



Payment trends

2024

in Latin America:

Technology

shaping the future

The six industry trends



Credits

Payment trends 2024 in Latin America: Technology shaping the future | The six industry trends

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Introduction

A turning point for Latin America

Latin America has experienced a significant **acceleration of digital payments**, such that ecosystem players face an **ocean of opportunity—and challenges—in 2024**.

Financial and digital inclusion is nearly complete, with over

80% of the population

80%

owning smartphones.



E-commerce continues to grow at double-digit rates. Faster, mobile-based, **P2P payments** are an entrenched reality in most markets, displacing cash, **speeding up commerce**, and **creating a new expectation** for consumers and merchants.

While in the post-pandemic years of 2022 and 2023, the industry was characterized by **digital catch-up**, 2024 will be **marked by technology-driven change and regulation**.

Technology will **advance payments on several fronts**: the expansion of **interoperable and instant payment rails**, the dissolution of hardware into software and cloud-based solutions, the better leveraging of data to feed fraud and AI models, and the onset of generative AI. **Seamless, personalized, omnichannel, instant, and secure payments** are becoming the standard, across dozens of verticals and **payment experiences**.

On the regulation front, we can expect central banks and financial regulators to **take an increasingly active role**, following the leadership of Brazil's central bank, **a global pioneer in Real Time Payments (RTP)**, open banking, and CBDC implementation.

Regulators in Mexico, Colombia, Peru, Costa Rica, Argentina, and elsewhere are already following suit. Regulators are **also being instrumental in legitimizing** new commerce opportunities and **formalizing gray market activity**, like online betting and gaming.



In our globalized economy, national borders are becoming increasingly inconsequential, and Latin America is rising to the forefront of the global stage for global merchants and PSPs. Representing over \$500 billion in e-commerce volume alone, the region presents new revenue opportunities for merchants and PSPs who employ strategies to scale across multiple jurisdictions. With clearer regulations, more variety of payment methods, more tech-forward infrastructure, and a digitized population, cross-border opportunities become increasingly apparent, as well as complex and potentially tricky to manage.

In this context, Kushki, in partnership with Payments and Commerce Market Intelligence (PCMI), set out to identify the top trends marking the region in 2024, which center around technology- and regulator-driven change. Looking ahead, we can expect a more diversified and interoperable payment landscape in Latin America, capable of adapting to new business models, payment flows, and service verticals, but also vulnerable to fraud and the pitfalls of emerging payment systems. This report will give an account of these trends and provide guidance on how to prepare for the increasing potential of the Latin American digital economy.

Cross-border e-commerce: Significant growth ahead

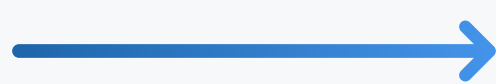
E-commerce is a central **pillar of digital payments** and often a driver of **digital** payment adoption. This has been especially true since the pandemic, during which **97 million Latin Americans purchased online for the first time**. And Latin America continues to propel forward even following the COVID-19 boom, totaling **\$509 billion in 2023**, an **increase of 27%** over the previous year.

Nearly universal digital access is a **primary growth driver**: Internet access in Latin American's:

Six major markets
has reached

93%¹

and smartphone
penetration



in the region
now surpasses

80%²

¹ Economist Intelligence Unit, 2023.

² GSMA, 2022. "The mobile economy - Latin America 2022".

Financial inclusion is another: **in 2017, only 54% of the region's population had any kind of financial account³**; today, this figure has surged to **85%⁴**. These factors create the conditions for over **81% of Latin Americans** to participate in e-commerce, spurring the industry at a **23% compound annual growth rate through 2026**.

³ World Bank, 2022. “The global index database 2021”.

⁴ Local central banks, World Bank. “Statistical reports from financial supervisory agencies with 2022 and preliminary 2023 data”.

More accessible cross-border e-commerce is another driver of **sustained growth**. In 2023, cross-border e-commerce accounted for **\$70 billion, or 14% of the total e-commerce**, up from **13% in 2022**. Cross-border will continue to gain share, **growing at 28% annually**—six percentage points faster than domestic e-commerce. By 2026, Latin Americans **will make \$144 billion worth of international purchases**, more than double today’s volume.

Several factors are encouraging this trend. **Increased comfort with online shopping** means Latin Americans are more **willing to shop on foreign websites**. Greater exposure to international brands through **social media stimulates interest in international products**. **Increased demand for digital goods**, which are **heavily cross-border in nature**, including streaming, gaming, betting online education, and SaaS, are a primary driver.




International merchants are increasingly attracted to Latin America for its growth potential. Comparing just online retail, Latin America is growing faster than any other world region—21% compared to 12% in Asia, 11% in the US, and 15% in Africa⁵. The explosion of alternative payment methods, including Pix in Brazil and PSE in Colombia, also makes Latin America a more attractive region to international sellers, enabling them to access nearly the entire online population (as opposed to credit cards, owned by about a third of online shoppers).

⁵ Payments and Commerce Market Intelligence, 2023.

“Local and alternative payment methods are very important for this market, but there is also a great demand for card payments and for this the best strategy to guarantee high approval rates is to process the transaction locally.”

Sherrie Rogers, Head of Global Sales at Kushki





Payment service providers (PSPs) specialized in enabling cross-border **commerce to the region are flourishing, enabling seamless pay-ins and pay-outs**, making it **easy and cost-effective** for merchants around the world to sell to Latin American consumers.

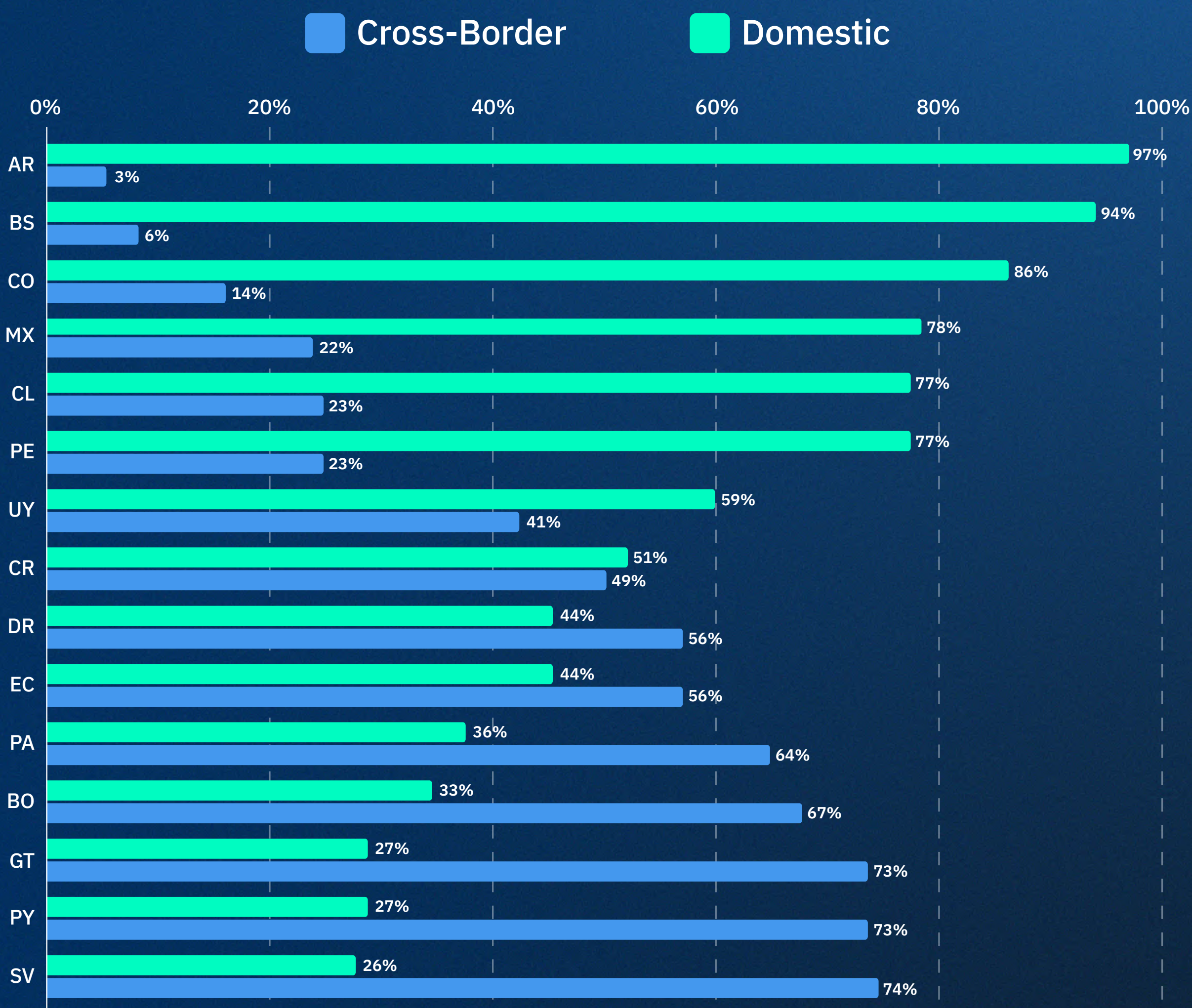
Cross-border volume around the region

The cross-border opportunity varies significantly by market. Cross-border share is **the highest (over 50%) in small markets with underdeveloped** domestic e-commerce industries, including Central America, Bolivia, and Ecuador. **Among the region's large markets**, Mexico, Chile, and Peru boast the highest shares, these being **countries with open trade regimes and favorable tax codes**. Mexico's proximity to the US also contributes to a cross-border share of over 20%.

