



Monetizing LATAM: How to Run a Successful E-commerce Payment Operation in Latin America

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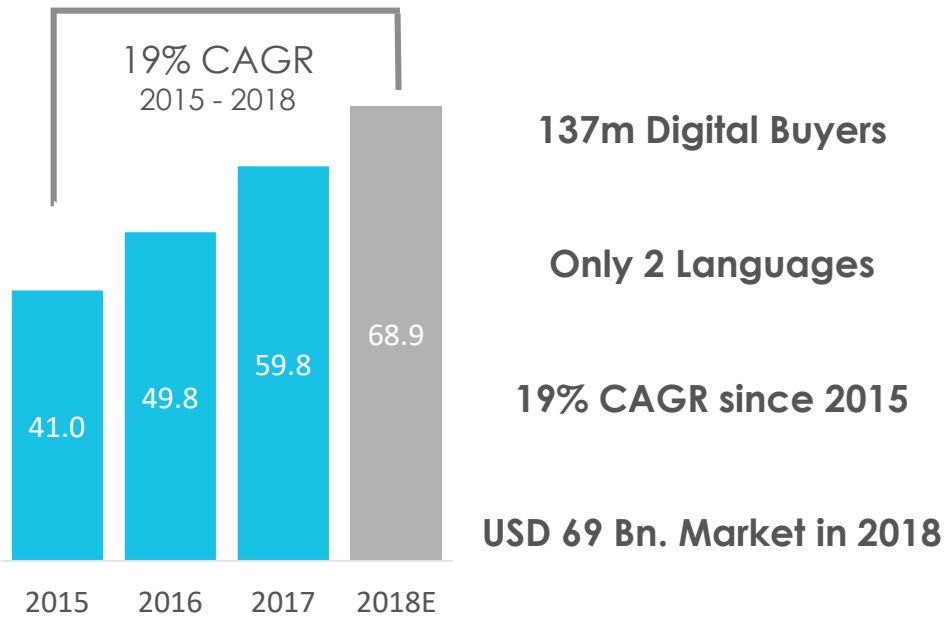
Key Takeaways

1. Understand the size and scope of e-commerce opportunities across the key LATAM markets
2. Preferred payment methods in each country and the cards acquirer and issuer environment
3. The challenges associated with managing fraud, tax and local market compliance
4. How e-commerce success in LATAM depends on adopting a “local” approach

E-COMMERCE IN LATAM – A LARGE, GROWING AND HOMOGENOUS MARKET

Opportunity

- Highly attractive and sizeable market



E-commerce volume in USD bn

Source: TechCrunch (2016), World Internet Stats (2018), Statista, eMarketer, allpago Research

CRUNCH NETWORK

Why have some of Silicon Valley's top investors started investing in Latin America?

Posted Sep 28, 2016 by Julie Ruvolo (@jruv)



400 M internet users

Represent 8% of total internet users



65% internet penetration

4th largest global penetration rate



Mobile users are coming online through inexpensive androids

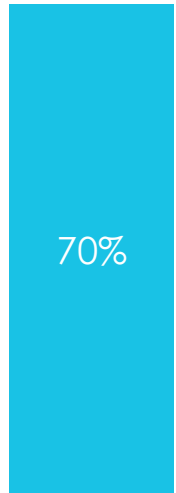


Half of the population is unbanked

Only 15% of Mexicans have a credit card

E-COMMERCE IN LATAM – PAYMENTS IN LATAM ARE CHALLENGING

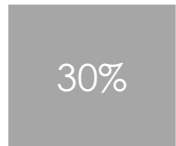
1 CHALLENGE - ACCESS



**Local Payment Methods
in local Currency**
(Cards + Alternatives)



+



**International Cards
enabled to process
foreign currencies**

2 CHALLENGE - SERVICES



INSTALLMENTS



TAXATION



REDUNDANCIES



TECHNOLOGY

3 CHALLENGE – REGULATION



At least six different
regulatory landscapes

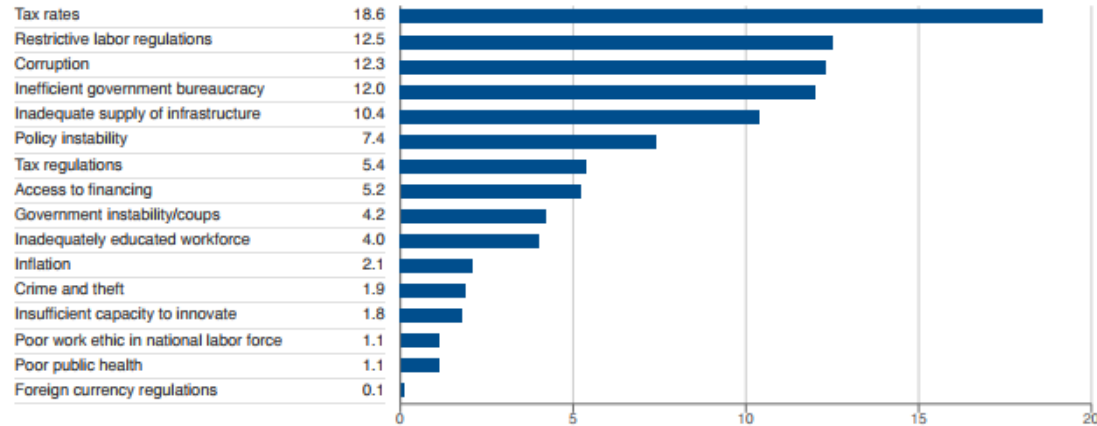
Source: Lafferty, allpago Research

E-COMMERCE IN LATAM – CHALLENGING REGION: MOST PROBLEMATIC FACTORS FOR DOING BUSINESS (WEF)

Brazil

Most problematic factors for doing business

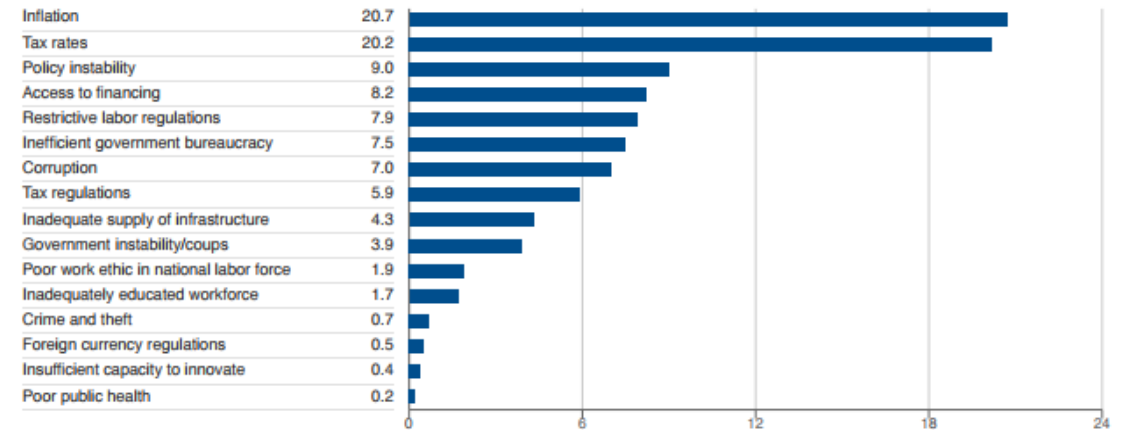
Source: World Economic Forum, Executive Opinion Survey 2017



