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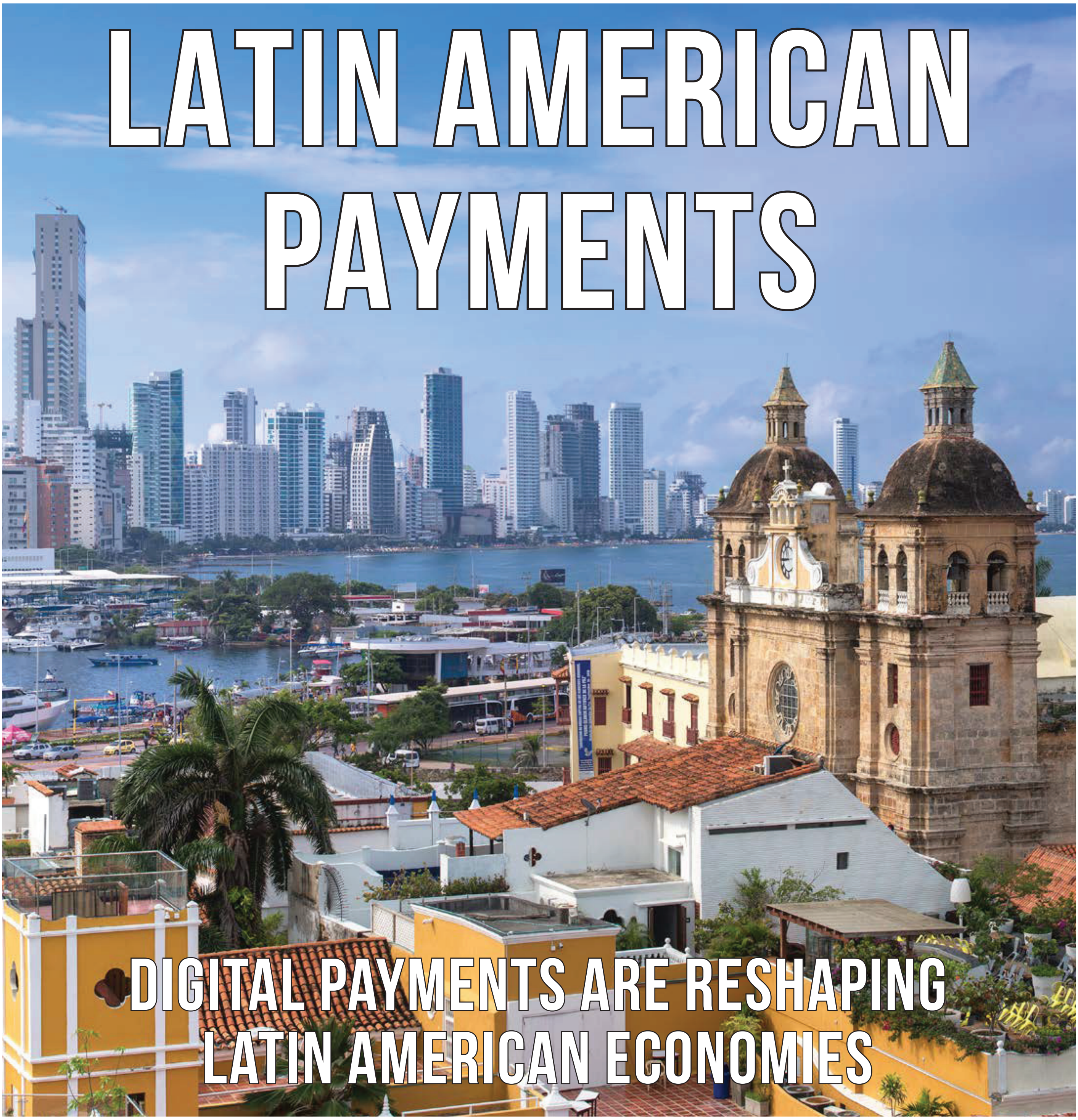

LATIN AMERICAN PAYMENTS

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FEBRUARY 2021

AUSTRALIA PAYMENTS REVIEW: BATTLE LINES DRAWN

Douglas Blakey, Editor

Australia's Payments System Board has resumed its review of the retail payments regulation in the country and its final report will make for fascinating reading.

According to the government, the review aims to ensure that the payments system remains fit for purpose and is capable of supporting continued innovation for the benefit of both businesses and consumers. And it has turned to its go-to person for such enquiries, Scott Farrell, senior partner of lawyers King & wood Mallesons.

In 2017, Farrell was appointed to lead the inquiry into Open Banking. He was also appointed by the Australian Government to lead the inquiry into the future direction of the Consumer Data Right. In addition, he is the co-chair of the Australian Government's FinTech Advisory Group.

The Australian banks can be expected to submit that the current payments system serves users and society well and that the existing system of self-regulation should continue. Moreover, banks are enthusiastic backers of fintechs and continue to invest in the payments infrastructure, so nothing to see here, move on and keep things much as they are today.

The Australian Competition and Consumer Commission will say that the current regulatory framework already allows for competition and innovation, which is in the long-term interests of both Australian consumers and businesses. The retailers via The Australian Retailers Association will argue that any review is fine by them, provided it ends up reducing the costs of payments. Consumer advocacy groups will have a different script. They will not argue for a review resulting in maintenance of the status quo.

Consumer advocacy groups BNPL concerns

They are likely to support the role of the Reserve Bank but argue for regulation along the lines of the 2010 Competition and Consumer Act. The consumer groups will argue against further self-regulation in payments. Specifically, the argument will be made that the commercial interests of industry players are inconsistent with the interests of consumers. And there will be ammunition to support its arguments from the BNPL sector.

Corporate regulator has reported that 21% of BNPL users have missed a payment. Even worse, some 15% of users have required to take out a loan to repay BNPL debts. In addition, consumer groups will point to the UK, where the BNPL sector is now to be regulated.

Mastercard will argue that the Reserve Bank focuses too much on the costs of acceptance for merchants. And it will argue that regulation is not helpful if it might damage commercial incentives, in particular for card programmes, that it considers to be working well.

McLean Roche will argue that Australian payments will see more change in the next 10 years than the last 40 years combined. Australia has an expensive legacy US/Anglo based payments system which will be challenged by new technology, new data uses, new players and the need to protect consumers. The key catalyst for change in the payments industry will come from open competition. It must be encouraged in all aspects, for consumers, businesses and institutions. Competition is the seed to foster innovation, it drives change, lowers costs and forces decision making. It is the most important spark in creating a better deal for consumers and businesses.

Yet there is less competition in the Australian payments industry than 15 years ago and this, it will argue, should be a major concern for a critical piece of national infrastructure. Australia needs to keep up and has an old payment model - new payments abound - just look at 'China Mobile'. As a result, the RBA needs to be much more proactive across many things. For example, it will suggest that the cost of debit card use remain too high in price terms for both consumers and retailers.

BNPL: excessive risks?

On BNPL, it will say that a key issue for regulators is the unregulated lending and the number of young consumers who are now having their credit ratings impacted – UBS estimates 9% or 450,000 consumers have defaulted on Afterpay loans in just three years. And it will say that a comparison of BNPL with US credit card charge-off rates clearly demonstrates the excessive risks currently being taken. The excesses of the 2010 global financial crisis charge-offs are well below current levels of bad debts by Afterpay – surely a major concern. On the other hand, the BNPL sector can be expected to argue that the Reserve Bank lose its powers to regulate payment firms unilaterally, including BNPL market entrants. They will say that the current system risks harming the competitive chances of fintech challengers. The BNPL sector is especially keen to ensure that the RBA cannot interfere in pricing regulations - Afterpay make from charging merchants and bans them from passing on the cost to users through a surcharge. ■

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NEWS DIGEST

DRIVERS CAN NOW ACTIVATE DIESEL PUMP AND PAY DIRECTLY FROM PHONE

TravelCenters of America has launched a new feature to its TruckSmart mobile app, allowing drivers to activate the diesel pumps and pay for fuel from the comfort of their cars. The new "PumpSmart" feature is designed to save professional drivers time while fuelling at TA, Petro Stopping Centre, or TA Express locations. The PumpSmart feature is available for UltraONE loyalty members paying for fuel with commercial payment cards. The app securely stores members' payment information and links to their Ul-traONE profile, automatically applying loyalty points to a driver's account after fuelling. TA plans to further enhance the PumpSmart feature and expand payment options in the next several months.

One of several recent app enhancements made by TA

This latest feature is one of several recent app enhancements made by TA, as upgrading TruckSmart is a top priority as the company continues its transformation journey. In October, TA enhanced the app so drivers can redeem loyalty points at checkout straight from their phone without having to visit the kiosk. In February, TA added enhanced shower flow and the ability to unlock the shower door from the app. In addition to the new features, drivers can use TruckSmart to reserve and pay for parking and showers and check their loyalty rewards balances and Gear level.

Focus on serving professional drivers

The app is available for free download from the Google Play or AppStore on both Apple and Android devices. Jon Pertchik, CEO of TA, said: "We're focused on enhancing the guest experience at TA and serving professional drivers in a way they want to interact with us, across every part of our business. "Investing in technology is a major part of the revamped travel centre experience and our company transformation. We look forward to growing our capabilities and focusing on convenience for all travellers who visit us." ■

Bajaj Finance to set foot in India's payments space with Bajaj Pay

Indian financial services company Bajaj Finance is entering the payments solutions business in India by preparing to launch 'Bajaj Pay' payment solution for consumers.

The financer is in the process of launching the payment service in the fourth quarter of 2021 financial year. In its investor presentation, Bajaj Finance said: "The company is in the process of launching 'Bajaj Pay for consumers' in Q4." The 'Bajaj Pay' payment service will provide customers with an integrated payment solution.

