

# Driving Latin America's Digital Economies



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The internet has transformed our lives for the past two decades, becoming an integral part of the way we live, work, shop, and connect with each other. Companies have rapidly adopted new business models to use the internet as a channel to engage, cut the middleman, and sell directly to customers. As a result, the way that companies and individuals pay and get paid via digital channels has become an essential priority to support the needs of businesses today and their future growth plans.

**In a recent article, Scott Damassa, Citi's North America head of eCommerce & TCG Sales said,**

**"Being able to access instant payment programs at scale and with a low cost-per-payment will be an important step toward a viable web3 microtransaction-supported model. This new model could enable many of our clients to imagine new products and use cases that take advantage of the increased speed and reduced cost of payments."**

Latin America's central banks, regulators, and clearing systems have taken steps to modernize existing payment infrastructures in recent years, but there is still a long journey ahead. While payments have become faster and more transparent, particularly for lower value payments, traditional payment systems were not designed for the digital economy. High costs of intermediation, processing cut-off times, the lack of interoperability – particularly cross-border – and the slow pace of innovation, mean that these systems might continue to lag in demands of the digital economy. Furthermore, despite important advancements, these systems are still mostly

inaccessible to Latin America's large unbanked population and small businesses. Consequently, while governments, banks, and businesses alike are keen to move away from the use of cash that is insecure and costly to produce, the entire financial ecosystem needs to continue to work to generate a robust and secure alternative to support and drive the digital economy.

## **Leveraging the potential of the digital economy**

Latin America's digital economy is surging, accelerated by the Covid-19 pandemic, despite depressed growth or recession in some markets. AMI<sup>1</sup> forecasts that the digital economy in the region will grow by 25% between 2021-2025, reaching a value

<sup>1</sup>Latin America E-Commerce Market Projections, 2021-2025, 2022, Americas Market Intelligence (<https://americasmi.com/insights/latin-america-e-commerce-market-projections-2024/>)

of US\$700 billion, led by Brazil and Mexico.<sup>2</sup> Much of this shift to digital is a replacement of traditional cash-based purchases, as opposed to consumers seeking to access international sellers. 86% of all e-commerce in the region is domestic,<sup>3</sup> with most Latin American consumers more interested in buying items of local brands.

Even when making online purchases, 14% of consumers in Latin America still pay in cash, either directly through cash payment on delivery, or indirectly, through vouchers purchased at convenience stores or banks.<sup>4</sup> Unless digital alternatives exist that are universally accessible, this could dampen the potential of the digital economy through a lack of scalability, high costs, and low security.

### Payment's innovation to drive Latin America's digital economies

Credit and debit cards are currently the most prevalent form of digital payments, estimated at 54% of total e-commerce transactions by 2025.<sup>5</sup> However, excepting prepaid cards, these require a bank account. Consequently, other digital payments, including digital wallets, are emerging and will gain traction to support the digital economy, enabling wider participation. Given the large, digital-savvy population in Latin America, there is considerable appetite for these emerging digital payment methods. According to Mastercard New Payments Index, 83% of consumers in Latin America intend to use at least one emerging payment method in the coming years, including cryptocurrencies, biometric technologies, contactless payments, or QR codes.

This consumer demand is already reflected in emerging instant payment innovations. The rapid development of 24/7 real-time payment schemes is evident alongside traditional batch/real-time gross settlement (RTGS) systems in Latin America. In November 2020, the Brazilian Central Bank launched its instant payment scheme, Pix, and the country has already become one of the top 10 instant payment markets globally.<sup>6</sup>

One of the reasons for the success of instant payments in Brazil is that these payments are embedded into the digital economy. Instant payments are seamlessly integrated with the purchasing or invoice generation using QR codes, while the use of keys, such as cellphone numbers, makes it easy and convenient to make or receive payments, even without a bank account.

This trend is replicated across Latin America, processing millions of transactions per month. Mexico's CoDi (central bank digital payment system) is one of the world's top 10 instant payment markets alongside Brazil,<sup>7</sup> and one of Citi's largest markets for instant payments globally. In addition to national instant payment schemes, the fintech population is growing rapidly, offering complementary digital wallets which increase accessibility to Latin America's unbanked population, while increasing choice and convenience in the digital economy. This includes an expanding number of foreign companies seeking to leverage burgeoning opportunities in the region. All this growth will certainly drive further innovation and boost financial inclusion by enabling people across the region to participate in the digital economy while granting them easier access to goods and services, including financial and public services.

"The Latin America Financial Market Infrastructure is changing drastically. A new modern clearing system driven by regulations around Instant Payments, Open Banking, Central Bank Digital Currencies is one of the many moves Central Banks are pushing as part of their digital policies to drive financial inclusion and promote wide access to the Digital Economy. From mid to large size corporations, businesses can harness the opportunity of the digital economy by integrating their commerce into new alternative payments methods, like eWallets with QR Codes, to digitize their cash collection and automate their payments reconciliation," says Driss Temsamani, Citi Latam Digital Head.

<sup>2</sup>Latin America E-commerce Sales and Data 2021-2024 (americasmi.com)

<sup>3</sup>Latin America E-commerce Sales and Data 2021-2024 (americasmi.com)

<sup>4</sup>Latin America E-commerce Sales and Data 2021-2024 (americasmi.com)

<sup>5</sup>World Payments Report, 2022, FIS Worldpay (<https://worldpay.globalpaymentsreport.com/en>)

<sup>6</sup>ACI Worldwide: The Leader in Real-Time Payments, 2022, ACI Worldwide (<https://go.aciworldwide.com/rs/030-ROK-804/images/2021-Prime-Time-Report.pdf>)

<sup>7</sup>ACI Worldwide (<https://go.aciworldwide.com/rs/030-ROK-804/images/2021-Prime-Time-Report.pdf>)