In Brazil and Argentina, **a tighter trade regime, fluctuating exchange rates, and currency controls** limit cross-border penetration. The strength of the domestic market is also a **challenge for international sellers in markets** like Brazil, where **cross-border e-commerce** represents **only 6%**. Nevertheless, due to the sheer size of Brazil, **that 6% equates to nearly \$16 billion dollars**, putting it on par with Mexico by volume and placing it as a **top target for international merchants**.

Argentina could become **more favorable in the medium term**, as with the new president voted into office in October 2023, there exists a **possibility of dollarization**, which would provide **needed currency stability** to facilitate cross-border operations.

Share of e-commerce volume by origin

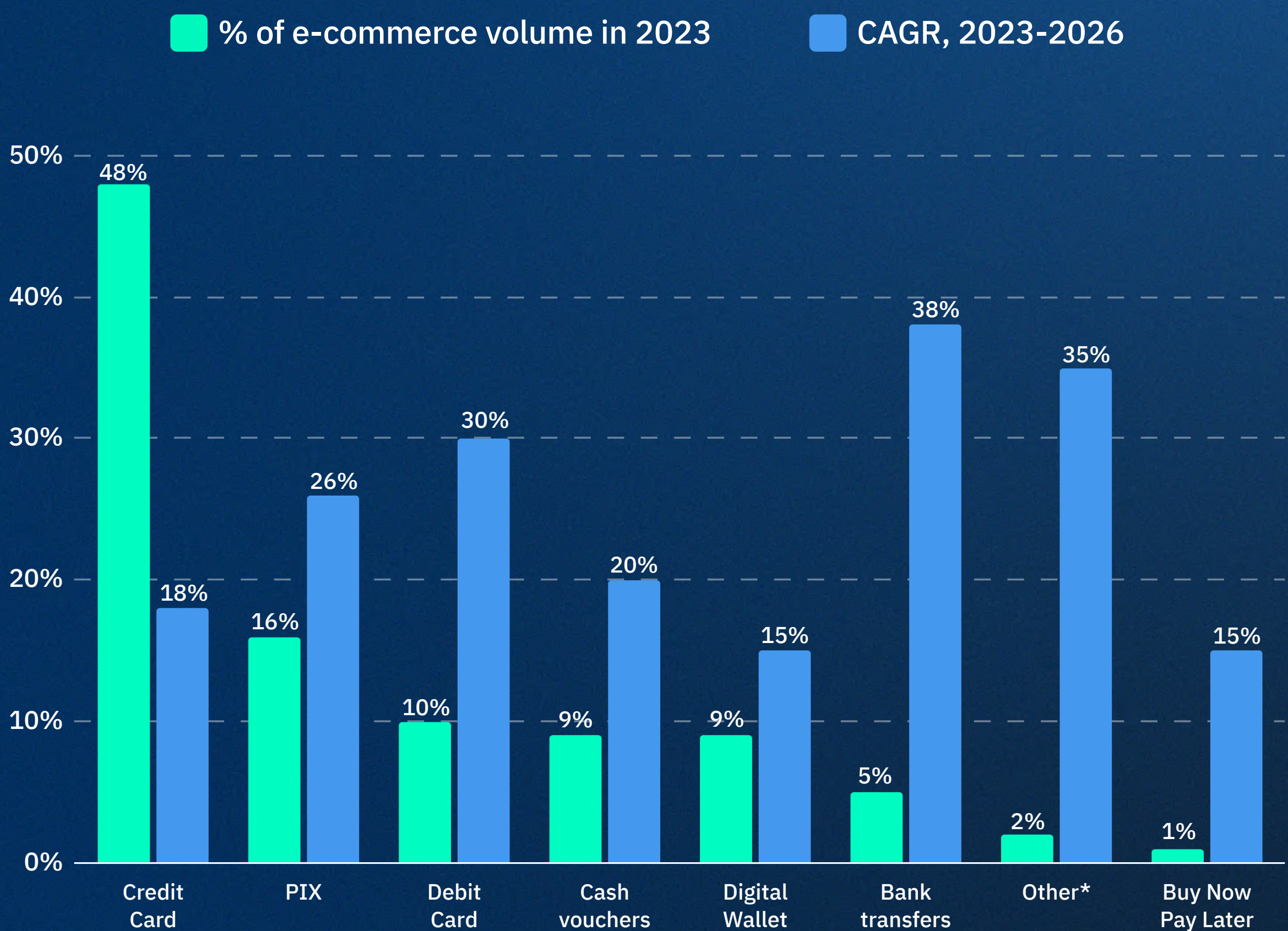


Source: Payments and Commerce Market Intelligence, 2023.

+ Diving into payment methods

Alternative payments are **stimulating both** domestic and cross-border payment growth. Today, alternative payment methods **represent more than 40% of e-commerce volume**, with **credit cards steadily losing share** year over year in favor of **instant payments**.

Payment method market share of e-commerce volume and compound annual growth rate (2023-2026) in Latin America

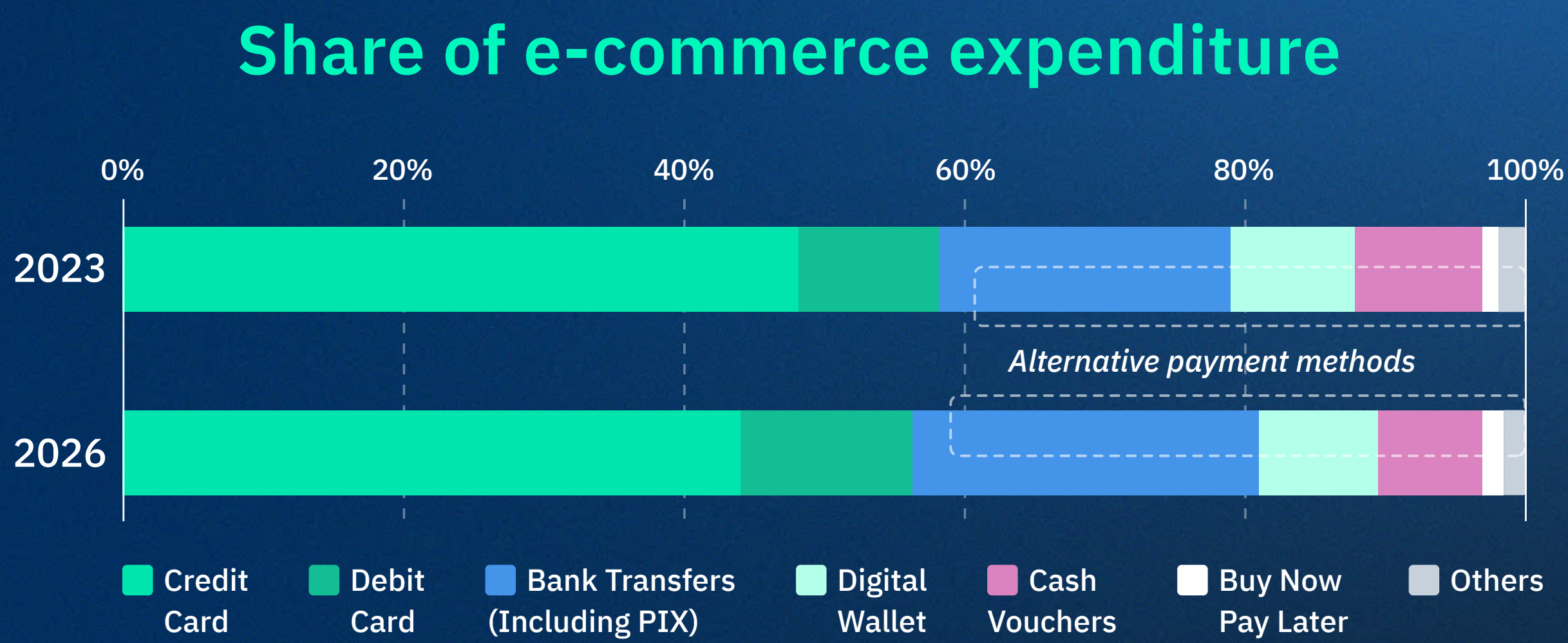


Source: Payments and Commerce Market Intelligence, 2023.

