

VRITTI

THE DIGITAL FINANCIAL SERVICES GUIDE

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Blurb

Dear Readers,

COVID-19 has restricted our travel and is preventing us from exploring new places. Many of us are bored at home and are yearning to travel like we did in pre-pandemic times. But returning to normalcy will take some time. In the meanwhile, to satisfy your travel bug, in this edition of Vritti we are taking you on a virtual tour to explore the Fintech landscape of four regions in the world.

We start our journey with India and look at the key milestones achieved by the Indian Fintech industry in the past year in the article “All that happened in India’s FinTech Industry in 2020”.

Next, we travel to the Middle East to see how digital wallets are growing in popularity in the region and what it takes to succeed in the digital wallet business in the article “Digital Wallets take the Centre Stage in the Middle East”.

Further, we visit Africa to explore the relationship between COVID-19 and financial access gender gap in the article “Did COVID-19 Helped in Reducing Financial Access Gender Gap in Africa?”.

We end our journey in Latin America with a closer look at the various aspects and players of Fintech landscape in the region in the article “Finetch Ecosystem of Latin America”.

Happy Reading!

Srinivas Nidugondi

EVP & Chief Operating Officer
Digital Financial Solutions at Comviva

All that happened in

INDIA'S FINTECH INDUSTRY

In 2020





Monica Jasuja

While the pandemic, extended periods of lockdown, unemployment and Covid-19 numbers grabbed all the headlines, there was much to cheer and celebrate about the new milestones in the TechFin/Fintech/financial services sector in India, underlining the opportunity realisation that is now bearing fruit.

Snapshot

- Launch of WhatsApp Pay/UPI hitting **2 billion** transactions in November
- Epic fundraisers by Jio/Reliance Retail by Big Tech (Google, Facebook) and **\$5.4B** fintech funding in startups
- India's emergence as a leading FinTech hub
- Biggest disruption of Indian Fintech: The government's fintech policies
- Digital Infrastructure and Platform Development to create new use cases

UPI: Flagship bearer of digital India | Launch of WhatsApp Pay

UPI has been crossing new milestones (both in value and volume) since its launch. However, 2020 saw it touch 2 billion transactions in a month for the first time in its young four-year life as a real-time-payments platform.

With user experience, simplicity and a huge thrust provided by all x-Pays, powered by global tech giants, FAGMA and others (GooglePay, PhonePe, PayTm, and now WhatsAppPay), UPI has quickly become the crown jewel of digital payments in India with 105 per cent growth in transaction value and 70 per cent growth in transaction volume in the period December 2019-December 2020.

WhatsApp Pay eventually got the nod from the RBI, after conforming to all local data storage and other guidelines to be compliant with NPCI's policies — although, it was in pilot mode for more than a couple of years.

While WhatsApp has lost the first mover advantage with GooglePay and PhonePe occupying pole positions with almost 80 per cent of all UPI transactions between them, there is still tremendous potential and opportunity for WhatsApp.

1

Expanding the base of the pie

If UPI enabled India to go beyond the 50 million users of digital payments, and expanding the base to 100 million, WhatsApp has the potential to take this number to 400 million (the number of WhatsApp users in India) and almost single-handedly at that. We often hear this in fintech conferences: 'No one wakes up in the morning expecting to make a payment' but we do wake up to our phones and the first app we check is almost WhatsApp.

2

Make P2P payments in India a verb

(like PayPal me, Venmo me), WhatsApp has the potential to make digital payments as easy as sending someone a WhatsApp message, causing a serious dent in the use of cash for low-value, everyday purchases. India may lead the WhatsApp me movement, a global first of epic proportions.



Epic fundraisers and continued investor focus in Fintech

Amidst the doom and gloom of the nationwide lockdowns, Jio fund-raised over Rs 1.18 lakh crore over the course of a few months (with the first few rounds happening at a weekly frequency) leading to a 25 per cent stake sold to Google and Facebook.

Google and Facebook have further consolidated India's position as the next big space for all things digital, with the world's second largest population rapidly going digital with the cheapest mobile internet (thanks to Jio) anywhere in the world.

The divested Reliance retail stake of 9 per cent, valued at \$6.4 billion, paled in comparison to

its parent company's epicenes, but it isn't lost on anyone that Reliance is best positioned to take on Amazon in India.



India's emergence as a leading FinTech hub

India currently has around 2,174 FinTech startups, out of which Mumbai, Bangalore, New Delhi, Gurugram, and Hyderabad account for 42 per cent of their headquarters.

The rest of India accounts for 738 FinTech startups which spells well for innovation and

the next wave of growth coming from non-Fintech centres.

India is the second largest Fintech hub in the world (not counting China in this analysis). Only US is ahead of India in this aspect, followed closely by UK.



India's union government is the largest force of disruption and innovation in Fintech/TechFin and Financial Services

This revolution started a few years back with the setting up and proliferation of a universal Digital Identity (to prove who you are) that created the backbone of financial services with the JAM trinity.

Scalable money movement platforms (IMPS, NEFT) and Access Platforms (Billers with BBPS, bank accounts with UPI) further created the digital railroads to provide uniform and universal access to all. This framework has led India to a FinTech revolution, where Fintechs have gone deep to capture niche use cases and work in co-operation with banks (their traditional and typical competition) to capture new green fields and further ease access to platforms and services.

The Central government, in 2019-2020, further generated the necessary tailwinds by

- Localising data
- Abolishing MDR on UPI and Rupay Cards – pushing digital payments agenda further
- Banning cryptocurrency

While innovation always precedes regulation, in India, however, the regulator plays catch up. Some noteworthy instances are:

- Use of video KYC for Digital Onboarding.
- Regulatory sandbox: after the first successful run on 'retail payments', cross border payments is next, followed by MSME lending in the third cohort
- Increasing the contactless limit from Rs 2,000 to Rs 5,000.



Digital infrastructure and platform development to create new use cases

India Stack has been touted to be the world's first public digital infrastructure, for societal good, with Open APIs and a structure to promote public-private cooperation to cater to India's billion people.

This has been recognised and celebrated by global luminaries, which is a testament to it being the force of good.

There are two exciting platforms/frameworks ready to add more value and vibrancy to the India Stack Powered Digital Ecosystem:

Account Aggregation Framework and OCEN (Open Credit Enablement Network).

CEN is expected to democratise credit and combined with the consent-based framework of financial data offered by AA, this can be the game-changer to bring credit to all.

Traditionally getting credit in the formal economy has been difficult for smaller businesses owing to stringent norms which will now be challenged with these initiatives.

