November 2020

Payments, commerce, and life post-COVID-19 quarantine

Consumers' shift from aspirational to practical in Latin America and the Caribbean

A study by Americas Market Intelligence, commissioned by Mastercard

Americas
Market
Intelligence

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A note from Mastercard

Change. A word that describes the only constant in life also captures the essence of 2020. Before facing the first global pandemic of the digital age, factors such as new population patterns and gradually evolving consumer values contributed to key societal shifts. Yet, overnight the COVID-19 pandemic drastically changed our professional and personal lives. Daily activities, including, shopping, social gatherings, education and even banking, moved to a virtual world, creating new habits and views across Latin American and Caribbean communities.

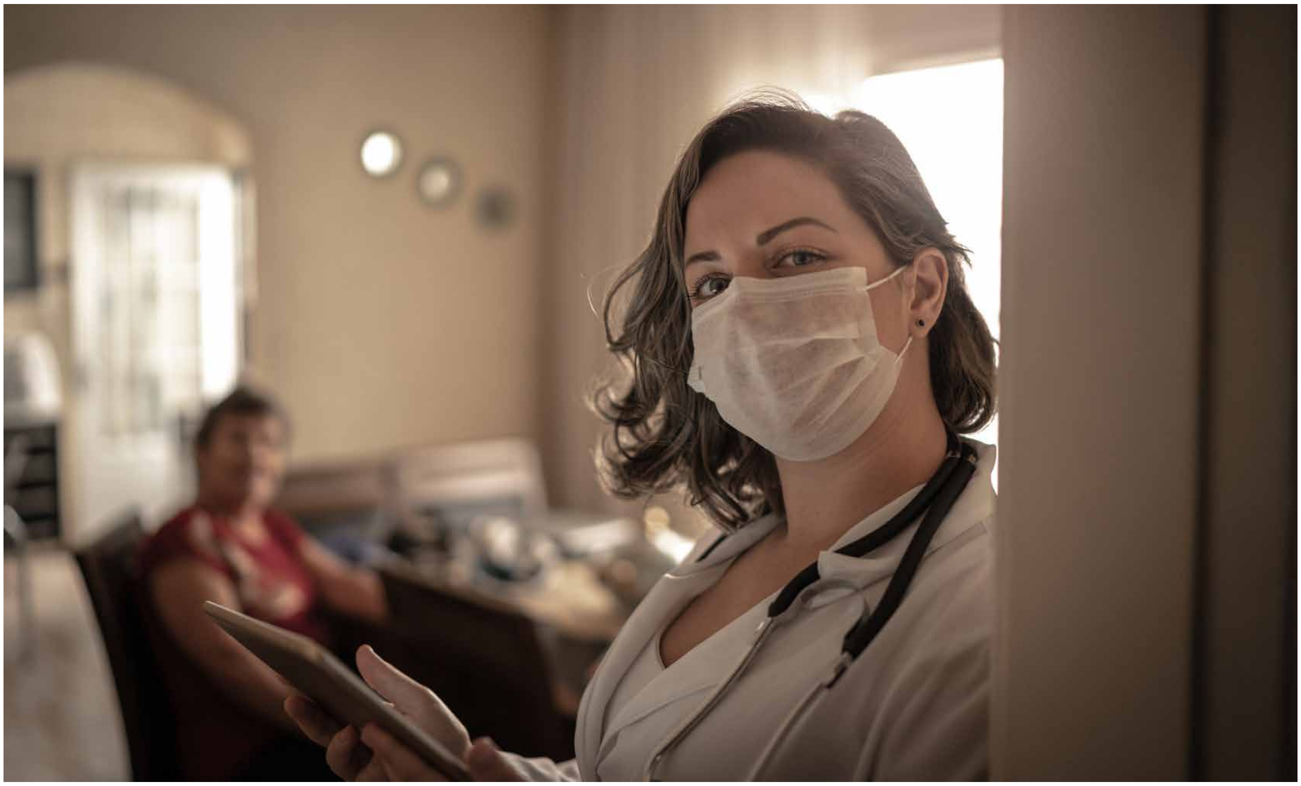
Mastercard, in cooperation with Americas Market Intelligence, developed the whitepaper "Payments, commerce and life, post-quarantine", to better understand the changes brought by COVID-19, specifically as it relates to buying habits, personal finances and preferred payment methods. The power and potential of payments technologies is reflected in this study–quite literally.