Looking ahead, **bank transfers, debit cards, and Pix**, the Central Bank of Brazil’s instant payment scheme, **are growing most rapidly**, with important differences by country. Global merchants looking at the region **must understand these local complexities and enable a payment method** offering that matches **local preferences** and **growth projections**.

Especially notable is the rapid growth of **instant payments, or Real Time Payments (RTP)**, like Pix, already **owning 29% of Brazil’s volume and 16% of the whole region⁶**. Many PSPs and merchants **prioritize enabling Pix** over debit cards in Brazil since it has nearly fully cannibalized debit card usage in the online channel.

⁶ (PCMI) Payments and Commerce Market Intelligence, 2023.



Source: Payments and Commerce Market Intelligence, 2023.

Pix and other account-to-account (A2A) payment methods **have been crucial to expanding cross-border e-commerce** in Brazil in **verticals such as gaming and betting**. These verticals, considered “high risk” by issuers, experience frequent declines in credit cards. They are also **verticals that require fast, agile, and spontaneous payments**, tricky attributes for card payments. In this way, Pix in Brazil, PSE in Colombia, and transfers from digital have **helped international merchants overcome the barriers** of traditional payment methods and exponentially **increased their addressable market**.

While international merchants **must develop an alternative payment strategy in Latin America**, credit and debit cards will indeed continue to generate **more than 50% of volume in the years to come** (albeit with credit cards decreasing in share from 48% to 44% in 2026).






Digital goods drive **strong demand** for **card payments**, considering the need for **recurring payments**: cards take a **69%** share of streaming's volume in the region, and **65%** of gaming's. **Credit cards** are also **fundamental** due to their **ability to offer installments**, which can represent **more than 50%** of credit card spending in some markets and verticals.

While Latin American e-commerce **becomes increasingly attractive** to international sellers due to its growth, **digital enablement**, and **regional scaling opportunity**, it is also complex, with an ever-increasing **mix of payment methods**, spanning over 20 countries. With this trend accelerating, it will become ever important for merchants and PSPs approaching the region to **be clever about a localized strategy**.

Instant payments shifting the competitive landscape —————

+ The global Real Time Payments trend

Just as we saw in **e-commerce**, much of the payments revolution in Latin America today is **being driven by the onset of RTPs**, referring to A2A transfers that are initiated, cleared, and settled in a few seconds, at any time of any day. With the **increased digitization of global consumers**, the creation of **digital banks**, and the advance of **financial inclusion**, regulators around the world **are prioritizing making RTP systems accessible to consumers**.



Regulators are driving this trend, who see several advantages in **RTPs: they make it easier for consumers to transfer** money and make purchases, **reduce the use of physical cash, promote financial inclusion, and reduce fees to merchants** compared to cards. They **are also cheaper than traditional bank transfers, reducing the operating costs** for system participants and **increasing the efficiency** of each country's national payment systems⁷. Globally, **by mid-2023** there were already **more than 100 different countries** with a **centralized RTP system** in operation⁸.

There is no better illustration of this trend than **Brazil's Pix, the Real Time Payments system launched by the Central Bank** in late 2020 which now has **more than 799 participating institutions**, including banks, fintechs, credit unions, PSPs, among others⁹. In less than three years, **Pix became one of the most successful RTP systems in the world**, resulting in the financial inclusion of **72 million people** in the first two years of operation¹⁰, usage by **91%**¹¹ of the adult population, **cost reduction** in payment acceptance, and **overall increased efficiency** of the national payment system.

⁷ PWC, 2023. "Decoding instant payments: the emerging markets story".

⁸ PWC, 2023. "Decoding instant payments: the emerging markets story".

⁹ Central Bank of Brazil, 2023. "Pix statistics".

¹⁰ Central Bank of Brazil, 2023. "Pix management report 2020-2022".

¹¹ Central Bank of Brazil, 2023. "Pix statistics".



From mid-November 2020 to the beginning of November 2023, the system has handled **more than \$5.7 trillion in payment volume** and almost **67 billion transactions**.

“One of the beautiful things **about the Pix story** is that it proved that **if regulators and banks work together**, they can **create something good that works for everyone**.”

Anschana Caravaca, VP Specialist Markets at Kushki

While **Brazil is the regional first mover**, the **RTP trend is growing** across Latin America. Fintechs and banks have been instrumental in **RTP adoption outside of Brazil**, primarily with the **digitization of person-to-person (P2P) payments**, which are widely used for **social commerce and other informal selling**.

In Panama, the digital wallet Yappy, developed by Banco General, is the main digital payment service, used by 32%¹² of the population¹³. In Peru, the country's leading bank, BCP, developed Yape, the country's leading digital payments service, used by over half of Peruvians, primarily for P2P transfers but also for purchases at merchants using QR codes. Nequi, DaviPlata, MACH, ATH Móvil, and MercadoPago are other examples of instant, A2A payment schemes that have achieved significant scale in their respective markets.

¹² Banco General, 2023. “Yappy”.

¹³ Economist Intelligence Unit, 2023.

RTP systems on the rise in Latin America



+ RTP use cases – How are they impacting Latin American payments today?

In established RTP systems, **P2P transactions** represent the majority during the early stages, but as the use of the system intensifies, **different use cases are developed**. In Brazil, when Pix turned one year old, the share of the volume of **P2P payments** in the total volume transacted was 40%, while on its third anniversary, the share of **P2P payments** in the total volume transacted had dropped to 33%, as **B2B payments** and purchases at businesses (**P2B**) had ramped up¹⁴.

Pix as a **P2B** payment method is proving to be a major disruptor. In the first quarter of 2023, **P2B** payment volume exceeded the aggregate transacted by debit cards and prepaid cards for the first time.

¹⁴ Central Bank of Brazil, 2023. “Pix statistics”.

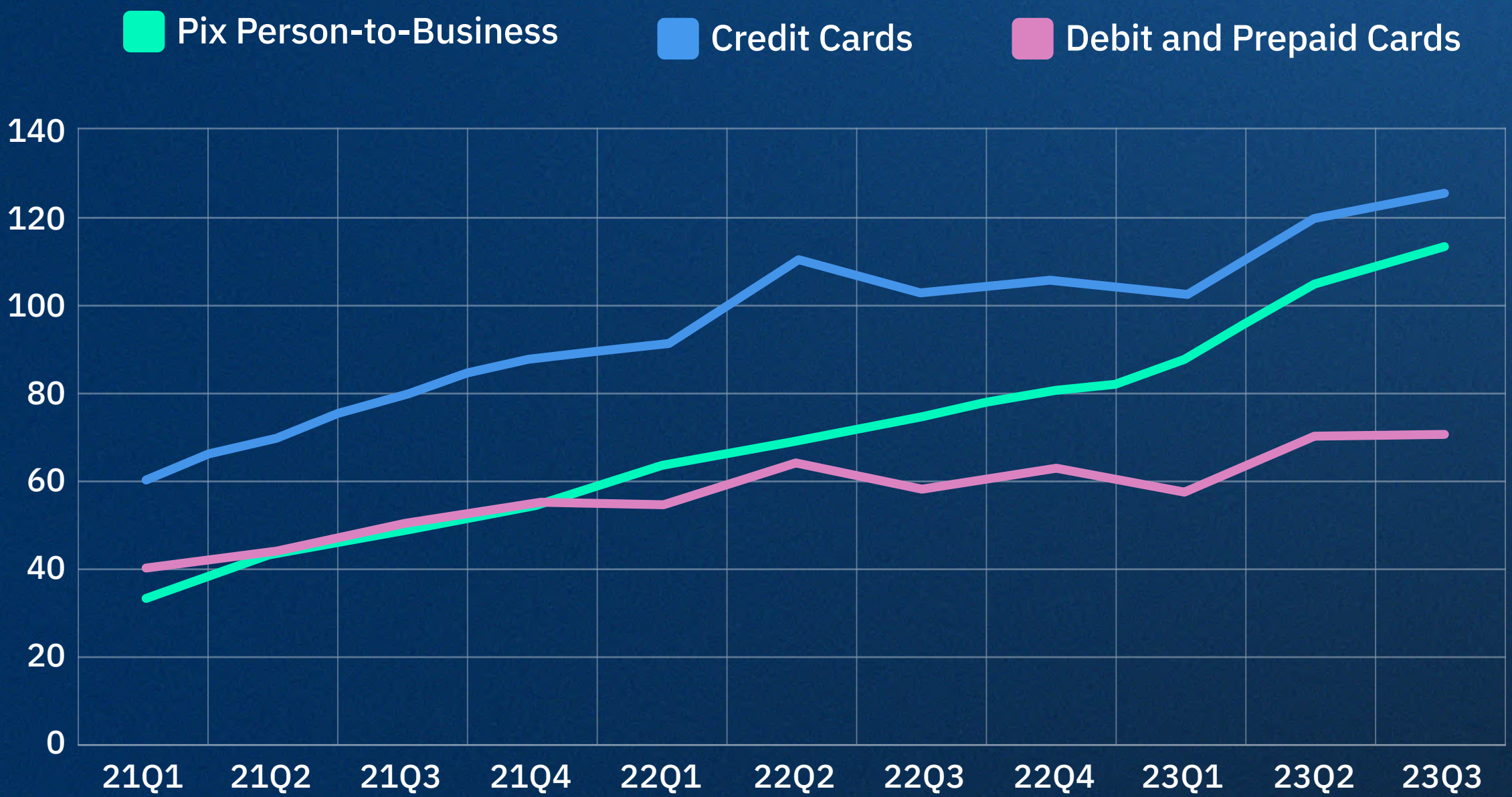


Pix's total number of quarterly P2B transactions **has grown at a Compound Quarterly Growth Rate of 41%** since its first full quarter of operation, while the **total number of card transactions (credit, debit, and prepaid)** has grown at a CQGR of **just 5%**¹⁵. In the third quarter of **2023, Pix P2B had reached 46%** of total card volume and 34% of the total number of card transactions. **These percentages are expected to continue growing**, creating a **new payment method landscape** for consumers and merchants, and **applying unprecedented competitive pressure** on the card industry¹⁶.