This includes the Unified Payments Interface (UPI), Prepaid Payment Instruments (PPI), EMI card and credit card. The company's push into the Indian payments space will cover 103,000 of its merchant clients and develop five exclusive apps for consumers.

In collaboration with group companies, Bajaj will offer an EMI Store, Insurance Marketplace, Investment Marketplace, BF Health, and a brokIng app.

Moreover, Bajaj Finance will also team up with an ecosystem of 25 apps that offers similar products and services to its customers.

In a regulatory filing, Bajaj Finance added: "This will broaden payment solution offering for our 103,000 merchants and enable disproportionate growth in our market share from these merchants in the medium term."

"These apps will provide adjacency to BFL's core offerings thereby increasing stickiness."

Additionally, for the next quarter, the company is developing "significantly transforming" four "productivity apps" – the Sales One app, Merchant app, Collections app and Partner app. The lender said: "These apps will significantly improve the productivity and efficiencies of our employees, channel partners and merchant ecosystem by May 2021.s "Once deployed, this will require much lower headcount addition as a proportion of growth." Bajaj Finance will compete with existing retail payment platforms like Google Pay, PhonePe, Paytm, as well as State Bank of India's (SBI's) YONO app. ■

Checkbook ties up with Plaid for instant account verification

Checkbook.io, a specialist in processing push payments, has forged a partnership with Plaid, a data transfer network that powers fintech and digital financial tools.

Under this partnership, the customers of Plaid can instantly verify their customer accounts while making payments, using Checkbook's payment rails.

The partnership offers an instant account verification (IAV) solution to businesses.

This tool allows businesses to verify and validate users' bank account information and transactions within seconds, with consumers' consent.

The solution allows users to link their accounts to digital finance tools and app.

Checkbook can provide IAV through Plaid to its clients, allowing them to connect customer accounts for making real-time payments accessible to more people.

This will help boost onboarding, KYC and help mitigate fraud, noted the company.

The accounts payable (AP) automation software provider for invoice processing Stampli is the first client to be onboarded with the IAV integration.

Stampli VP of product Shane Hamby said: "I cannot think of the last time we moved to a new payment system and were able to seamlessly integrate with the API.

"Security is paramount in our business and being able to use existing Plaid tokens was a big attraction.

"Knowing that Checkbook and Plaid's integration will tighten security makes this a no brainer for us."

Checkbook founder and CEO PJ Gupta said: "Our partnership with Plaid is a massive step in the direction of seamless customer experience for Checkbook's clients.

"Simplicity and ease of use is our biggest asset and this latest development helps our clients seamlessly get started with Checkbook." Notably, recently, Visa and Plaid terminated their $5.3bn merger agreement following a lawsuit filed by the US Department of Justice (DOJ) to scrap the deal. ■

CHINA-BASED UNIONPAY DEBUTS VIRTUAL CARDS IN VIETNAM

UnionPay International (UPI) has forged a partnership with Vietnam's Military Commercial Joint Stock Bank (Military Bank) to roll out virtual cards in the country.

UnionPay will issue 600,000 virtual cards for enabling online and QR code-based payments.

Outside of Mainland China, UnionPay has rolled out over six million virtual cards, of which more than 50% of the cards were issued in the Southeast Asia region.
Its mobile payment service is now available in ten ASEAN countries – Vietnam, Indonesia, Thailand, Malaysia, Singapore, Philippines, Cambodia, Brunei, Myanmar, and Laos.

In Vietnam, Singapore, Thailand, Malaysia, and Cambodia, 18 UnionPay-compliant e-wallets have been introduced. These wallets can be used once the UnionPay cards are linked.

In Malaysia and Singapore, six mobile wallets were introduced.
This includes Malaysia's homegrown e-wallet app 'Boost'.
Consumers can use these wallets to apply for UnionPay virtual cards.
Over 500,000 merchants in retail, F&B, public transport, and others, accept UnionPay.

They can use the mobile app of Military Bank, to apply for cards and pay with QR code at over 40,000 merchant locations in Vietnam, as well as 30 million locations globally.

In addition to the Military Bank, other Vietnamese banks including Sacombank issue UnionPay cards.
Moreover, UnionPay has also tapped commercial lender VietinBank to issue its first platinum UnionPay card in the country, for 'tap and go' payments.
In total, UnionPay acceptance footprint extends to 179 countries, of which 85 support its mobile payment service.
More than 90 UnionPay-compliant mobile wallets have been rolled out across 15 countries, excluding Mainland China.

Earlier this month, UnionPay partnered with Saudi Arabia's payment solutions provider PayTabs to provide online shoppers in the UAE with an alternative payment method. ■

Western Union bolsters reach in South Korea

Western Union has expanded its presence in the South Korean market by partnering with investment and securities firm NH Investment & Securities (NH I&S).
Under this partnership, the cross-border payments provider integrated its digital and retail person-to-person (P2P) transfers within the financial services portfolio provided to NH I&S account holders.

This integration allows NH I&S account holders to use Western Union to send and receive payments via the company's app or 85 branches across the country.
They can transfer the funds to recipient bank accounts at 550,000 retail locations in more than 200 countries and territories.

Moreover, the cross-border, cross-currency platform of Western Union offers local integration of regulation, compliance, channels, currency, and language, to clients.
NH I&S director of headquarter, WM sales strategy department Ji-Hoon Song said: "We have integrated Western Union services to meet the unique needs of our diverse customer base. "The integration of Western Union's global digital capabilities is of utmost importance. To optimise our relationship, we are dedicating resources to expand services.
"Evolving globalisation and digitalisation are shaping the financial industry and we believe it is important to adopt a multi-channel strategy, providing customers choice so that they have the best experience."

Western Union Singapore, Indonesia, and North Asia head of network K. Premmananth said: "We are delighted to offer Western Union branded services to the account holders of NH I&S, a leading financial institution in South Korea. "At Western Union, we are serving customers directly through our own branded channels or offering services in partnership by innovatively integrating our services via a branded, co-branded, or white-label model."

In November 2020, Western Union expanded the availability of real-time digital payouts into 100 countries, covering billions of bank accounts. ■

GREENBOX POS TO BUY PAYMENTS FIRM CHARGESAVVY

US-based financial technology company GreenBox POS has signed a non-binding memorandum of understanding (MOU) to acquire specialty retail payment processing company ChargeSavvy.

ChargeSavvy is a fintech firm that specialises in payments processing and point-of-sale (POS) systems, while GreenBox creates customised payment solutions by leveraging proprietary blockchain security.

Under the agreement, GreenBox will buy ChargeSavvy for $31.2m in restricted GreenBox common stock.

This all-stock deal represents a premium of $2.00 per share of GreenBox common stock.

GreenBox expects the deal to be immediately accretive, adding nearly $14m in EBITDA and $500m in processing volume annually.

The maximum total consideration for the acquisition can go up to $52m based on the pre-determined profitability performance metrics over the next one year. The deal closing is subject to the completion of ChargeSavvy's financial statements audit and customary closing conditions.

ChargeSavvy COO Jeff Nickel said: "Combining GreenBox's Gen-3 proprietary blockchain technology with our expansive processing portfolio presents significant opportunities for cross-selling our solutions, as well as the ability to further penetrate the massive retail and e-commerce industries."

GreenBox CEO Fredi Nisan said: "If completed, this accretive acquisition would mark a pivotal moment in GreenBox's history by adding over $500m in processing volume to our Gen-3 platform and propelling us into the massive retail industry, as well as several other industries that we believe are ideally suited for our solutions.

"By leveraging our stock, which was priced at a significant premium of $2.00 per share, we expect to deliver a significant amount of shareholder value in the immediate term while cross-selling services and moving into other high-value, high-margin markets.

"We look forward to working together with the entire ChargeSavvy team as our technologies work together to disrupt the entire payment solutions market as we know it." ■

REPAY WITH BILLTRUST TO SUPPORT B2B PAYMENTS

US-based vertically-integrated payment solutions provider Repay Holdings has integrated its technology with Billtrust to boost B2B payment offerings.

Billtrust is an accounts receivable automation and integrated B2B payments company.

Under this partnership, Repay will utilise the Business Payments Network (BPN) of Billtrust.

This will allow Repay's corporate customers to automate electronic payments to Billtrust's network of suppliers, distributors, and vendors. This technology integration will simplify the payment process and boost the adoption of virtual credit cards.

Business buyers used to collect, verify, and store bank data individually with each supplier to send payments electronically. Repay's B2B offerings, including the cPayPlus and CPS Payment Services, helps automating this process for tens of thousands of suppliers. By integrating with Billtrust's BPN, Repay will be able to do the same for thousands of additional suppliers.

Billtrust SVP and GM of BPN Nick Babinsky said: "The service and supplier industry has seen an acceleration in adoption and preference of digital payments to streamline efficiencies and reduce costs related to the invoice-to-cash process. "Considering Repay's powerful payment automation platform and virtual card capabilities, this partnership was a natural fit. "Their B2B customers will now be able to instantly leverage the extensive and continually growing Billtrust network of suppliers."

Repay SVP of B2B Darin Horrocks said: "Our goal is always to help our customers simplify and optimise their vendor payments by automating payments through a single interface. "We believe our partnership with Billtrust will significantly bolster the adoption of electronic payments to suppliers who participate in the BPN." ■

GLOBAL PAYMENT FIRMS ARE PREPARING FOR PUBLIC LISTINGS

As digital payments grow during the Covid-19 pandemic, payment companies around the world are planning to launch initial public offerings (IPOs) that could fetch billions of dollars.

