The Changing Face of Payments in Latin America

Mapping the Digital Revolution

Contents

Introduction

64% of payment providers anticipate payments investment is set to increase

The Latin American retail payments market is diverse and complex. Individual markets vary greatly in terms of the level of financial inclusion, the use of cash, and the development of digital payment infrastructure. The COVID-19 pandemic brings added complexities to consider: institutions are grappling with depressed profitability in light of the pandemic, while balancing the need to invest in digital payments to satisfy growing demand, partly induced by the COVID-19 pandemic.

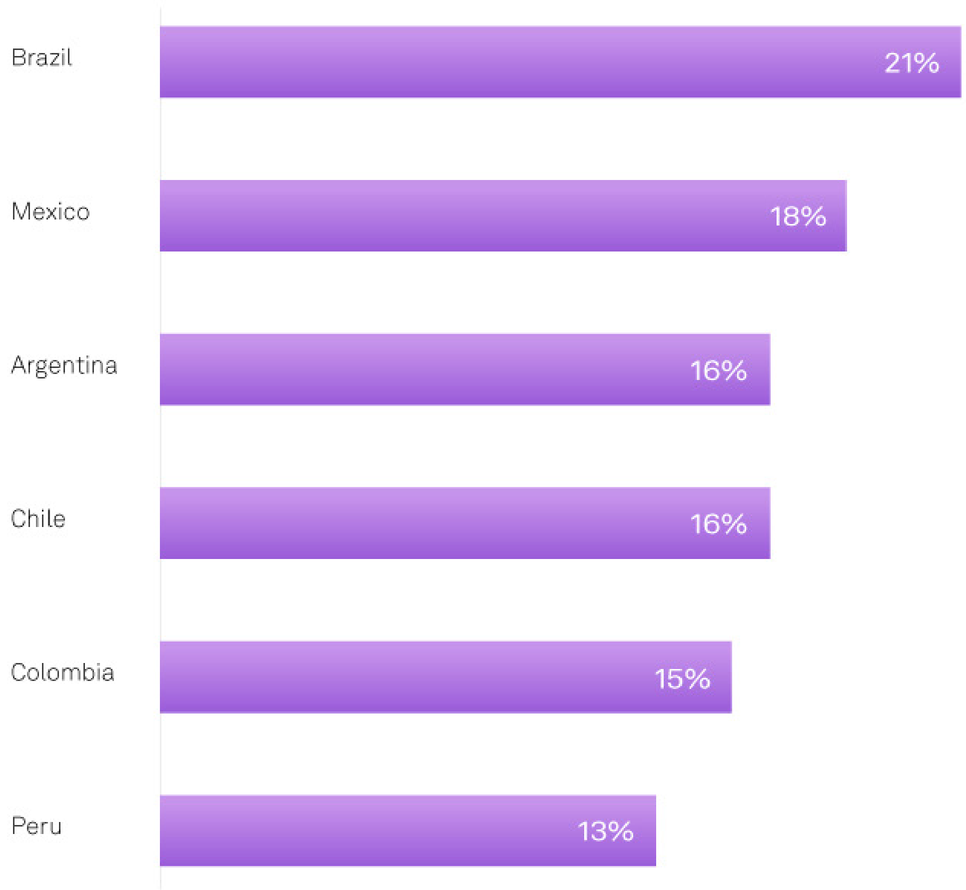
To understand the latest developments in the Latin American retail payments market and to gain insight into how organizations are responding to the challenges presented by COVID-19, technology analyst house Omdia partnered with OpenWay, a global vendor of digital payment software active in the region, to conduct the Retail Payments in Latin America survey.

Targeting mid-to-large traditional retail banks, neobanks, fintechs, and payment processors, the survey collected responses from 178 individuals across six markets (Argentina, Brazil, Chile, Colombia, Mexico, and Peru). The survey sought to capture respondents' plans, perceptions, and expectations of their payment services and how these are shaping future investment and development activity for products and technology. Respondents included payment product specialists, heads of IT and digital transformation, as well as those in a more operational role. All had a direct hand in influencing the retail payment strategy for their organization.

The findings that emerged from the survey were broadly optimistic. 64% of those surveyed expected investment in payments to increase over the next two years, with regulation and security being two of the most pressing drivers for investment. Product investment is focused on digitalizing payment card offerings, while developing or improving digital wallets is a high priority for a number of organizations. However, the market is highly competitive, with new payments products regularly being launched. The challenge for institutions is to establish a profitable product strategy that is also fit for a post-COVID world. Technology plays an intrinsic role here and it is key that the players determine what technology is needed to keep pace with the speed of change, as well as meeting the growing demand for fully digital and instant payment services.

What country are you based in?

Proportion of respondents



Which business function does your individual role primarily align to?

Proportion of respondents

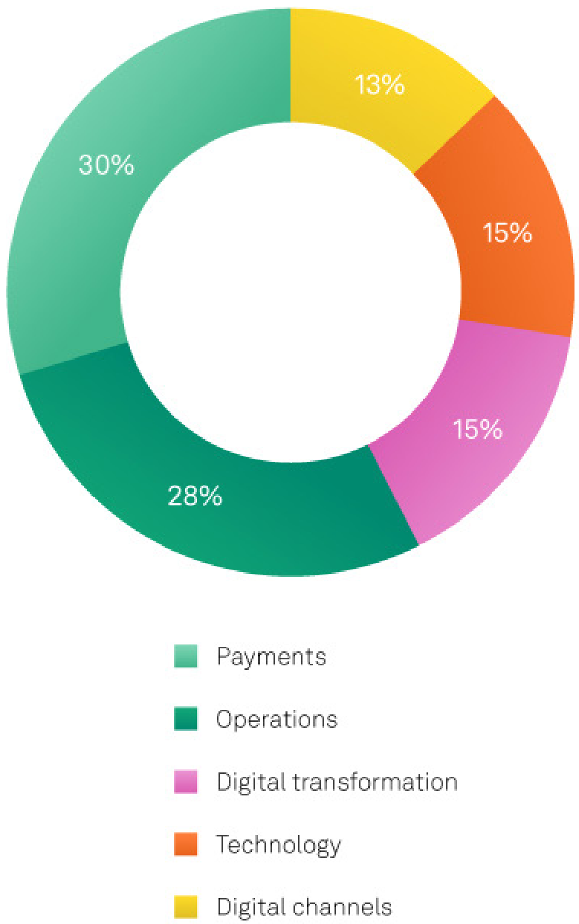


Figure 1 Survey respondents were drawn from six Latin American markets

Figure 2 Survey respondents were drawn from five business functions

Summary

The COVID-19 pandemic has presented significant challenges for Latin America's financial institutions. In spite of this, most institutions are forecasting increases in the budgets for retail payments investment over the next 18-24 months.

- *64% of institutions predict investment* in payments ***will increase*** over the next two years, a slight increase on the pre-COVID figure of 60%.
- *23% of institutions cited regulation as the number one driver for investment*, while 21% placed security and fraud first.
- *Digital wallets and card propositions were most likely to drive investment from a product perspective.* 14% selected each category as the top key investment driver.
- *For those players investing in cards, the focus is on digitalization*, with 45% stating their top priority is to invest in mobile account management.

There is significant activity in the digital wallet space. Regulation is driving development in some markets, while the COVID-19 pandemic is also an accelerant. However, institutions must consider their propositions carefully to stand out from the crowd.

- *48% of respondents* feel that the greatest opportunity in retail payments lies in ***supporting the growth of e-commerce with digital wallets***.
- *77% of respondents* agreed that ***cash would see a sustained decline*** in favor of contactless payments due to COVID-19.
- *Neobanks/fintechs are more active in the digital wallet space* than traditional retail banks. 55% of neobanks/fintechs offer digital wallets compared to 50% of traditional retail banks.

When it comes to payments technology, institutions use a mix of in-house and external software. Most are looking to digitize the customer experience and prefer to access payments technologies through the cloud.

- *Basic customer servicing is typically managed by digital processes*, while manual processes prevail for new product delivery and back-office processes. For example, 27% of new product delivery is mostly manual and in 9% of cases fully manual processes are used.
- When selecting new technology providers, ***the ability to add new services quickly is the leading requirement from institutions***, with 46% stating this was their number one priority.
- *Cloud consumption is the preferred consumption method for payment applications.* Currently, 39% of applications are consumed through public and private cloud, with a preference for private cloud.

Recommendations

All financial institutions will have their own strategic priorities, which will vary according to the needs of the specific markets in which they operate, their organizational structure, and the technology infrastructure that they already have in place. Yet there are also notable similarities between organizations. The results of this study found many recurring themes in the drivers and plans among institutions for retail payments, thus providing a number of key recommendations that players active in the market should consider as they prepare their strategies and plans.

Payment providers should review fraud detection processes, particularly for online transactions. Fraud rates, particularly online fraud, are rising and in markets such as Brazil and Mexico are considered to be among the highest in the world. High false positives are also a concern, leading to abandoned transactions and inconveniencing users. Adopting the latest security protocols (such as 3DS V2) will help to address these issues, as will introducing automated processes for fraud detection.