¹⁵ ABECS, 2023. "Report of the electronic payment methods sector".

¹⁶ Central Bank of Brazil, 2023. "Pix statistics".

Pix P2B and cards volume by quarter (\$billion)



Source: Central Bank of Brazil, 2023. "Pix statistics".
ABECS, 2023. "Report of the electronic payment methods sector".

✚ The next RTP boom in Latin America

Other central banks and regulators across the region **are seeking to follow in Brazil's footsteps. Instant bank transfer rails** already exist in several countries, including Mexico and Costa Rica, **but they have not developed the mobile user experience needed** to scale RTP systems at the same level as in Brazil. Doing so requires not **only rail interoperability** but also the **ability to manage user data and connect consumers' bank accounts with their phone numbers or other alias**. Several markets in the region **are actively trying to solve this problem**.

◆ Mexico

The **SPEI instant payment** rail was created in 2004, and over the years various supplementary systems have been added to **optimize the user experience**. In 2019, the central bank launched **CoDi to enable QR code payments over SPEI**, which failed to scale for several reasons, including that financial institutions were **prohibited from charging a fee for the use of CoDi**, which **de-incentivized them from promoting CoDi** to their customers. This **differs from Pix**, in which participants **generate income (albeit at very low prices)**, which incentivizes the industry-wide promotion of Pix.



Having learned from its experience with CoDi, in 2023, Mexico’s **Central Bank launched its newest iteration of RTP, DiMo.** In DiMo, **instead of being reliant on a QR code,** as in the case of CoDi, or an 18-digit bank account number, with traditional SPEI transfers, **DiMo links users’ bank account numbers to their phone number, enabling easy, mobile P2P payments.** This improvement in the user experience is a decisive factor for the potential adoption of interoperable Real Time Payments systems in Mexico.

Brand		
Launch	2019	2023
RTP scheme	SPEI	SPEI
Method	QR Code	Phone number
Bank adoption	Mandatory for banks	Voluntary
Target segment	Business-to-Business Person-to-Business	Person-to-Person

Source: Association of Mexican Banks, 2023. “Press conference in August 2023”.

◆ Colombia

Another essential attribute of a **successful RTP system is interoperability**, which has been a **historic challenge** in Latin America. In Colombia, two digital wallets, **Nequi and DaviPlata**, **have scaled to over 10 million users**, but **without interoperability**, their potential as large-scale RTP **systems remains limited**. Understanding this, in October 2023, **Colombia's Central Bank set the first interoperability** parameters for immediate low-value payment systems, which will enable digital wallets to **communicate with each other**. These parameters lay the foundations for Colombia to **establish an RTP similar** to those in Brazil, Mexico, and Costa Rica by **2025**.

+ RTP challenges yet to overcome

RTP systems are still nascent in Latin America, lacking much of **the sophistication** of established card networks. For in-person purchases, **RTP systems need hardware and software** upgrades to function at the **same level of operational quality** as cards. Merchants need the technical **capacity to link payment** and reconciliation with their ERPs and management software to **facilitate the usability of the payment method on a day-to-day basis**.

Some key features, such as recurring payments and credit, **are not available** over RTPs. **Fraud is also still unknown**; there are no established protocols or industry standards for **returns, transaction reversals, and fraud incidents**, potentially leaving **consumers vulnerable**. While private actors and central banks **are working on these shortcomings**, there are still many unknowns related to RTPs, and their trajectory **is unpredictable**.



Even so, **the future of payments in Latin America** is decidedly moving towards fast, **interoperable payments based on low-cost mobile devices**. Cards and cash will maintain their position, due to personal preferences, greater acceptance, and **deeply entrenched habits**. Nevertheless, **the entire ecosystem is actively rebalancing** around the existence of **low-cost A2A payments** and will continue to do so through the midterm.



From ban to boom: The evolution of sports betting in Latin America —

For many decades, Latin America was on the back burner for investors in the **sports betting** sector for two main reasons:

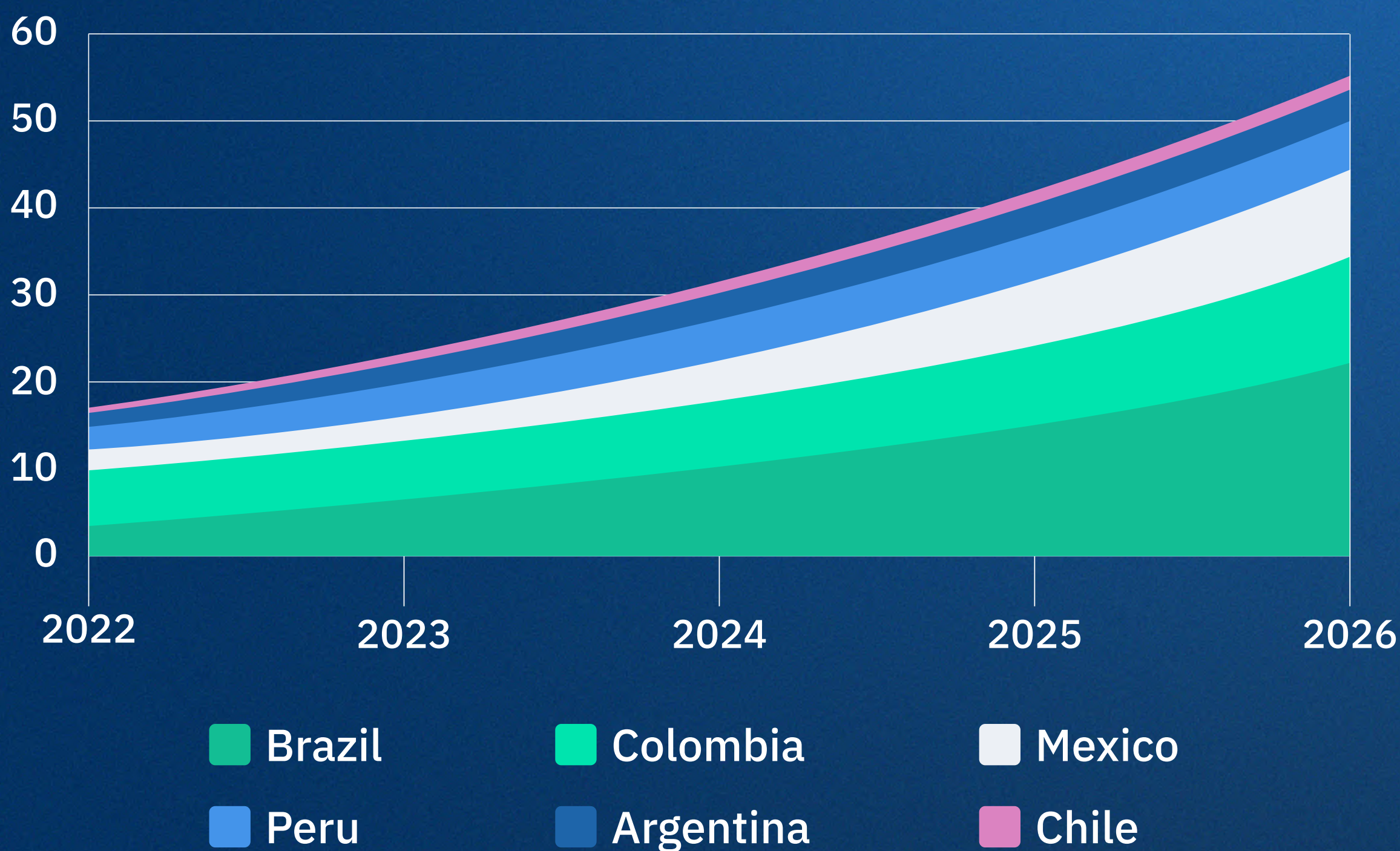
1. The European market, the traditional cradle of the sports betting industry, still yielded good results with greater margins.