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DIGITAL BANKING AND PAYMENTS

TAKE THE CENTER STAGE IN
MIDDLE EAST





Srinivas Nidugondi

UAE Leads March of Digital Banking and Payments

The huge uptake of digital banking and payments in the UAE is the result of a highly conducive environment. We find in the country several players jostling for space, including:

- **Banks** are launching new age digital banking services targeted at Millennials. A prime example of this is digital banking service **Liv** from Emirates NBD. Liv comes with features such as Digital account opening within minutes, sharing money via social media and a chatbot Olivia, which elevate the banking experience to the next level. **Mashreq Neo** from Mashreq Bank and **CBD Now** from Commercial Bank of Dubai, stand in the same digital bank league. Banks have also launched digital wallets - **Payit** powered by First Abu Dhabi Bank and **Klip** supported by UAE Banks Federation are the key examples. Services like Payit offer a complete digital payment experience from paying bills and merchants to remitting money and splitting the bill with friends
- **Original Equipment Manufacturers (OEMs)** provides digital payment services such as Samsung Pay, Apple Pay and Google Pay. Customers store card details in an app and make payments from a mobile phone. This may be executed by tapping a mobile phone on point-of-sale (POS) system using near-field communication (NFC), or making payments online
- **Telecom-operator are offering digital wallets**, for instance, **Etisalat's E-Wallet** enables consumers to register and top-up wallet balances to execute multiple transactions
- **Third-party providers**, such as e-commerce company **Noon** has jumped on the bandwagon, with the launch of Noon Pay

Needless to say, Covid has lifted the uptake of digital banking and payments in a big way in the Arab Gulf region, especially the UAE, as customers increasingly opt for cashless and contactless transactions.

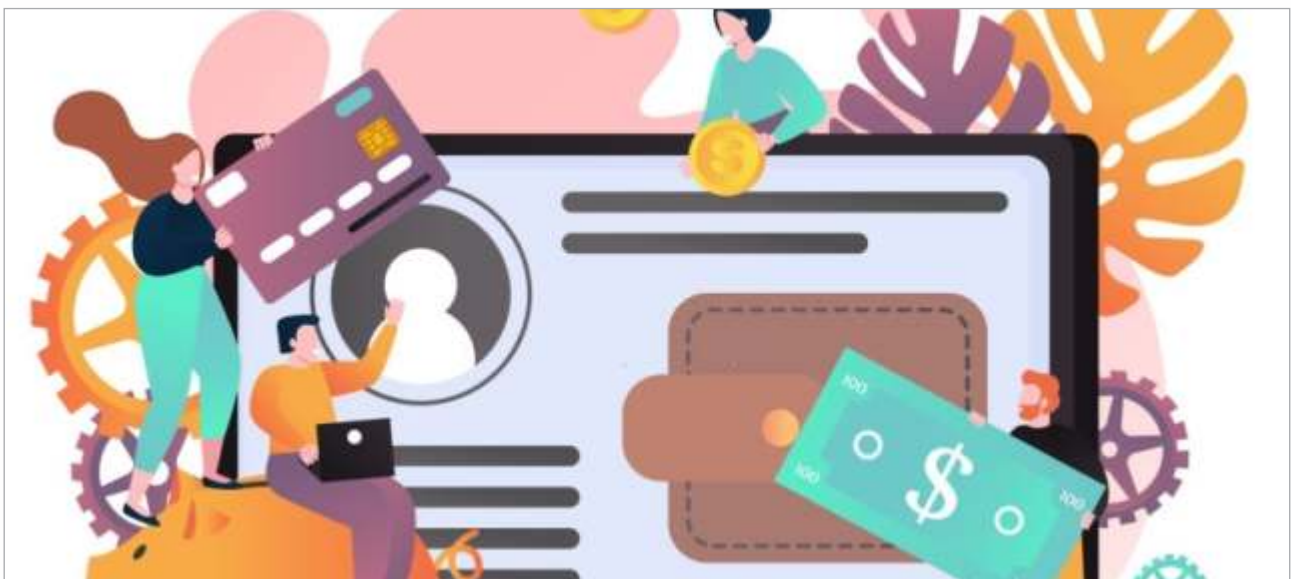
How other countries in the Middle East are faring

Other countries in the Gulf Cooperation Council (GCC) are catching on. Consider Bahrain for example - **National Bank of Bahrain** and Almoayyed International Group have launched **Meem**, first Sharia-compliant digital banking service in the country. Financial company **AFS** and telecom operator **Batelco**, who provide **bwallet** that is among the most popular digital wallets in Bahrain. Customers can self-register for the bwallet application without having to visit the bank and load it through a debit card. The result is a purely digital experience! While bwallet supports both domestic and international money transfers, the most popular use case is merchant payments. Customers can execute merchant payment via the mobile phone by typing the merchant's mobile number or scanning the QR code generated by the merchant. bwallet's discounts and cash-backs have played a key role in encouraging service uptake.

In Oman, **Bank Muscat** launched **bm Wallet**, Bank Meethaq introduced **Meethaq Wallet** and **Sohar International** and telecom operator **Omantel** unveiled eFloos, all digital wallets accelerating the uptake of digital payments in the country.

Expanding the scope are mobile money services in countries where banking penetration is low such as Iraq's **AsiaHawala**, and Egypt's **Orange Cash**. These are truly changing the face of digital payments for a gamut of transactions, while also facilitating remittances for the unbanked, donations for orphans and financial aid to refugees.

Not just banks, telecom operators, and fintechs, but the central banks are also putting their best foot forward, by introducing interoperability between various digital wallets and banking services, thus developing a cohesive financial ecosystem. For instance, the Central Bank of Oman has introduced MpClear, a system that provides interoperability and unified switching and clearing services between various digital wallets and banking services operated by different banks in the Sultanate, making transactions across different wallets simpler and convenient for consumers. Qatar Central Bank (QCB) has introduced the 'Qatar Mobile Payment System; (QMP), which offers a new and safe method for immediate electronic payment using mobile phones. Qatar Central Bank (QCB) has also issued unified specifications and standards for the QR code for their wider acceptability.



The secret to success

The digital banking, payment and wallet services have been beneficial for banks. It enables banks to get new customers on-board and then upsell and cross-sell them additional services to forge a mutually beneficial relationship. The success of digital banking, payments and wallets depends on multiple factors. Some of the crucial elements include:



Complete digital experience

Players should deliver a complete digital experience—from on-boarding and payments to loyalty and rewards programmes. Digital on-boarding is the first and most crucial element. Consumers today want paperless online on-boarding, which enables them to open a bank account or digital wallet within minutes without any hassle. Equally critical is offering a range of services, such as domestic and international money transfer, ticketing, invoice and merchant payments, **micro-lending**, buy now pay later etc, aimed at multiple customer segments. A key aim should be to provide a smooth user experience—imagine paying seamlessly in-store using a merchant code, scanning a QR Code or leveraging “tap and pay” and receiving reward points or cash-back after the payment. Another example in micro-lending, where customer can get short-term low-value loans online instantly without documentation, based on previous transaction history. Another dimension to this is **buy now pay later**, the

new-age digital lending concept popular with millennial and GenZ shoppers.



One stop shop experience

Consumers get overwhelmed by multiple apps. Hence, digital financial service providers are moving towards a marketplace model, where the digital banking and wallet apps provide access to multiple other apps ranging from e-commerce to travel, offering consumers a convenient single interface to various services.



Cater to all segments

Financial service provider should be able to deliver a comprehensive digital proposition that caters to all segments ranging from **mass market** to **affluent consumers**. For mass market consumers, they should offer services ranging from money transfer and remittances to micro-lending and buy now pay later. On other end of the spectrum are affluent banked customers that can save a payment instrument like a credit card, debit card or bank account with the digital banking or wallet app and can make quickly and convenient payments at merchants by tapping their phone at NFC POS or scanning a QR Code.