Argentina

Most problematic factors for doing business

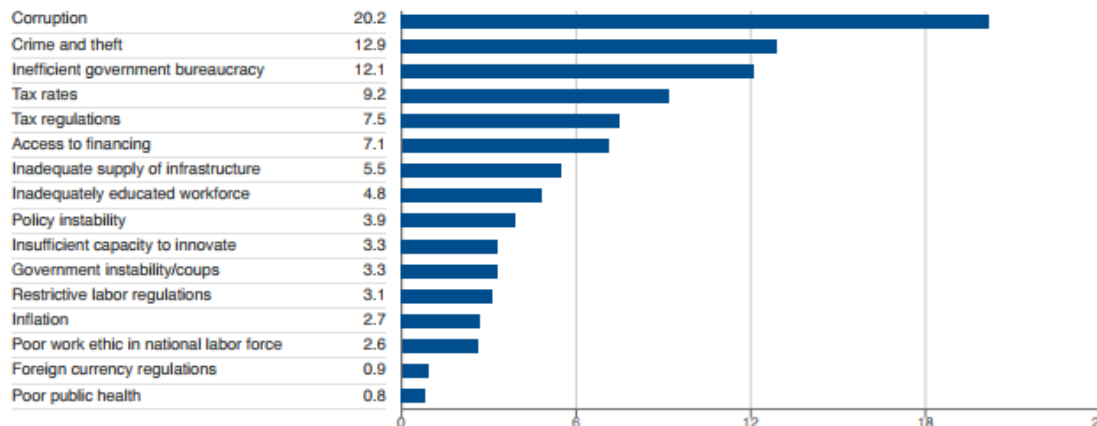
Source: World Economic Forum, Executive Opinion Survey 2017



Mexico

Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2017



Most problematic factors across top 3 LATAM countries

- Tax rates
- Tax regulations
- Inefficient government bureaucracy
- Political instability
- Access to financing

Source: World Economic Forum, Executive Opinion Survey 2017

E-COMMERCE IN LATAM – LOCAL PROCESSING VS CROSS-BORDER

LOCAL PROCESSING

Advantages

- Add at least 60% more revenues
- Elimination of FX fluctuation for clients
- No financial transaction taxes for clients
- Add relevant local features such as installments
- Avoid losing recurring clients

Disadvantages

- Harder to implement and operate
- Foreign currency fluctuations
- Withholding tax
- Local compliance

Source: allpago Research

CROSS-BORDER PROCESSING (US ACQUIRER)

Advantages

- Easy to implement
- Easy to operate
- Less local taxes

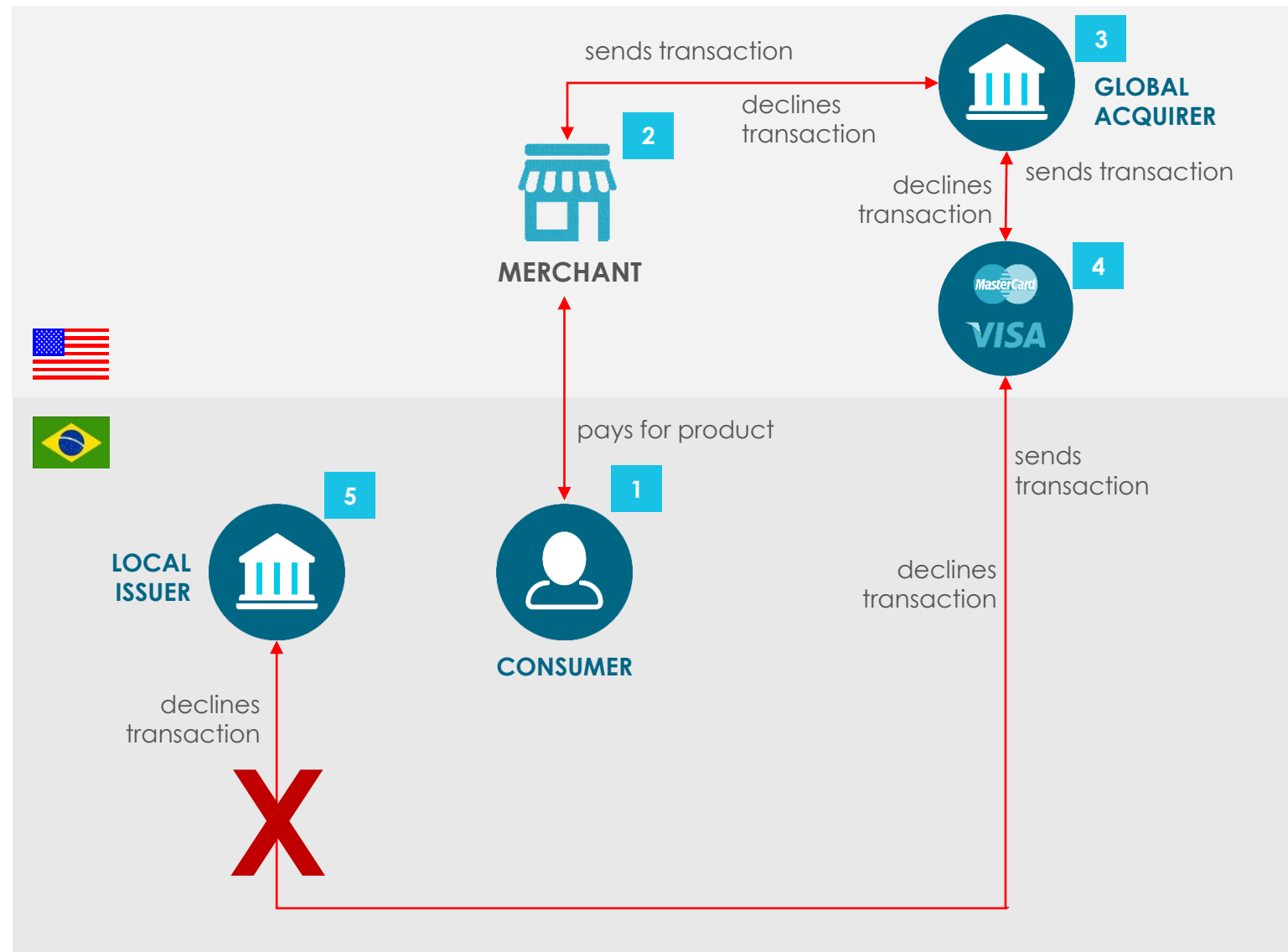
Disadvantages

- Access only 30% of the market
- Poor authorization rates
- Hidden costs for end-buyer
- Currency fluctuations for end-buyer
- No local payment methods
- No installments

LATAM – MERCHANT CHALLENGE: TO ENABLE LOCAL CARD TRANSACTIONS

The local issuer in LATAM considers the transaction risky and declines the transaction. The main decline reasons are:

