster at a reduced chargeback risk, the original specs for Pix were designed for "one-way" money transfers.*** *This is where cards are still superior, as they add value in transactions for both merchants* ***and buyers in terms of refunds, installment payments, recurring payments, etc.***"

He also adds that such functionalities are likely to be built into Pix in the medium term. The Central Bank's payment system has a long roadmap of additional features and functionalities, and simultaneously, these temporary shortcomings of Pix create the opportunity **for PSPs and other service providers to fill in the gaps in managing returns and reversals, transaction reconciliation, and recurring payments.**

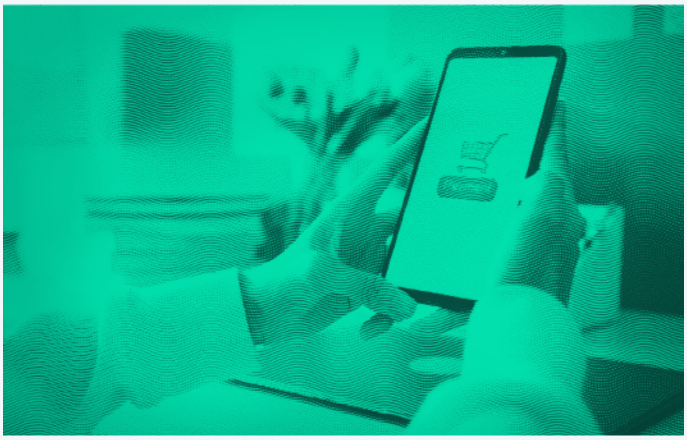
What has been made 100% clear with Pix is that there is strong appetite from consumers and merchants for an instant, mobile-based, low-cost payment method and that merchants must move in this direction. **This creates the opportunity for acquirers and PSPs to help merchants navigate new payment methods and create a platform to easily manage, reconcile and automate all accepted payment methods.**

4. P2P PAYMENTS AND TRANSFERS: A GLOBAL TREND QUICKLY MATERIALIZING IN LATIN AMERICA

While Pix is an anomaly in Latin America and even globally, the trend of interoperable, low-cost bank transfers has been ramping up in Latin America in the past years. Several instant payment ACH programs are already available in Costa Rica (SINPE Móvil), Argentina (Transferencias 3.0) and Mexico (SPEI and CoDi)—with varying levels of success and adoption, and none have the sophistication and adoption levels of Pix. Others are currently in the works (Colombia, Peru, El Salvador), and many believe that Colombia is the farthest ahead in terms of replicating Pix locally, as the central bank, local clearing house and several private companies collaborate on the **implementation of a fully interoperable and low-cost ACH scheme.**

In the absence of, or alongside, central bank initiatives, private instant payment initiatives have also proliferated across the region. **Today, there are over 20 bank or fintech-led instant, low-cost payment schemes, which have been hugely impactful in the digitization and bancarization of the region.** These platforms have one important characteristic in common: **they bet on the power of P2P payments.**

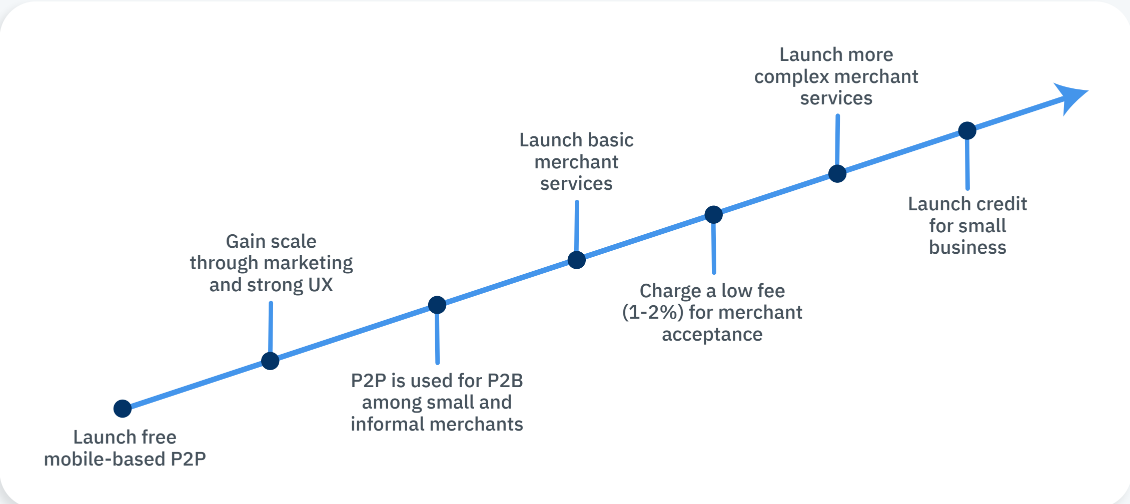
P2P acts as a powerful tool to gain critical mass and evolve into more successful payment platforms. Examples include Yape and Plin (Peru), Nequi and Daviplata (Colombia), Mercado Pago (Argentina and across the region), Yappy (Panama), and MACH (Chile). **Their importance cannot be understated:**