Focus on consumer engagement

Digital wallets need to be customer-centric and deliver a personalized consumer engagement. For example, rather than showing a static advertisement which shows same content to all consumers for many weeks, digital wallet providers should provide dynamic advertisements, where the advertisement automatically changes frequently and shows the most relevant offer or promotion specific to each consumer. Digital wallets have to provide contextual nudges and recommendations to help consumers manage their money and spending more effectively. Gamification is another area of growing interest for digital wallet providers to engage consumers and increase the wallet use. From spinning wheels and scratch cards that offer cash-backs or gifts after every transaction to collecting special cards that offer loyalty points, these game elements bring out the kid in the consumers and motivates them to transact more using the digital wallet.



Cloud Native

Leverage a cloud native platform with an open-source technology stack is important. For hardware, a digital wallet should enable an open supply chain. Deploying on cloud enables reduction of the cost of launching a digital wallet and payment service, and, thereafter, scale rapidly with the auto-scaling functionality. An open supply chain also enables reduction in hardware.



Fast and nimble

With competition getting tougher in the payment space, digital wallet providers must be nimble in launching products and services and maintaining a competitive edge. Moreover, open application programming interphase can go a long way in rapidly integrating with third parties, such as billers, merchants and remittance providers.

This is, of course, merely the beginning. The digital banking, payment and wallet space will remain eventful for quite some time to come. Stay tuned for more!





Author – Srinivas Nidugondi has over 23 years of experience in various industries including financial services, payments and commerce in a variety of business and product related roles and most recently with a specific focus on enabling banking, payments and related services through digital channels. At Comviva he heads the Mobile Financial Solutions business unit, which currently has over 130 deployments globally, providing services for more than one billion consumers.



DID

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Helped in Reducing Financial Access Gender Gap in **AFRICA?**





Mohit Bhargava

COVID-19 pandemic and subsequent lockdown and economic crisis are the biggest challenges the world is facing since World War-II. But there has been a few positives also in the pandemic times. Increase in financial inclusion and digital payments is one of them. In Africa, many financially excluded people have opened mobile money account during pandemic to receive financial-aid from the government and NGOs. An increasing number of people are shunning cash and using mobile wallets to make hygienic contactless payments at merchants or pay bills and make money transfers from the safety of their homes during lockdown. Consequently, the growth in mobile money transactions post April 2020 has been phenomenal in many African countries as reported by their central banks or telecom regulators. But has this growth been gender agnostic and equal amongst male and females?

Despite an impressive increase in financial inclusion in the last decade, the gender gap in account ownership has not changed. According to World Bank Findex data, in Sub-Saharan Africa, the gender gap in account ownership widened from 9% in 2014 to 12% in 2017. In this article, we will look at data and trends from some African countries to explore if COVID induced growth in financial inclusion and mobile money transactions has helped in decreasing the financial access gender gap in the region.

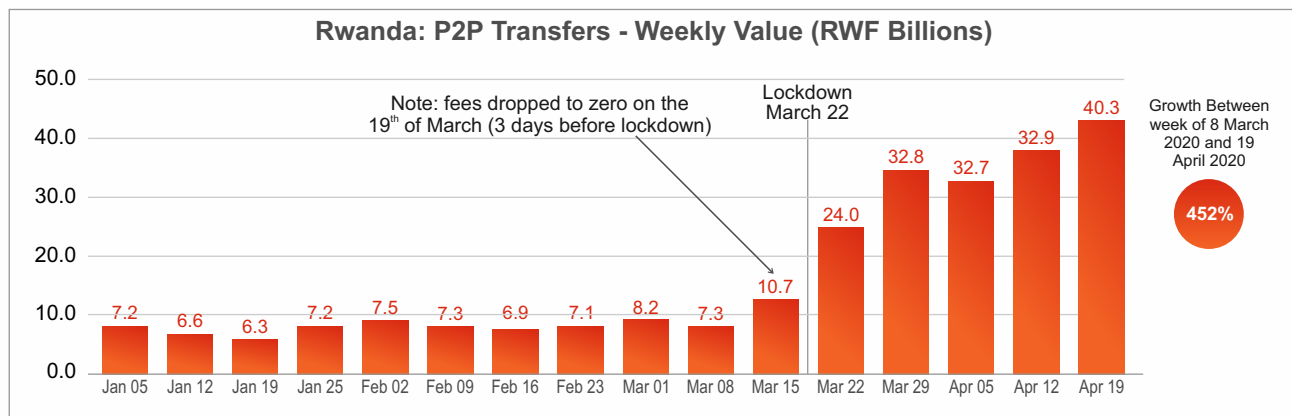
Rwanda

In Rwanda, lockdown was imposed on March 22, 2020. Three days prior to it on March 19, mobile money P2P transfers were made free to boost contactless digital payments during the pandemic. Cenfri and Finmark Trust analyzed the impact of fee waive off and lockdown on the mobile money subscribers and P2P transfers. The resulting growth in transactions was phenomenal. Between the week starting on March 8 (week prior to lockdown) and week starting on April 19, the mobile money P2P transfer value grew by a massive 452%, from RWF 7.3 billion to RWF 40.3 billion (Exhibit1) and the number of unique P2P senders

increased by 271% from 0.49 million to 1.82 million (Exhibit 2).

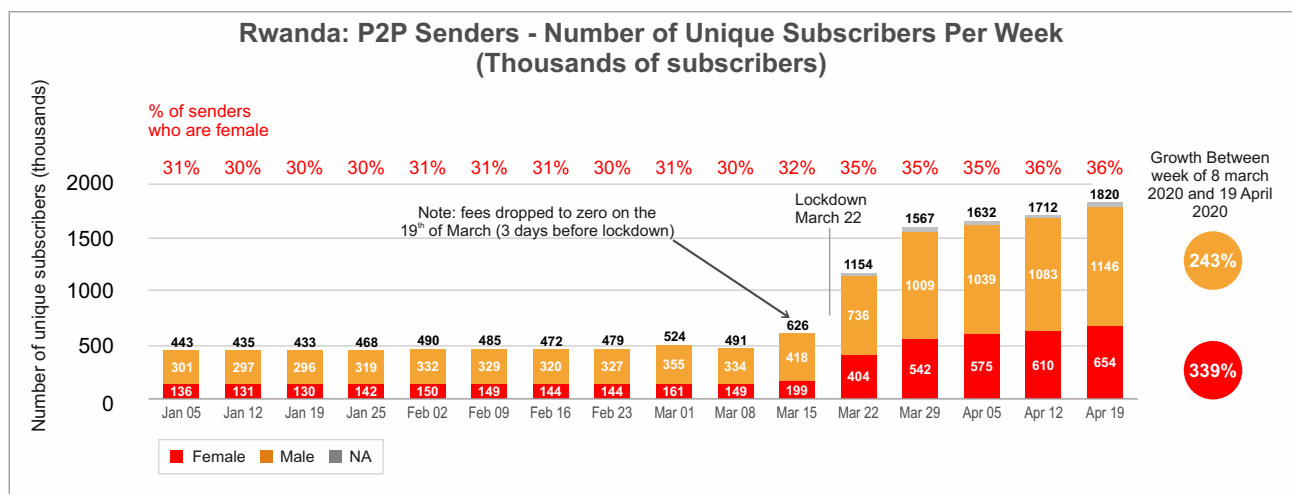
The most pleasant surprise was sharp growth in female P2P senders. While most P2P senders were male, the female P2P senders grew more quickly. Between the week of March 8 and April 19, female P2P senders grew by 343% (from 149,000 to 654,000), while male P2P senders grew by 243%. Consequently, within just 6 weeks, proportion of female P2P senders out of total P2P senders grew from 30% to 36% (Exhibit 2).