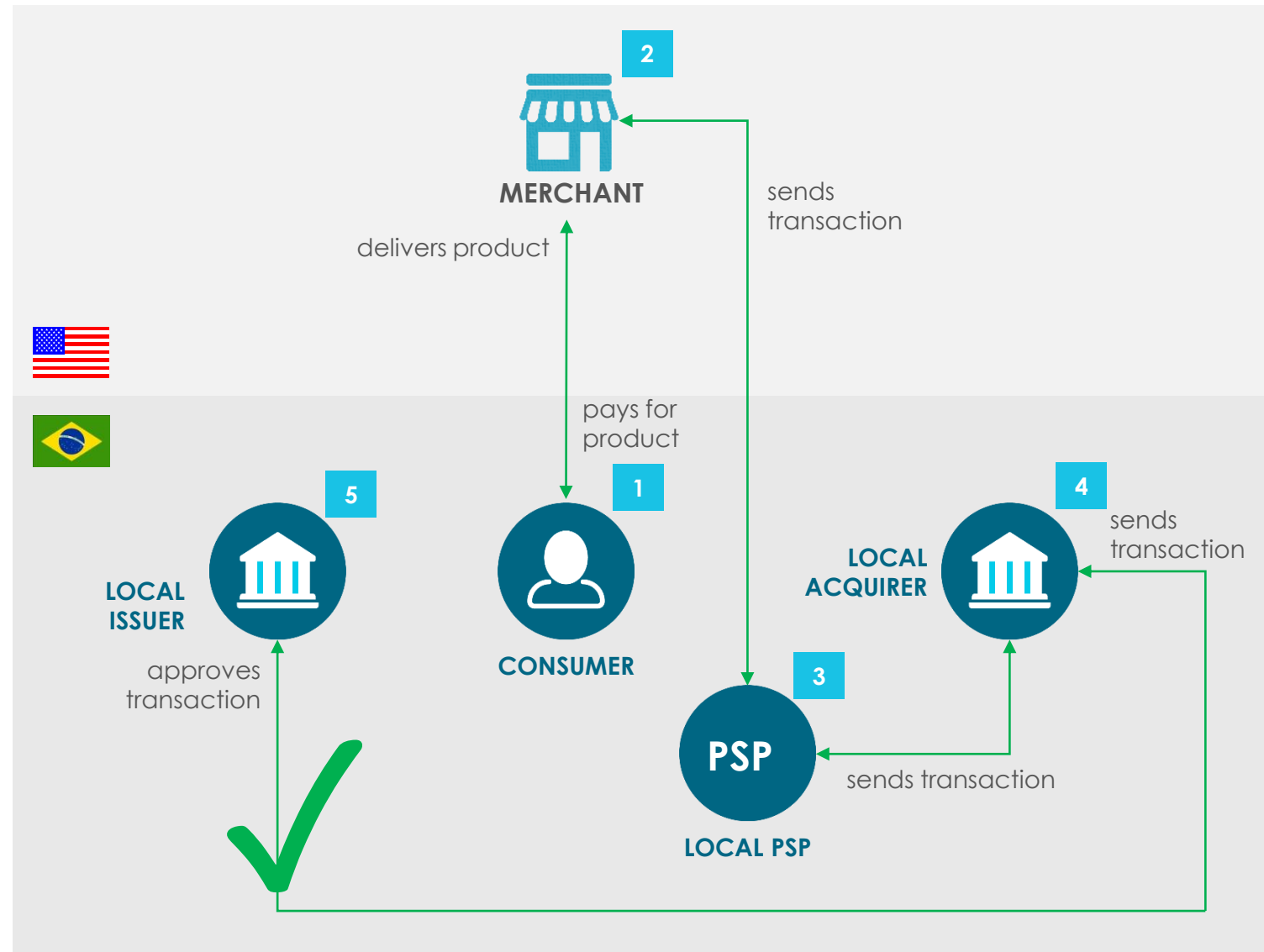
- Card not allowed to process in foreign currency
- Consumer has no international purchase profile
- Consumer isn't located where merchant is



LATAM – LOCAL PROVIDERS ENABLE LOCAL TRANSACTIONS

The local issuer in LATAM considers the transaction normal and approves the transaction. The main approval reasons:

- Transaction is in local currency
- Initial transaction is local
- Recurring transaction is local
- PSP is processing in country



MARKETS IN FOCUS



BRAZIL

- **42% share** of LATAM total e-commerce market
- E-commerce market valued at **\$25.1bn USD in 2017**
- Local credit cards are the preferred payment method
- Boleto bancário is complimentary to cards adding 22% more revenues



MEXICO

- **17% share** of LATAM total e-commerce market
- E-commerce market valued at **\$10.2bn USD in 2017**
- Unblocking debit card bins for CNP transactions is key

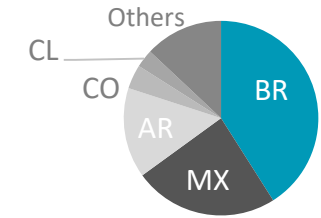


ARGENTINA

- **12% share** of LATAM total e-commerce market
- E-commerce market valued at **\$7.2bn USD in 2017**
- The economy appears to have stabilized and opened to global markets

BRAZIL – MARKET SHARE & PAYMENT METHODS

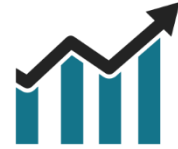
Highlights



42%
LATAM Market Share



\$25.1 bn. market
in 2017



14% CAGR
(2011-2018)

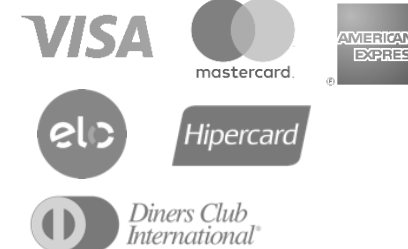
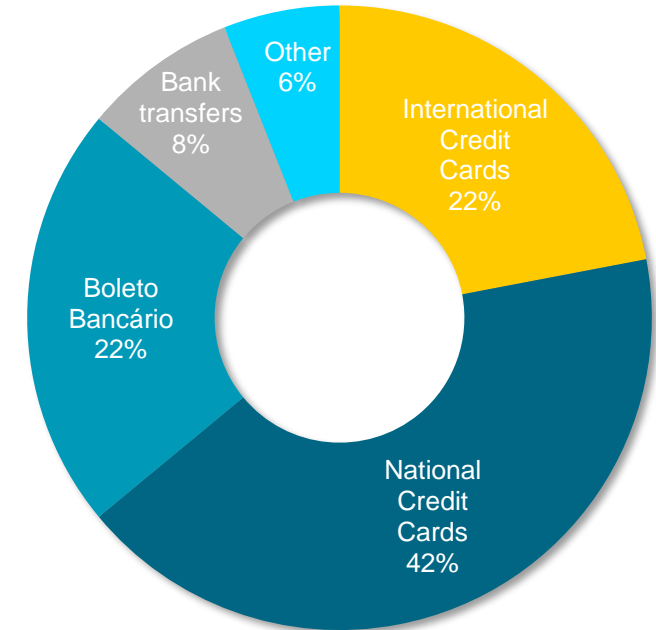
LOCAL PAYMENT METHODS