COVID-19 remains a real concern across the world. We're anticipating and reacting to the rapidly changing environment, leveraging not just these insights, but also the practices and processes we have put in place over the years. In the last few months, payments technology helped deliver health and safety benefits during the kind of social distancing and quarantine measures seen around the world, small businesses to engage in the online marketplace, and empowered a new generation of entrepreneurs to create innovative businesses for this new normal. Still, the shift in access to the digital economy from "nice-to-have" to "necessity" has had its own impact on the consumer mindset.

For many others who continue to face an uncertain economic situation and job loss, they are expressing an increase in savings habits and online banking –these are likely mainstays in a post-pandemic world, according to the study. Moving forward, it's important that financial institutions are up-to-date with consumers' new needs and views and, as such, develop new products and services more aligned with the post-pandemic reality. Emerging markets also are propelling their digital expansion to new levels. Creating a simple and practical virtual experience, offering education related to financial products and providing excellent customer service are just some ways key players of the industry can help make the transition to the digital world smoother.

Our core business is enabling commerce. We're going to keep doing that today, tomorrow and far into the future. Today's environment requires creativity and flexibility to create a better living and working environment across the region. As part of our effort to be the partner of choice for banks, merchants, governments, and other customers in the region, we stand ready to leverage our insights and capabilities to help our customers further understand the different market impacts and on-the-ground realities.

We invite you to study and implement these findings that seek to create a better future for our region, and thus, our consumers.



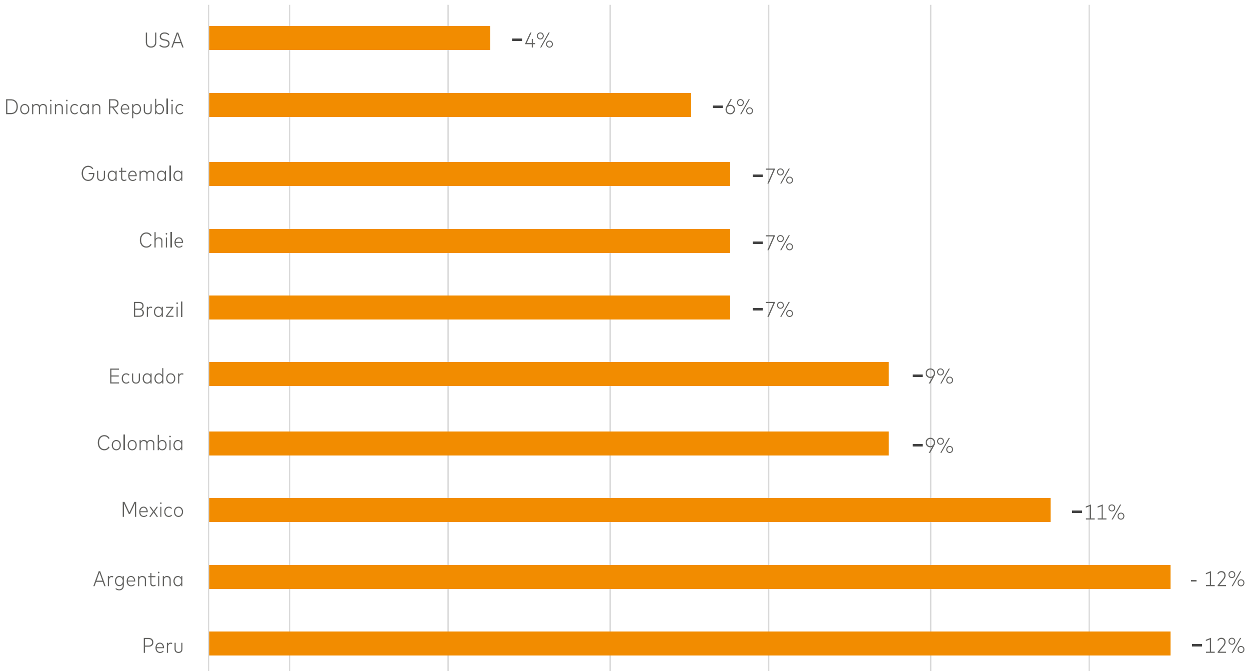
Introduction

The context of COVID-19

The COVID-19 global pandemic has been more disruptive to our lives than any other crisis in recent memory. The global population has adopted unprecedented measures to combat contagion, including social distancing measures and public mask-wearing. And in addition to the tragic loss of life caused by the disease, the lockdowns implemented to control its spread have imperiled our sense of community, our freedom and our way of life.