EXHIBIT 1



Source: Cenfri and Finmark Trust

EXHIBIT 2



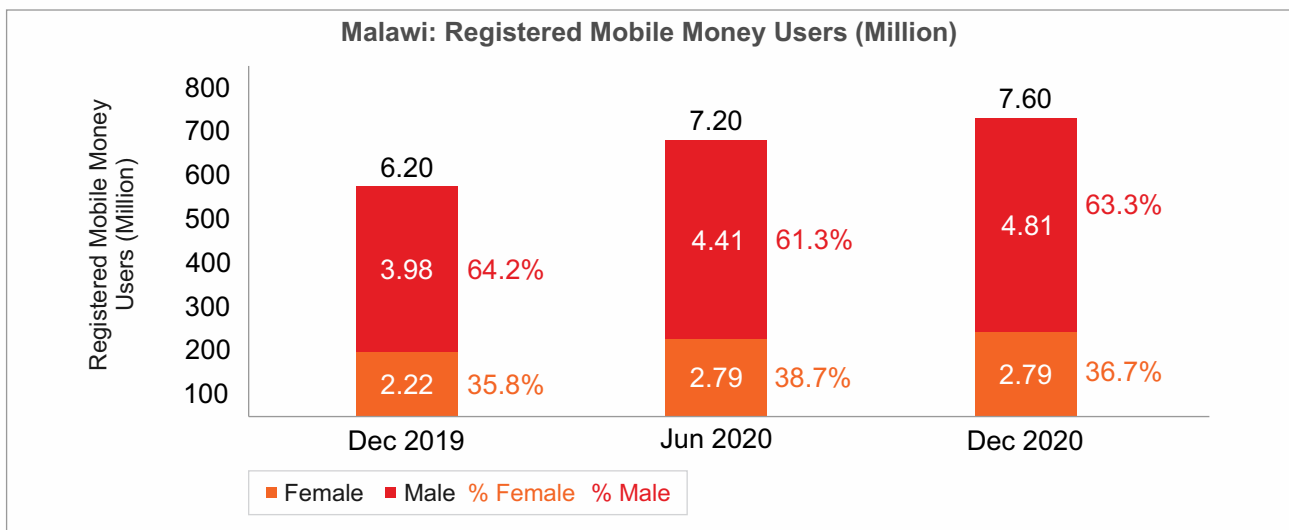
Source: Cenfri and Finmark Trust

Malawi

On instructions from Reserve Bank of Malawi, the two mobile money providers in Malawi - Airtel Money and TNM Mpamba, removed P2P Money Transfer fees on April 21, 2020 for a period of three months. Consequently, the P2P transfers grew exponentially from April 2020 till they peaked in July 2020. The P2P transfer value has increased by 51% in just three months, from MWK 13.6 billion in April 2020 to MWK 27.7 billion in July 2020. Thereafter, with return of service fees, there was a decline in P2P transfers, before again increasing in December 2020 to MWK 26.9 due to the festive season.

Coincidentally, during the first half of 2020 the female registered mobile money users increased swiftly by 26%, from 2.22 million to 2.79 million, compared to an 11% growth in male registered mobile money users. The proportion of female mobile money users amongst total mobile money users grew from 35.8% to 38.7%. In the second half of 2020, when the service fees were reinstated, the female mobile money user numbers were mostly stagnant and the proportion of female mobile money users has decreased (Exhibit 3).

EXHIBIT 3



Source: Reserve bank of Malawi

Senegal

During GSMA Thrive Africa Mobile Money Forum 2020, Ramatoulaye Adama, CEO Orange Finances Mobiles, Senegal shared that simplification of KYC rules in Senegal helped Orange Money to register over 350,000 new users during the COVID-19. A vast number of new users transacted - made or received a money transfer or payment. Hence, activity rate of users who joined the Orange money service during COVID-19 was high. Interestingly, gender parity

amongst new Orange Money users was also high. New users, which registered for Orange Money during the pandemic had almost equal number of men and women, which is a very positive development in closing the financial access gender gap in Senegal.



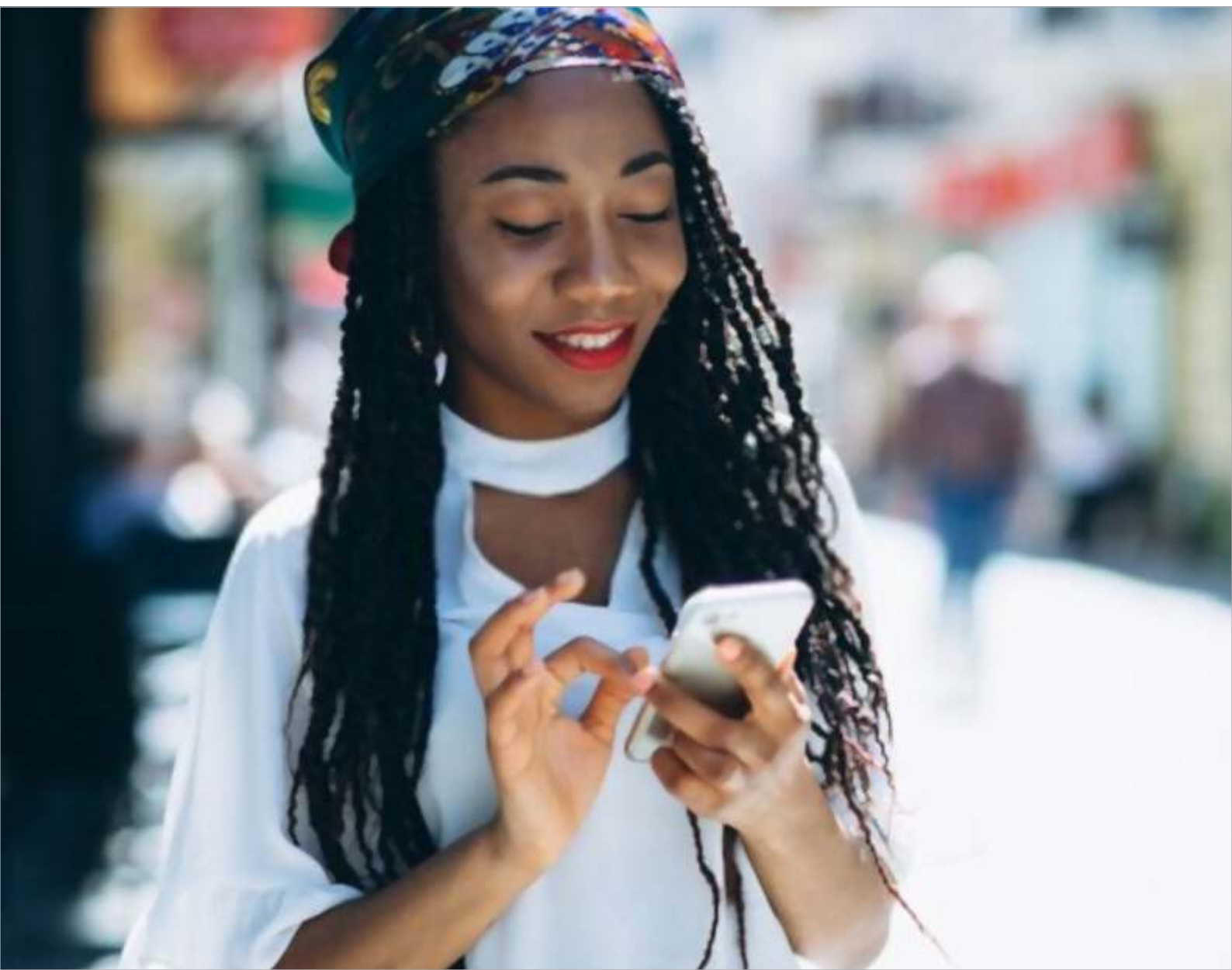
Observations and Conclusion

The above data from Rwanda and Malawi shows that waiving of service fee attracted many new female users to mobile money. Earlier **research** has shown that females are more likely than males to be price sensitive and high transaction service fees can be a barrier to adoption of mobile money amongst females. Hence, mobile money providers need to experiment with the pricing and service fee to make mobile money an attractive alternative to cash for females.