Those active in the merchant-acquiring space must ensure they enable customers to keep pace with the latest payment options. There are already a number of payment options unique to Latin America that those operating in the payment acceptance space must accommodate, notably PostPay products such as Boleto in Brazil. There is also an ever-increasing array of new payment options to consider, such as general-purpose digital wallets like Mercado Pago and, in some markets, government-banked digital payment initiatives on real-time infrastructure, such as CoDI in Mexico. Educating merchants on these products and providing guidance on acceptance is essential.

Providers targeting the digital wallet space should consider how their proposition can help address unmet needs in the market. The digital wallet space is wide ranging and comprises a number of sub-categories, from e-commerce wallets to stored value solutions, to promote financial inclusion. Competition is fierce across most of these types of digital wallet, with a number of players seeking to establish their offering. However, not all of these digital wallets will survive independently. Those launching wallets need to ensure their offering truly addresses a market need, while time to market and product flexibility will be key to fending off the competition.

Payment institutions should assess whether efficiencies can be achieved through consolidation of payment systems. Players typically use a combination of in-house and external payments software, along with some outsourcing to third-party processors. This multitude of approaches can lead to inefficiencies, which can be addressed by rationalization.

Retail payments are a critical area for investment

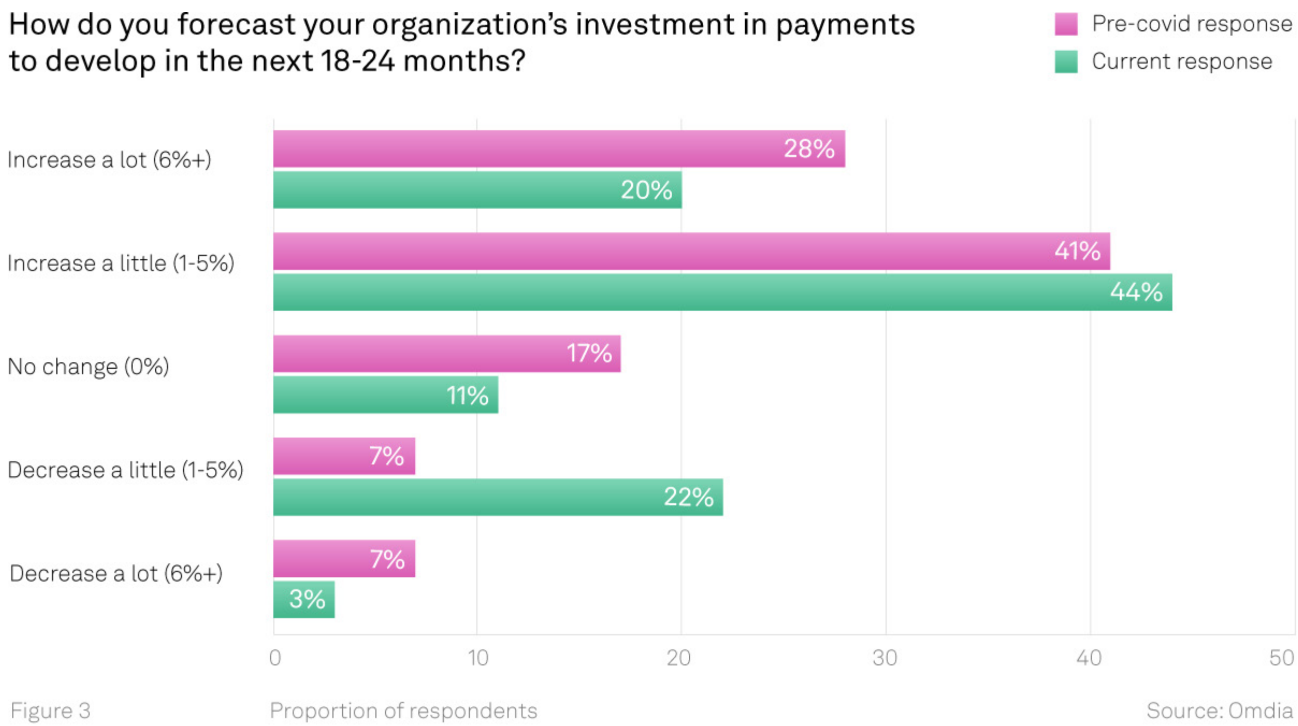


Figure 3

Source: Omdia

Despite COVID-19, investment in retail payments continues to increase

As has been the case for many aspects of life in 2020, the COVID-19 pandemic has brought significant challenges to the Latin American banking sector. Institutions have been wrestling with rising delinquencies on business and consumer loans, while fee and interest income has been severely depressed. Thankfully, banks in the region generally enjoy strong liquidity and healthy margins, thus providing a buffer in times of instability. Moreover, in most markets, government and central bank support for financial institutions is helping to mitigate the impact of the pandemic. Nonetheless, there is no escaping the fact that financial institutions' profitability will be reduced in 2020 and going into 2021. Accordingly, technology spending will also be impacted, as banks introduce cost-control measures to conserve capital, manage liquidity, and limit damage to profitability.

Given this context, it is striking to see that the proportion of Latin American banks and providers anticipating an increase in payments investment has risen slightly since the COVID-19 pandemic ***(see Figure 3)***. 64% of surveyed institutions currently believe that spending in payments will increase, while 60% would have stated this was the case pre-COVID-19. Brazilian institutions were most likely to predict increases, with 84% forecasting a rise, while Argentinian banks were least likely to, with only 41% predicting increases.

In part, this finding is a reflection of the existing importance of retail payments within institutions' strategic priorities; indeed, since the global financial crisis of 2008, most institutions have been seeking to contain their cost base but payments have typically been protected. Yet the rise in spending also reflects that the pandemic itself is acting as a driver for electronic payments, both in person and online, and this is prompting providers to invest.

That is not to say that the pandemic has not changed investment patterns at all. Notably, large increases (6%+) in budget have been scaled back since the pandemic, with only 20% of respondents anticipating rises of this level, compared to 27% pre-pandemic. Similarly, just 3% of respondents anticipated large decreases (-6% or more) in responses pre-pandemic, but this has since risen to 6% of respondents since the COVID-19 pandemic.

Regulation and security are key drivers for investment

When examining the drivers behind the increases in investment, the two clear immediate priorities are regulation and security. 23% of banks and fintechs stated that regulation and compliance was the number one driver for increased spending, while 21% stated this was the case for security and fraud, as shown in ***Figure 4***.

The regulatory impetus is particularly strong among Argentinian providers, where 29% ranked regulation as the top driver for spending. Since the new federal administration was sworn in in December 2019, there has been a change in regulatory stance from the Argentine Central Bank, particularly in the fintech space. Most notably, the central bank issued *Communiqué A 6859* in January 2020, which introduced regulation of payment service providers (PSPs) for the first time and has brought a number of compliance obligations to that sector of the payments market. As an example, customer funds credited to PSPs must at all times be available upon demand from the customer, meaning that the systems used by PSPs must be able to identify and extract customer funds.

Turning to security and fraud, Chilean providers were most likely to cite this as a driver of spending. A new *card fraud bill* was introduced in the country in June 2020, which increases the accountability of banks relating to card fraud claims; for instance, by obliging banks to refund victims of fraud within five business days of a claim.

However, across the region in general, payment fraud is a significant challenge, with rates in markets such as Brazil and Mexico considered to be among the highest in the world. Mirroring an international trend, there has been substantial growth in online fraud, which now outpaces offline fraud. *Data* from Mexican financial watchdog, Condusef, shows that complaints about online payments fraud have risen from 790,936 in 2015 to 5.9 million in 2019 and proportionally now account for 65% of total complaints compared to just 20% in 2015. A high rate of false positives is also an issue in places, resulting in abandoned transactions and frustrated cardholders.

The implementation of security protocol 3DS V2 is likely to play a key role in reducing online fraud, as well as reducing the rate of false positives. The liability shift for Latin America took place in 2019 for both Visa and Mastercard but Brazil is the only market in the region where adoption has been mandated, with 3DS V2 required for debit cards from mid-2019.

There are also local initiatives to encourage secure e-commerce, such as the online authentication portal WebPay in Chile, developed by local, monopoly processor, Transbank. While in Colombia, the banking sector and ACH Colombia have created digital payments platform PSE, commonly referred to as “el botón PSE,” which allows businesses and consumers to pay for goods online by authorizing payments direct from their bank account.

Digital wallets are driving product spending, but cards remain critical

While regulation and security are the immediate drivers for increases in payments investment, *Figure 4* also shows that product developments are the next priorities for banks. Digital wallets feature particularly highly, with 14% of respondents ranking wallets as the number one driver for spending and 22% placing them as the second ranked driver. As will be explored in the following chapter, there is significant activity in the digital wallet space, with a number of propositions already in the market and many more emerging.

Improving core card propositions is also a key area for development, particularly among traditional banks. Indeed, while much airtime is given to new payment methods, traditional card products form the bedrock of traditional

What is driving the additional investments in retail payments?