In Latin America[1] and the Caribbean, the governmental response to COVID-19 has varied. Some countries enforced strict lockdowns (Argentina and Peru) while others left closures up to individual states and opened up in stages (Mexico and Brazil). White-collar workers have largely transitioned to working from home, but their counterparts in retail and service industry jobs—and in the informal economy—saw their livelihoods disappear overnight. The reduction in the region's economic activity is projected to cause an 8.5% slowdown in GDP by the end of 2020. According to AMI's estimates, it will not return to pre-COVID-19 levels before Q2 2023.

FIGURE 1
Forecasted 2020 GDP growth



Sources: World Bank, IMF, AMI analysis

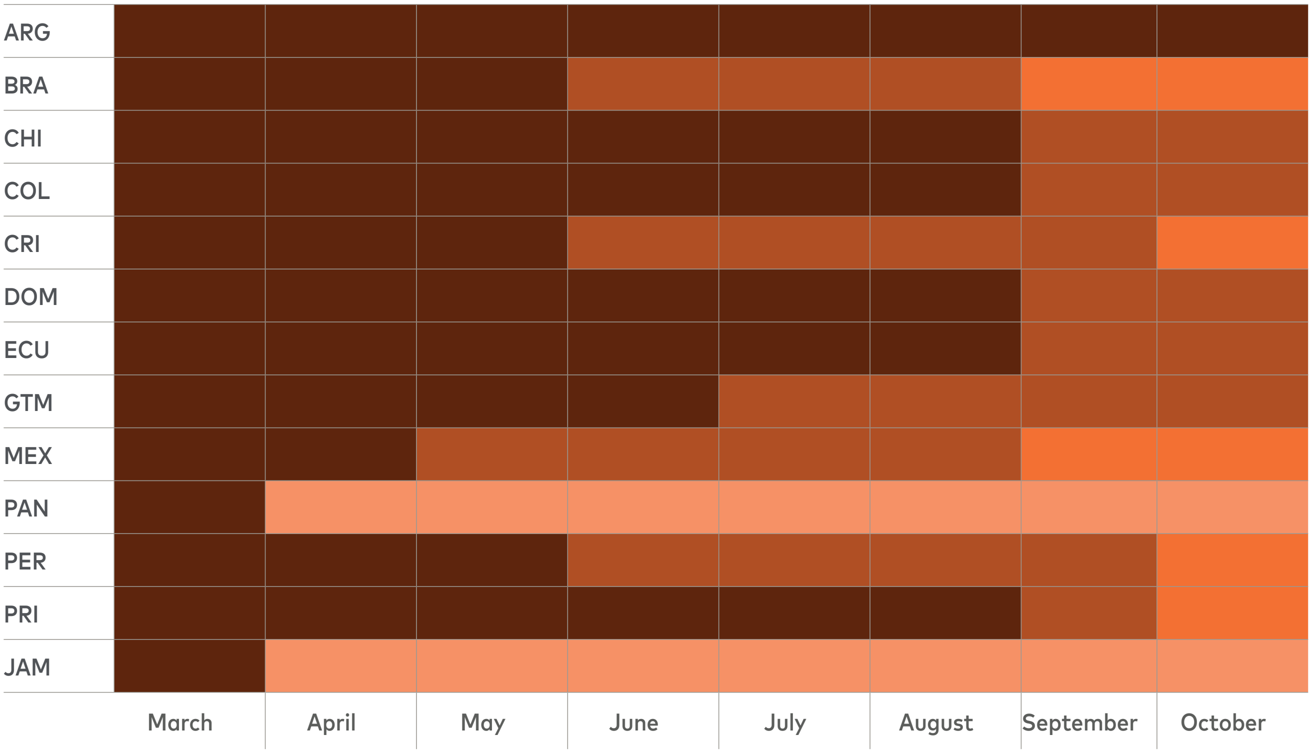
Amid the chaos, consumers and companies have adapted to social distancing requirements by migrating to digital channels. This is the silver lining of the crisis: digital and financial inclusion have suddenly become top priorities in markets where, until now, they have been lagging.