- 78% of Brazilians use local payment methods when purchasing online
- Boleto Bancário and national credit cards **can only be processed in BRL** and represent majority of the market
- It is key for international merchants to find ways to offer their products and services in BRL

Source: Statista, eMarketer, allpago Research

Payment Methods Breakdown

You are missing 78% of the market



Alternatives



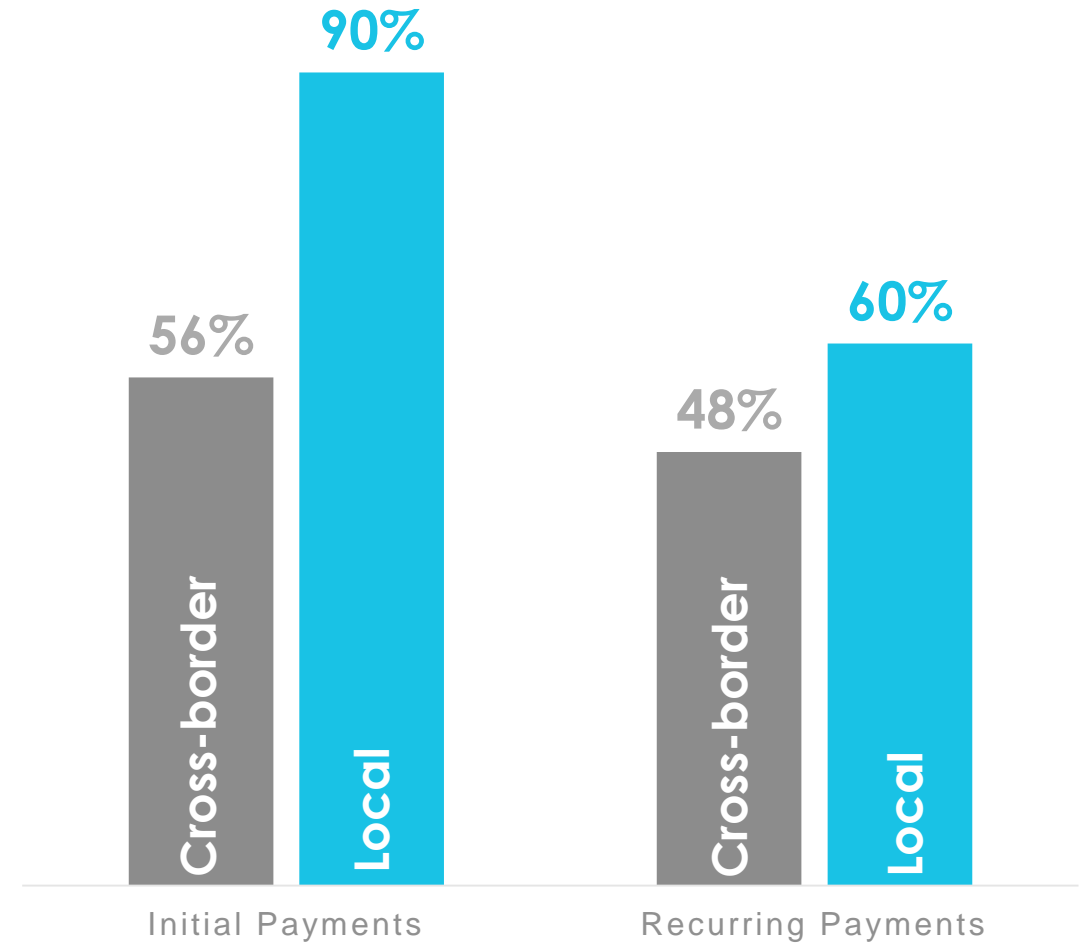
BRAZIL – BUILD YOUR BUSINESS CASE – WHAT IS THE IMPACT OF GOING LOCAL?



- When switching from international to local processing, merchants can expect up to:

69% growth in conversion rates for initial payments

25% growth in conversion rates for recurring payments



Source: allpago Research

BRAZIL – WHY ARE CROSS-BORDER TRANSACTIONS LOW?

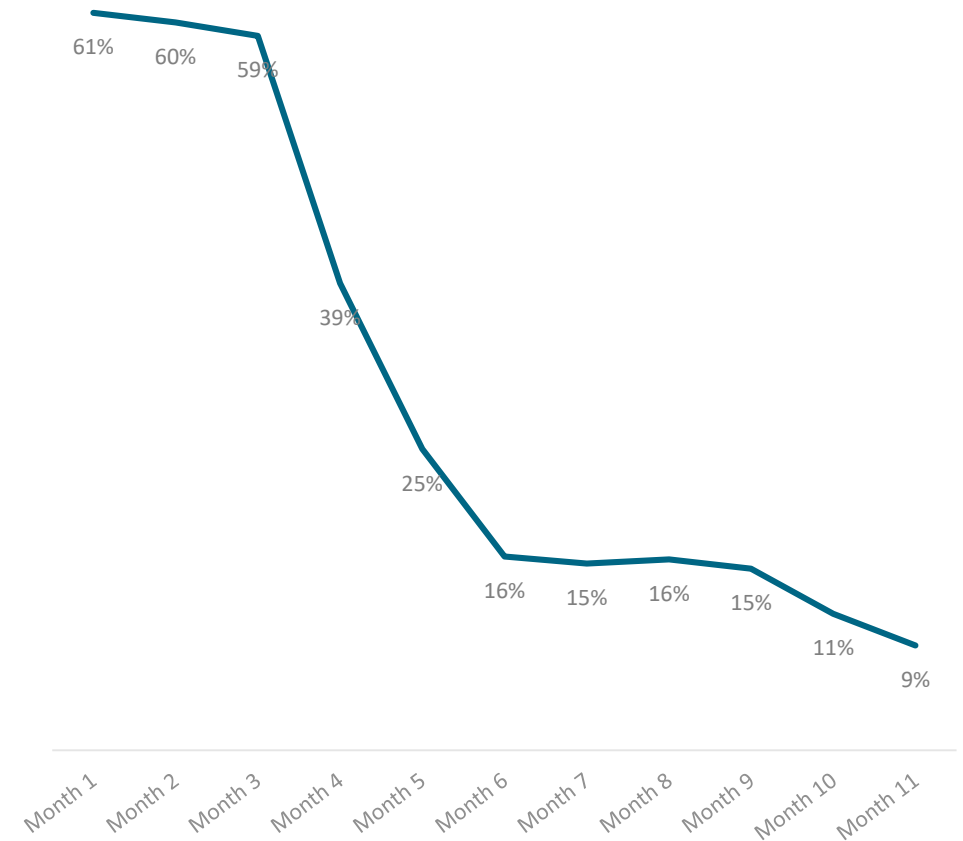
Recommendation by ABECS

The inability to process transaction through DCC in Brazil has a serious impact on auth rates for clients using US or EMEA processors. The only way of reaching satisfactory auth rates is to process through local Brazilian Acquirers.