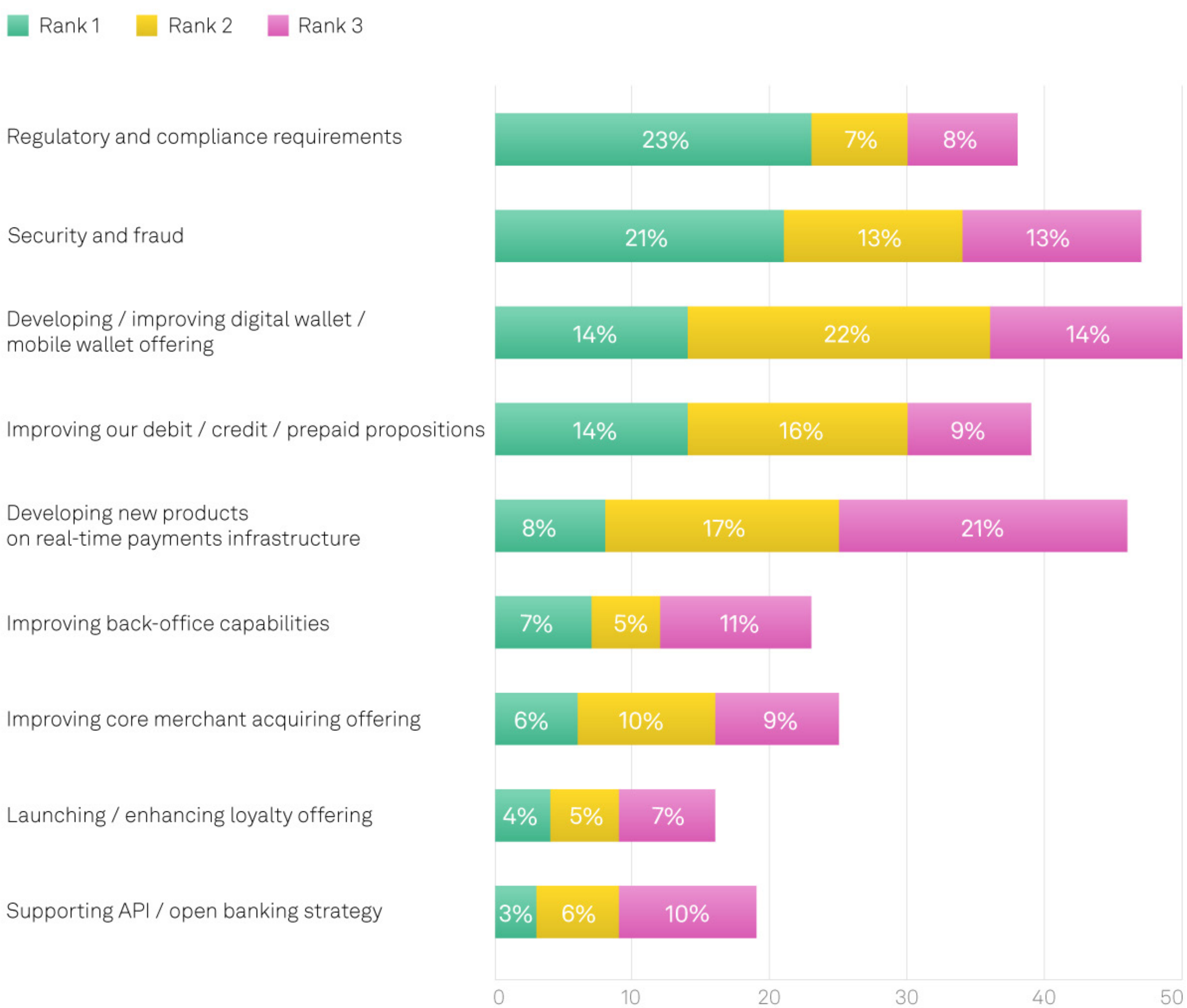


Figure 4 — Proportion of retail banks, neobanks / fintechs — Source: Omdia

players' payment portfolios. For those providers looking to invest in their card propositions, the focus is overwhelmingly on digitizing product management, with 45% ranking mobile account management as their number one investment area (as their number one investment area *(see Figure 5)*.

The acceptance of new payment products is also key from a merchant perspective

Turning to the merchant-acquiring side of the business, there are three standout areas that are in demand among merchants, namely accepting new payment products, point-of-sale (POS) acquiring services, and payment gateways *(see Figure 6)*. Core services such as POS acquiring and payment gateways typically attract the most demand as increasing numbers of merchants seek to accept electronic payments and/or move online. This demand is likely to be even more heightened given the push toward electronic payments since the COVID-19 crisis.

Merchants also want to keep pace with the various payment methods coming into the market. Besides payment cards, there are a number of payment options unique to Latin American markets, notably the PostPay

Thinking about credit / debit / prepaid cards specifically, what are you highest product developments in this space?

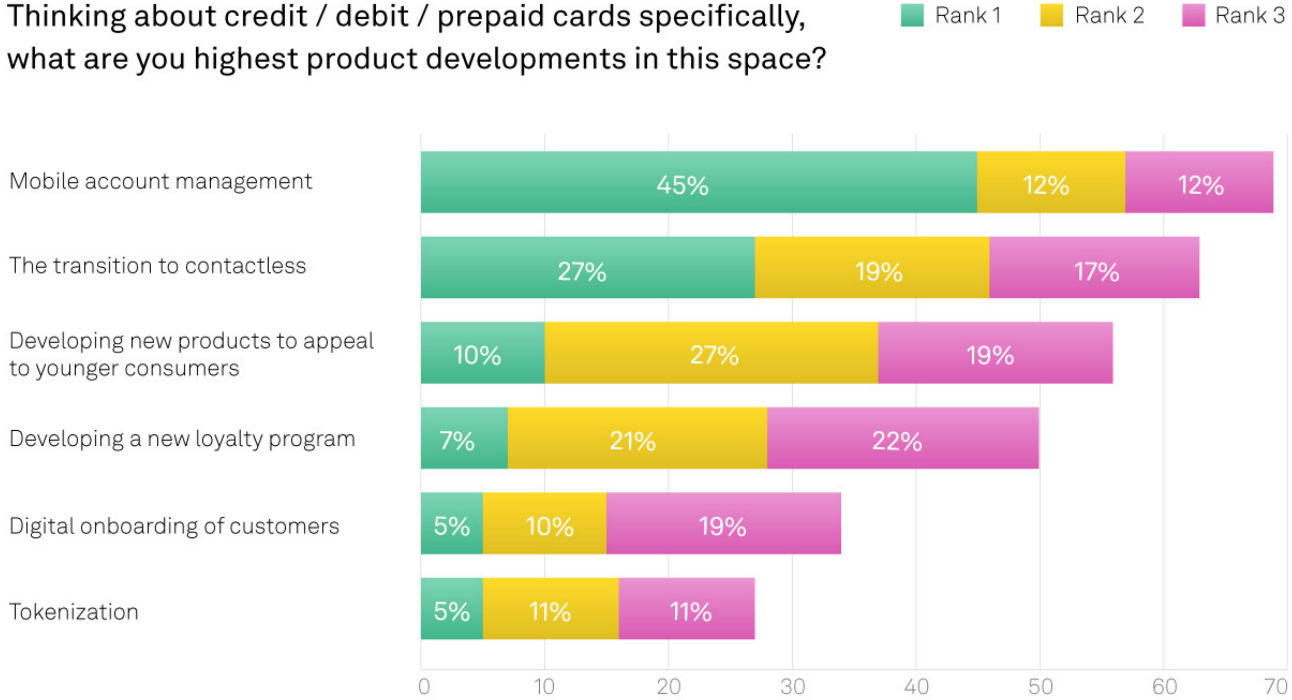


Figure 5 Proportion of retail banks, neobanks / fintechs Source: Omdia

installment products, such as Boleto in Brazil and PagoEfectivo in Peru, which enable users to order items online but pay offline in cash installments. Accommodating these payment options is essential.

And as the next chapter explores, there is an ever-increasing array of digital wallets coming onto the market from both banks and fintechs. There are also national government-led developments taking advantage of real-time payments infrastructure to create new digital payment options. These include Mexico's CoDI initiative, which was launched in 2019 and offers QR-code-enabled payments between individuals and to businesses in real-time. Brazil is also planning to launch its real-time payments offering, PIX, by the end of 2020; all banks with more than 500,000 active user accounts are required to join.

Thinking of your merchant clients, which of the following services are most in demand?