Mercado Pago has over 40 million active users across the region. [12]Yape in Peru has over 10 million users, tantamount to 40% of Peruvian adults, and [13]Yappy in Panama, has 1.5 million users, in a country of four million. **Pix P2P volume in 2022 totaled an incredible $819 billion, the majority of which was transferred in cash prior to Pix's launch.** Instantaneous money transfers totaled $230 billion in Argentina, impressive in a market with total card spend of just $38 billion. 14 Smaller platforms like Tigo Money, a digital wallet offered by telecom Millicom, is leading the P2P market in underserved markets like Paraguay.

These platforms, which increasingly operate like neobanks, are instrumental for pushing financial inclusion penetration over the 80% (sometimes 90%) threshold in many markets. The playbook is clear: launch a free P2P app, gain scale, watch as P2P evolves in P2M among small and informal merchants, launch basic merchant services like an app for businesses, simple sales and reconciliation tools, begin charging a low fee (~1-2%) for merchants transacting a certain volume, add additional services for both consumers and merchants, offer credit.

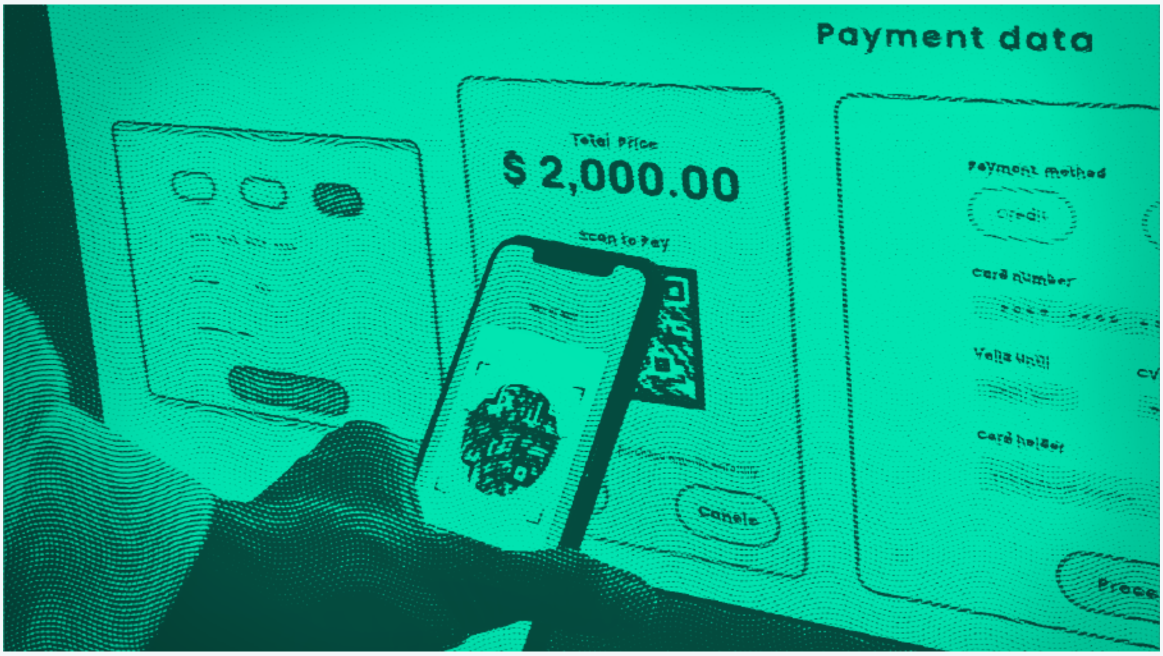
Figure 5. The P2P to P2B playbook



These platforms, for their ease of access, low cost and inclusivity, are redefining the definition of digital payments and blurring the lines between e-commerce and in-person payments in the bottom of the pyramid. A massive source of commerce in digitizing markets is social media, mostly Facebook and Instagram. Prior to the pandemic, sales made over Facebook were paid for in cash, but during lockdowns, merchants turned to free, app-based money transfers, and began collect digitally.

[12] MercadoLibre, 2023. Investor Presentation Third Quarter Results 2022.
[13] Latam Fintech Hub, 2023. "Neobanco Yape reached 10 million users in Peru."
[14] Banco Central de la Republica de Argentina, 2023. Taking the official exchange rate of ARG 187.28 to 1 USD as of January 31, 2023. This volume is not 100% P2P since the central bank does not differentiate between verticals, but anecdotally we know that P2P represents the majority, and high value payments are reported separately.