2. The LATAM regulatory scenario prohibited or largely limited the potential of the sports betting market.

In 2023, these two reasons no longer stand.

Today, the European market has become more competitive over the years, with industry players now looking for new growth markets. Latin America stands out due to its newly achieved digital maturity, passion for sports, and a new era in regulation of the sports betting market that has impacted several countries.

Total volume of the online betting market in the six largest countries in Latin America (in \$billions of dollars)



Source: Payments and Commerce Market Intelligence, 2023.

The combination of its digital maturity, passion for sports and new regulations made the market in Latin America projected at a compound annual growth rate of more than 18% between 2022 and 2028¹⁷.

¹⁷ Business Wire, 2023. "Latin America gambling market outlook report".

+ Betting around the region

The betting market in Latin America was banned in most countries for many decades, with **Costa Rica and Panama** being the first to legalize online gambling. Colombia followed, legalizing the online gambling market in 2016, resulting in growth from 250,000 registered users in 2017 to over five million by 2023¹⁸.

Coljuegos - the entity responsible for regulating games of luck and chance in Colombia - reported that tax revenues from the gambling industry in 2022 will grow by 18% compared to the previous year, reaching approximately \$200 million of dollars¹⁹. The impact of the taxes collected from the gambling industry in Colombia, which are mostly earmarked for the health sector²⁰, has led Colombia to become a **model for several countries to follow**, such as Chile, which has taken the **first steps toward regulating the sector**.

¹⁸ Apuestas Legales, 2023. “Impuesto a juegos de azar en Colombia”.

¹⁹ MinHacienda, 2023. “Coljuegos registró cifras récord a diciembre de 2022”.

²⁰ Apuestas Legales, 2023. “Impuesto a juegos de azar en Colombia”.

Mexico is the largest regulated online betting market in Latino American in terms of population: all operators in this market must hold a license and have an entity established in Mexico²¹. In 2023, the country was in third place in terms of volume, with an estimated processing value of \$4 billion of dollars, behind only Brazil and Colombia²².

Brazil is currently the largest sports betting market in the region by volume, \$7 billion in 2023²³, and registered a 135% growth in the sector in the country over 2022²⁴. In addition to the growing social legitimacy of online betting, especially sports betting, the evolution of Pix has been fundamental to the success of the sports betting market, helping to facilitate the instant payment of bets and also the payout of prizes.

²¹ ICLG, 2023. "Gambling laws and regulations - Mexico".

²² Payments and Commerce Market Intelligence, 2023.

²³ Payments and Commerce Market Intelligence, 2023.

²⁴ Estadão, 2023. "Sports betting market grows 135% in Brazil in 1 year".

“Today we have the perfect example of the success of RTP systems in Brazil with Pix. Everyone loves it, payment is immediate and extremely easy, and the levels of chargebacks or problems with transactions are extremely low. This is surely also one of the factors why the Latin American market is more strategic for companies in the betting sector right now.”

Anschaná Caravaca, VP Specialist Markets at Kushki

Beyond cultural and industry changes, **regulatory changes in Brazil will be a boon for the industry.** A bill **regulating sports betting** was **approved** by the Senate at the beginning of December 2023 and is expected to be **sent for presidential sanction** in 2024. The bill establishes the legal **limits for operating in the sports betting market**, as well as the specifications that operators must follow, **taxation of 12% of the net revenue for the operators and 15% of the prizes for the consumers**, in addition to rules on advertising.



The evolution of the regulatory scenario for this market in the country will make it possible to **formalize the sector** and will **probably promote consolidation of betting market operators in the country** since the operating license will cost approximately **\$6 million to operate for up to five years**²⁵.

²⁵ Senado, 2023. “Plenário aprova regulamentação das 'bets'”.

Other countries, such as Peru and Chile, are also in the process of **updating their online sports betting legislation**. Chile has a large gray market and in September 2023 the country's supreme court **declared that sports betting sites operating in the country without a local license are illegal**. This is one of the first moves that **signals a likely formalization of the industry** and despite the lack of regulation, the sector is one of the leaders in sports sponsorship deals in the country - **more than 90% of soccer teams have some sponsorship from betting companies**²⁶. In Peru the regulation was rushed through in 2022²⁷, rife with **several errors and contradictions**, and delaying the regulation process. The regulation was only **approved at the end of 2023** and will come into effect in **February 2024**, fostering the investments in this **market**²⁸.

²⁶ Infobae, 2023. “Chile declara ilegales los sitios de apuestas deportivas en línea”.

²⁷ Lexology, 2023. “LATAM gambling update”.

²⁸ iGB, 2023. “Peru approves gambling regulations”.

✦ The perfect sector for instant payments - or - the perfect payment method for gambling

The region's tendency to make **its payments increasingly based on RTP systems** is both an opportunity and an expected result for the gambling industry. **Real Time Payments systems facilitate the payment of bets placed during sports matches**, meeting a specific requirement of the sector: **instant, spontaneous payments that scale rapidly at one time**, i.e. during a sports match.



This requires betting platforms to have the **technical sophistication to handle immense volume all at once**.



At the same time, payments through RTP systems **facilitate the process of paying out winnings, delivering the best possible experience for the user** who wants to receive their winnings as soon as possible.

With the **regulation of the betting market underway** in most Latin American countries, global merchants have **new opportunities in the region**. The combination of financial and digital inclusion, the instantaneity and low cost of RTP systems, and the maturing of the Latin American market with ongoing regulations are the main attractions for the betting market.

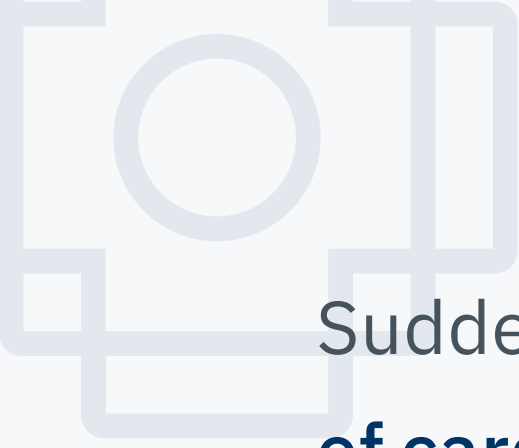
A **cross-border approach is still viable**, but with impending regulation, **operators may soon be required to operate locally**. This requires betting operators to **seek payment partners to help them effectively scale in the region**, with both cross-border and local processing.

Omnichannel and UX: The future of how consumers will pay in Latin America——

+ More sophisticated and complex consumers

Just as the payment method mix has become **more complex** in Latin America, so have **sales channels and user experience complexities**. With new payment methods, verticals, and rails come **new channel opportunities**. Digital wallets and instant payments solidify **QR codes as a relevant form factor**. Pix and other alias-based payment methods have accelerated **social commerce**.

With the **mobile channel representing over 60% of e-commerce sales**, merchants must manage mobile apps, mobile browsers, and messaging apps. **Card payments have evolved toward NFC technology and tokenized card-on-file**.



Suddenly, operators in Latin America went from a simplified world of cards and cash, online and in-store, to a hugely complex web of payment methods, payment rails, and form factors, all of which require an optimized user experience and interoperability amongst them.

“For us, omnichannel represents how our platform enables commerce, be it any kind of commerce. Our job is to ensure that any type of commerce can receive any form of payment, anywhere, at any time, in a single system that is easy to use and accessible.”

Fernando Lopez, Country Manager at Kushki Mexico

✚ Improvements in technology usage

To start, the rise of contactless technology provides an example of changes in user experience. In Brazil, September 2023 was the first time that Brazilians paid more using contactless technology than with a traditional card for in-person purchases (52% of in-person transactions were carried out using contactless technology, while it was only 19% in the same period in 2021)²⁹.

²⁹ ABECS, 2023. “Report of the electronic payment methods sector”.

Also it's extremely common for consumers not to carry their cards at all anymore, using only their smartphone to make payments with the card registered in wallets such as Google Pay and Apple Pay. This trend towards more technological transactions, largely enabled by the use of wallets, is even more consolidated in other countries. In Chile, in December 2022, almost 90% of in-person transactions with Visa cards were carried out using contactless technology³⁰.

³⁰ Visa, 2023. “Visa reaches 50% of contactless transactions penetration and unlocks new use cases in Latin America and the Caribbean”.

Penetration of contactless technology in payments





In contrast, countries like Mexico and Argentina have fallen behind this trend, owing to a **slow adoption of the technology by issuers and acquirers and resistance from consumers**. In Argentina, QR codes are much more prevalent. In Mexico, cash is still the prevailing in-store payment method.