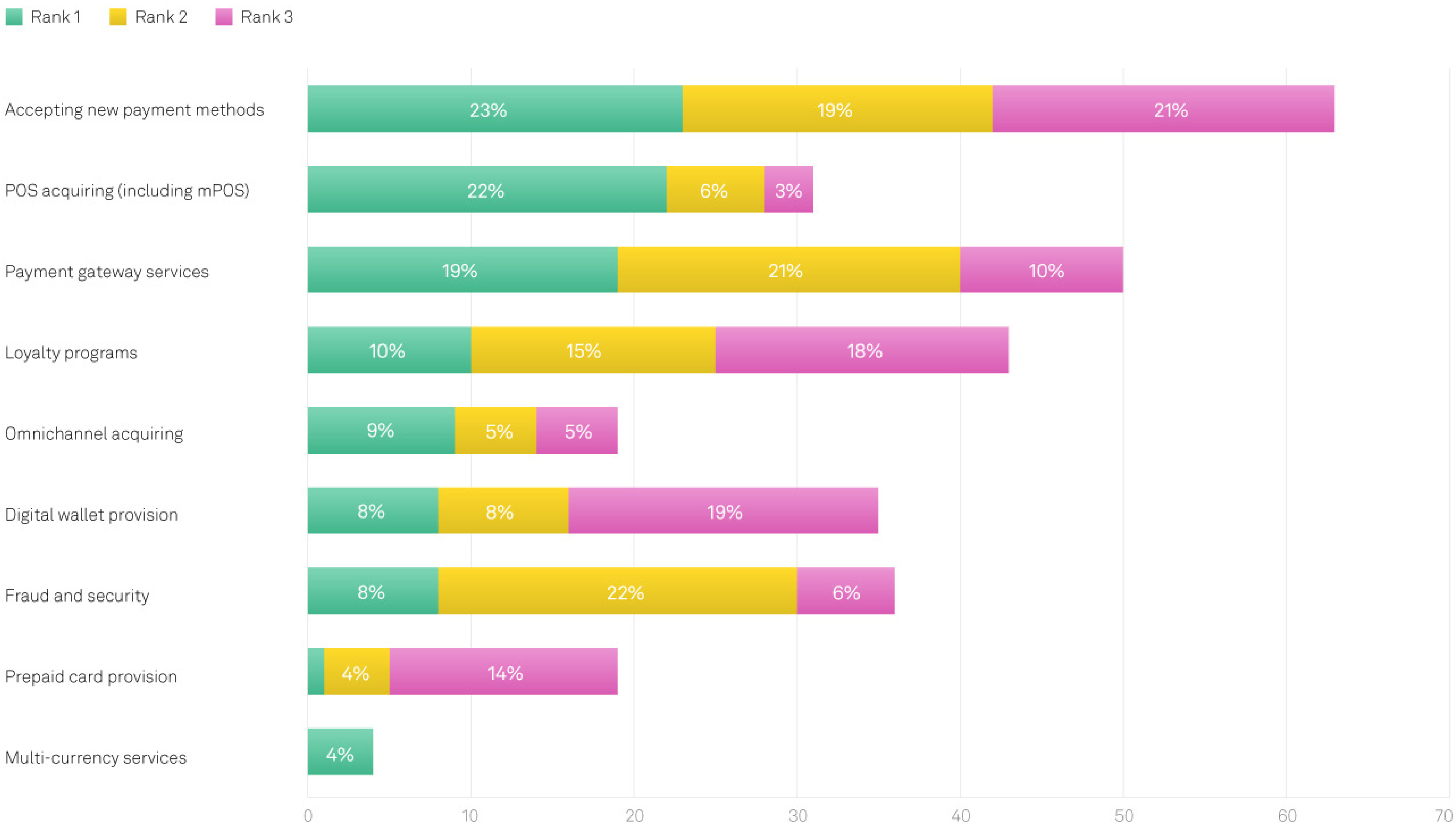


Figure 6 Proportion of retail banks, neobanks and fintechs offering merchant services Source: Omdia

Digital wallets are hot but competition is fierce

Market players consistently identify digital wallets as the leading opportunity

As the previous chapter established, digital wallets are one of the key drivers for investment in retail payments in Latin America. The importance of digital wallets is further demonstrated by the fact that most institutions consider that the greatest opportunities in retail payments lie in supporting the growth in e-commerce with digital wallets. According to the survey data, 48% of respondents ranked digital wallets as the number one opportunity, making it a clear front runner over the next highest-ranked market opportunity of using payments to improve financial inclusion, which just 15% ranked first *(see Figure 7)*.

There are certainly a number of examples of e-commerce wallets active in the Latin American market. Besides global names such as PayPal and Visa Checkout, there are also regional players such as the Argentinian

Where does your organization see the greates opportunities in the retail payments market?

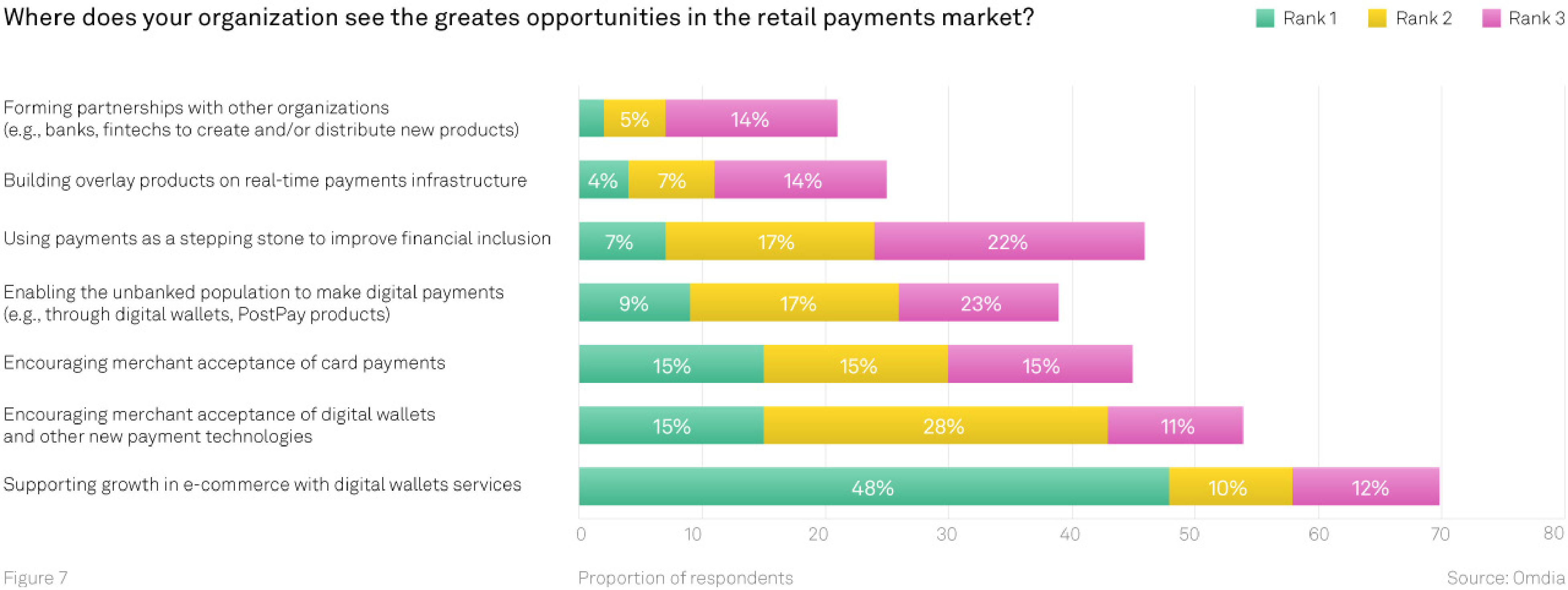


Figure 7

Source: Omdia

success story Mercado Pago. Mercado Pago was originally designed to facilitate transactions on MercadoLibre's e-commerce platform, but it has since evolved to become a widely accepted payment option across a number of markets, including Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela.

Regulation is a key driver for the move to digital wallets

However, digital wallets are not only limited to e-commerce. Other key applications include contactless wallets linked to payment cards for physical purchases, such as Apple Pay and Samsung Pay, and stored value wallets, often used to encourage financial inclusion.

Financial inclusion is a critical consideration when examining Latin American markets. In many countries a significant proportion of the population is often unbanked, though the percentages vary considerably by country. According to the *World Bank's Findex Report* from 2017, of the markets examined here, Chile has the highest banked population with 74% of those aged 15 and above having an account with a financial institution, while in Mexico this figure drops to 35%. Unsurprisingly, given the high level of unbanked persons, cash usage remains high and is still considered king in most markets when it comes to making purchases.

In some markets, regulation has been introduced to address financial inclusion through mobile technology. For example, *Colombia's Financial Inclusion Law* (Law 1735) from October 2014 created a new category of financial institution known as "Sociedades Especializadas en Depositos y Pagos Electronicos" (SEDPEs). SEDPEs operate under a simplified licensing regime and can offer electronic deposits and digital payment services. Accordingly, a raft of new players has entered the market, one of the most successful being the very first SEDPE, Movii, which facilitates online payments and P2P transfers, and now numbers 1.1 million users.

In a similar vein, Peru's mobile wallet system, BIM, was created to improve financial inclusion among the unbanked. It is operated by Peruvian Digital Payments (PDP), which was established in 2015 by the Peruvian government, financial institutions, and telcos and BIM forms part of the Peru Model for the Unbanked initiative led by PDP. By early 2020, it counted 829,000 users and 100,000 outlets across the country, which accepted contactless payments using BIM.

COVID-19 is an accelerant for digital wallet usage

The COVID-19 pandemic is also playing a significant part in encouraging the use of digital wallets. The pandemic has seen a push toward electronic payments in general, as merchants and consumers seek to handle cash less. Indeed, 77% of those surveyed agreed that cash would see a sustained decline in favor of contactless payments. Furthermore, 83% agree that mobile wallet usage would increase at the expense of payment cards.