As such, these P2P platforms are enabling commerce, digitizing cash, generating data, and enticing small and informal merchants to participate in the digital economy for the first time.



A major challenge these platforms face is the lack of interoperability, which creates fragmentation and limits the growth of digital payments. As Kushki representatives mention, ***"We believe strongly in the power of P2P, but they depend on interoperability to reach their full potential."*** Many P2P apps are coming under regulatory pressure to open up their networks, including Yape and Plin in Peru and P2P apps in Colombia.

Such pressure on P2P apps is not yet forthcoming in Mexico, Chile, Panama, Ecuador or Guatemala, **but it is only a matter of time before the global trend catches up in these markets.** While **interoperability poses a competitive challenge for participants in the short term, it undoubtedly increases the potential growth for all participants over time, as evidenced by the two fully interoperable bank account schemes in the region,** Pix and Costa Rica's SINPE Móvil, both of which enjoy nearly universal adoption by the population. While the future is rife with uncertainty, two things on this subject matter are certain: **interoperability is inevitable, and interoperability creates a stronger, more resilient, and dynamic environment for digital financial services.**

5. FINAL CONCLUSIONS

These trends point to a paradigm shift in Latin America, in which digital payments are winning the war against cash. Brazil is the clear champion, but unprecedented progress is being made in markets with traditionally dominant cash economies—Argentina, Colombia, Peru and Central America. **This is due to more payment options being suitable for different payment experiences.** Consumers make hundreds of transactions in a week, varying from micro payments for public transportation, to recurring monthly payments, to daily needs like groceries and gas, to high ticket and cross-border transactions. **These varied use cases create a growing market for all payment methods (cards, bank transfers, P2P payments, cash), form factors (physical card, QR code, paylink) and modalities (one-time payment, recurring payment, payment in installments).**

While this is terrific news for the payments industry, it causes complexity for merchants, who do not see payments as a benefit, rather as a cost center. This means acquirers and PSPs have the responsibility to serve merchants at a higher level, and many PSPs are falling short of this goal. **To be the best possible ally to merchants in this complex environment, payment service providers must adapt to the following five realities:**

1. Unprecedented downward pressure on fees charged to merchants

For the first time in history, merchants in several markets can accept digital payments for zero fees. In others, they have access to low-cost fees (<2%). This is exciting for businesses historically paying 3-5% or more to accept credit and debit cards, **but it creates a challenge for all payment providers, as merchants become more demanding in fee negotiations and develop higher expectations for value delivered. In the face of declining fees, providers will have to truly add the value the merchants really need in the operations of their business to justify their business models.**

2. Merchant services shifting from transactionalto bundled

In this context, we can expect merchant services to increasingly evolve from a transactional model, in which merchants are charged a commission on every transaction, to a bundled model, in which merchants access a bundle of goods and services that add value to their operation. So far, many of these value-added services are only available for cards: enhanced fraud services, smart acquiring, token services, card-updater services, chargeback protection, payment disbursement services, etc. Card networks are also building in access to other related services like KYC, digital identity and onboarding, transaction automation and reconciliation, open banking capabilities, FX services, credit scoring, and others. **This is a prime disadvantage of low-cost card rails: they cannot afford or justify the cost of such advanced technologies, and they are simply so new, such capabilities have not yet been built in.**

PSPs and platforms can support merchants in these ways, including software for inventory management, appointment and reservation management, and a multitude of other cloud services. As payment providers are seen more as strategic partners than transactional providers, payment processing will lean into the SaaS model with a recurring monthly subscription, away from merely taking a commission off the top. **This will help merchants look at payment providers as a valuable investment rather than a necessary evil.**

3. Verticalized strategies will win

Bundled services will and must be specialized by merchant vertical. Restaurants need a very specific set of services, from table and reservation management, to wireless POS devices, to a system to manage online ordering, payment collection and delivery fulfillment. A beauty salon needs an appointment manager, loyalty program, and both in-store and online payments. E-commerce merchants need sophisticated fraud tools, payment retry mechanisms, and merchant and consumer seamless onboarding tools using AI. **Payment providers can no longer count on a one-size fits all approach but instead need to develop vertical strategies based on the types of merchants they seek to serve.**