Trustly in Sweden

Swedish payments company Trustly is reportedly preparing for a €9bn ($11bn) IPO listing, Reuters reported. The buyout group Nordic Capital, which owns Trustly, has hired Goldman Sachs, JP Morgan and Carnegie to launch the IPO in April or May 2021. Nordic Capital is currently in the process of hiring more banks for the listing. The IPO could value the firm at €6-8bn, the report added citing two people while another person said that the company might reach €7-9bn in valuation. Founded in 2008, Trustly operates in Sweden, Spain, Malta, Germany and Britain.

Flywire in the US

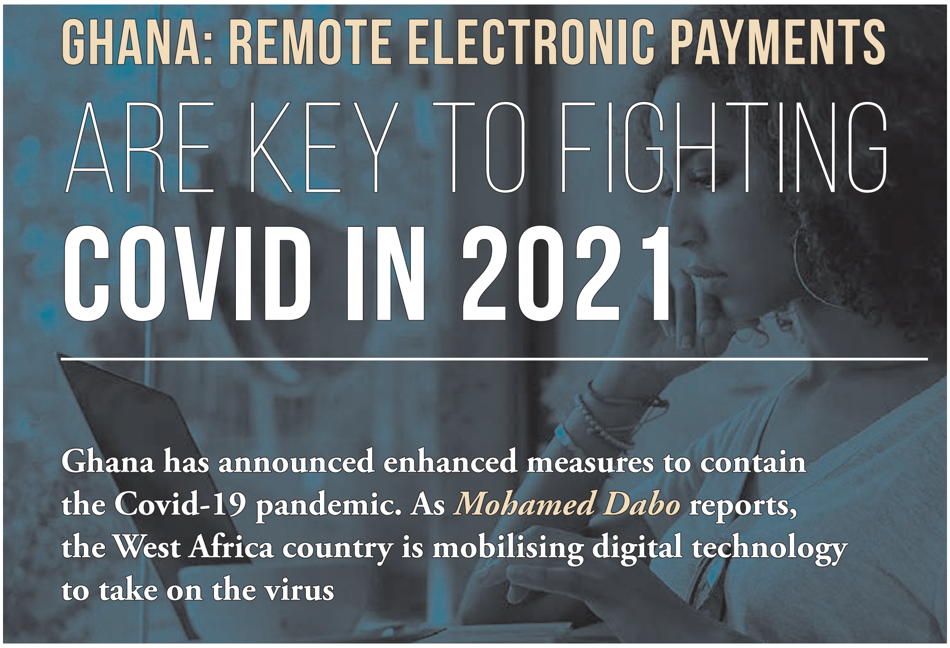
Flywire is preparing to launch a US IPO later this year, expecting a valuation of $3bn, according to the Reuters report. The payments firm has hired Goldman Sachs and JPMorgan Chase to advise on the listing. Founded in 2011, Flywire has offices across the US, Europe and Asia, Reuters said. The Boston-based company, which employs over 550 people globally, has processed over $16bn in payments.

Paysafe in the US

UK-based integrated payments platform Paysafe Group and a special purpose acquisition company (SPAC) Foley Trasimene inked a definitive agreement to merge, last month. The merged entity will be called Paysafe, which will be publicly traded on the New York Stock Exchange (NYSE).

TransferWise in the UK

London-based online money transfer service is also planning to go public in Britain, which could value the firm over $5bn, following a 2020 fundraising, a report said. It has hired Goldman Sachs, Morgan Stanley, and Barclays for launching the IPO. ■



GHANA: REMOTE ELECTRONIC PAYMENTS ARE KEY TO FIGHTING COVID IN 2021

Ghana has announced enhanced measures to contain the Covid-19 pandemic. As *Mohamed Dabo* reports, the West Africa country is mobilising digital technology to take on the virus

Ghanaian authorities find that making payments remotely or without contact is proving to be one effective way to deal with Covid-19.

Such payment channels enable people to pay without any physical contact with the recipient, unlike cash.

Ghana had a robust payment system before the pandemic broke, making it possible for many to use the existing remote electronic payment channels.

Some of these channels include paying people through internet banking and mobile banking apps, GhQR and Mobile Money.

GhIPSS Instant Pay and the Automated Clearing House (ACH) are major services available on the internet and mobile banking apps of most of the financial institutions.

The ACH has three variants namely the regular ACH, the Express ACH and, the latest addition, the Near Real-Time ACH.

More efficient, convenient, and secured methods of payment

Speaking in an interview, the chief executive of Ghana Interbank Payment and Settlement System (GhIPSS), a subsidiary of the Bank of Ghana, Archie Hesse, urged the public to use remote electronic payment channels in order to reduce their exposure to Covid-19.

He explained that the remote payment channels will not only help people stay safe, but they are also more efficient, convenient, and secured ways of payment.

"There is talk of a new strain of the virus, no one is exactly sure how that will play out in the coming year. It is my wish that this pandemic ends but while we wait for that to happen, let's use these remote payment channels and stay safe," Hesse noted.

While 2020 was a challenging year because of the coronavirus pandemic, many are hopeful that the new year will restore life to normalcy. It is anticipated, however, that some level of restrictions and safety protocols will remain in place in 2021. Hesse said GhIPSS will continue to work with financial institutions, telcos and fintechs to promote electronic payments, especially the remote or non-contact payment channels to support the fight against Covid. GhIPSS with its partners, at the latter part of 2020, began educating the public about GhQR for payment.

The public education will be intensified in 2021, Hesse said.

Governments across Africa are leveraging digital solutions in the Covid fight

Other African governments have used digital platforms to launch Covid-19 information services and debunk misinformation.

In South Africa, the national health department set up a WhatsApp service to provide information to locals, from symptoms, prevention tips and testing information. Importantly, the service also dispels false claims about cures, from eating garlic and beetroot to taking hot water baths and sensitises to scammers looking to take advantage of people's fears.

In Nigeria, health authorities partnered with Facebook to send push notifications to users with information on symptoms and how to avoid infection, and with Twitter to elevate medical information from authoritative sources. Other countries leveraged mobile money to curb the spread of Covid-19.

One fifth of African adults use mobile cash services. In Kenya, Safaricom, the country's largest telecom company, implemented a fee-waiver on East Africa's leading mobile-money product M-Pesa to reduce the physical exchange of currency.

The move followed the directive by President Uhuru Kenyatta to "explore ways of deepening mobile money usage to reduce the risk of spreading the virus through the physical handling of cash". Similar measures designed to reduce the risk of Covid-19 transmission through mobile money were adopted in Ghana, Nigeria, and Uganda.

In Togo, the government digitised social payments to transfer mobile cash to informal workers whose incomes were disrupted by Covid-19.

The continent is still catching up, but moving fast

A recent World Bank blog noted: "The world will increasingly rely on digital technology to help us weather the Covid-19 storm. Digital platforms help build more resilient societies to the pandemic, as people can now access official information, enrol in e-courses, take online jobs, send mobile money and even receive telemedicine—no matter where they live."

According to Doing Business, a World Bank Group flagship publication, the widespread use of electronic systems is associated with more business-friendly regulations, a conduit for business creation and poverty reduction.

This is especially important for Sub-Saharan Africa as Covid-19 threatens to drive the region into its first recession in 25 years and push millions into extreme poverty.

All 20 economies that topped the global ranking in Doing Business 2020 have online business incorporation processes, electronic tax-filing platforms and online procedures related to property transfers.

In contrast, only one out of 48 Sub-Saharan African countries have all these digital systems, partly because the continent is still catching up on its internet data access.

More than 40 African nations have introduced or expanded social welfare programmes since the pandemic, according to data compiled by the Milken Institute's Covid-19 Africa Watch.

So far, 36 African countries have offered cash transfers to eligible citizens while around 15 countries provide food assistance. A few countries offer both types of assistance. ■

UK INITIATIVES TO IMPROVE PAYMENTS

Today, the UK is widely considered to be at the forefront of digital payments. *Mohamed Dabo* reports on a Bank of England (BoE) review of current initiatives aimed at boosting the payment sector beyond Covid-19

The British government and regulators are taking forward a series of actions that will further support competition and innovation in the payments sector.

These initiatives serve to create a more competitive market, increasing the range of payment options available to both customers and businesses, and driving down the costs of paying digitally for consumers.

The government action is also designed to make it cheaper and easier for new, innovative firms to provide alternative digital payment methods.

In a recent discussion paper, the BoE describes some existing initiatives in the UK that will contribute to improvements across the payment landscape.

Open Banking and PSD2

Open Banking and PSD2 require banks and other payment service providers to share customer financial transactional data with authorised third parties in a standardised way (i.e., through APIs), with customer consent.

This is designed to increase competition in the banking sector and enable third parties to innovate and create new financial products.

Furthermore, customers can authorise these third parties to automatically initiate payments on their behalf. A good example of innovation enabled by these directives is the emergence of financial aggregators, which allow customers to view their account information from different providers through a single interface, making it easier for them to compare products from different providers.

RTGS renewal

The Bank, as operator of the sterling Real-Time Gross Settlement (RTGS) service, is seeking to promote innovation in payments by expanding access to settlement in central bank money and through renewing RTGS.

This could reduce the cost of onboarding as a direct participant in domestic payment systems. In 2017 the Bank announced that Electronic Money Issuers (EMIs) and payment institutions authorised by the FCA could start applying for RTGS settlement accounts.The service will offer a range of new features and capabilities for payments and settlements between financial institutions. The vision is to develop an RTGS service which is fit for the future.

The first major milestone will be the move to ISO 20022 messaging in 2022, followed by the transition to a new core ledger in 2023.

Balance Sheet Access Review

The Bank's response to the 'Future of Finance' report committed to 'consult in 2020 on the appropriate level of access to the Bank's payments infrastructure and balance sheet, including necessary safeguards'.