Digital wallets have also proven to be a useful tool for governments to dispense COVID-19 welfare payments. For example, in Sao Paolo, Brazil, a food subsidy scheme, "Merenda em Casa" was facilitated by digital wallet PicPay. Consequently, some wallets have reported strong growth in user numbers. A case in point is Colombia's Movii, which has seen users increase from 300,000 at the start of 2020 to 1.1 million; at least 200,000 users receive welfare payments through the app.

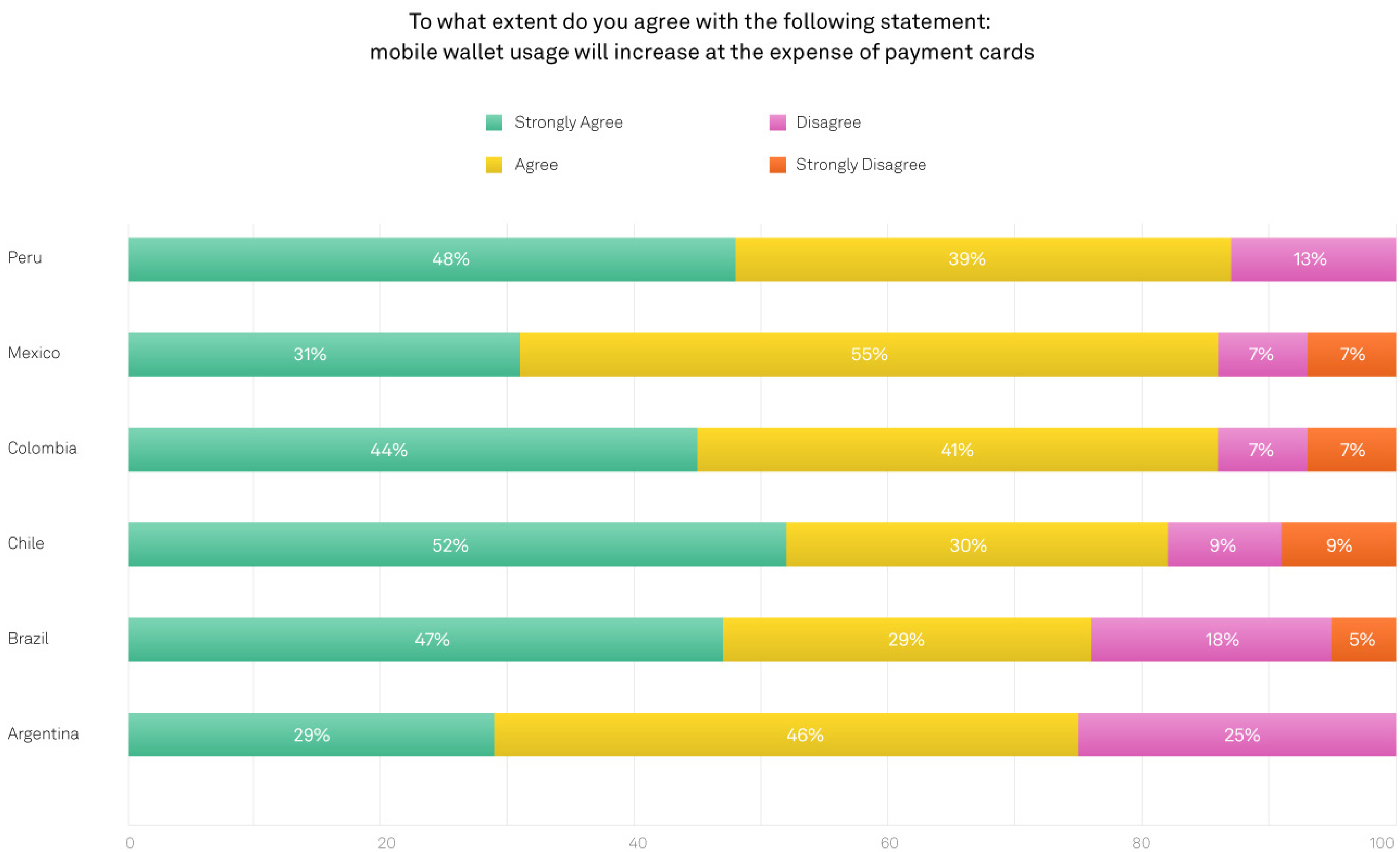


Figure 8 Proportion of respondents Source: Omdia

Traditional banks need to determine their role in the digital wallet landscape

There is undoubtedly considerable activity in the Latin American digital wallet space, with a number of providers targeting the different sub-sectors from e-commerce wallets to serving the unbanked, and those providing contactless wallets for physical payments. In addition to the numerous general-purpose offerings, there are also a number of closed-loop retailer digital wallets, such as Mexican retailer OXXO with OXXO Pay wallet, further augmenting the array of payment options.

The challenge for all providers therefore is how to build and maintain market share, for in such a fragmented market not all competitors will be able to survive. The challenge will be felt by all, but is particularly pressing for traditional banks, which are less active in digital wallets than neobanks and fintechs, with survey data showing that 55% of neobanks/fintechs have a digital wallet offering compared to 50% of banks. Moreover, the more prominent names active in the digital wallet space, such as Mercado Pago and Movii, tend not to be banks. Given this context, it is not surprising to learn that traditional retail banks are most concerned about competition from neobanks/fintechs. For example, 63% of traditional banks stated that they were very or somewhat concerned about competition from fintech companies, while 53% stated other traditional banks were of equivalent concern.

This is not to say there is no bank activity. BBVA Wallet is a long-standing example of a traditional bank wallet offering, while in September 2020 Brazil's *Banco Bradesco* announced the launch of subsidiary BITZ to provide the unbanked with digital payments. Nonetheless, competition is fierce, which means that time to market is key.

Product flexibility and the ability to cater to undeveloped market segments is also critical. Many of the digital wallets on the market are similar to other competitive offerings and could do more to differentiate or target new segments. For example, many digital wallets are tied to debit and credit cards, yet card-holding levels are relatively low, even among the banked population. The *World Bank's Findex data* shows, for instance, that 60% of those aged over 15 in Chile hold a debit card, although 74% of the same demographic have a bank account. In other markets, such as a Mexico, these numbers are much lower, with 25% of those aged over 15 in Mexico holding a debit card, while 35% have a bank account. Stored value wallets or ones that are linked to a bank account would be more appropriate for this segment, but most stored value propositions are developed with the unbanked in mind. Players such as Nequi in Colombia and BillMo in Mexico are seeking to target this segment but they are relative newcomers to the market.

For the areas of retail payments that your organization is active in, which do you consider to have the most potential for future growth?