4. New opportunities in payment orchestration

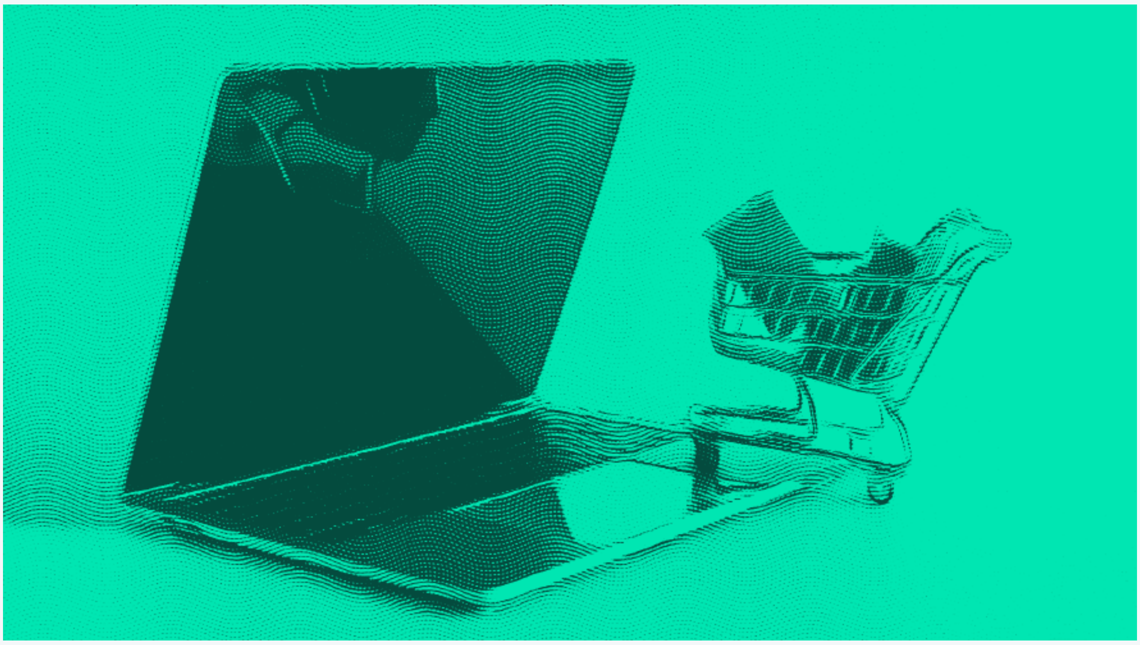
Merchants in Latin America today face a more sophisticated consumer who may want to pay with a dozen different payment methods: international and local cards, digital wallets and P2P platforms, ACH, cryptocurrency, and loyalty points, via diverse channels like chip POS, contactless, pay links, QR codes, social media, website, and third-party marketplaces. **This level of complexity can prove unsustainable for merchants, especially those going through a digitizing process themselves and without a dedicated payments team.** Here lie numerous opportunities for payments orchestration (**technology meant to help coordinate and reconcile all payment methods, channels and experiences)** that acquirers, PSPs and dedicated payment orchestrators can enable.

5. Legacy acquirers' days are limited...unless they modernize

With the technology challenges described above, payment providers depending on legacy systems are a disadvantage in Latin America going forward. The acquiring space in the region is more crowded than ever, with domestic and international competition entering the market with cloud-based platforms designed to scale rapidly and adjust to merchants' unique needs. **New market entrants have integrated traditional and alternative payment methods to cater to Latin America's diverse population.** The future of acquiring is not based on cards alone, but rather, will represent a complex mix of payment methods and experiences. **Those who do not embrace this future face potential attrition and loss of relevance.**

Latin America still has a long way to go to reach the market dynamism and richness present in developed economies. Despite the trends described here, on average, traditional players dominate 80% of payment acceptance volume. **This is holding the region back in terms of innovation, quality, and speed.**

Governments have a huge role to play in this transformation. **The region needs regulatory pressure to push interoperability as well as a better tax regime to encourage informal businesses to join the digital economy. Governments can help limit the role of cash in the economy by cracking down on informal employment and creating incentives for payroll payment into a bank account or digital wallet.** Until we see improvements in this area, we may not see full progress where cash usage is still stubbornly high, like Mexico, Ecuador, Paraguay and parts of Central America.



Nevertheless, the trends are clear. **Latin America has entered a new era, one of rapid innovation built on top of a finally banked population.** Just like traditional banks no longer control card issuing and deposits (with the aggressive entrance of fintechs), traditional acquirers are losing their grip on payment acceptance. **Payments in Latin America in 2033 will look wildly different than it does in 2023—with a competitive acceptance landscape, low cost payment systems and innovations in services that we have not yet imagined.** This ultimately supports economic growth, versatility and resiliency, areas the region chronically struggles with. **Thus, to grow and improve payments is to grow and improve the economy, which is to grow and improve individual lives.** Rich in potential, Latin America won't be held back, and we are excited to see where innovation will take us.

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