- In 2013 the Association of Brazilian Credit Cards and Services (ABECS) recommended issuing banks to decline Dynamic Currency Conversion (DCC) transactions in order to push foreign acquirers submitting transactions locally
- Subsequently, major issuing banks began systematically declining Brazilian Reals cross-border transactions
- Authorization rates for foreign currency fell below 10%

Source: allpago Research

Cross border Authorization Approval Rates



BRAZIL – ISSUER & ACQUIRER LANDSCAPE

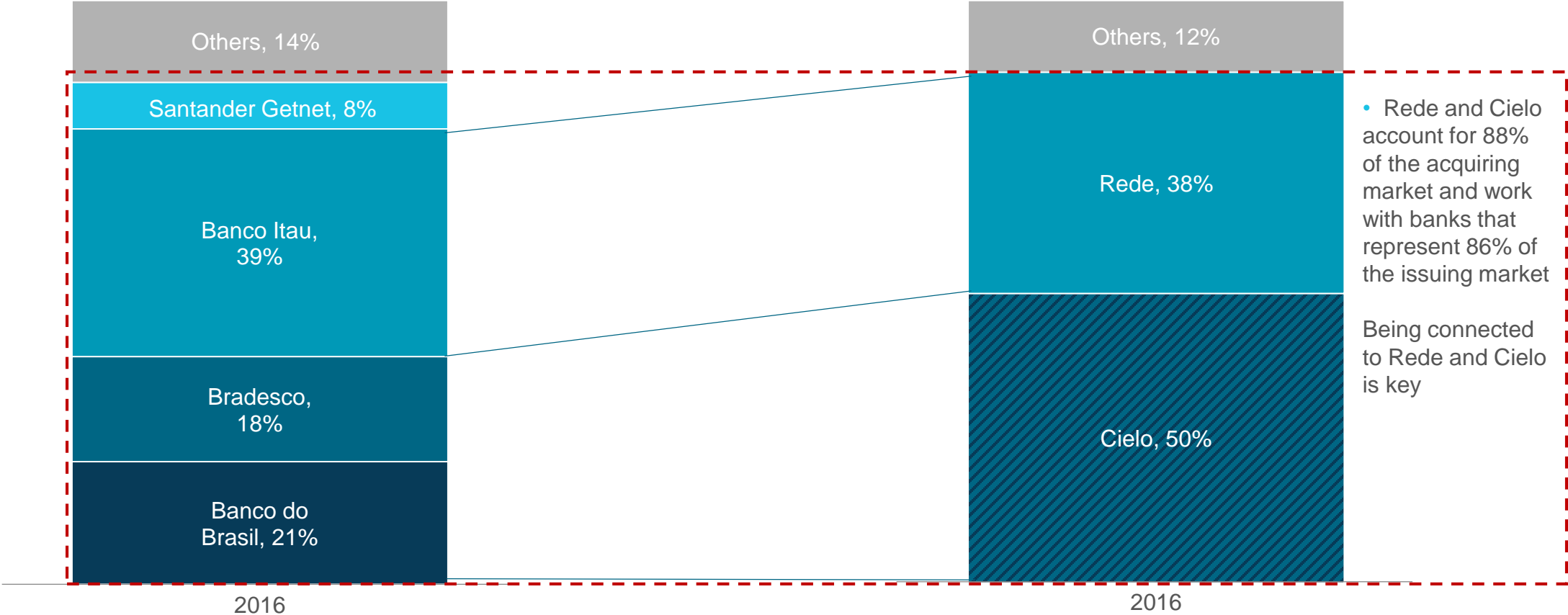


Issuing market share*

*per billed volume of total transactions

Acquiring market share*

*per billed volume of card not present (CNP) transactions



Source: Lafferty Merchant Acquiring October 2017, BTG Pactual 2017

BRAZIL – BOLETO IS COMPLIMENTARY TO CARDS

Main Features

- Boleto (*Boleto Bancario*) is a Brazilian pre-payment method and allows individuals without access to electronic payment methods to purchase online.
- It generates 20% additional revenues, and makes up 22% of all e-commerce spending, especially popular in high-ticket purchases
- It is used for B2B payments as it allows companies to avoid costly fees when making wire transfers. It accounts for up to 70% of total volume for enterprise customers

Advantages

- Low fraud risk
- Payments not subject to chargebacks
- No negative consequence if payment is not completed

Disadvantage

- No real time authorization after payment, thus reducing buying impulse
- Interbancarian interchange as fixed cost can be expensive for low ticket sizes

Source: allpago Research

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Local de Pagamento: PAGAVEL EM QUALQUER BANCO ATÉ O VENCIMENTO
APOS O VENCIMENTO, SOMENTE NO ITAU

Vencimento: 17/11/2017

BENEFICIÁRIO: ALLPAGO PROCESSADORA E ADMINIS CNPJ: 21.041.840/0001-72 Agência/Código beneficiário: 7307/06864-8

Data do documento: 15/11/17 No. do documento: 68282120 Espécie doc.: DM Aceite: N Data Processamento: 15/11/17 Nosso Número: 176/68282120-4

Uso do Banco: 02 Carteira: 176 Espécie: R\$ Quantidade: Valor: 05 (=) Valor do Documento: 10,00

Instruções de responsabilidade do beneficiário. Qualquer dúvida sobre este boleto contate o beneficiário. (-) Descontos/Abatimento

Test product: 06

CLIENTE ITAU: PAGUE NO BANKFONE, BANKLINE OU CAIXAS ELETRONICOS

PAGADOR - ANA GRACA 07 RUA MOURATO COELHO 590 08 RUA MOURATO COELHO 590 09 05417-012 BAIRRO SAO PAULO SP 10 Sacador/Avalista: 11 CNPJ/CPF - 00023773755880 12

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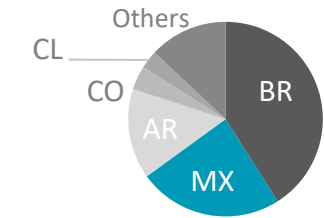
Ficha de Compensação
Autenticação Mecânica

01	Typable code
02	Issuing date
03	Barcode
04	Due date
05	Amount
06	Instruction fields
07	Customer's name
08	Customer's street
09	Customer's ZIP
10	Customer's city
11	Customer's state
12	Customer's CPF

Non-customizable
Customizable

MEXICO – MARKET SHARE & PAYMENT METHODS

Highlights



17%
LATAM Market Share



\$10.2 bn. market
in 2017



23% CAGR
(2014-2018)

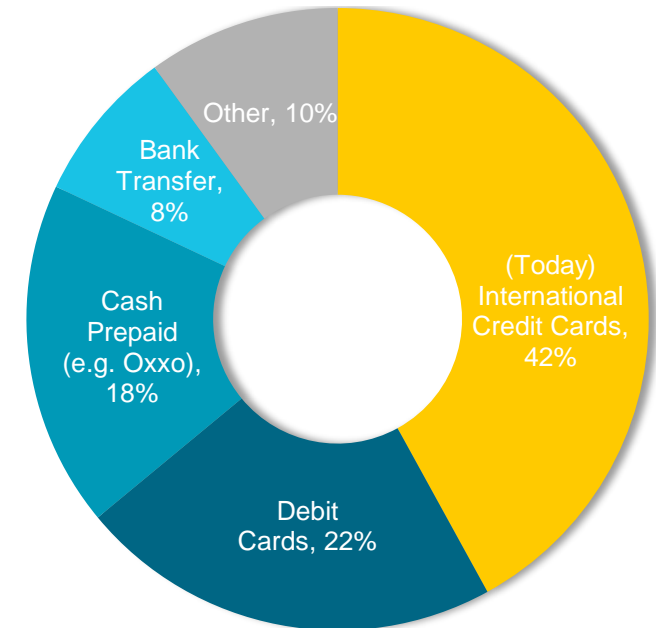
LOCAL PAYMENT METHODS

- Local payment methods dominate Mexican online payments.
- Cash payments are performed through convenience stores or on delivery. **Oxxo** positions itself as the convenient store payment leader with more than 13,000 stores across Mexico
- Cash-on-delivery**, has been used by nearly four in ten Online shoppers but only when buying physical goods