The focus is on whether, and how, to give non-bank payments service providers (NBPSPs) the ability to hold deposits at the Bank overnight. It is critical that access supports fully the stability and resilience of the system while also allowing innovation in payments.

Pay.UK's New Payments Architecture

In 2018 the operators of the main UK retail payment schemes — Bacs, FPS and Cheques — were consolidated into Pay.UK.

Pay.UK is now developing the 'New Payments Architecture' (NPA) that will replace the existing interbank retail payment systems. The aim is to develop world leading infrastructure that supports instant settlement.

This will end multiple day clearing cycles (in Bacs and cheque clearing) and ensuring fast and resilient 24/7 clearing.

The goal is to establish a system that is easy to access, easy to upgrade and innovate on.

The system will be able to provide new capabilities that payment service providers (including banks) can exploit for their customers' benefit.

Successful delivery of the NPA will provide a highly resilient and instant payment system for interbank payments.

HMT Payments Review

At Mansion House the Chancellor announced a Treasury led review of the payments landscape that brings together policymakers and regulators to ensure that regulation and infrastructure keeps pace with new payment models.

The review aims to investigate what the UK needs to do to remove barriers and support a more resilient and innovative payments system with more diversity of payments methods.

This includes the methods available to make payments and the services and systems that facilitate this.

The objectives include action to explore if amendments are needed to 'future proof' the regulatory approach for changes in the payments landscape.

Currency modernisation

A few years ago, the government, the Bank of England and the Royal Mint recently embarked on a programme of currency modernisation. This was to ensure that the currency is secure and robust against counterfeiting.

The new polymer £5 note was launched in September 2016 and the legal tender status of the old £5 note was withdrawn in May 2017.

This was followed with the launch of the new £1 coin in March 2017, with the withdrawal of legal tender status of the old £1 coin in October 2017. The polymer £10 note was launched in September 2017 and legal tender status for the old note was withdrawn in March 2018. The new polymer £20 note was launched in 2020. ■

THE HUGE DIGITAL SHIFTS IN LATIN AMERICAN PAYMENTS

Digital payments - in a variety of forms - are reshaping the Latin American economies. *Mohamed Dabo* reports on traditionally cash-based economies that are shifting to digital payments via a booming cross-border e-commerce

The Latin American payments landscape is in a full transition, marked by an explosion of digital payments and banking services.

This massive trend is sustained by growing access to smartphones as well as the ongoing fintech revolution in the region. Undergirding the whole process is the increasing e-commerce penetration among Latin American consumers.

Furthermore, the Covid-19 pandemic has been decisive for paving the way to the rise of a new, more digitally inclusive Latin America – which is also key to the growth of digital commerce in the region in the coming years.

HOW LATIN AMERICANS PAY

Credit cards are the most used payment method for online purchases in Latin America. But that doesn't mean these are the preferred payment methods in the region – only that they are the most offered ones by merchants in general. Despite the progress Latin America has made regarding financial inclusion, the region is far from being cashless. There are multiple reasons for this, including cultural habits, high degrees of informality, and a high percentage of unbanked people, who have a difficult time accessing financial services.

Consequently, local cash-based alternative payment methods – that is, all the other options except cards – are still very relevant in Latin America.

Mexico and Chile exemplify the regional contrasts

While debit and credit cards account for 65% of the e-commerce spending in Mexico, the use of cash-based methods, such as the country's traditional payment voucher OXXO, responds for 19% of the online purchases in Mexico – reflecting the still low penetration of electronic payment methods in the country. Even innovations such as Cobro Digital (CoDi), Mexico's instant payment system launched in September 2019, work as a digitisation effort but not necessarily as a way to reduce the circulation of cash.

On the other side of this Latin American payments portrait is Chile.

The country has the region's highest level of card penetration, around 40 million credit and debit cards issued, amounting to two cards per person. Card usage in e-commerce (accounting for 84% of the total volume processed online) is also top in the region.

Alongside these aspects, Chile also has the highest level of access to banking services in the region (74.3% of its population).

Unlike Brazil, where debit card usage for digital purchases is still gaining ground, this payment method already accounts for a large part of Chile's online transactions.

Debit cards ended 2020 accounting for 30% of the country's e-commerce spending (something around $2.7bn), an expressive 36% growth compared to 2018.

Simultaneously, the use of payment vouchers (Sencillito, Servipag, and Multicaja) will account for 8% of the country's e-commerce payments volume.

"There is still a long way to go to catch up with developed economies in terms of digitalisation of payment methods. In 2019, 38% of private consumption in Chile was carried out through digital platforms, getting closer and closer to the reference countries, whose rates are above 50%," says Patricio Santelices, General Director at Transbank, the dominant acquiring company and payment processor in the country. Chile is slowly opening its acquiring market and implementing a four-part model – something that happened more than a decade ago in Brazil, spurring a series of innovations, from the spread of POS terminals throughout the country to the rise of fintechs more recently. So, in digital payments, as in other areas, there are notable differences among Latin American countries.

COUNTRY PROFILES

What follows is the profile of each country regarding payments in e-commerce: Brazil, Mexico, Colombia, and Chile.

BRAZIL

Latin America's largest market ended 2020 with a much larger share of payments made through debit cards and digital wallets than in previous years, with a 16% and 6% growth in volume Y-o-Y, respectively.

In 2019, these methods accounted for $5.7bn and $12.3bn of the total spending of $103.8bn. For the first time, the percentage of payments made with international credit cards decreased (-1%) due to the drop in cross-border sales, more impacted by the Covid-19 pandemic, while the share of payments made with domestic credit cards grew 11%. "Cross-border was hit hard everywhere, and the markets where you already have an advanced e-commerce environment and an important share of cross-border, that is where international cards are going to receive a biggest hit in terms of spending volume," explains Lindsay Lehr, payments expert and associate managing director at American Market Intelligence (AMI). AMI is a consultancy and research firm, specialising in Latin America. It provided most of the figures and forecasts in this report. Domestically, the Brazilian e-commerce boom is being led by increasing digitisation and smartphone penetration, alongside the development of the payments industry itself.

MEXICO

While cash is still king in Mexico daily life, international credit cards are the most commonly used payment method in the country's e-commerce sector and are likely to end 2020 accounting for more than a third of the sector's financial volume. Debit cards are the second-most used payment method, closing 2020, with a 23% ($7.2bn) share of the total spending – a 16% growth compared to 2019.

The third most relevant payment method in Mexico's digital commerce is its most popular payment voucher, boleta OXXO. This popular payment method allows merchants to tap into the substantial group of online buyers who do not have a bank account or pay their purchases with vouchers for cultural reasons.

OXXO has more than 17,400 stores across the country. Through them, consumers can pay for their online purchases in cash, and merchants have a zero chance of chargeback.

In addition to digital wallets, which grew 10% in 2020, bank transfers showed a significant increase: 20% compared to 2019.

Although in practice they should end the year accounting for only 2% of the payments within Mexican e-commerce, bank transfers seem to be gaining ground in the country's consumer preference.These transfers are completed through mobile banking using SPEI, Mexico's Interbank Electronic Payment System.

Since 2019, banks are offering the new operative of the country's instant payment system, Cobro Digital, CoDi, that will simplify the process using QR code or push notification to complete the payment. CoDi, in practice, works as an extra layer of SPEI.

COLOMBIA

Colombia has a different scenario than that of its neighbours. While credit cards are the most used payment method for online purchases, accounting for 45% of the entire sector's financial volume, bank transfers are also commonly used (21%) by Colombians, ahead of debit cards and digital wallets. This is because of increasing internet and smartphone penetration in the country, alongside the growth of Pagos Seguros en Línea (PSE). PSE is a network developed by ACH, an organisation that monitors and controls automated transactions between banks and financial institutions, and that also attracts fintechs eager to create fast and frictionless payment solutions.

Through PSE's interface, consumers are redirected to their internet banking, making the transaction real-time, without needing a credit card.

As the explosion of delivery apps, especially the last-mile logistics unicorn Rappi, drives the rise of domestic e-commerce in the country, Colombian consumers are also becoming more familiar with buying from foreign websites.

CHILE

Chile is a bit of a paradox, according to Lehr: "On the one hand, it is the most banked population in the region. Almost everyone has access to a debit card and a bank account in Chile, making it really prepared for e-commerce. At the same time, because of the closed acquiring landscape in Chile, we've seen lower levels of new technologies moving into the country." The Latin American market with the highest penetration of internet and smartphones is also the one in which cards rule in e-commerce. International credit cards, domestic credit cards, and debit cards accounted for more than 80% of the country's e-commerce spending by the end of 2020.

"In Chile, there may be a decline of 35% in cross-border spending. As internationally enabled cards are the number one payment method for cross-border spending, it is natural that this method loses volume this year," explains Lehr.

But while international credit cards are set to lose share among the country's main payment methods – alongside payment vouchers – the use of domestic credit cards and digital wallets is skyrocketing among Chilean consumers. There are some possible explanations for that.

One of them is the expectation around opening the country's acquiring market and how this regulatory change might help the domestic payments industry to evolve and attract international players to Chile.

Another possible explanation comes from the success that digital wallets have in the country, boosted by the highest internet and smartphone penetration in Latin America. The latest World Bank's Global Findex shows that 65% of Chileans have already made a payment online, a much higher percentage than the average for Latin America (46%).

Good news for businesses in the region—and beyond

Experts agree that businesses that embrace these digital payment options in Latin America could realise several potential benefits. Digital payments make it possible for the unbanked to purchase online, which can substantially expand a market. Also, fees associated with digital payments are generally less than those for credit cards.