Such changes in consumer behavior **also impact e-commerce purchases**. The growth in e-commerce purchases made via mobile devices has outpaced desktop purchases by an **ever-increasing margin since 2020**. In 2020, mobile accounted for **55% of all e-commerce purchases** in the top 15 Latin American countries. In 2023 this share jumped to **71% and will reach 76% in 2026³¹**.

³¹ Payments and Commerce Market Intelligence, 2023.

Subtle **improvements in user experience** are also taking place as each payment method is optimized for purchases across various channels. **Pix payment initiation** has already greatly improved **the experience of using the RTP system in e-commerce**.

A combination of **RTP and Open Banking** concepts allows e-commerce users to make Pix payments even **more seam-lessly** by enabling non-banking institutions, such as merchants, to initiate Pix transactions on behalf of the customers, who **only need to authorize the transaction**, instead of requiring a redirect to the user's online banking.



Moreover, **the next Pix development that is eagerly awaited by the market is the "Automatic Pix"**, announced by the Central Bank of Brazil in December 2023 and which will be operational beginning in October 2024. With this **new feature**, it will be possible to **schedule recurring payments** such as monthly expenses, utility bills, rent, and even transfers between accounts **automatically and without the need for manual intervention with each transaction**³².

³² Central Bank of Brazil, 2023. "Central Bank takes another step towards implementing Automatic Pix"

With more sales channels than ever before (physical stores, websites, marketplaces, social media apps, affiliates, influencer marketing, etc.), **merchants face a complex task in guaranteeing a seamless transaction flow for consumers.** Based on expert interviews, the integration of omnichannel **strategies with a focus on the user experience is key** to success in the next years in the region, with the following recommendations top of mind:



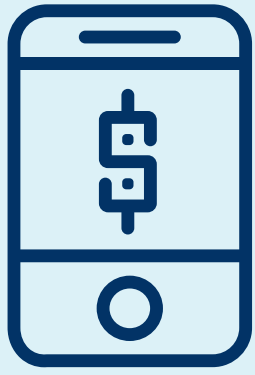
**Understand
your audience**

Sellers and their payment enablers **must understand the needs and preferences** of the specific Latin American consumer they are targeting. This includes understanding **regional differences, language preferences, device usage, and local payment methods.**

Merchants and enablers **must use the right technology to integrate payment systems across different channels.** This includes **investing in secure and scalable platforms** that handle multiple payment methods, currencies, pay-ins, and payouts.



**Invest in
technology**



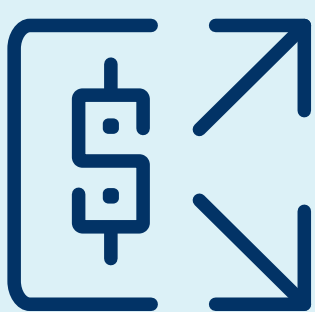
Focus on mobile devices

With a high rate of mobile-first solutions in Latin America, optimizing mobile payments and guaranteeing a good user experience is more important than ever, more so as Gen Z and even younger consumers become more active consumers.

Security is a top priority that impacts user experience, especially in the online channel. Ensuring robust security measures while maintaining a user-friendly experience is key.



Increase security



Continuous improvement

The digital landscape is constantly changing. It is necessary to regularly update and improve user experience and omnichannel strategies to keep up with industry trends and consumer expectations.

Navigating the digital transformation of fraud prevention——

Despite all the good news in the region around **digitization and expanding opportunities**, there is one significant **black stain: payment fraud**. Fraud is an **ongoing and worsening problem** in Latin America, especially in the online channel, as it is around the world. Estimates reveal that Latin America loses an estimated **20% of total e-commerce revenue to fraud**, ranking **second globally**, following Southeast Asia³³.

³³ Mastercard, 2023. “Ecommerce fraud trends and statistics merchants need to know in 2023”.

“ Fraud is **not homogenous** in Latin America. **Fraud rates are different in each country and have different causes.** ”

Giacomo Orizzonte, Infrastructure Manager at Kushki



A prevalent issue in the region is **the lack of education among users regarding the safeguarding of personal data and payment information**. The surge in online activities during the pandemic **has exposed millions of new consumers** to risks due to their **unfamiliarity with necessary safety measures**. The continued growth of interconnected online and offline (i.e., omnichannel) interactions in commerce **amplifies the potential attack surface for fraudsters**.

However, **new generations** are growing up with **face ID, finger scanning, passcodes, and two-factor authentication**, among other security measures, potentially creating better prospects for the future. Some banks, fintechs, and governments **proactively guide users** to understand and implement better security measures. For example, Nubank, the largest Brazilian neobank, **combines advanced technology and educational content** targeted at customers to **reduce the risks** of malicious actions³⁴.

³⁴ Nubank, 2023. “Technology combined with information is key to preventing fraud and financial scams”.

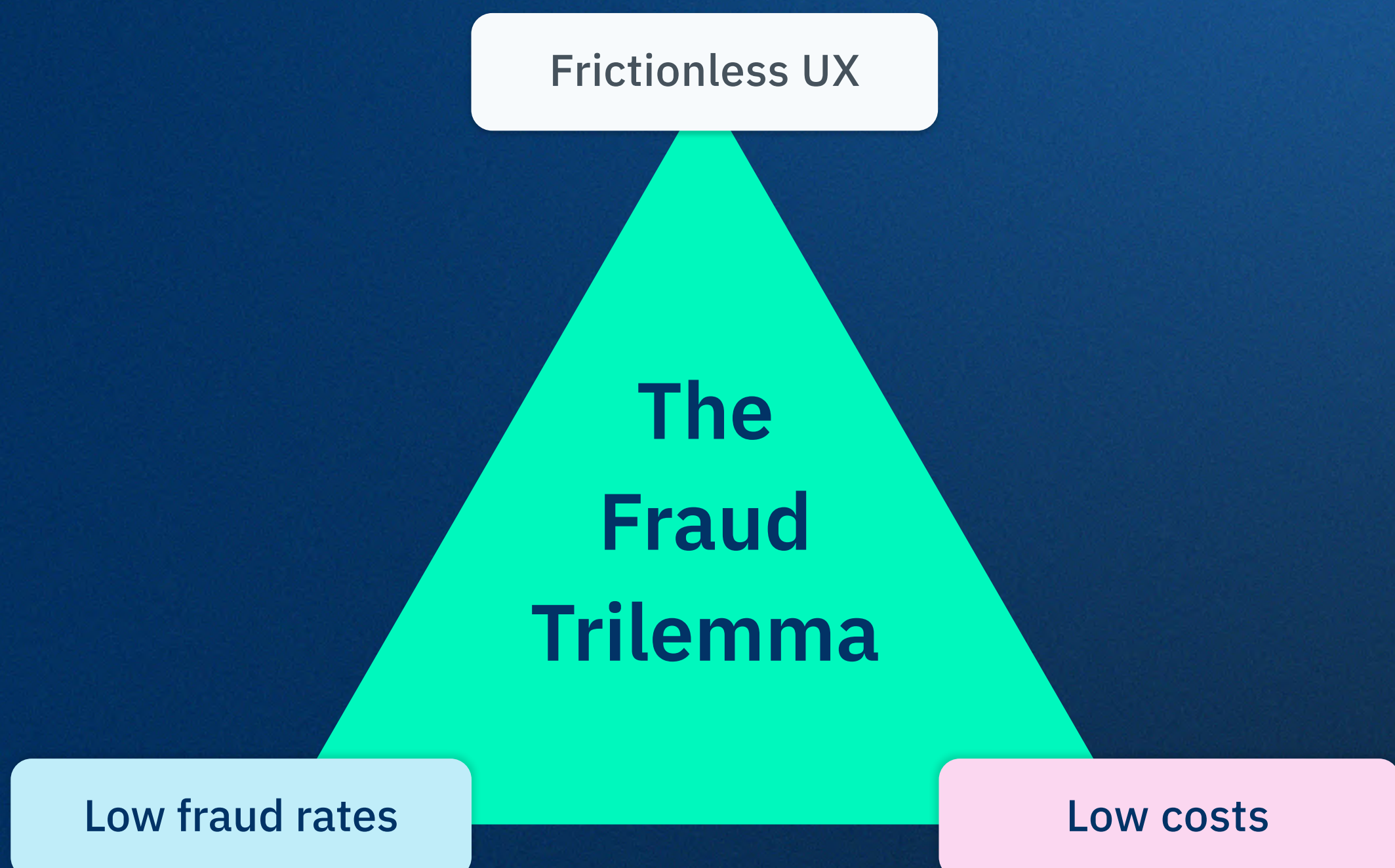
Latin America is undergoing **digital transformation** and **slowly converging** on best practices to ensure **digital safety**. In recent years, the adoption of digital and mobile transactions has driven the expansion of **digital wallets**, which represent **9% of e-commerce spending in the region**. Leading wallets like Google Pay, Samsung Pay, and Apple Pay employ **card tokenization**, a security practice that **substitutes the original card number with a secure token**.