Almost overnight, e-commerce became the only way to shop, online banking the easiest way to move money and cash considered "dirty" and dangerous. Digital habits have become mainstream, launching even the most resistant consumers into digital spaces. And as consumers face economic hardship, saving money and learning how to use financial planning tools have become top priorities.

How long will these changes last and which will be permanent? In the most extreme cases, such as Buenos Aires, Argentina, consumers were under strict lockdown for a full eight months. Consumers in other markets, like Mexico, Panama, and Jamaica, are positioned to return to "normal" more quickly. Ultimately, consumers everywhere are evaluating their priorities and tailoring their behavior to a new status quo.

FIGURE 2

COVID-19 government-imposed quarantines and reopening process across Latin America[2]



Full quarantine imposed for most of the country, with only essential retail open (e.g. supermarkets, pharmacies)

Some retail establishments, including stores and restaurants, can operate with limited operating hours and reduced capacity

Most establishments, including cultural and entertainment establishments like museums, libraries, theme parks, etc. can open, with limited operating hours and reduced capacity

Restrictions fully lifted

Note: In many countries, quarantine policies vary by city/state
Source: Americas Society Council of the Americas, local public sources, AMI analysis

Report objectives

In conjunction with Americas Market Intelligence (AMI), Mastercard set out to understand the changes that consumers and top players in the payments industry have undergone in the midst of COVID-19 across Latin America. The guiding questions for this report are:

1. As a result of COVID-19, how have consumers changed with respect to their daily habits, their use of financial services, their emotional states and their overall well-being?
2. How must companies adjust to be competitive in this new COVID-19 environment?

To answer these questions, AMI conducted surveys with 2,556 consumers in 13 markets and carried out in-depth interviews with ten executives from top banks and fintechs across Latin America and the Caribbean. The results are expressed in this report, which aims to capture the essence of the Latin American consumer as we move into 2021, while also indicating how financial institutions can best capture their business.

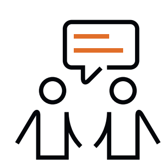
FIGURE 3

Project scope

Markets in scope

Argentina
Brazil
Chile
Colombia
Costa Rica
Dominican Republic
Ecuador
Guatemala
Jamaica
Mexico
Panama
Peru
Puerto Rico

Surveys
with 2,556 consumers



In-depth interviews
with 8 banks
and 2 fintechs

FIGURE 4

Who participated in the consumer survey?