Finally, digital payments generally simplify bookkeeping and operations because data entry, invoicing, sending digital receipts, and inventory tracking can all be automated.

To take full advantage of these benefits businesses may want to pursue a focused and localised approach to earn consumer acceptance.

They may also benefit by understanding and embracing the different digital payment cultures of each country in the region. ■

> " DESPITE THE PROGRESS LATIN AMERICA HAS MADE REGARDING FINANCIAL INCLUSION, THE REGION IS FAR FROM BEING CASHLESS.

LEADING THE WORLD: HOW EU REGULATIONS ARE SHAPING GLOBAL PAYMENTS

Recent and ongoing European regulatory changes will have a significant impact on the global payments landscape. *Mohamed Dabo* reports

Payment companies can benefit from proactively tracking and monitoring regulatory developments in Europe and understanding their independent and combined impact on the business.

Europe has long spearheaded change for much of the payments industry. From instituting tighter interchange rules to accelerating cross-border payments and implementing new customer data protections, regulators in the EU have set the pace for much of the world.

The impact of these initiatives - aimed at unifying the continent and setting the stage for open banking - continues to play out, dominating concerns for that region's issuers, acquirers, merchants, and consumers.

And like previous moves, much of what Europe is currently pursuing could make its way to the rest of the world.

"I definitely think we inspire other markets," said Andrea Dunlop, Chairwoman of the Emerging Payments Association. "A lot of people look at what we do in the UK and Europe as a reference point.

They take the lessons learned from some of the things they see here and, hopefully, refine it better for their markets."

Making cross-border payments easy, efficient, and secure

The Payment Services Directive was issued with the intention of making cross-border payments easy.

For more than 20 years, EU officials have sought to unify the monetary system throughout its now 27 member countries through a series of industry-changing guidelines.

With an initiative that began in 1999, European officials implemented the Single Euro Payments Area in 2008 to create a seamless market for cross-border payments and bank transfers in euros.

As part of that effort, the first Payment Services Directive was issued with the intention of making "cross-border payments as easy, efficient and secure as 'national' payments within a Member State," according to the European Commission.

Regulators later turned their attention to the interchange fees charged to merchants. With the Interchange Fees Regulation (IFR) in 2015, officials pushed the industry to cap various fees for card usage and provide more transparency.

Most recently, regulators extended those caps to interregional fees (applied to foreign travellers visiting Europe) - limits applied specifically to Visa and Mastercard that were voluntarily adopted by Discover.

Today, the most pressing regulatory issues for the industry in this market of more than 500 million people (including the UK) have been:

- *The General Data Protection Regulation (GDPR)*. Implemented in 2018, GDPR intended to deal with internet-based entities, affecting "every company that uses the personal data of individuals in EU member states no matter where that personal data is acquired, processed, or used." Primarily aimed at bolstering data protection and privacy, while harmonising EU members' data privacy laws, noncompliance brought steep financial penalties.
- *The revised Payment Services Directive (PSD2)*. This updated directive, which took full effect in 2019, was aimed at the payments vertical, partly driven by increased fraud for online payments, the rise of new payment players, and the arrival of application programming interfaces (APIs). Requiring payment service providers (PSPs) to obtain a payment license from a member country, the impact of the directive is expected to increase competition and open banking by bringing non-banking institutions more fully into the payments market.
- *Strong Customer Authentication (SCA)*, issued as part of PSD2, is arguably the most pressing and challenging aspect of PSD2. Originally slated to go into effect in 2019, it was delayed after facing pushback from the financial services industry and merchants. The recent impact of Covid-19 has further increased the pressure for delay. SCA is currently targeted for implementation in the UK in September 2021, and while the

EU previously delayed it to the end of 2020, many expect an additional extension to be granted.

SCA Dominates the Landscape

By far, the SCA component of PSD2 is seen as the biggest current hurdle for merchants and the industry, affecting "every business operating on the European payments market," according to a report from the Aite Group.

Indeed, "Europe stands to see €57 billion in online purchase volume abandoned during the first year of SCA as a result of added friction introduced at checkout," representing nearly 10 percent of all online sales in the EU as of 2019, according to a 451 Research report.

Designed to increase security of online transactions, SCA requires two of the three following methods of authentication for customer-initiated, card-not-present payments within the European Economic Area, including:

- Something the customer knows - such as a password or PIN.
- Something the customer has - including a smartphone or hardware token.
- Something the customer is - by affirming a fingerprint, facial recognition, iris scanning or behavioural biometrics.

Some potential challenges

Although exceptions apply for certain transactions, including low-value purchases, recurring payments, or verification from the payer that the merchant is trusted, the difficulty in implementing these standards has made the industry nervous.

Lower sales conversion rates, transaction declines, and the inability of some third-party processors to continue their services are just some of the potential challenges if service providers (merchants, acquirers, and issuers) do not use the exemptions and are not fully prepared for SCA requirements.

"We're reaching out to all our merchant and acquiring partners to make sure they're fully aware of our requirements, so that customers and merchants have a seamless experience when the new liability rules kick in," said Chris Winter, Vice President of Global Acceptance at Discover Global Network.

One of the key methods emerging to address SCA's requirement is the adoption of 3D Secure 2 (3DS2), an updated version of 3D Secure, which is issued in various brand names, including an enhanced Discover ProtectBuy for Diners Club International and Discover.

Discover Global Network is encouraging its partners to move to the 3DS2 protocol as soon as possible, Winter said, especially given the potential impact on merchants throughout the EU and the more than 100 major airlines that have international service establishment agreements with the company.

"We're reaching out to all our merchant and acquiring partners to make sure they're fully aware of our requirements, so that customers and merchants have a seamless experience when the new liability rules kick in," said Winter.

For the banking sector, the challenges are equally steep. "Regarding card payment and especially e-commerce, PSD2 introduced an important paradigm shift: The decision to rely on SCA no longer belongs to merchants, but to the issuer," said Regis Folbaum, Head of Payments & Data at La Banque Postale in Paris.

With more than eight million cards outstanding, the bank has prepared for the change by migrating to the 3DS2 infrastructure with Discover and has worked to support its internal entities, front-line and middle-office teams and customer groups, including consumers, commercial partners, and merchants.

"The challenge for banks is to find out the right balance between a frictionless customer journey and an optimised fraud management," Folbaum said.

Ecommerce payment regulations

The European Union has implemented new requirements for authenticating online payments under the Payments Services Directive (PSD2).

These measures will bring significant implications for businesses involved in e-commerce, selling products or services online. Providers of merchant services will also need to ensure that their online payment gateways are compatible with the PSD2 regulations.

The PSD2 directive calls for stronger customer authentication in order to minimise the risk of fraudulent online transactions.

These measures will change the way online payments are processed, ensuring online payment gateways are more secure for over 300 million European consumers.

Compliance with the Payment Services Directive means that anyone completing a payment in the EU over the value of €30 must provide two-factor authentication.

This applies to all online payment transactions in the EU regardless of whether the payee is within the EU at the time of purchase.

Typically, two-factor authentication requires the customer to supply a one-time code received via a text, email, or phone call to authenticate their payment.

The two-factor authentication will make the customer payment experience more complex by adding another layer of security to online purchases. Companies should be aware of the customer experience implementing this requirement.

If the process proves too cumbersome it could result in fewer purchases and decreased online sales.

A Global Impact for Years to Come

Given the impact of these recent EU moves, industry observers are keeping a close eye on the continent for hints of what might be coming to their shores.

How much these new regulations will migrate to affect the merchants and the payments industry around the world is unclear for now.

But the industry has seen the introduction of IFR push the international debate of interchange even further, for example, and how GDPR affected businesses globally, even providing inspiration for a similar initiative in California.

"It's fair to say EU regulations have either direct implications [for] the global payment industry or influence other entities around the world," Winter said. "Other markets look to Europe when it comes to introducing new regulations."

In fact, he said, versions of PSD2 and its push for open banking could very well be heading to Brazil, Mexico, and Japan.

Still, while some of these significant challenges for the payments industry could easily go global, the potential benefits they could bring also should not be overlooked.

Greater open-banking capabilities, increased convenience for consumers, and much of today's innovation in the industry can be tied directly to the impact of EU regulatory action. "These regulations can be painful and it's a lot for companies—whether you're a payments company or a merchant—to wade through," Dunlop said. "But I think if merchants go into it with the right view, it can be really beneficial. It is all about transparency and doing the right thing." ■

AMEX: WILL 2021 BE THE YEAR OPEN BANKING GOES MAINSTREAM?

It has been three years since the implementation of Open Banking in the UK. Since then, the sector has embraced bank and fintech partnerships in way that has not been seen before. *Evie Rusman* speaks to American Express about how 2021 may be the year when open banking goes mainstream

Open banking is a concept which encourages banks and fintechs to work together to create unique, personalised experiences for consumers and enhance competition in retail banking.

Since its inception, three years ago, the number of UK bank customers using open banking products has surpassed two million.

In addition, research conducted by Amex and YouGov shows that 41% of UK consumers have used an open banking payment in the past six months. This is surely a positive nod to the sector.

Speaking to *EPI*, Holly Coventry, Director of Pay with Bank Transfer at American Express, discusses how the banking landscape has matured over the past few years.

She says: "If I think about when we first started engaging with the open banking ecosystem, the difference in the parties involved then versus now is lightyears apart. In the early days, nobody really knew how to collaborate in a non-competitive way because up until that point banks had been competitors with each other.

"I think people were even nervous about working with some of the smaller start-ups and fintechs, as well as third parties. People just didn't understand how it was going to work. However, in the last three years, the ecosystem has built a really strong foundation, where actually the partnerships of all these different types of entities drive good outcomes – and much better consumer outcomes too. "In terms of embracing open banking, I think it is all about the confidence to work together in a different way to how institutions and fintechs have traditionally."