This safeguard **protects payment information in online and mobile transactions**, preventing the **exposure** of actual card data. These wallets have only started operating in most Latin American countries post-pandemic but **are expanding rapidly both on- and offline** - of the nine countries where Apple Pay is available, eight have been added to the portfolio in the last two years. As users continue to adopt and use wallets for their online spending, **transactions will be more secure**.

+ The search for the security sweet spot

The prospect of careful consumer spending leading to a **decline in fraud is encouraging** for merchants and PSPs in the medium term. However, fraud, and its opposite problem, an overly **sensitive fraud alert system that results in fewer completed** purchases, are an ongoing challenge for the ecosystem. This tradeoff can be conceptualized as the **‘fraud trilemma:’** chasing low fraud rates means that the user experience (‘UX’) becomes laden with friction and that investments in payment security are needed, increasing cost.

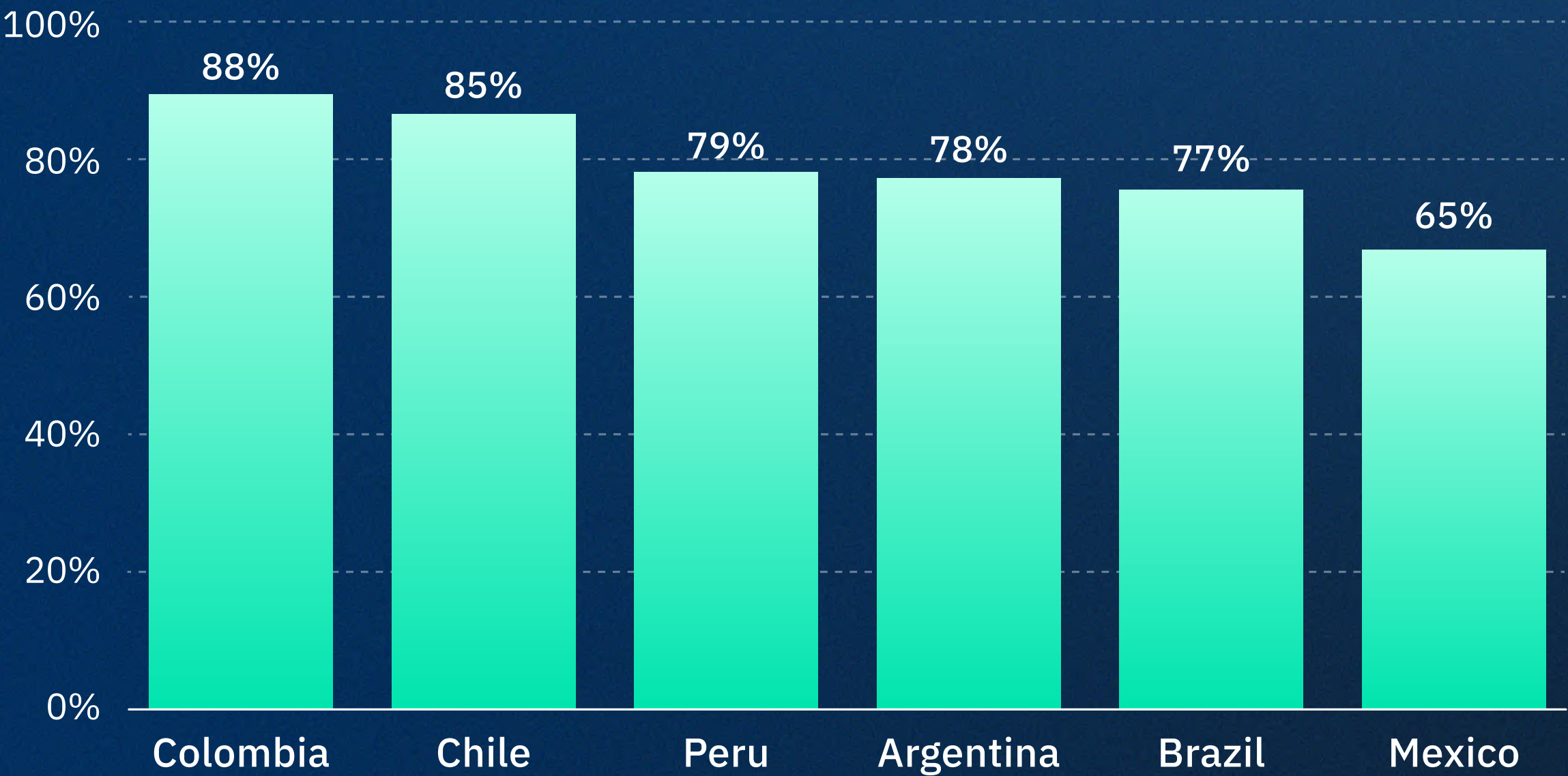


Source: Payments and Commerce Market Intelligence, 2023.

Traditionally, Latin American issuers, merchants, and PSPs have placed their focus on the ‘**low fraud rates**’ pillar of the dilemma, **willing to sacrifice good transactions to combat fraud**, resulting in low authorization rates. Data from the region **shows disparate results**, which reflect a difference in technological sophistication as well as **in the culture around fraud and digitization**: Mexico is at a discouraging **65%**, while Colombia impresses at **88%**³⁵. This delta means that Mexican merchants **are probably declining more than 20 percentage** points worth of good transactions, **leaving significant revenue on the table, and discouraging honest shoppers**.

³⁵ Payments and Commerce Market Intelligence, 2023.

Average authorization rate for card-not-present transactions (2022)



Source: Visa and CONDUSEF.



With fraud becoming a mounting problem, merchants must invest in technology to remain competitive, and thanks to pioneering PSPs, a world-class technology stack is available for LATAM merchants, with tools including anomaly detection algorithms, machine learning models, and behavioral analysis, enabling the identification and prevention of suspicious transactions.

However, there is a cost associated with developing and implementing such tools. Historically, many merchants across Latin America have not been willing to invest, prioritizing the ‘cost’ pillar of the Fraud Trilemma. This is the hallmark of a maturing market: cost minimization, over the maximization of value, as the prevailing lever driving supplier behavior.

“There is no such thing as 'technological lag' in Latin America. The tech stack is available, and it is the same stack as in other regions. Kushki has access to the latest technologies. Latin America's relationship with fraud is long-standing and that's where we must work.”

Giacomo Orizzonte, Infrastructure Manager at Kushki

And yet, **as the market matures**, Latin American merchants, especially mid-sized and small merchants, **understand the need for investments in technology**, both to **lower fraud** and **improve the UX**. This ensures **greater balance across the Trilemma** and **derives maximum value from merchants' online checkouts**.

There are many strategies to help **increase authorization rates and limit other types of fraud**. A highly effective one to mitigate declines involves **processing transactions locally**, leveraging a locally sponsored Merchant Identification Number (MID), which yields **substantial improvements in authorization rates** (up to 20-30 percentage points in certain cases, with impressive **cross-border conversion rates of 78% and 84%**, in Brazil and Mexico respectively)³⁶.

In addition, merchants should continue to follow good practices such as **implementing 3D Secure, CVC/CVV checks and geolocation tracking**, leveraging **fraud detection software** to detect anomalies, and analyzing user behavior to detect fraudulent activities. Merchants should also **turn to their PSP for support in the fight against fraud**.

³⁶ Google Market Finder, 2023. "Guide to Latin America payment preferences".

In the longer term, **the battle against fraud** will center around two key trends:

**1. The rise of
Generative (GenAI)**

**2. The increased adoption
of RTP systems.**

“This **artificial intelligence** craze will help the **most technologically backward** players begin to **migrate to the cloud and adopt previous-generation technologies**. This will allow them to **become cost-conscious and develop tools according to their needs and possibilities.**”

Andres Martinez, Chief Information Officer at Kushki

✚ Real-time payments and fraud

The fast expansion of Real Time Payments systems like Pix exposes them to **new types of fraud**. RTPs create new opportunities for fraud networks, offering them easier **routes to cash out the proceeds of targeted consumer attacks** and distribute funds in an almost **untraceable manner**.

The advent of faster payments has created **new avenues for authorized push payment (APP) scams**. In these scams, fraudsters **employ social engineering** to get victims to initiate payments to an account, posing as a legitimate payee. In Brazil, **reported losses to APP scams were close to \$247 million, equivalent to 1% of total Pix e-commerce volumes in 2023, rising to \$636 million by 2027³⁷**.



While an **increasing problem**, it must also be taken into context; as a **percentage of total volume**, Pix APP fraud is small compared to card fraud, which averages around **10% of total card volume globally³⁸**.

³⁷ Business Wire, 2023. “ACI Worldwide scamscope report finds APP scam losses expected to hit \$6.8 billion by 2027”.

³⁸ Nilson Report, 2022.