The trend from Senegal points towards the need for more flexible KYC regime. Regulators have to adopt a tiered KYC approach that balances ease of opening mobile money account with the risk involved. For example, a

KYC regime, where female groups like tribal women, rural women and refugees, with no or less documents can also open mobile money account, but with lower transaction limits and fewer services, can help in widening female financial inclusion. Swift and convenient self-registration for mobile wallet can also attract more females to try the mobile money service. The wallet offered in this case can be available for a limited period or can have lower transaction limits, which can be upgraded to a permanent wallet with higher transaction limits by doing a full KYC at a mobile money agent.

The sudden changes made in mobile money services during the COVID-19 pandemic, surely, have given us some learnings to ponder over!





Author – Mohit Bhargava has over thirteen years of work experience in product marketing and research in the telecom and digital financial services domains. He works at Comviva, as Deputy General Manager, Product Marketing for the Digital Financial Solutions portfolio. His areas of function primarily include evangelizing Comviva’s digital financial products and their impact on transforming the financial landscape globally. Mohit is an avid believer of “technology for good” and has contributed to various online and print publications on the subject. He is one of the co-authors of ‘The PAYTECH Book’ from Fintech Circle, the first crowdsourced book on payment technologies and new business models in the global payment sector published by Wiley in 2019.

LATIN AMERICA

An Untapped

Payments

Potential





Abhishek Sinha

1. Landscape

Latin America is often quoted as a diverse geography where each country behaves differently from its neighboring countries. The trend is not very different when it comes to adoption of digital payments, where countries have different preferences owing to their socio-political conditions, consumer behavior, technological advancement, and many other factors.

The region's e-commerce market is relatively undeveloped and is estimated to be just about \$83 Billion in 2020 compared to a global total of \$3.91 Trillion¹. However, e-commerce sales are expected to grow to over 7% of total retail sales in the region by 2023, compared to 4.4% in 2019. Brazil is the largest contributor in this share, and is expected to continue being one, with 24% of all retail sales in the region taking place digitally in 2019².

¹ Source: eMarketer

² Source: Rapyd

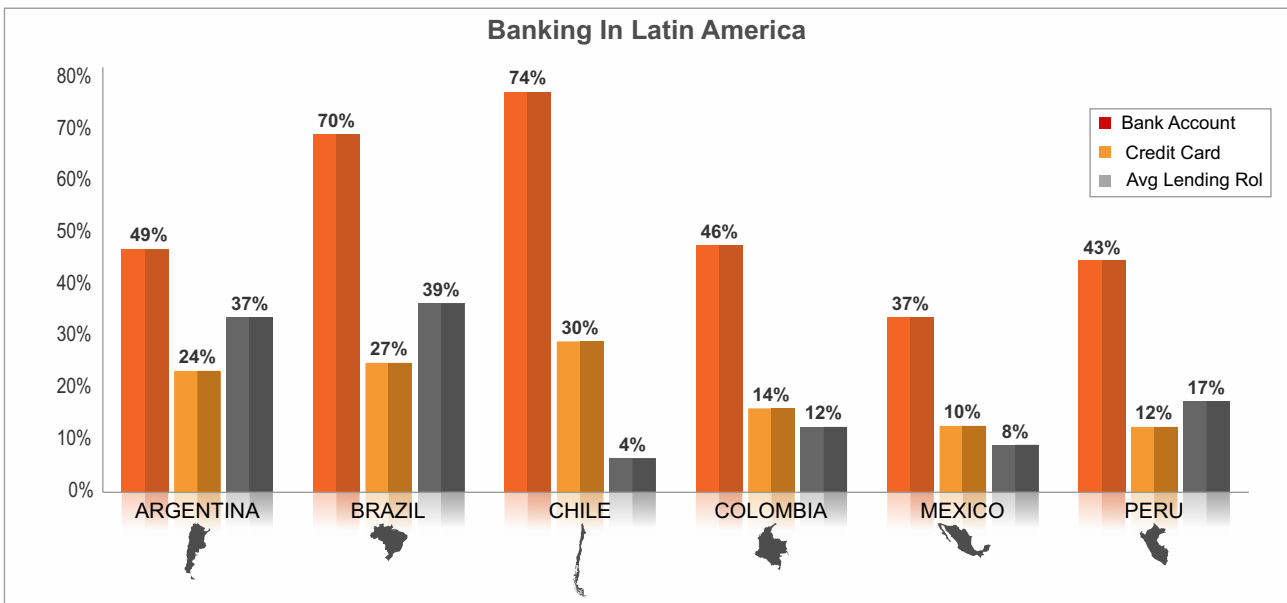
1.1.

High Unbanked Population

A large share of Latin American population does not have access to formal financial services, with average bank account penetration in the region being close to only 55%. The numbers seem slightly better in Brazil and Chile, but in almost all other countries, banking penetration remains below 50%. There is an estimated 200 Million unbanked individuals in the region.



EXHIBIT 1



There are multiple factors contributing towards a low banking penetration in the region. In a study conducted to gauge consumer trust in various industries, Banking and Financial Services stood at the bottom-most position in terms of consumer trust, and the trend was

more or less uniform across all countries. Further, high changes and cumbersome processes laid out by incumbent banks make it difficult for people to afford a bank account. Finally, the region's financial literacy is another key hinderance in this respect.



1.2.

Preference For Cash

Latin American economy has been largely cash-based. About two-third of the population in the region prefer using cash for their purchases. Many are limited to cash by necessity, owing to low banking penetration, but many banked consumers also prefer to transact using cash, primarily owing to concerns regarding online security. Various studies suggest that as high as 85% of transactions in the some parts of the region are handled by cash

1.2.1.

Cash Management Startups

Cash is so popular among consumers that companies with value proposition around cash management are emerging in this region. One such company in Bolivia, Blink, provides consumers with an application to call upon a taxi driver so they may deliver money and then the funds are withdrawn from the person's bank account. Started by marketing agency Ogilvy's Bolivian unit, the company claims to convert the country's 70,000 taxis and their cash inventory, into the first Mobile ATM Network in the world³

1.3.