COVID DOMINATES… AGAIN

This move to more integrated payments comes as consumer attitudes are shifting. Nowadays, consumers have less patience, with most wanting to carry out transactions in a matter of minutes.

Amex's survey shows that 78% of consumers reported not completing a payment online due to issues like having to enter unnecessary additional information such as date of birth at checkout. This demand from consumers for smoother payments has only accelerated due to Covid-19. The pandemic has led to a huge boom in online retail and use of digital, accelerating consumer appetite and confidence in new payment forms, with 33% also stating they feel confident trying new online payment methods. "The last 12 months have thrown everything up in the air," says Coventry. "But, for payments, it has unlocked some real opportunities, particularly in digital payments, with the introduction of people demanding cleaner payments as more are shopping online rather than in physical stores.

"I think it is really exciting for open banking and some of the things that it is able to do. One of the really strong use cases that we have seen is with Lancaster University as students can pay for all their fees using Pay with Bank Transfer."

Amex set up Pay with Bank Transfer to enable customers to pay for goods and services via a direct transfer from their bank account.

Coventry adds: "What our product is able to do is to help streamline and improve a lot of the reconciliation with traditional university fees. In a digital world, that need is even more heightened."

EUROPE CATCHING UP

Despite the UK being the first region to adopt open banking, the rest of Europe is hot on its heels when it comes to open banking opportunities. "The UK obviously took a very different approach to the rest of Europe – it is on a different agenda," Coventry says. "The CMA, who initially triggered the open banking movement in the UK, also set up the OBIE entity, which was 12-18 months ahead of PSD2 coming in across the rest of Europe.

"There is absolutely an opportunity for open banking across Europe – if you look at markets like the Netherlands and Germany, account-to-account payments are far bigger than they are in the UK actually. There are just different technologies that enable them. For instance, there are companies like iDEAL in the Netherlands where customers are very used to making those kinds of payments from an open banking perspective."

Coventry continues: "So, while the API-driven open banking ecosystem that we know and have built in the UK is around 12 months ahead of Europe, the actual consumer behaviour in Europe is almost further ahead."

Outside of Europe, open banking legislation is making moves in all corners of the world – regions including Australia, Hong Kong, Bahrain and Brazil have all rolled out open banking regulations.

STILL EARLY DAYS

It is safe to say that open banking is still very much in its infancy. But, what does the future hold?

Coventry says: "If you compare open banking to contactless - it was only when TfL implemented it that we saw that real exponential growth. I think the real opportunity now is in some of those bank/fintech partnerships coming to life to bring some really good customer outcomes that will drive competition. There is a lot of talk in the sector that 2021 is going to be the year that this happens. In 2019 and 2020, it was more about getting clients and interested and working." ■

HOW IS SCA IMPACTING THE PAYMENTS SECTOR?

After months of delay, Strong Customer Authentication (SCA) finally came into effect on 31 December 2020. The guidelines require merchants in Europe to make online payments more secure by offering multi-factor authentication at the checkout. But how are their solutions fairing? *Evie Rusman* writes

In order to comply with SCA guidelines, merchants, issuers and acquirers across Europe have had to completely change how they operate – a change which takes time.

Speaking to *EPI*, Tony Hammond, Senior Vice President for Global Product Delivery at FreedomPay Europe, discusses how the regulation has altered the payments landscape.

He says: "The SCA changes affect the entire payment eco-system from card issuers, to acquirers, to gateway service providers, point of service software providers and so on. When the PSD2 was published, it would inevitably take time for the major card schemes to develop new changes.

"These changes not only need to look at how an account holder was authenticated but also how industry practices would be affected such as the obtaining of card information 'by proxy' as is common in the hotel, car hire and other sectors. This has had a major impact on the way that companies in that sector can operate and go forward."

Hammond argues the card industry did not have enough time to prepare for the deadline.

Covid-19

As well as this, during the lead up to the SCA deadline, industry players were bombarded with a number of extra challenges at the hands of Covid-19.

Due to lockdowns, people were forced to do most of their shopping online as it was almost impossible to do it by any other means.

As a result, payment fraud levels experienced a spike, with hackers using the pandemic to exploit consumers and obtain their bank card details through methods such as phishing emails.

Cause for concern

Pre-pandemic, fraud was already a serious cause for concern – in Europe in 2018 the total value of fraudulent transactions conducted using cards issued within the SEPA was $1.8bn. Card not present (CNP) payments dominated this figure, accounting for 79% of card fraud.

And Covid-19 has only accelerated this. In the first half of 2020, banks reported an 84% increase in impersonation scams, as criminals exploited the crisis.

This has meant that banks, merchants, issuers, and acquirers had to act fast and create tools sufficient to withstand such attacks.

Hammond, discusses how merchants are doing when it comes to providing efficient, SCA-compliant solutions.

He says: "So long as merchants implement 3DS2 then they stand the best chance of removing friction and/or authentication challenges in their on-line sales and ordering processes. In short, without 3DS2, they should reasonably expect to see a steady increase in declined transactions from European card issuers as of 1st January this year."

Shopping cart abandonment

Hammond has also warned that SCA regulations could cause shopping cart abandonment to rise.

"If the merchant has not taken steps to implement 3DS2 and/or obtained the necessary exemp-tions from SCA," he says.

"From the consumer's point of view, it's likely they will see their card declined and through no fault of their own. Consumers are more likely to gravitate to those that make payment fast as well as secure."

According to market research company Forrester, shopping cart abandonment costs brands $18bn in lost sales each year. In addition, a report from Today, which was conducted in June, also states that since the start of the pandemic, cart abandonment has risen significantly.

However, it is not all worries and woes – so far, it has been a quiet start to the year when it comes to payments regulation. Since SCA was officially implemented, merchants and customers appear to have continued to operate without any major hiccups. This marks a promising start to 2021. ■

SCA TIMELINE

SCA was first introduced in 2019 as part of the Europe Revised Directive on Payments Services (PSD2).

The original deadline was set for September 2019, however, after concern from industry players, the European Banking Authority (EBA) extended the deadline by 18 months to 31 December 2020.

This move by the EBA came after the UK's financial regulator the FCA implemented the delay first. Following the announcement by the FCA, the Central Bank of Ireland also quickly announced a delay in rolling out SCA.

In April 2020, the FCA extended the deadline again for the UK to 14 September 2021. The regulator stated Covid-19 as the reason for making its decision.

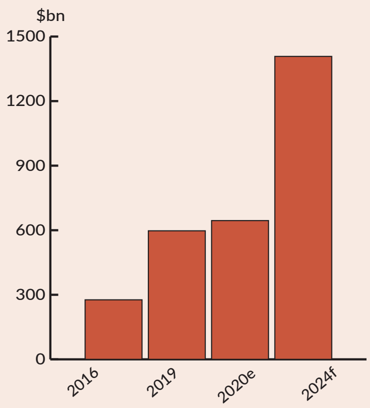
However, the EBA stuck to its original extension, keeping a firm deadline of the 31 December 2020 for the rest of Europe. ■

COUNTRY REPORT: PERU

Prepaid card uptake shows strong growth

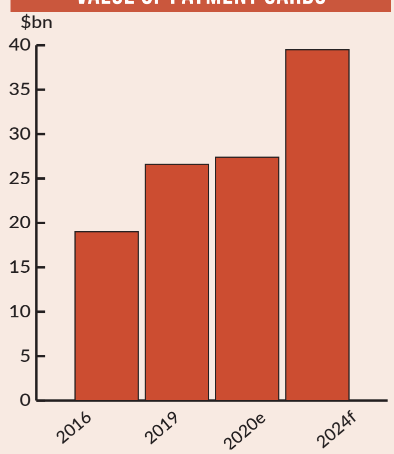
The use of cash for payments remains highly prevalent among Peruvians. This is mainly due to the high unbanked population, inadequate banking infrastructure, limited public awareness of electronic payments, and low acceptance of payment cards at merchant outlets. Yet payment card frequency in the country stands at 42.3 times per card per year as of 2020 – much higher than peers such as Mexico (29.6), Argentina (28.4), and Colombia (28.8).

VALUE OF CREDIT TRANSFERS



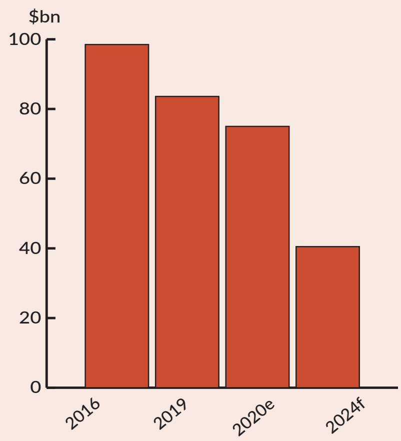
Source: Central Bank of Peru and GlobalData research

VALUE OF PAYMENT CARDS



Source: Central Bank of Peru and GlobalData research

VALUE OF CHEQUE PAYMENTS



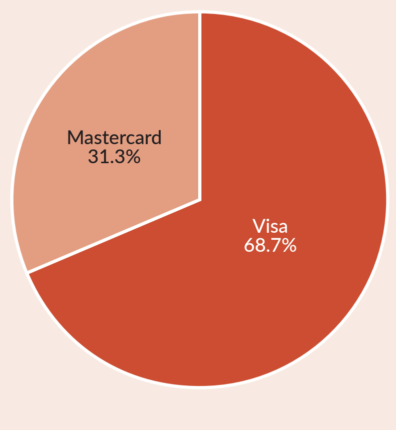
Source: Central Bank of Peru and GlobalData research

The Peruvian payment card market is mainly driven by debit cards, which account for 81.8% of cards in circulation in 2020. Although the credit card market is relatively small, credit cards are preferred over debit cards for payments.