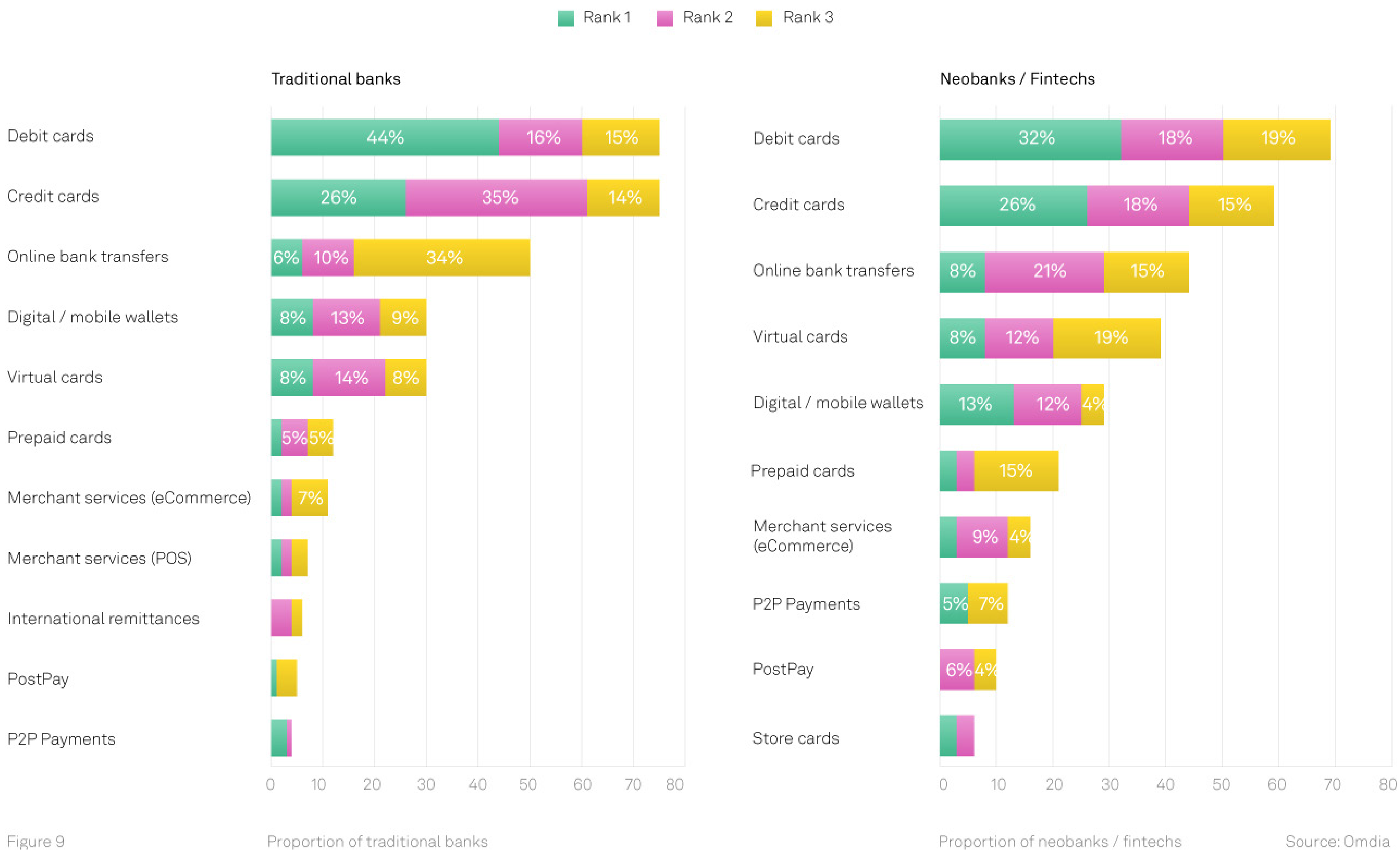


Figure 9

Source: Omdia

New technology can speed up innovation

Institutions use a mix of systems to manage payments, indicating inefficiencies

When looking at the technological approaches to managing payment operations, it is clear that a number of approaches are used. As *Figure 10* shows, organizations predominantly use a combination of in-house and external software, with some outsourcing to third-party processors.

Outsourcing is most prevalent for card-issuing services, where 33% of providers stated that they used a third-party processor, a percentage that rose as high as 41% in Peru.

Thinking about your organization's current payments' infrastructure, can you state how it manages the following activities?

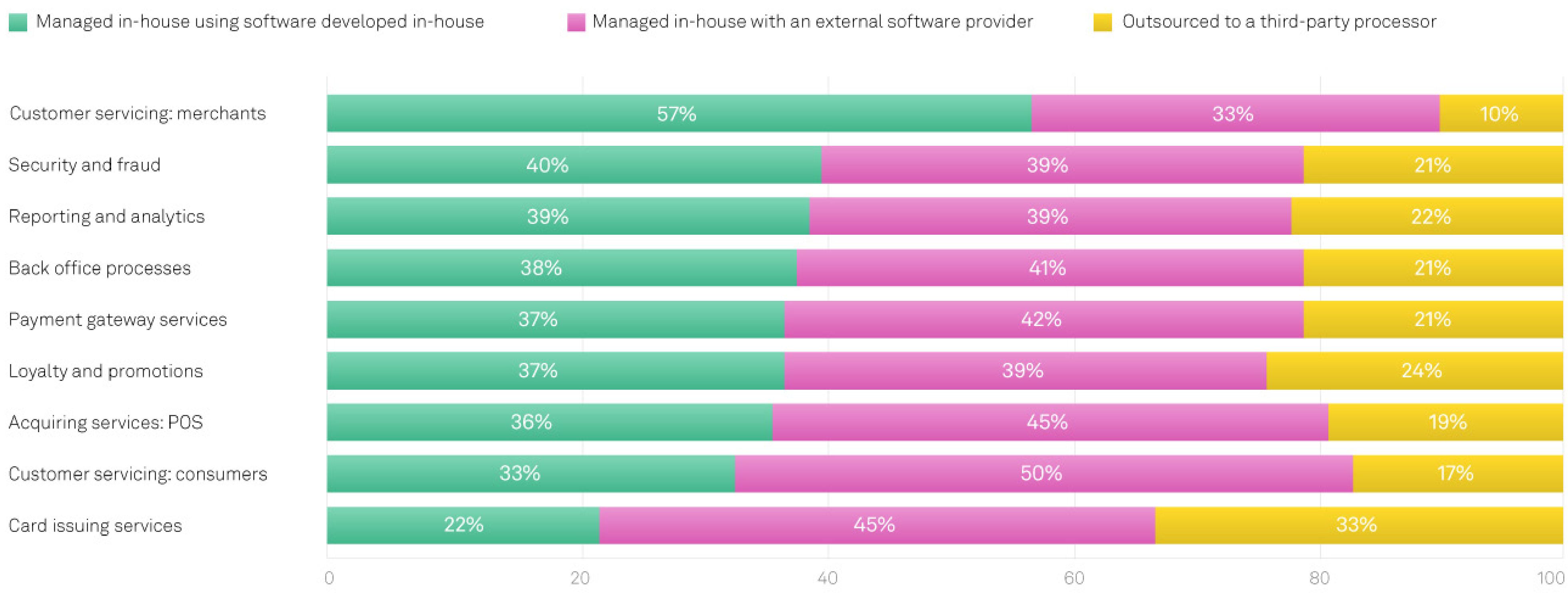


Figure 10

Proportion of respondents

Source: Omdia

Third-party processors were least likely to be used for customer servicing, whether for merchants or consumers, with institutions preferring to keep this in-house.

Comparing the use of software, external providers tend to be used more than in-house developed offerings. The clear exception to this general pattern is the servicing of merchant customers, which 57% of respondents stated was carried out using in-house products. Nonetheless, it is clear that institutions are using a variety of approaches, which can indicate operational inefficiencies, as users are forced to work across a number of systems. For example, merchant servicing is most likely to be carried out using internal software but any related back-office processes are more likely to be performed using an external software provider. Operational inefficiencies aside, it is also expensive for institutions to support multiple systems and the integrations between them; rationalization of systems and approaches would address these issues.

Institutions are seeking to digitalize customer experience and processes

Financial institutions are turning to technology to digitize the customer experience and back-office processes. By some margin, risk management and fraud prevention are most likely to be fully digital, with around 40% of respondents stating this was the case, as shown in ***Figure 11***. There is also a high degree of digitalization in customer processes such as customer onboarding and basic customer service. Notably, new product delivery had the greatest level of manual intervention, with 36% stating that the process was mostly or fully manual. As a result, it is no surprise to see new product delivery is a key consideration for institutions when selecting new technology providers.

Which of the customer-facing and back-office processes are digital in your organization?

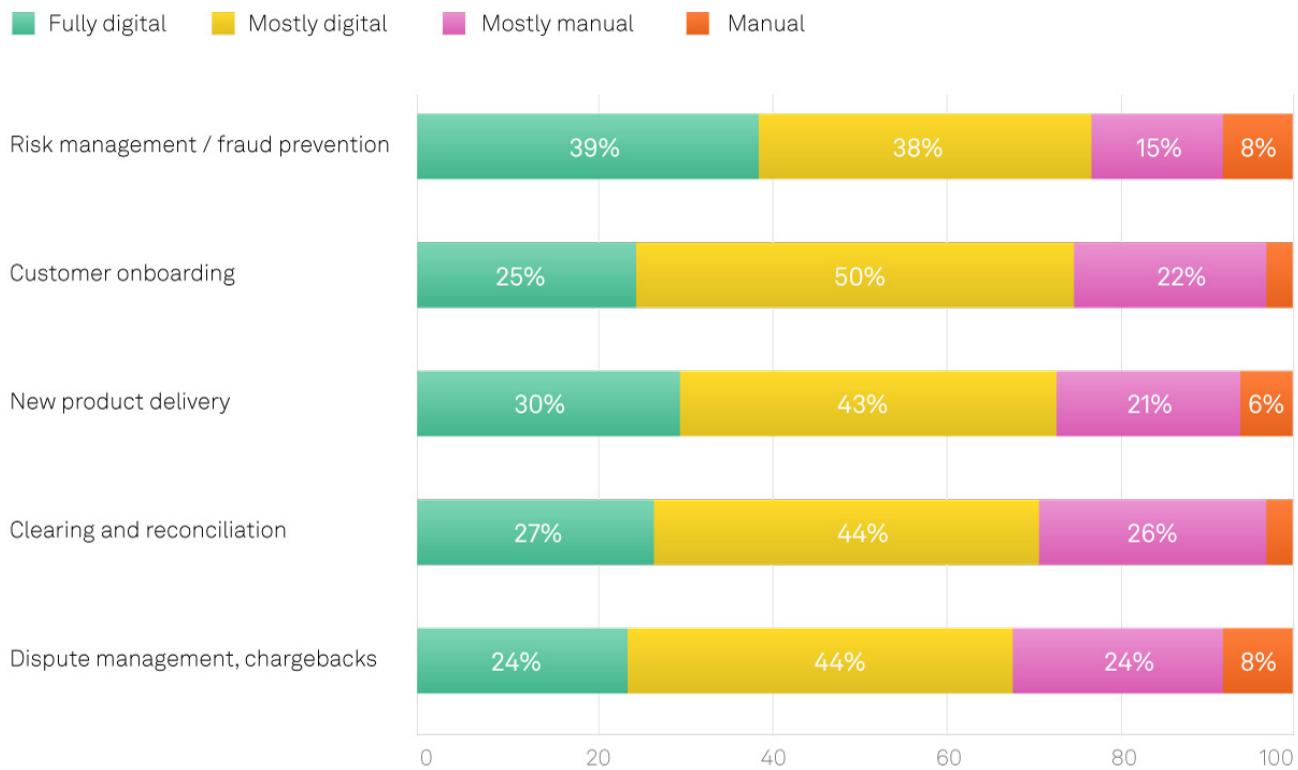


Figure 11 Proportion of traditional banks Source: Omdia

The ability to add new services quickly is a driver for investment in modern technology

When institutions are considering moving from legacy technology to a new system, there is one standout criterion that is at the forefront of the selection process: the ability to add new services quickly. 46% of respondents stated that this ability was their number one priority, as shown in *Figure 12*.