This can be interpreted in one of two ways: either RTP systems, which **only allow authenticated transactions** in an online banking environment (internet banking or mobile), **are more secure than card transactions**, or there is **ample runway for RTP fraud to grow** as its use becomes more mature and pervasive.

“Concerning RTP systems, **as they consolidate in online commerce**, we will see **what forms fraud takes in each country**. Only then will we understand **how to act and with which tools**.”

Andres Martinez, Chief Information Officer at Kushki

✚ Generative AI and fraud prevention

In 2023, **the focus of the technological world turned to GenAI**, a revolutionary branch of **Artificial Intelligence (AI)** with creative capabilities, developed through training on unlabeled data. When it comes to security, **GenAI will have a two-fold impact, both positive and negative**. First, GenAI introduces concerns about potential misuse by fraudsters, such as creating deceptive videos and spoofing voices. The technology is **likely to help criminals improve how attacks are carried out**.




“Fraud systems analyze diverse data points and identify and analyze patterns. GenAI will make this process more difficult because it allows attackers to generate new attack patterns that bypass current manual and ML generated protections.”

Andres Martinez, Chief Information Officer at Kushki

On the other hand, globally, **GenAI also offers opportunities to fortify fraud prevention.** As per McKinsey, initial assessments indicate that GenAI could **improve fraud detection productivity by 30% to 50%**, streamlining manual tasks and expediting various processes³⁹. **GenAI stands to augment existing AI-based risk** management initiatives by integrating a more extensive and diverse dataset into **fraud prevention measures.**

³⁹ McKinsey, 2023. “On the cusp of the next payments era: future opportunities for banks”.



Its capacity to **analyze unstructured data** could refine detection rules, identify high-priority incidents, and boost efficiency for **human analysts** by presenting pertinent information and checklists, in addition to **recommending optimal actions during investigations**.

To provide an example, in October 2023, **Featurespace**, a company that develops software to combat fraud and financial crime, launched **TallierLTM⁴⁰**, the world's first generative Large Transaction Model for **fraud detection**. Pre-trained across markets and segments, TallierLTM employs a **self-supervised** approach to **represent real-world consumer transactions**.

By analyzing **numerous transactions**, the tool **uncovers hidden patterns**, providing insights into future consumer transactions based on time sequencing, including **unusual spending patterns and behavioral dynamics** between consumers and merchants. **Featurespace has opened a waiting list** for companies looking to be early adopters.

⁴⁰ The Paypers, 2023. “Featurespace launches TallierLTM”.

In conclusion, in LATAM quest for payment security, the 'fraud trilemma' encapsulates the delicate balance of low fraud rates, user-friendly experiences, and cost-effectiveness.

Short-term strategies focus on local processing and robust security measures, while the region's enduring battle against fraud pivots towards advanced technologies and customer education.

GenAI, with its dual impact, promises to revolutionize fraud detection, presenting both challenges and opportunities, marking a transformative chapter in the pursuit of secure and seamless transactions.



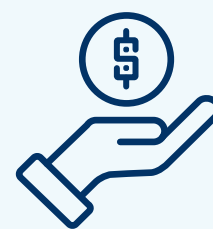
The rise of GenAI in transforming the payments landscape

Globally, GenAI will have an important role to play in all aspects of payments, not just security. GenAI is poised to assist with sales and marketing as well as yield cost reductions and automate tasks across the value chain.



Opportunities in sales and marketing

- Hyper-personalized campaigns.
- Marketing material generation.
- Payment mix recommendations.
- Sales support.



Opportunities in cost savings

- Product/code development.
- Documentation.
- Chatbots.
- Report and insight generation.
- Meeting assistants.

Source: Payments and Commerce Market Intelligence, 2023.

Latin America faces a series of challenges related to infrastructure, technology, data engineering, and a shortage of talent that may momentarily impede the widespread adoption of Gen AI in the payments and retail sectors.

In particular, there is a **lack of GenAI models based on Latin American datasets**. There is an overall need to **train AI tools** to predict outcomes realistic to Latin American realities.

Globally, Mastercard is tackling the **lack of data to generate varied "synthetic data"** for training machine learning tools. A report by Gartner predicts that by **2024 60% of data for AI will be synthetic to simulate reality and future scenarios, up from 1% in 2021**⁴¹. To the extent that this is done specifically for a Latin American context, **these tools will be increasingly relevant and practical in the region**, from preventing fraud to determining the next best action in **marketing efforts**.

⁴¹ Gartner, 2023. "Gartner identifies top trends shaping the future of data science and machine learning".

“With GenAI we could **take international risk and fraud models**, give them instructions on **how fraud occurs in a country and statistics to go along with it**, and GenAI **prepares scenarios** for us to test these models. This would be **'synthetic data'**”

Giacomo Orizzonte, Infrastructure Manager at Kushki

Marketing and sales teams at retail and financial services companies stand to **harness the capabilities of GenAI in multiple avenues**.

The amalgamation of diverse strands of structured and unstructured customer data through GenAI yields insights into a customer's inclination for new products and upgrades. A prime example in the region is Nubank which is deploying a GenAI solution that will focus on presenting personalized possibilities related to credit granting within the Nubank ecosystem and portfolio to users⁴².

⁴² Nubank, 2023. "Nubank begins testing with Generative Artificial Intelligence to enhance customers experience with credit".




Outside of LatAm, use cases are diverse. Mastercard launched Shopping Muse, a GenAI tool that translates colloquial language into tailored product recommendations. Klarna, the Swedish BNPL player, uses ChatGPT to curate product recommendations for consumers who ask the platform for advice on shopping. The Commonwealth Bank of Australia is examining how it can use GenAI to create "digital consumers" to test new products.

Additionally, the technology proves valuable in the realm of **multimedia content generation**, particularly in prospect profiling. These tools leverage both public and internal information to **identify and prioritize customers and targets for outreach**, enhancing the effectiveness of marketing endeavors. GenAI chatbots have already been deployed to support human customer service agents, with the potential to **advise customers on basic queries directly**. Again, to be applicable to Latin America, more focus on **Latin American consumer behavior** is needed.

“GenAI has **a very quick, short-term application which is content generation and personalization of offers**. Something that is not mentioned too much is that AI models should be **trained with data generated by consumers in Latin America**.”

Andres Martinez, Chief Information Officer at Kushki

GenAI also **contributes to the efficiency of routine tasks** in payment workflows, **spanning regulatory checks** for cross-border payments, **analysis of trade-finance contract terms**, and the **alignment of invoices with purchase orders**.




Its utility extends to more complex workflows, such as **optimizing the efficiency** of merchant onboarding through automated **analysis of application documents**. Where necessary, **GenAI can signal merchants for human review**. Envisioned widespread integration of those applications also extends into the realm of retail payments, where banks and PSPs **can harness this technology for post-sale customer care within card and digital wallet businesses**. According to a BCG report, integrating GenAI into product development within the payments sector **has the potential to elevate productivity across various stages by over 20%**⁴³.

⁴³ BCG, 2023. “Investor scrutiny provokes a moment of truth”.

GenAI is still in its early days, especially in Latin America, with most companies in the region still in the **experimental phase**. Greater corporate know-how, data engineering, and models using local data are required to help GenAI become applicable to local companies and scale over time. However, the most innovative players have already found active use **cases and are leveraging the technology to their advantage**. In the midterm, the smart application of GenAI will be a critical **competitive advantage** that will help **accelerate the region even further**.

Next Steps

To recap, the commerce and payment landscape in Latin America **looks set for even more innovation and diversification**. **Real-time payment systems** are enjoying success and governments across the region are **pursuing this technology** for their populations. Consumers are becoming increasingly **accustomed to technological solutions** such as contactless payments and security authentication, and it is expected that the new technological revolution driven by Generative AI will have **a major impact on the evolution of new solutions**. Regulators are becoming **more bullish about enabling fair, low-cost cost, and efficient payment systems** and better advocates of new digital industries such as **online betting**.



The rise of e-commerce, **digital goods, online betting, and gaming, in fact,** creates new prospects for a digitized Latin America, in which no hardware is **required, payments are instant and seamless,** money flows in multiple directions, and consumers have **multiple secure, and personalized payment options.** Arriving at this idyllic scenario is still **rife with challenges,** from fraud, inexperienced consumers and merchants, still outdated acceptance infrastructure, and limited data availability. But **with technology advancing and regulators getting on board, the future is bright.**

For international merchants eyeing the opportunities in this dynamic landscape, **a strategic imperative emerges: collaboration with local partners.** The region's intricacies and historical fluctuations highlight the **importance of partnering** with local experts who **understand the market's complexities.** In closing, Latin America's digital payments landscape **is a representation of the fusion of tradition and innovation,** offering a glimpse into the future of global commerce.

Embracing these trends and **forging partnerships with local experts will pave the way for success in this region of boundless opportunities.** For the next years, the synergy between global and local perspectives **will be the key to unlocking the full potential of Latin America's ever-evolving payments landscape.**




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