Installment Purchases

The general preference for Latin Americans is to buy almost all items on installment or deferred payments, so much that some of the households prefer to pay for their weekly

groceries in installments. As one can gauge, the consumers having access to credit card always opt to shop using it for all their purchases. Further, consumers seek the same flexibility and convenience in online purchases too. In Brazil, for example, about 60% of online purchases are made in installments. Further, a 2019 survey of Argentine households revealed that over 77% of the households paid using installments, an increase of 9% from 2018⁴.

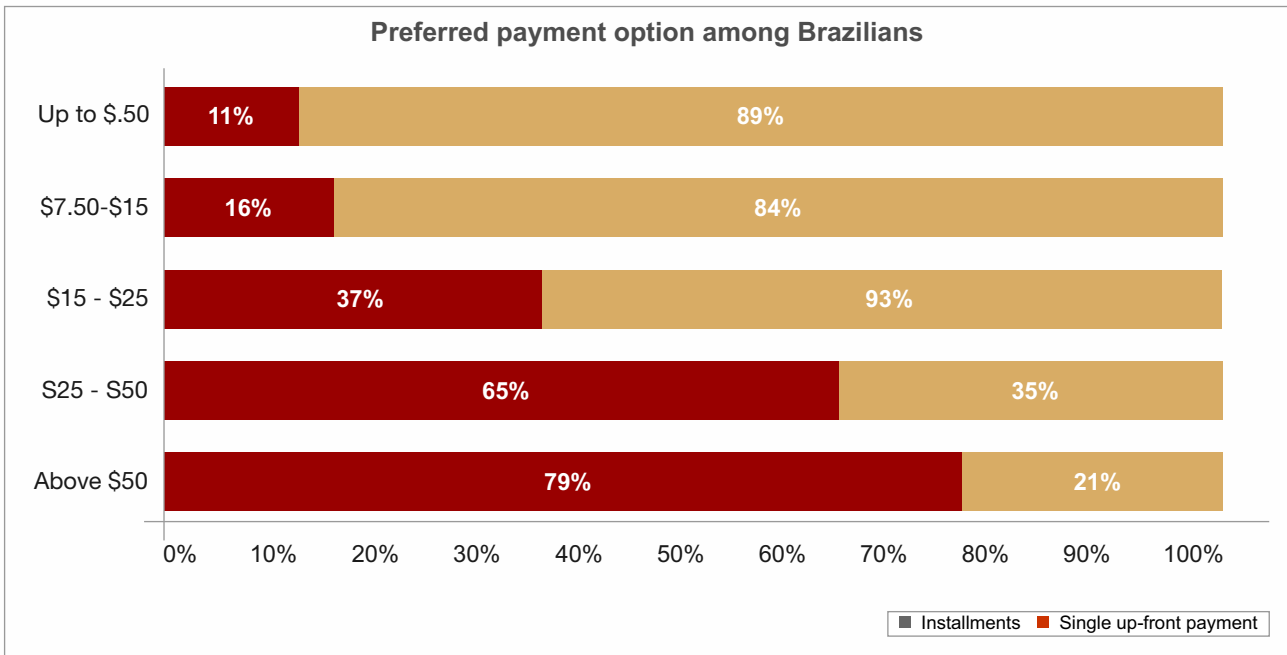
Data also tells us that installments are used for surprisingly low-ticket values and that their usage increases in line with purchase price. A 2019 consumer survey conducted by EBANX showed that 65% of consumers prefer to pay with installments for products priced between USD 25-50; this number grows to 79% for products valued USD 50 or more. Hence, installments are an important tool for merchants to cater to Latin American consumers. Many merchants provide this flexibility, but also offer additional discount if full payment is made.



³Source: Contxto
⁴Source: Labsnews

Banking In Latin America

EXHIBIT 2



1.4.

Local Schemes Play

Many of the cards issued in Latin American region are based on local networks, since the local players are more trusted by the consumers. This limits access to cross-border payments, a significant share of overall payments landscape. The preference for card schemes varies greatly across the region, with Mastercard having over 50% share in countries like Colombia and Uruguay, Visa dominating the markets in Argentina and Peru, diverse distribution in Brazil, and local schemes have around 70% market share in Chile⁵. Some local card schemes include Hipercard in Brazil, Naranja in Argentina, Carnet in Mexico, Exito in Colombia, and Oca in Uruguay.



2.

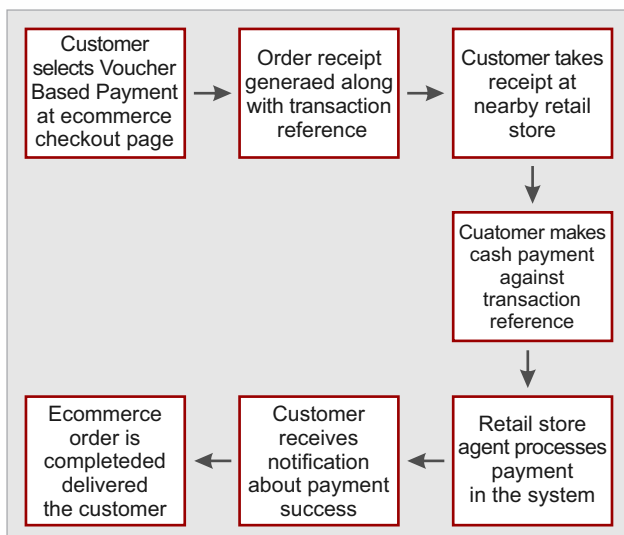
Emergence of Digital Payments

Although heavily preferring cash as a payment mode, Latin America has made a slow but steady progress towards digital modes of payments. In this section, we cover some of the most popular modes in the region.

2.1.

Voucher Based Payments

A significant trend observable across almost all Latin American countries is Voucher-based payments for ecommerce purchases. This method enables consumers to complete the checkout on ecommerce website, where cash-on-delivery service is not provided, and using cash for payment at the nearby partner store. When the consumer selects this option at the time of payment, she gets a receipt comprising a voucher code. She takes it to the nearby partner store, and makes payment against the voucher in cash, and the order is then processed. Voucher Based Payments



There are different companies across the region facilitating this service. The cash pay-in networks include Brazil’s Boleto Bancário (banking ticket), Chile’s ServiPag, Mexico’s Oxxo, Peru’s PagoEfectivo, and Argentina’s RapiPago and PagoFacil, to name the key ones. This method forms around 20-25% of all e-commerce transactions in countries like Mexico and Brazil⁶.

2.2.

Mobile Wallets Gaining Traction

2.2.1.

Telco-operated Wallets

Mobile wallets have not been very successful in Latin America, as compared to other parts of the world. As in any other part of the world, telecom operators in Latin America are not behind when it comes to launching wallet applications. Although not the most popular forms of payments in the region, telecom operators have had significant impact in digitizing the consumer payments journey in Latin America. Among the mobile wallets, or mobile money services as they are called in telecom ecosystem, one of the most popular one in Latin America is Tigo Money by Millicom Group which is live in five countries in the region, namely Bolivia, El Salvador, Guatemala, Honduras, and Paraguay. Similarly, leading operator America Movil has, under its brand names Claro and Telcel, launched multiple mobile money services across different Latin American countries. Among other prominent mobile money services started by telecom operator are GT&T’s Mobile Money Guyana, and Digicel’s Mobile Money.

⁵Source: PPRO Report

⁶Source: Ebanx

2.2.2.