As demonstrated earlier, a number of new payments products are coming onto the Latin American market and it is key that institutions can keep pace with the competition and ensure product flexibility. While 14% of traditional banks and 15% of neobanks/fintechs state that they have the capability to launch new products in less than one month, the

What criteria are the most important when making decisions about migrating from a legacy system to a new one?

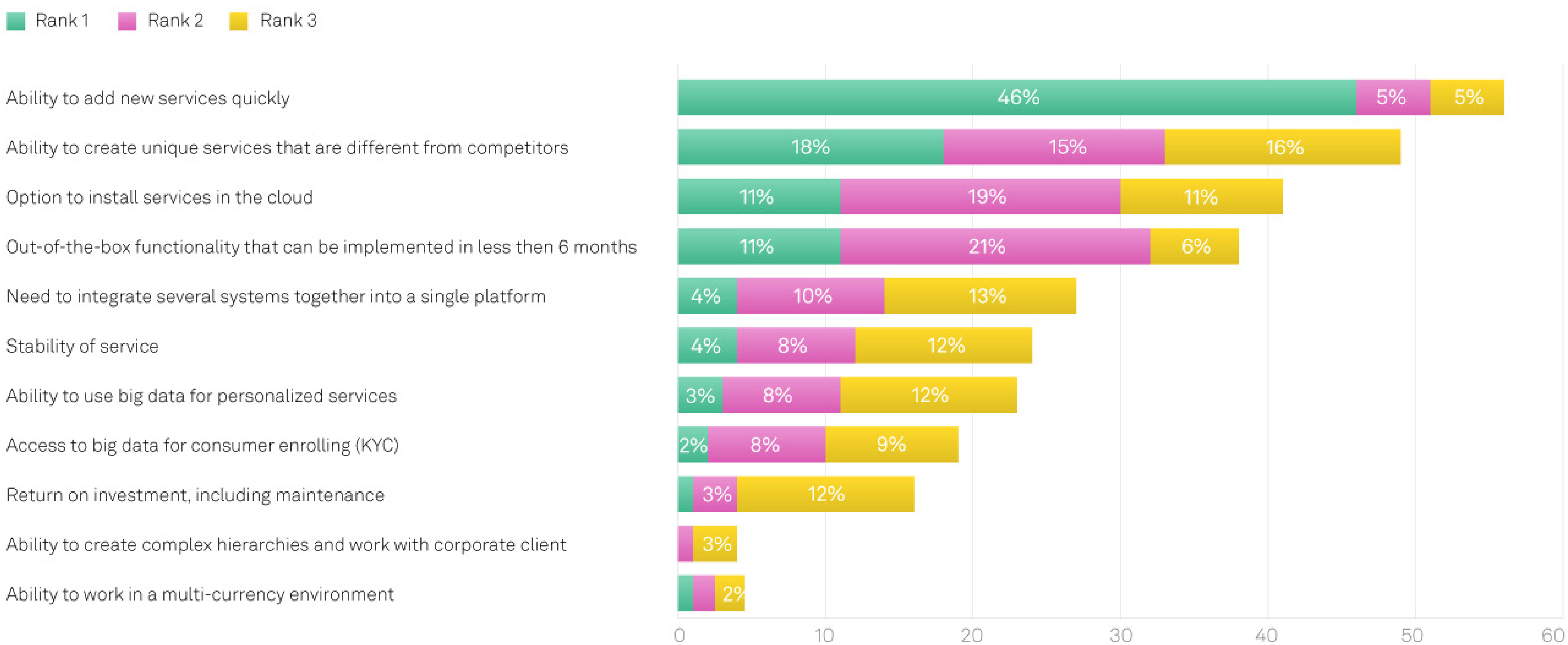


Figure 12 Proportion of respondents Source: Omdia

reality for most of the market is that it takes between one and six months to launch new products and in the case of 13% of neobanks/fintechs and 7% of traditional banks it can take even longer.

In addition to being able to add new services quickly, it is also key for payment providers to be able to create new services that are different from competitors. 18% of respondents stated this was their number one selection criteria when selecting new software, while it also scored highly as a secondary and tertiary factor *(see Figure 12)*. The relatively high level of outsourcing, particularly for card issuing services, means it can be difficult for banks to differentiate as legacy processors are not typically able to provide product flexibility.

Cloud consumption of technology is preferred, particularly private cloud

As *Figure 13* demonstrates, the ability to install services in the cloud is a notable consideration when selecting a new technology system. Certainly, cloud is the preferred consumption method of software, with 39% of respondents stating consumption of payment applications is currently through private and public cloud. Local install is also important and used in 27% of cases.

Looking ahead two years, institutions anticipate that, while local install will remain flat, the use of cloud installations will increase slightly to account for 42% of consumption. The preference is for private cloud, which is currently used in 21% of installations, a percentage that is expected to rise slightly at the expense of managed services and SaaS consumption.

The importance of cloud offerings was particularly striking among Brazilian institutions, where 87% of respondents stated they had a cloud-first strategy in place for new software procurement. Chilean providers, on the other hand, were least likely to adopt this approach with only 64% of the respondents agreeing with the same statement.

The majority of organizations also agreed that the COVID-19 pandemic is accelerating the shift to the cloud, with 78% of providers across the region stating this was the case, with that percentage rising as high as 92% for Brazilian respondents.

Thinking about your core payments technology, provide an estimate of how your payment applications break down across each of the following consumption methods, and how you expect this to look in two years' time?

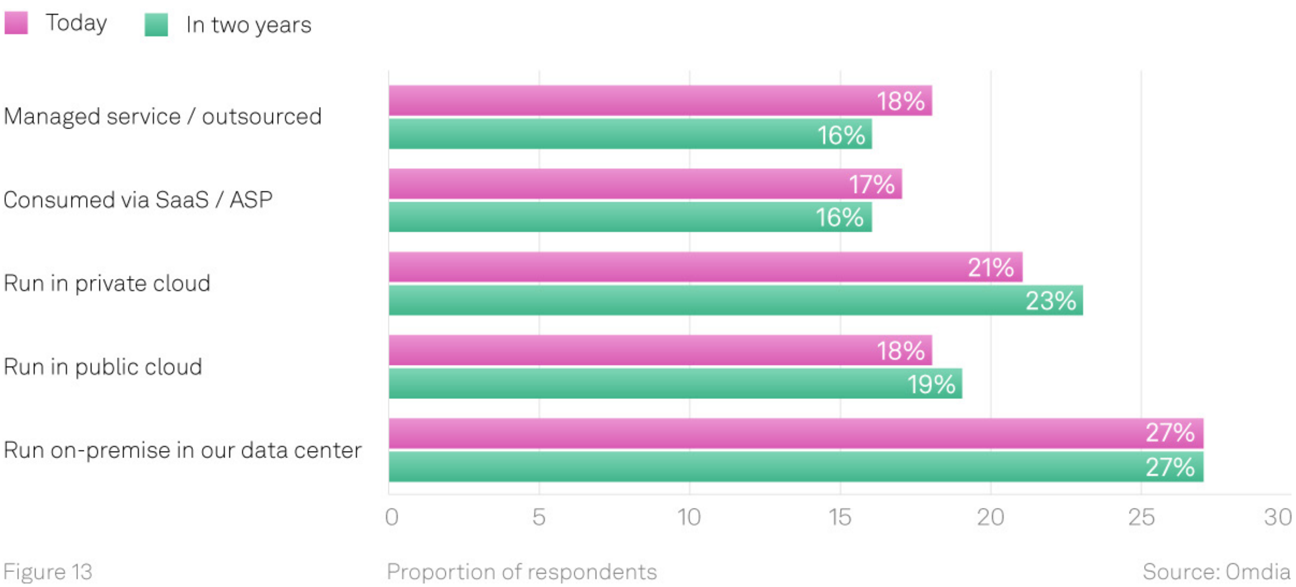


Figure 13

Source: Omdia

Country round-up

Summary tables

Table 1: Selected key data points by market, part one

Country	Banked population aged 15+	% of providers increasing payments investment	Top driver for investment	% of providers investing in debit cards, currently/ planning to
Argentina	48%	41%	Regulation, security	65% / 35%
Brazil	70%	84%	Regulation	61% / 19%
Chile	74%	57%	Regulation, security	36% / 48%
Colombia	45%	44%	Regulation	52% / 35%
Mexico	35%	58%	Digital wallets	68% / 20%
Peru	42%	78%	Regulation	82% / 14%

Table 2: Selected key data points by market, part two

Country	% of providers investing in digital wallets, currently/planning to	Digital wallets — top area for future investment	Percentage of providers stating “ability to add new services quickly” as top criteria for new payments software	% breakdown of payment application consumption — public and private
Argentina	55% / 35%	In-app purchase, preload wallet	48%	40% / 48%
Brazil	55% / 39%	P2P payments and international remittances	37%	39% / 43%
Chile	52% / 28%	Bill pay	50%	38% / 44%
Colombia	39% / 34%	International remittances	52%	41% / 49%
Mexico	48% / 48%	Bill pay	36%	38% / 43%
Peru	64% / 36%	International remittances	57%	38% / 44%

Argentina

Along with Colombian respondents, financial institutions in Argentina were less likely to predict increases in payments investment, with only 41% predicting increases over the next two years. Pre-pandemic, the response would have been more optimistic with 70% stating they would have anticipated an increase. Regulation is a particular concern in the market right now, with the new Argentine administration introducing regulation of PSPs and looking to increase regulation of fintechs. In October 2020, the central bank also announced the launch of Transferencias 3.0, which, among other things, will see the creation of a standardized payments interface (IEP) to promote interoperability between all types of accounts, whether bank or digital wallet, and will also see businesses receive payments in real time. Work on the rollout of the new system is set to begin in December 2020.