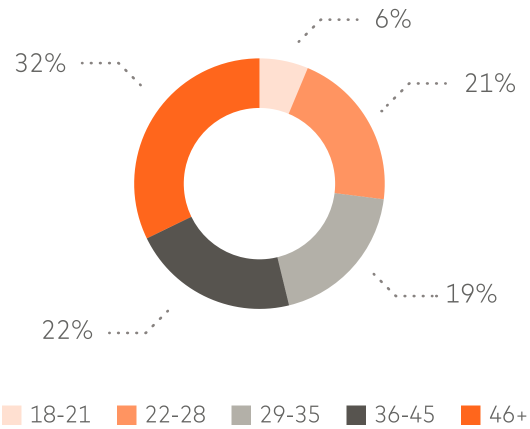
Country breakdown

Gender breakdown

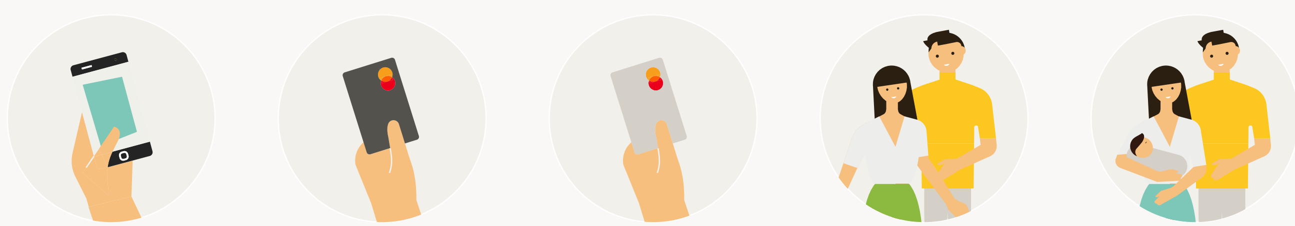
50% male

50% female

Age breakdown



Key characteristics



94% own smartphones

77% own debit cards

49% own credit cards

45% are married

52% have children

Lifestyle changes lead to new sets of emotions, values and priorities

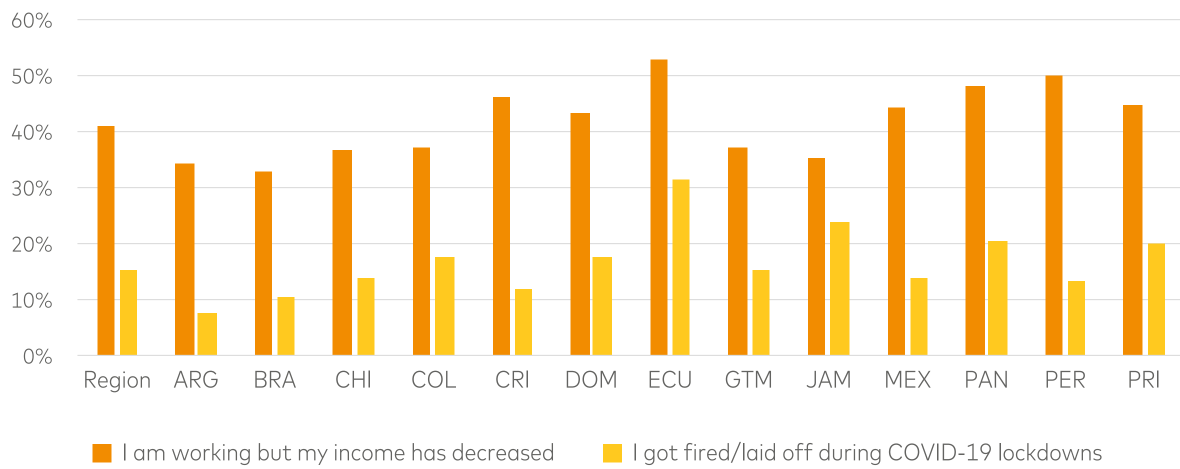
Home office and employment status

Quarantines forcibly closed millions of businesses, provoking mass layoffs and pay cuts. Fully 41% of AMI's Latin American survey respondents report that their wages have decreased during COVID-19 and an additional 15% have been laid off. These blows are felt most heavily in small economies with a high share of informal labor, including Ecuador, Peru and Panama.

FIGURE 5

Impact of COVID-19 on employment status and income

Current employment status, % of the labor force



Q: Which statement best describes your employment status during COVID-19?

Among those who kept their jobs, 74% report working from home at some point during COVID-19 lockdowns. This number was highest among women (79%), and those within the high-income bracket (88%).

Banks and fintechs faced a major challenge: directing all corporate employees to work at home. In March and April, financial institutions scrambled to equip employees with both hardware and software (laptops and VPNs, etc.) to ensure they could work remotely in a secure fashion. This represented a massive cultural shock for bank employees, who were used to working in a traditional office setting. The shift was even challenging for fintechs, who are by nature more flexible and in some cases already had employees working from home offices as a common practice.

Families were also faced with a set of unprecedented circumstances. Most were confined to their homes, juggling their professional and domestic lives with little outside assistance. One-third of consumers working from home (32%) did so while also taking care of their children, monitoring homeschooling and receiving no childcare support from family or nannies.