Third-party/ Merchant Digital Wallets

Less than 10% of the transactions in the region happen through digital wallets, but while many banks, telcos, and fintechs launched their own version of wallet, MercadoPago and Paypal are most dominant players in the market currently, primarily because of their associations with large ecommerce marketplaces such as MercadoLibre and eBay. Argentina and Brazil are the most suitable markets for digital wallet adoption. On-demand delivery app Rappi launched its own wallet Rappipay, but even for orders placed on Rappi app in Colombia, Rappipay was used only 2% of the times. There are 5 digital wallets in Colombia, but Movii dominates with 94% market share by subscribers and 87% market share by transaction value (June 2020 data). To put it into perspective, Movii crossed 1 million customer milestone in August 2020. Further, it processed transactions valuing COP 55.4 billion (USD 15 million) in 12 months spanning July 2019 to June 2020.

2.2.3.

Contactless Payments

Contactless mobile wallets such as Apple Pay and Samsung Pay are yet to find mass adoption in the region, primarily because of low penetration of cards in the markets but also due to factors such as lack of acceptance infrastructure as well as trust on security. Brazil is the only country in Latin America where Samsung Pay, Google Pay, and Apple Pay are all present⁷. Several other contactless wallets were launched but are yet to find mass adoption. Some of them include Banamex Wallet in Mexico, BBVA Wallet and MiPago in Chile, Smartwatch in Brazil, and AvalPay in Colombia.

2.2.4.

QR Code Based Payments

Latin America is witnessing growing adoption of QR Codes for sending and receiving payments. Not just mobile wallets and ecommerce providers, but governments have been working of leveraging the technology to simplify the way digital payments are handled. Companies like MercadoPago and Rappi have been actively developing their QR code schemes, which were implemented in the region and worked, for instance, in some closed loop environments with electronic wallets facilitating payments. In the first 12 months after incorporating QR codes, Mercado Pago processed 8.2 million QR code transactions. In early 2018, just 3% of sales with Mercado Pago's wallet used QR codes; but by the first quarter of 2019, that figure had jumped to 43%⁸.



⁷Source: PagBrasil

⁸Source: Launch Way Media

2.3.

Alternate Banking and Credit Channels

The high penetration of smartphone (~70% of all mobile connections) and internet (~70%), coupled with low penetration of banking in the region has led to the emergence of fintech companies attacking the incumbent banks' core propositions. Nubank, which started in Brazil to tap into Brazil's large, young consumer base with mobile-first banking services, has expanded its presence to other countries in the region and boasts of a consumer base of over 15 Million. Similarly, digital banks albo (Mexico) and Ualá (Argentina) are growing quickly in these markets and attracting global attention for their successes.

Access to credit is another major pain point for SMEs in Latin America, and digital banks such as OmniBnk are able to use technologies such as machine learning to evaluate a business' credit-worthiness faster and more efficiently⁹.

2.4.

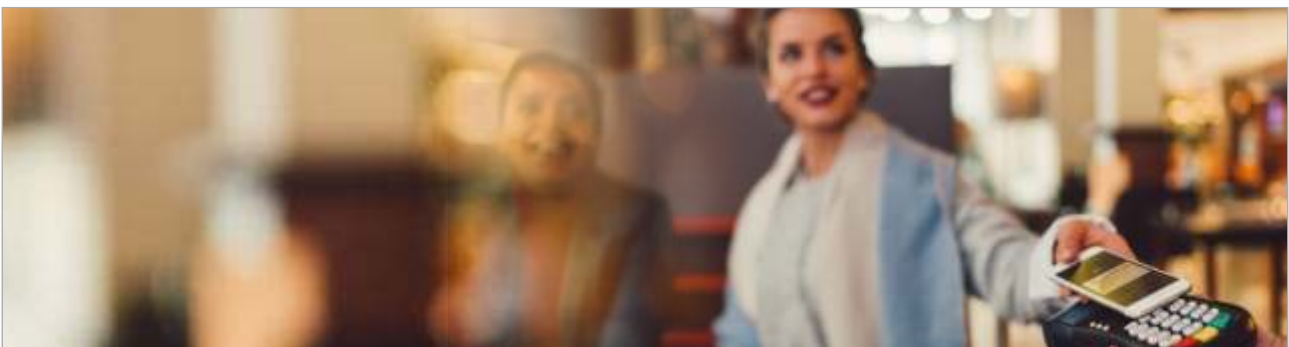
Cross-Border Remittances

There are some countries in Latin America, such as El Salvador, Haiti, Honduras, and Jamaica, where incoming remittances for a significant portion of GDP (over 15%). Consumers currently have to rely on traditional banking methods and money transfer

operators to send their remittances home, which comes with a fees of about 6% of the amount. Some operators are already changing this by charging an average of 3% of the amount as fees¹⁰. Further, in Brazil, only around 20% of all cards issued are able to make cross-border payments, thereby calling for the need of alternate channels.



Brazilian fintech Ebanx provides a platform that accepts debit and credit cards that are valid nationwide along with boletos to buy from any international online business, even those who do not have access to formal credit or a bank account¹¹. Similarly, Flywire teams up with domestic players as necessary to offer a localized product. The company expectedly processed around \$5-6 billion in domestic and cross border payments in 2019¹².



⁹Source: Crunchbase

¹⁰Source: IMF

¹¹Source: Forbes

¹²Source: Flywire

3.

Factors Driving The Future

3.1.

Consumer Preferences

Consumers have specific problems and expectations from their service providers, and catering to those will be the key to winning the market. For example, 34% of customers across Latin America expect their banks to offer rewards program to be incentivized enough. Similarly, around half of the consumers (47%) say that they want their banks to be provide 24*7 customer service.

Further, a whopping 87% of consumers reported that they are willing to switch to a non-traditional player for their financial needs, and the top quoted reasons for this include a simpler interface for managing operations, 24*7 customer service, and lower service fees. However, people also point out specific concerns on using a non-traditional financial service provider, which can be leveraged by incumbents as an advantage. The primary concerns include lack of brick and mortar facility in their locality (59% consumers), concerns regarding financial information (54%), security concerns (54%) and lack of human interaction (36%). The optimal solution needs to cater to the best of both worlds and offer something which is closer to consumer expectations.

3.2.

Acceptance Revolution

Although the penetration for cards is not extremely high in Latin America, but card-based transactions are preferred medium for consumers who have the access. There are

around 250 Million debit and credit cards in the region. However, a key reason for minimal adoption of digital payments in the region is the low acceptance rate owing to barriers such as cost, infrastructure, informality and limited access to business bank accounts by merchants. This is a prominent problem and there are several alternatives being looked into.

There is a slow structuring happening within the industry. Higher authorization rates, better user experience, value added services, lower fees, new entrants, all of them provide users with more options to make payments and also provide merchants access to wider group of audiences. Hence, this is a welcoming change from both sides. There is also an apparent rise in ecosystem players which control both issuing and accepting side of business. Company which issues credit, debit or prepaid card, also offers prepaid wallets and other types of consumer products such as loyalty rewards, savings, etc. These same companies are often touching the merchant side via QR code or other acceptance mechanisms. Famous examples in this category include MercadoPago, which is driving payments through QR codes at merchant locations, or Rappi, which is driving credential-on-file transactions on its app and hence higher usage of credit or debit card.

Another trend to look out for in this respect is the implementation of Tap on Phone, a payment acceptance solution that allows merchants to receive payments from any contactless-enabled card or mobile wallet right on their own NFC-enabled Android device¹³.