Relative to markets such as Brazil and Mexico, the fintech sector is small, but there are certain standout players such as regional e-commerce heavyweight Mercado Libre, which operates digital wallet Mercado Pago, digital wallet Ualá, which has received backing from Tencent and Softbank, and the ValePei wallet of Red Link. 55% of payment providers are current investing in digital wallets, while 35% are planning to do so, with future developments focused on in-app purchases and offering the ability to pre-load wallets.

In terms of technology, 48% ranked their number one criterion for new software selection as being the ability to add new services quickly. Cloud consumption is currently used in 40% of cases but is predicted to rise to 48% over the next two years, which, along with Colombia is the joint highest rise in cloud consumption in the markets surveyed.

Brazil

Financial institutions in Latin America's largest economy are optimistic regarding future investment in retail payments. 84% anticipate spending will increase over the coming two years, with regulation being the top driver for investment. Recent regulatory and compliance obligations include a phased rollout of open banking starting in 2020, the implementation of data protection legislation, Lei Geral de Protecão de Dados (LGDP), and a new QR-code standard for payments. Other key developments include the launch of PIX in November 2020, a QR-code-enabled digital payment system for real-time transfers and payments. There is a strong neobank and fintech community, including Latin America's largest digital bank, Nubank.

In the digital wallet space, 55% of providers are currently making investments in wallets, with a further 39% planning to do so. Those investing in the space are focusing on domestic P2P payments and international remittances.

From a technology standpoint, just 37% stated that the ability to add new services was their number one priority when selecting new payments software. With the exception of Mexico, this is lower than in the other markets. The option to install services in the cloud is also placed highly, with 18% stating this was their top priority.

Chile

Of the six markets examined here, Chile has the highest banked population, with 74% of those aged 15 or over holding a bank account. 57% of those surveyed anticipated that investment in payments would increase over the next two years. The joint drivers were regulation and security, which relates to the new card fraud bill that was introduced earlier in 2020. Compared to markets such as Brazil, Colombia, and Mexico, innovation in payments is muted, while the fintech sector is small.

Examples of local payment fintechs include digital wallet, Khipu, and merchant acceptance specialist, Paygol.

From a product investment perspective, Chile is the only market of the six surveyed countries where current investment in digital wallets outpaces that of debit cards. 36% are investing in debit cards compared to 58% of those investing in digital wallets. The top area for development is bill pay services.

In terms of technology, 50% state the ability to add new services as the key driver for software selections, while for 18% the ability to differentiate offerings was the most important. At 38%, current consumption of payments technology through the cloud is comparable to markets such as Mexico and Peru. Cloud consumption is anticipated to increase to 44% over the next two years.

Colombia

Only 44% of Colombian respondents anticipate that investment in retail payments will increase over the coming two years. Notably, Colombian institutions are feeling the impact of the COVID-19 pandemic more than other markets surveyed, as 77% stated that pre-COVID they would have predicted increases in budget. Certainly, compared to the other five markets examined, Colombia's economy has a high dependency on oil and will be feeling the ramifications of the COVID-related oil price shock.

The country has used legislation to improve financial inclusion, notably through its Financial Inclusion Law, which saw a new category of financial institution created, SEDPE. The very first SEDPE, Movii, has gone on to become a major digital wallet provider. The country also has a burgeoning fintech sector, including Latin America's only fintech sandbox. Noted local payment fintechs include Nequi, DaviPlata, and RappiPay. However, of the providers surveyed, 39% are currently investing in wallets, which is the lowest percentage of all the surveyed markets. Among those that are making investments, the focus is on international remittances.

From a technology perspective, Colombian providers are the most likely to consume payments applications through the cloud, with 41% of payments technology currently consumed this way and a predicted increase of 8% over the coming two years.

Mexico

Latin America's second largest economy is considered the regional leader in terms of the development of its fintech sector. The country introduced its Fintech Law in 2017, which provided a framework for the establishment of fintech providers. As a result, Mexico has seen a number of new payments fintechs emerge, such as merchant acceptance specialist Clip, as well as foreign fintechs entering the market, such as Argentinian digital wallet Ualá. The shake-up of the market was designed to improve financial inclusion, and Mexico is the lowest of the markets examined here, with only 35% of those aged over 15 holding a bank account.

Looking to the future, 58% of Mexican institutions believe investment in payments will increase. Notably, Mexican respondents were most likely to state that digital wallets were driving investment, a finding that is most likely linked to the launch of the digital payment systems CoDI, which offers QR-code-enabled transfers and payments in real time. 48% of surveyed providers are currently making investments in digital wallets and a further 48% are planning to do so.

Considering payments technology, just 38% of Mexican respondents cited the ability to add new services as their top priority, which, with the exception of Brazil, is low compared to the rest of the surveyed markets. For a notable 30% of providers, the ability to create differentiated services was most important. As in all markets covered, cloud consumption of payments applications is anticipated to increase from the current levels of 38% of applications to 43%.

Peru

The smallest of the six economies examined in this paper, Peru nonetheless has some interesting developments relating to digital payments. Only 42% of those aged 15 or over hold a bank account, which the country has sought to address through the Peru Model for the Unbanked initiative led by PDP. One of the major developments was the launch of digital wallet, BIM, in 2015.

Financial institutions in the market are optimistic about future investment in payments, with 78% anticipating increases. Local banks have focused most recently on the digital P2P payments market, with Banco del Crédito del Perú (BCP) launching its service, Yape, in 2017, while three banks, BBVA, Interbank, and Scotiabank, collaborated to launch PLIN earlier in 2020. It is therefore no surprise to see that 64% of providers are currently investing in digital wallets — the highest percentage of all markets surveyed.

With regard to payments technology, Peruvian providers were the most likely to rate the ability to add new services quickly as their top selection criterion, with 57% ranking this first. Cloud consumption of payments applications currently stands at 38%, the same as Chile and Mexico, and is predicted to rise to 44%.

Methodology

For the 2020 Retail Payments in Latin American Survey, Omdia and OpenWay partnered to run a 30-question survey targeting traditional retail banks, neobanks, regulated payment fintechs, and payment processors.

The aim of the survey was to understand the current attitudes, business objectives, and challenges facing each respondent company, with a view to providing a picture on the role that investments in payments technology can play both now and in the future. The survey focused on the following topics:

- Historic and future investment plans for retail payments
- Core business objectives and priorities
- Product development
- Consumer payment trends
- Merchant payment acceptance needs
- Digitalization and innovation
- Payment systems infrastructure and management.

Fieldwork took place in July and August 2020, with 178 respondents surveyed across six markets, namely: Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Examples of job titles targeted for the survey include: Heads of Payments, Heads of IT, and Heads of Digital Transformation. All respondents had a direct influence in shaping the payments strategy or their business.

Respondents by country

Country	Number of respondents
Argentina	29
Brazil	38
Chile	28
Colombia	27
Mexico	33
Peru	23

Respondents by type of institution

Type of institution	Number of respondents
Traditional retail bank	108
Neobank/ regulated fintech	55
Payment processor	15

Appendix

About OpenWay Group

OpenWay Group is a global developer and vendor of Way4, a digital payment software platform covering issuing, acquiring, real-time payment hub, digital wallet, e-commerce gateway, and fleet cards. OpenWay was the highest ranked "Market Leader" in Card and Merchant Management by Gartner and Ovum, and a "Market Leader" in Digital Wallets by Ovum. It was also ranked "Best Payment Solution Provider in the Cloud" by Paytech.

Way4, OpenWay's digital payments software platform, is the choice of companies aiming for real-time payment processing, card issuing, merchant acquiring, and digital wallets.
Our clients rely on our expertise to migrate smoothly from rigid, expensive legacy systems to Way4, both on-premises and in the cloud.

Among Way4 users are Banesco, Comdata, Equity Bank Kenya, equensWorldline, Lukoil, Nets, Network International, Nexus, Sberbank, and many others across the globe.

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We create business advantage for our customers by providing actionable insight to support business planning, product development, and go-to-market initiatives.

Our unique combination of authoritative data, market analysis, and vertical industry expertise is designed to empower decision-making, helping our clients profit from new technologies and capitalize on evolving business models.

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We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Omdia's consulting team may be able to help your company identify future trends and opportunities.

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