Increased wages as well as value-added services such as installment and cashback facilities have driven growth in this market.

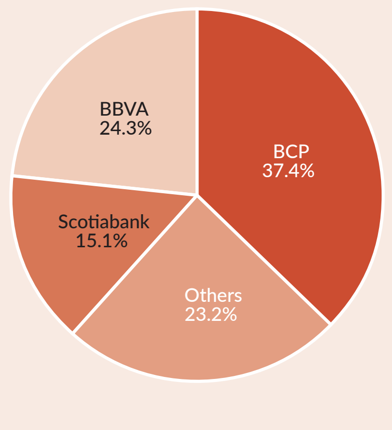
The recent outbreak of Covid-19 is affecting consumer spending and the payments industry. As of 11 December, Peru has recorded 980,000 confirmed cases with 36,500 lives lost.

DEBIT CARD SHARES BY SCHEMES



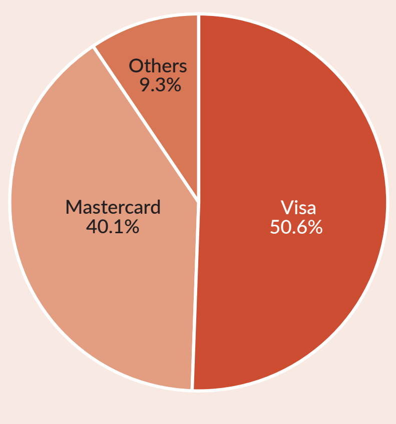
Source: GlobalData research

DEBIT CARD SHARES BY ISSUERS



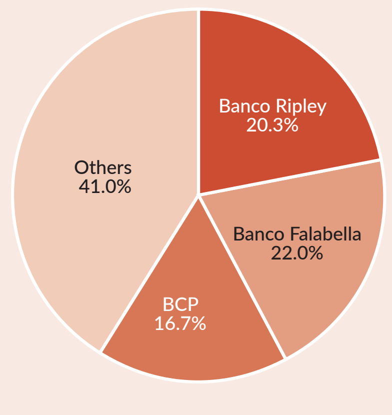
Source: GlobalData research

CREDIT & CHARGE CARD SHARES BY SCHEMES



Source: GlobalData research

CREDIT & CHARGE CARD SHARES BY ISSUERS



Source: GlobalData research

DEBIT CARDS

Debit card penetration is high, but usage remains limited for payments

Debit cards remain the dominant card type in terms of circulation.

Growth has been supported by the rising banked population, the government's financial inclusion initiatives, the availability of low-cost bank accounts, and the rising adoption of payroll accounts. While debit card penetration is high, their usage for payments is still low.

With banks offering benefits on debit card payments at merchants coupled with the growing popularity of contactless payments, debit card usage is expected to rise over the period 2020-2024.

CREDIT CARDS

Credit cards are primarily used for payments

Credit card penetration has traditionally been low in Peru, standing at 17.1 cards per 100 individuals in 2020.

However, credit cards are preferred over debit cards for payments, accounting for 69.6% of total card payment value in 2020. To support credit card payments in Peru, international schemes are offering interest-free instalments on purchases made using credit cards.

With banks now offering contactless and digital cards and running promotional campaigns, the credit card market is anticipated to grow further.

E-COMMERCE

E-commerce has continued its strong growth amid COVID-19

The Peruvian e-commerce market registered significant growth, increasing from PEN9.1bn ($2.8bn) in 2016 to $4.9bn in 2020 at a compound annual growth rate (CAGR) of 15.2%.

Growth has been supported by the growing popularity of online shopping, rising internet penetration, and the availability of a wide range of products and services (as well as discounted prices) online.

Covid-19 is driving the e-commerce market as wary consumers prefer buying online rather than visiting physical stores.

CONTACTLESS PAYMENTS

Financial inclusion drive boosts prepaid sector

The prepaid card market registered a strong performance in terms of both number of cards in circulation and transaction value at respective CAGRs of 10.1% and 11.5% during four years to 2020. Growth in the prepaid card market was supported by the government's financial inclusion policy, which aims to draw the unbanked population into the formal banking system. In order to provide better access to financial services for the unbanked, the government issued e-money regulations in January 2013.

This allowed both banks and non-bank companies to offer e-money services and prepaid cards.

PREPAID CARDS

The rising number of POS terminals will boost card acceptance in Peru

The number of POS terminals rose from 207,000 in 2016 to 230,482 in 2020. Growth has been due to rising merchant acceptance of payment cards and consumers' growing preference for electronic payments.

To increase card acceptance among Peruvians, in June 2020 Izipay partnered with Ingenico to deploy 90,000 Ingenico POS terminals across Peru. ■

COUNTRY SNAPSHOT: IRAN

Debit cards remain the preferred payment card

Iran's payment card market is developed, with penetration of 4.6 cards per individual in 2020 – the highest in comparison to peers Israel, Kuwait, the UAE, Bahrain, Saudi Arabia, Lebanon, and Oman. The high penetration is a result of the country's strong banked population and various government initiatives to encourage electronic payments.

Meanwhile, the payment card market registered robust growth in terms of transaction volume and value at respective compound annual growth rates (CAGRs) of 21.8% and 19.6% over the review period, 2016-2020.

Contactless, QR code payments on the rise

Although US sanctions have isolated Iran from the global payment system, the country's strong domestic payment infrastructure, adoption of new technologies, and the availability of various alternative payment methods are likely to drive electronic payments in the country. Although the Covid-19 pandemic is expected to impact consumer spending, in turn affecting the payments industry, there will be a rise in payment card transactions at the expense of cash, as well as growth in contactless and QR code payments. Debit cards remain the preferred card type among Iranians, with 458.5 cards per 100 individuals in 2020.

Credit cards are yet to gain traction

Credit card penetration is low in Iran, like other Middle Eastern countries. This is due to religious reasons, as Islam forbids the receipt or payment of interest. In a move to increase credit card penetration, various banks now offer Sharia-compliant credit cards. Meanwhile, banks are also offering installment payment facilities on credit card purchases, which should boost the uptake and usage in the country.

Card acceptance infrastructure is improving

The number of POS terminals recorded a CAGR of 11.6%, rising from 5.4 million in 2016 to 8.3 million in 2020. Iran's card acceptance infrastructure is highly developed, with one POS terminal for every 10 individuals. This can be attributed to the strong domestic payment system SHAPARAK, which enables merchants to accept payment cards at lower costs. Growth has also been supported by the increasing preference for mobile POS terminals among merchants.
The rise in card payments encouraged players such as Iran Kish and Pardakhtam to offer mobile POS services in Iran. terminals among merchants. The rise in card payments encouraged players such as Iran Kish and Pardakhtam to offer mobile POS services in Iran.terminals among merchants.

Prepaid card market expected to register marginal growth

The prepaid card market registered a decline in terms of the number of cards during the four years to 2020 period, falling from 146.9 million in 2016 to 97.6 million cards in 2020.

Prepaid gift cards are popular in Iran within both the retail and corporate segments. Demand is particularly high during festive seasons such as Ramadan. ■

PAYMENT CARDS BY TYPE (MILLION)

	DEBIT	CREDIT
2016	287.0	1.8
2019	380.0	2.2
2020e	387.0	2.2
2024f	461.2	2.7

Source: GlobalData research

CARD TRANSACTION VALUES BY CHANNEL ($ BILLION)

	ATM	POS
2016	391.3	516.4
2017	410.1	676.6
2018	334.7	842.7
2019	377.4	1,024.3
2020e	392.6	1,057.3
2021f	414.8	1,097.1
2022f	435.8	1,151.9
2023f	455.7	1,224.0
2024f	474.4	1,314.5

Source: Central Bank of Iran and GlobalData research

CARD TRANSACTION VOLUMES BY CHANNEL (MILLION)

	ATM	POS
2016	5,511.5	13,326.0
2017	5,620.8	17,962.0
2018	5,094.1	22,912.1
2019	5,454.7	28,307.4
2020e	5,581.9	29,332.3
2021f	5,816.2	30,552.9
2022f	6,038.1	32,181.1
2023f	6,246.9	34,249.3
2024f	6,440.9	36,867.6

Source: Central Bank of Iran and GlobalData research

NUMBER OF ATMS AND POS TERMINALS (THOUSAND)

	ATM	POS
2016	51.6	5,372.2
2017	55.0	6,069.3
2018	57.5	6,973.1
2019	59.4	7,822.5
2020e	60.6	8,343.8
2021f	61.4	8,538.7
2022f	62.5	8,832.5
2023f	63.7	9,244.0
2024f	65.1	9,840.1

Source: Central Bank of Iran and GlobalData research

COUNTRY SNAPSHOT: KUWAIT

E-commerce growth is on the rise

Payment card adoption is on the rise in Kuwait. The number of cards in circulation increased from 4.5 million in 2016 to 4.9 million in 2020, with debit cards the preferred card type. The number of debit cards in circulation rose from 3.8 million in 2016 to 4.1 million in 2020. This was supported by a growing banked population in the country and the government's financial inclusion initiatives. Meanwhile, credit and charge card penetration in Kuwait is low at 19 cards per 100 individuals in 2020. This is partly for religious reasons, as Islam forbids the receipt or payment of interest.

Card payments are gaining traction in Kuwait, supported by the government's financial inclusion initiatives, improved payment gateways for online transactions, banks and financial institutions offering reward programmes, and the adoption of newer payment technologies. Debit cards accounted for the highest share of the Kuwaiti payment card market during the review period (2016–20), indicating a preference for settling payments immediately. While the Covid-19 pandemic is expected to impact consumer spending in the country – in turn affecting the payments industry – there will be a rise in payment card transactions at the expense of cash.