Source: Statista, eMarketer, allpago Research

Payment Methods Breakdown

You are missing 58% of the market



Local Cards



Alternatives



BBVA Bancomer

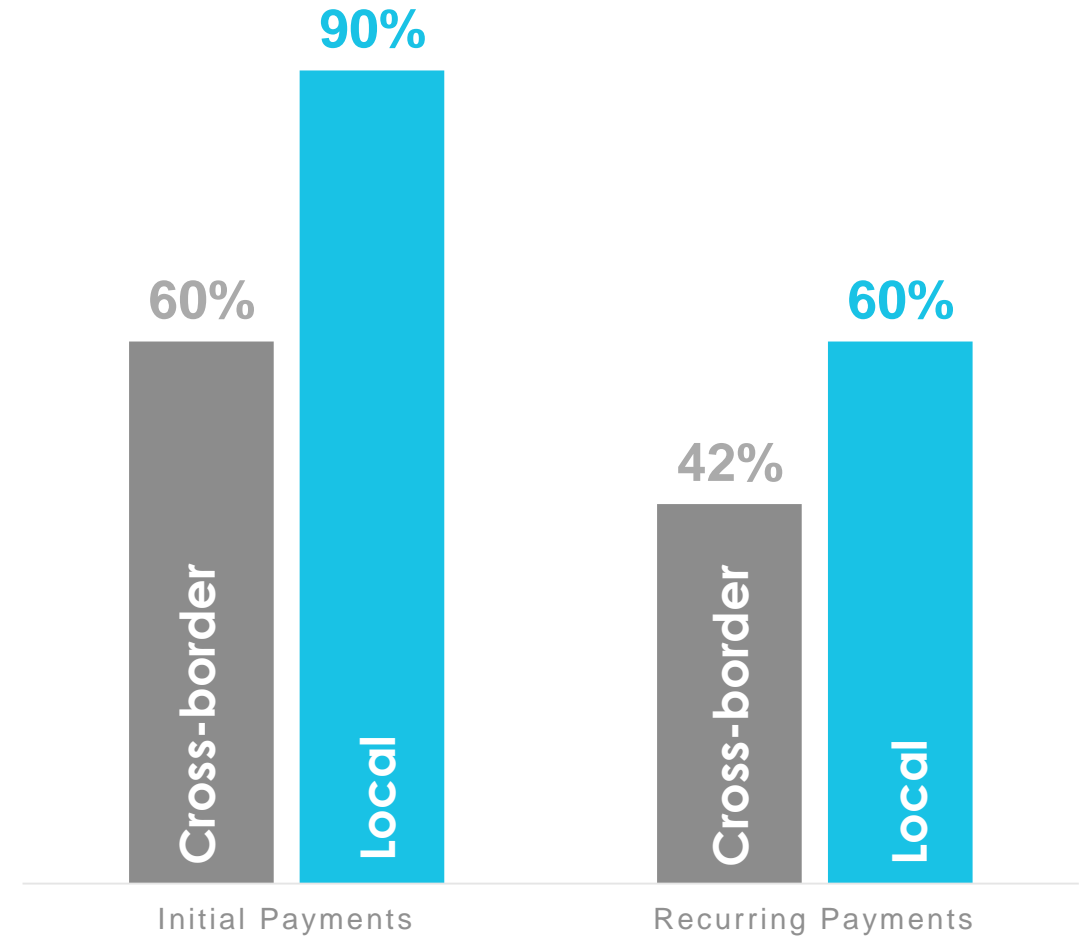
MEXICO – BUILD YOUR BUSINESS CASE – THE IMPACT OF GOING LOCAL



- When switching from international to local processing, merchants can expect up to:

50% growth in auth rates for initial payments

43% growth in auth rates for recurring payments

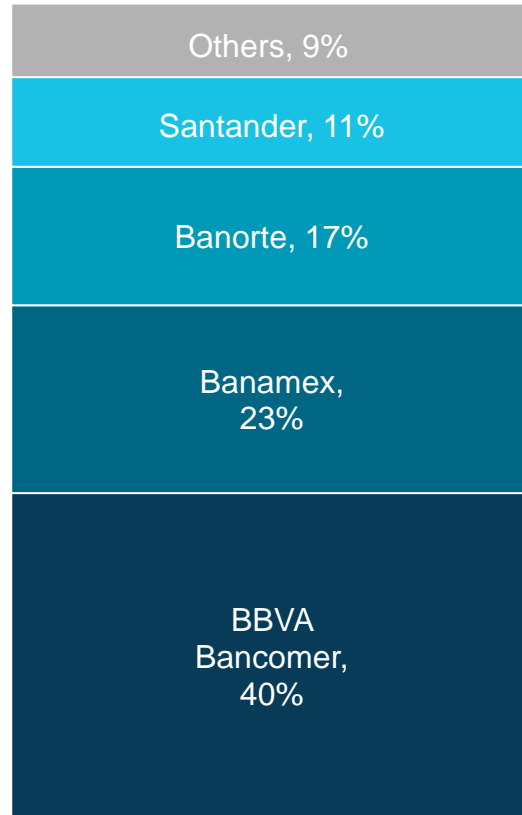


Source: allpago Research

MEXICO – ISSUER & ACQUIRER LANDSCAPE

Issuing market share*

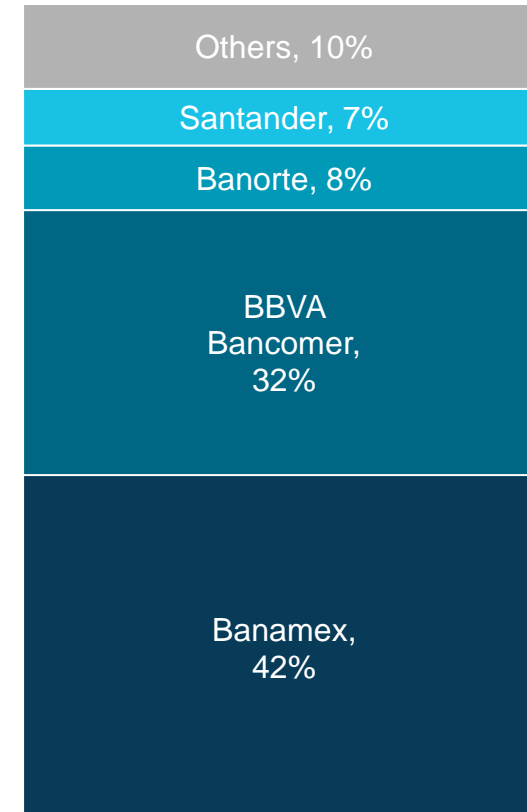
*per billed volume of total transactions