¹³Source: Mastercard

3.3.

Movement Towards Super Apps

Latin America is a compelling region for the emergence of super apps and is gradually witnessing some service providers moving towards it. High smartphone penetration coupled with a growing preference for digital purchases is what makes the region a hot playing field for super apps. Latin America has a mobile-first population with 62% of smartphone penetration, according to GSMA data.

The internet ecosystem in Latin America is highly influenced by European and American tech companies that dominate segments such as communication, music, search and many others. It is quite hard for a local startup to compete in those markets. However, there are a few battlegrounds that are not as easy to dominate from abroad, such as ride-hailing, food delivery and finance. Those are on-the-ground or highly regulated industries that are very hard to scale, especially across different countries. Those are precisely the industries in which we have seen the emergence of some super apps candidates, fueled by an unprecedented amount of venture capital investment in the region¹⁴.

3.3.1.

Rappi

The most prominent candidate to super app in the region is the Colombian on-demand delivery Rappi. It is one of the most funded startups in Latin America with US\$ 1.4 billion in investments. Although it started offering just food delivery, it now provides services such as e-scooter, payments, P2P transfer, movie theater tickets and a debit card. It also

operates in the most relevant countries in the region: Brazil, Mexico, Colombia, Argentina, Chile, Uruguay and Peru.



3.3.2.

Mercado Pago

Another strong candidate is Mercado Pago, the payment arm of the Argentina-based marketplace Mercado Libre. It started as a way to enable payment between users in the marketplace; however, it grew to offer a diverse portfolio of financial services such as online and offline payment, bill payments and, more recently, investment (through its Mercado Fondo). Mercado Pago claims to process around 400 million transactions annually. Mercado Pago

3.3.3.

Movile

The Brazilian Movile is also positioning itself as a strong competitor. The company already has a diverse portfolio of services, from delivery food to event tickets, courier and even a kids Netflix, operating in Brazil, Mexico, Colombia and Argentina. Not only did it raise a total of US\$395 million investment, but also one of its companies, iFood, raised a total of US\$592 million.

¹⁴Source: Techcrunch

3.3.4.

Cabify

The Spanish Cabify is another company trying to position itself as a super app. Last year it started to offer e-scooters and bike service, as well as financial services through its own fintech company, Lana. Even though it raised US\$477 million in funding, it will be slightly challenging for Cabify to become a super app, as the ride-hailing competition is getting quite intense in the region. Its competitors Uber and Didi are also adding more services and trying to position themselves.

3.3.5.

Movii

In just three years of operations, Movii has firmly positioned itself as the leading digital alternative to traditional banking. The success of Movii can be attributed to its focus on youth and ability to deliver end to end digital experience. Movii was selected by government to distribute financial-aid (solidarity income) to vulnerable families during COVID-19 crisis. In just first few days of April 2020 over 13,000 families were provided financial support directly in their Movii account. In April 2020, Movii launched digital loans for micro, small and medium businesses (MSMEs), in partnership with Procter & Gamble (P&G)¹⁵. Given the wide range of financial and non-financial services it offers to its customer along with a superior experience, Movii is well positioned towards becoming a super app.



¹⁵Source: Comviva Case Study

3.3.6.

Magazine Luiza

Apart from the above mentioned apps primarily known for their payments capabilities, other players could surprise, such as Magazine Luiza, leading retail and e-commerce in Brazil. Its CEO is transforming the company from a brick-and-mortar retail to a technology company and already showed its ambition to transform MagaLu (its app) into a super app offering many other services. Although it could compete in the Brazilian market, it would be doubtful that it becomes a regional player, as its primary business operates only in Brazil.

3.4.

Blockchain Adoption Is Increasing

Lack of banking access, need to make cross-border payments, and devaluation of local currencies in some regions are the primary drivers of adoption of cryptocurrency in Latin America. According to Chainalysis, 90% of cryptocurrencies received by Latin America come from outside the region. Most remittances in fiat currency to Latin American countries come from the US, majorly from migrant workers sending money back to families. Furthermore, the data indicates that East Asia has a strong link with Latin America. Several crypto payments are from Latin American businesses buying goods from Asian exporters to re-sell at home.

Overall, Latin American countries sent \$25 billion worth of cryptocurrency and received \$24 billion worth in the past year, representing between 5% and 9% of all cryptocurrency activity in any given month. Brazil is in the lead in terms of the most cryptocurrency usage by on-chain

volume. Venezuela is a distant second, but the country accounts for the third-highest number of transfers on Localbitcoins and Paxful, two of the most popular worldwide P2P exchanges¹⁶.



3.4.1.

Cryptocurrency Payments

In Paraguay, travel agency Alto Vuelo Viajes became the first of its kind in the country to offer payments with cryptocurrencies. This will be enabled by Paraguayan cryptocurrency exchange Cripex. Similarly in Colombia, a new government initiative called SofisTICA will invest around \$6m to boost the adoption of blockchain technology in the country. The objective is to encourage the productivity and efficiency of small, medium, and large companies from traditional sectors through the implementation of technological solutions¹⁷.

3.5.

Government Efforts

Realizing the importance and benefits of digitizing payments ecosystem, regulators of some nations have started to make dedicated efforts which is expected to drive adoption of digital payments in those countries. Two notable examples of such projects are CoDi in Mexico and Pix in Brazil.

3.5.1.

Cobro Digital - Mexico

The Mexican Central Bank, along with the Mexican Bankers Association (ABM) and the Mexican Association of Popular Financial Societies (AMSOFIPO) launched the digital payment platform Cobro Digital or CoDi (Digital Purchase), based on QR codes and near-field communication (NFC) technology used in mobile phones. CoDi will allow individuals to buy and sell goods and services through the country's SPEI system (wire transfers) which can be carried out 24/7. Transactions will not incur any commissions or fees even between different banks. There are currently 33 participating banks, and it is envisioned that other financial institutions will join the programme voluntarily¹⁸.

3.5.2.

PIX - Brazil

PIX is the system created by the Brazilian Central Bank to bring instant payments to life. PIX will enable all wallets that use QR Codes or NFC technology to function interoperably, meaning transfers and payments will be allowed from one e-wallet to another in real-time, 24/7. This system that will allow 24/7 transactions in real-time between different institutions without the need for intermediaries such as card schemes, acquirers, or issuers. Further, it will allow the interoperability of all digital wallets¹⁹.



¹⁶Source: [Bitcoin.com](https://www.bitcoin.com)

¹⁷Source: [Yahoo Finance](https://www.yahoo.com)

¹⁸Source: [Lexology](https://www.lexology.com)

¹⁹Source: [Ebanx](https://www.ebanx.com)

4.

Wrapping Up

While cash may be the most prominent payment instrument for Latin Americans currently, there are several parallel initiatives running in joint efforts from governments, fintech firms, industry bodies, global giants, and even incumbent banks. It has been well established that due to the political, cultural, behavioral, and technological differences from other regions of the world, Latin America has to address the existing challenges with

solutions specific to the local preferences. And any global company trying to establish its footprints in the region should consider working with local partners, along with addressing the regional nuances such as providing flexible installment options, addressing security concerns, among others. As the famous saying goes, only time will tell how the local players take on these challenges, and collaborate for optimizing value for everyone in the ecosystem.





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