Debit cards remain the preferred card type

Debit card penetration in Kuwait stood at 96.9 cards per 100 individuals in 2020, with debit cards accounting for 91.6% of total card payments by value. The government has been encouraging the adoption of debit cards by undertaking financial inclusion programmes. Meanwhile, the government's push to promote payments using cards coupled with the growing popularity of contactless payments will further drive debit card payments going forward.

Credit card penetration is growing at a slow pace

Credit card adoption is slowly gaining traction in the country. The number of credit cards in circulation recorded a compound annual growth rate (CAGR) of 0.6% between 2016 and 2020. To encourage adoption, banks are offering Sharia-compliant credit cards in addition to regular credit cards as part of bundled packages. Despite low penetration, credit cards are increasingly used for payments, with card payment volume recording a CAGR of 8.3% during the four years to 2020. Growth was supported by banks encouraging usage by offering benefits such as interest-free installments, discounts, and cashback.

PAYMENT CARDS BY TYPE (MILLION)

	DEBIT	CREDIT
2016	3.75	0.78
2019	4.12	0.83
2020e	4.14	0.80
2024f	4.48	0.92

Source: GlobalData research

White Friday success

Kuwait's e-commerce market recorded growth of 14.5% over the period 2016-2020, rising from KWD374.7m ($1.2bn) in 2016 to $2.1bn in 2020. Banks offer services exclusively for online shopping. Al Ahli Bank of Kuwait offers ABK SecurePay, an online payment service that provides enhanced security for card payments online. Card holders activate the service by entering their card details and creating a unique password on the ABK SecurePay page. To promote e-commerce, the White Friday event is held in Kuwait every year. ■

CARD TRANSACTION VALUES BY CHANNEL ($ BILLION)

	ATM	POS
2016	36.5	29.1
2017	38.9	32.6
2018	40.2	37.2
2019	40.6	42.1
2020e	40.5	43.3
2021f	41.3	45.3
2022f	42.4	49.4
2023f	43.4	53.5
2024f	44.2	57.5

Source: Central Bank of Kuwait and GlobalData research

CARD TRANSACTION VOLUMES BY CHANNEL (MILLION)

	ATM	POS
2016	84.4	165.6
2017	92.3	198.7
2018	95.4	238.7
2019	97.7	242.2
2020e	98.3	241.9
2021f	100.0	247.4
2022f	102.1	262.4
2023f	104.0	277.8
2024f	105.7	292.6

Source: Central Bank of Kuwait and GlobalData research

NUMBER OF ATMS AND POS TERMINALS (THOUSAND)

	ATM	POS
2016	2.0	46.5
2017	2.1	51.1
2018	2.4	59.5
2019	2.7	58.2
2020e	2.8	56.4
2021f	2.9	57.1
2022f	3.1	58.7
2023f	3.4	62.0
2024f	3.6	66.4

Source: Central Bank of Kuwait and GlobalData research

BANKS RISK BEING LEFT OUT OF THE NEW FINANCIAL CONVERSATION

Like a lot of industries, financial services has seen seismic changes in consumer behaviour throughout 2020. *Sheila Kagan*, CEO of PayKey, writes


Sheila Kagan, PayKey

Digital and mobile banking usage, already growing steadily before the pandemic, exploded overnight as lockdown measures were enforced around the world.

Some correction is expected in 2021 but fundamental transformations have taken place that are here to stay. A global study by Bain revealed 95% of consumers plan to use digital banking when things return to normal.

And the more consumers get used to digital banking, the more they will demand better user experiences and more convenient services seamlessly integrated into their mobile journeys. Banks will have to up their digital innovation game dramatically just to keep pace with customer expectations.

As if that wasn't enough, Big Tech has arrived in banking. So a perfect storm is brewing for incumbents that will make the fintech challenge of recent years seem like a cake walk. Those who are still playing digital catch up are in real danger of being left behind, as the gap widens to a chasm.

This double threat of accelerated consumer behaviour shifts, and tech giants entering stage left, may push traditional banks out of the financial conversation completely unless urgent action is taken.

Parking tech tanks on banks' lawn

The recent Google Pay revamp, as well as the WhatsApp Pay India and WhatsApp Pay for Business launches, have made it very clear that Big Tech is now in financial services in a serious way. And that is even before the relaunch of WhatsApp Pay Brazil, Google Plex and Facebook Libra rollouts next year, and expected big moves by Apple and Amazon. This represents an existential threat to banks. Already locked in, consumers could find themselves giving in to the ease of use and convenience of the tech giants' new financial products. If allowed to steal in unchecked, these user-friendly, hyper-personalised platforms with access-all-area passes to our daily lives have the power to dominate payments, e-commerce and wider financial services.

We live in chat

The most immediate and acute danger for banks is in chat...or not being in chat, for that matter. We spend 50% of our time on mobile in social or messaging apps. This is where financial conversations are happening now. It's where we make dinner plans, decide on holidays, discuss grocery shopping, what shoes to buy, and all the rest.

The tech giants know this only too well. That's why they are so interested in offering financial services there. What starts out as simple P2P payments, and buy buttons for small businesses, will soon evolve to full e-commerce functionality and wider financial services offerings. Just look to the 'Super-App' model as a potential future vision, where the likes of China's WeChat developed from a simple messaging app into a multi-purpose platform for all life needs.

Banks need to get into social banking now if they want to be part of the future. By embedding access to their services within social and messaging apps, they can meet customers where they are with a convenient user experience when needed. Not only will this allow them to compete on a level playing field with Big Tech but it will also help them maintain a direct relationship with their customers. The alternative is risk becoming irrelevant as the conversation passes them by.

A war on two fronts

The fightback challenge for banks is two-fold, innovation and regulation. The former is very much in their hands and, luckily, there is a growing army of innovators ready to help. By forming partnerships with specialist fintech players who provide services specifically designed to augment digital offerings, banks can fast-track innovation and take a shortcut into the fight. Regulation is a different story. Major pressure has to be exerted on authorities to ensure the new tech entrants are subject to the same strict oversight as everybody else. Why should they be allowed to play in the most heavily regulated sector in the economy and not have to follow the rules?

Don't be fooled by Google's claim to have "no interest in ever becoming a bank". Just like Facebook's insistence they're not a media company, it is a cynical attempt to avoid regulation rather than an honest assessment of their future plans. WeChat and Alipay had the same strategy in China. However, as the recent Ant Group IPO halt demonstrated, Chinese regulators recognise the threat posed by runaway Big Tech oligopolies to consumers, industry competition and, indeed, stability across the entire banking system, and are not afraid to take strong decisive action.

Regulators on this side of the world should take inspiration from this hard and fast crackdown. They may have been too slow and ineffective at taming Big Tech in the past, but they must not make the same mistake now our financial data is at stake.

Consumer trust wins

The good news is banks have consumer trust on their side. For hundreds of years, we have put our faith in them to handle all aspects of our finances. And trust in Big Tech could not be lower right now.

If given a choice, I expect most consumers would prefer not to let Google or Facebook into their personal financial data, on top of everything else. But they need a viable alternative that compares with Big Tech's digital user experience. If banks can crack this, they may find they're pushing on an open door. ■

Banking & Payments at a glance

GlobalData's **Banking & Payments Intelligence Center** is the **leading information service** that helps our clients to predict **market, competitor, customer** and **disruptor** moves

MARKETS

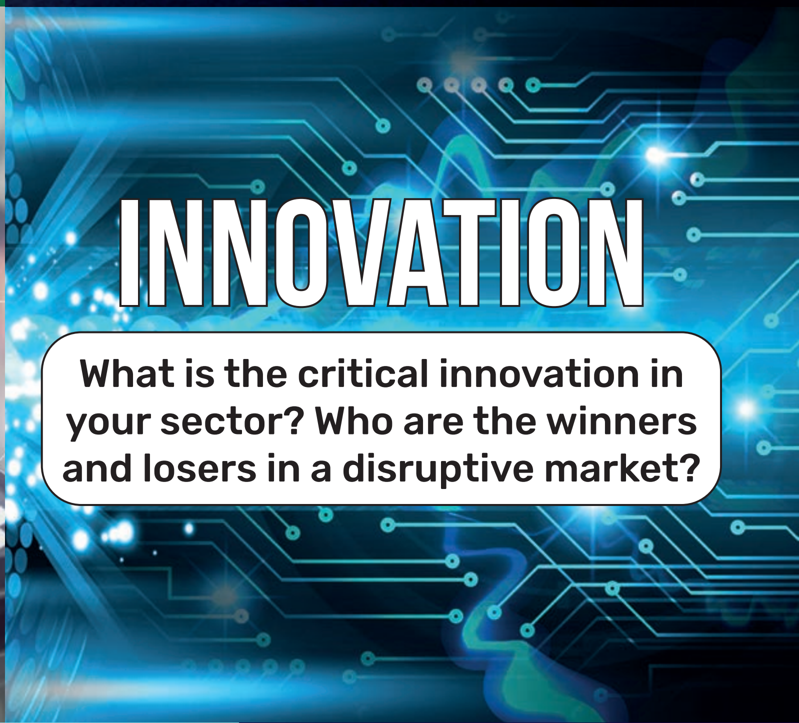
How fast will the market evolve? Which segments offer the greatest potential?

COMPETITORS

What are your competitors doing differently? How successful are they?

CONSUMERS

What does tomorrow's consumer look like? Which products are they likely to try and adopt?



INNOVATION

What is the critical innovation in your sector? Who are the winners and losers in a disruptive market?