2016

Acquiring market share*

*per billed volume of card not present (CNP) transactions



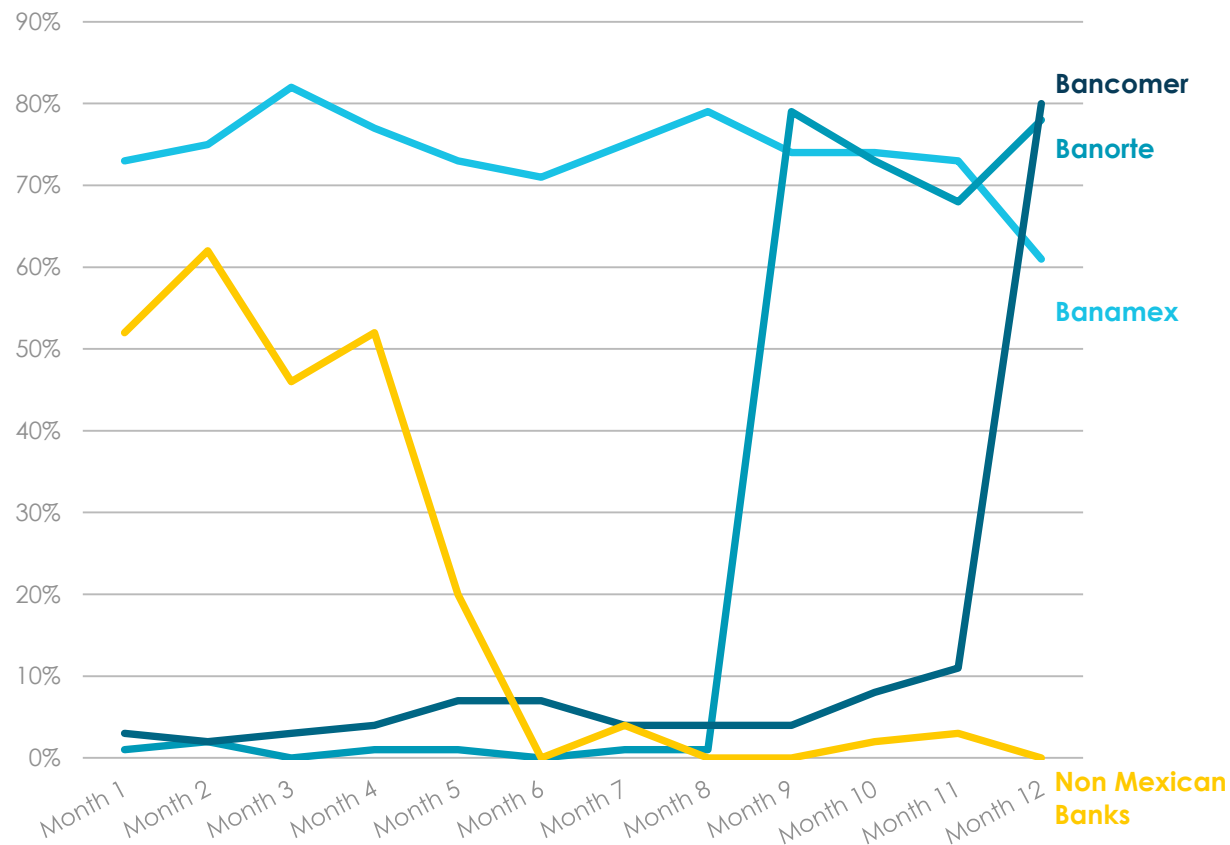
2016

Source: Lafferty Merchant Acquiring October 2017, Banco de Mexico 2017

MEXICO – UNBLOCKING DEBIT CARD BINS FOR CNP TRANSACTIONS IS KEY



CNP Case Study: Authorization Approval Rates Debit Cards per Issuing Bank

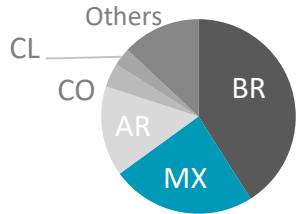


- When opening a MID in Mexico Debit Cards are often blocked by default by issuers
- This is due to the fact that there is no specific auth-process for debit cards
- Thus one needs to negotiate the opening of the BINs with the issuers
- For recurring transactions a separate MID might be setup

Source: allpago Research

ARGENTINA – MARKET SHARE & PAYMENT METHODS

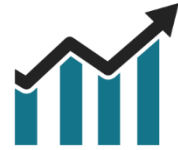
Highlights



12% LATAM Market Share



\$7.2 bn. market in 2017



23% CAGR (2014-2018)

LOCAL PAYMENT METHODS

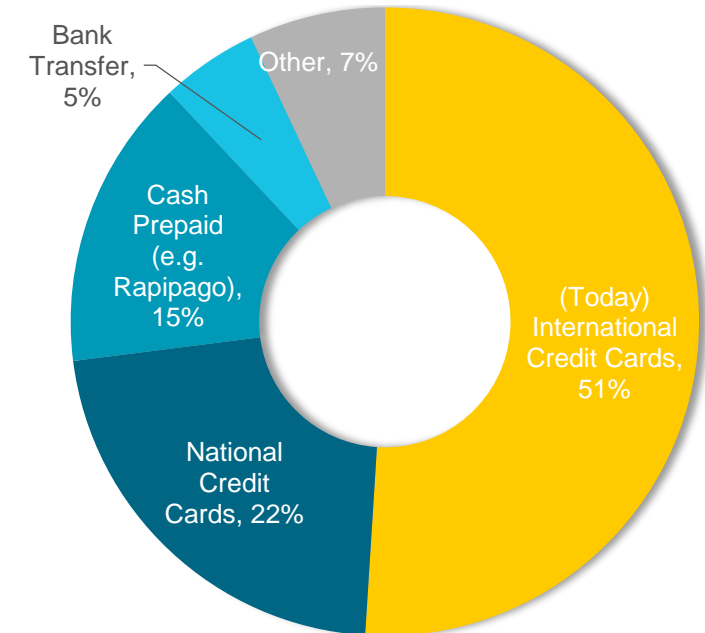
- **Cash based online payment** methods are fundamental for selling products and services in Argentina
- **Debit cards are very popular in Argentina**, 85% of workers in formal jobs have a payroll account with a 0% cost debit card linked to the account and now the main acquirers are beginning to accept debit cards online
- **7 in 10 Argentinians use a credit card** to make purchases online. Amongst those that don't, 29% say it is because of lack of trust

Source: Statista, eMarketer, allpago Research



Payment Methods Breakdown

You are missing 49% of the market



Local Cards



Alternatives

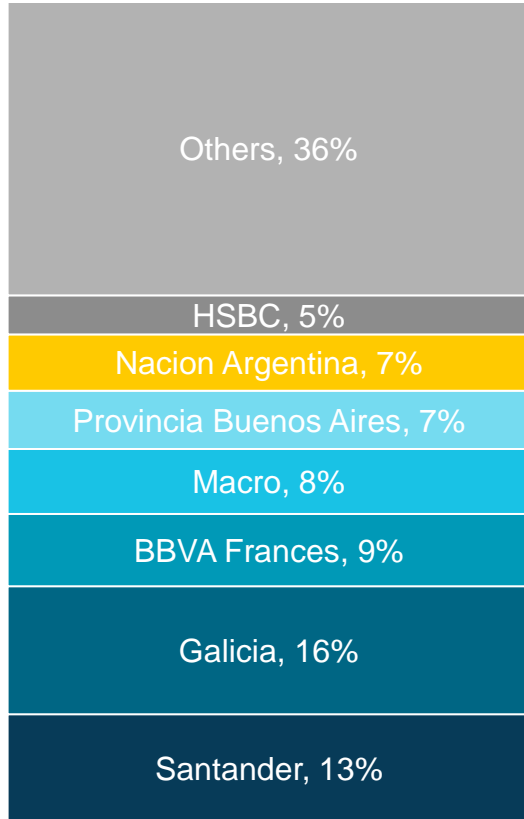


ARGENTINA – ISSUER & ACQUIRER LANDSCAPE



Issuing market share*

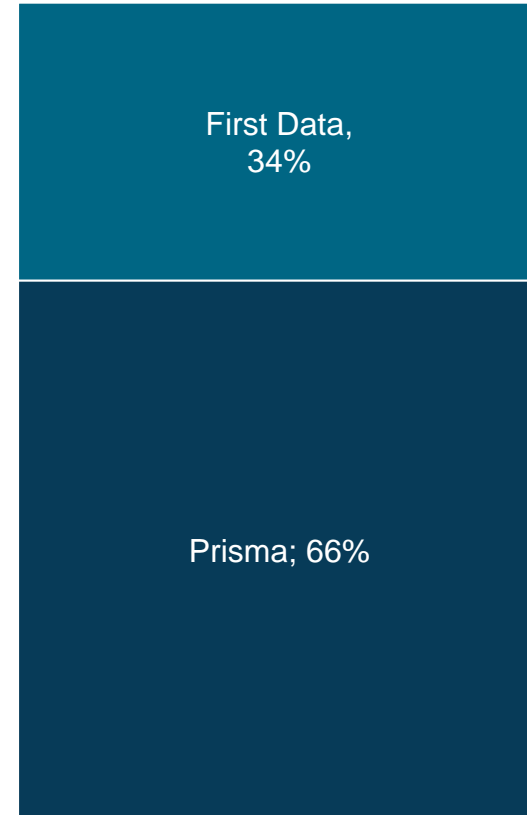
*per billed volume of total transactions



2016

Acquiring market share*

*per billed volume of card not present (CNP) transactions



2016

Source: Lafferty Merchant Acquiring October 2017, The Nilson Report October 2017

ARGENTINA – CREDIT CARDS AND MARKET DEREGULATION



- Argentinian Central Bank will enforce multi-scheme acquiring by 2018. The market will open for current players to process other brands (e.g. Visa through First Data or Mastercard through Prisma) and for new players (e.g. Worldpay). (Source: [Infobae](#), [Reuters](#), [CPI](#))
- Argentinian Central Bank is forcing the banks (14 financial institutions) to sell Prisma.
- Argentina's Central Bank sets limit for interchange fees (Source: [BCRA](#), [Infobae](#); [La Voz](#))
- Impact through new implementation of local WHT of 21% for local and cross-border transactions
- The Federal Administration for Public Income (AFIP) said that starting in 2018, all taxes will have to be paid using credit or debit cards. This will contribute to the bancanization of the Argentinian economy and to prevent tax evasions, cash payments will no longer be accepted. (source: [La Gaceta](#))

Source: PinheiroNeto Advogados, <http://idg.receita.fazenda.gov.br/acesso-rapido/legislacao/acordos-internacionais/acordos-para-evitar-a-dupla-tributacao/acordos-para-evitar-a-dupla-tributacao>

MYTHS – THE THREE LATAM MYTHS

There are no taxes in LATAM

No taxes often means that the end buyer is evading tax payments without knowing it.

- For physical goods, taxes are levied when the goods enter the country. For digital goods, taxes are levied at the remittance of funds
- WHT Taxes for digital goods vary between 0%-35%
- No taxes means characterizing the funds in the name of your customer as a personal expense and not commercial transaction
- This would be considered a wrongful declaration of the remittance
- Always make sure to get a legal opinion in case of doubt

Provider has direct relationship with acquirer

Vendors claim to have direct relationships but use regional wallets instead.

- It is easier for vendors to access all payment methods in Latin America through local wallets or third parties. This increases the costs, prevents features like chargeback alerts, and makes it difficult to adapt to changes in regulation
- Having direct relationship with acquirers and alternative providers is challenging because it requires to be registered by Visa and MasterCard, setting up contracts, or integrating into the platforms
- Always make sure you check upfront the service that you're receiving and ask if the vendor has a soft-descriptor in which you both appear

FX rate is higher than market value

Hidden spreads of around 6% are added to the foreign exchange rate.

- The hidden cost subsidizes the vendors processing fees, making the general fees look cheap, but the total cost very high
- Taking Brazil as an example, there is a Commercial and Tourism Exchange Rate which is around 6% more expensive due to an artificial spread
- Remittances triggered by businesses such as merchants or vendor always use the commercial exchange rate
- Always make sure you check upfront which FX rate will be applied to your operation and whether your vendor can settle locally

Summary & Key Takeaways

- LATAM will be a 69bn USD opportunity in 2018
- The right setup enables you to double the revenues in the first year of operation and around 40% initially when going live
- You are only scratching the surface: *Local Payment Methods make up 70% of the entire processing volume*
- Cards make-up ca. 65%, APMs ca. 35%
- Payment Processing costs are higher than in US or Europe
- Redundancies are relevant to ensure uptime
- Features and Services as Card-Updater, Chargeback Alerts or Installments have a relevant impact on Revenues & Customer Satisfaction
- Regulation is very dynamic, make sure you understand it
- Taxes are not optional, make sure you are compliant
- For Cross-Border make sure the correct FX Rate is applied



Philipp Bock is the Chief Executive Officer & Founder of allpago. Before founding allpago, Philipp was Managing Director and responsible for the turn-around of the Brazilian subsidiary of arvato services (Bertelsmann AG) in São Paulo, after managing the go-live and roll-out of the global online marketing platform for Microsoft's Channel partners at arvato.

Philipp studied at the Technical University of Berlin, at the ESCP Europe in Madrid, Oxford and Paris, as well as at the INSEAD in Fontainebleau. He holds a Master of Science in Finance, a German Diplom Kaufmann and a French Diplôme de Grande École. He is fluent in German, English, French, Portuguese and Spanish.

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Bill Rollinson a Senior Product Manager responsible for cloud digital payments at Adobe. Bill is an accomplished executive with extensive experience with global ecommerce and online credit card payment solutions including PCI-DSS compliance.

Bill has a strong team building, operations, marketing, sales and business development background working with enterprise class customers (Fortune 1000). Excels at driving rapid revenue growth, marketing, product development, developing key partnerships, and media relations.