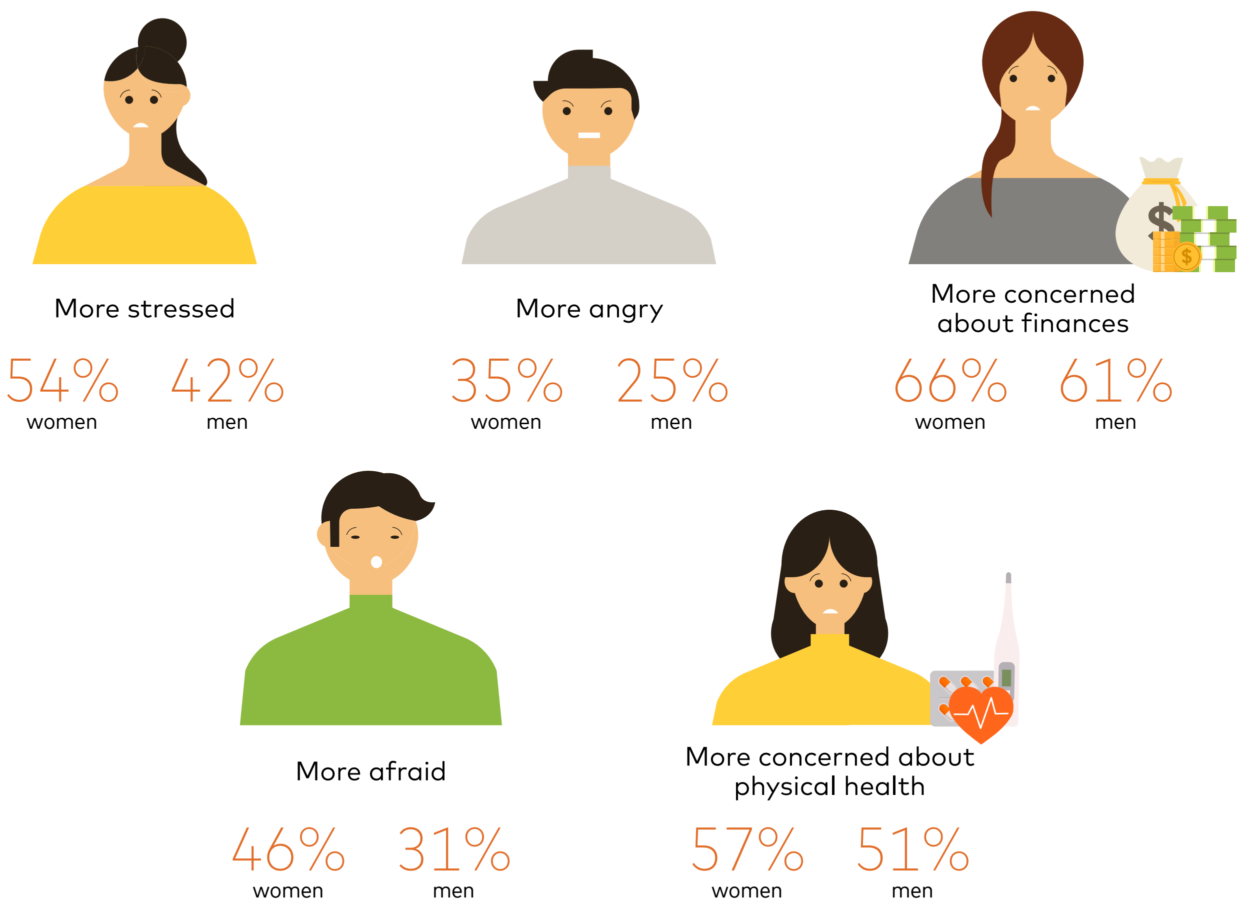
The data also reveal that these changes will largely be long-term. The majority of survey respondents (51%) do not expect to return to on-site work until 2021, and 10% expect to be working from home indefinitely. Executives from the payments industry—especially fintechs—relayed that in the long term, working from home will be commonplace, and some companies will dramatically reduce office space to accommodate this change. Latin Americans may find that the "new normal" offers more flexibility and leisure time (thanks to reduced commuting), as well as prolonged social isolation and the anxiety that goes with it.

A new emotional reality

To be sure, Latin Americans report being unhappier now than they were before the pandemic. Women in particular are experiencing increased negative feelings. This may be due to the fact that a higher percentage of women got laid off during COVID-19 (13% of women compared to 10% of men) and women report having less free time during quarantine (26% of women compared to 21% of men). Consequently, 21% of women listed mental health as their top concern, while this was true for 13% of men.

FIGURE 6

Respondents' current feelings compared to before the pandemic
% of respondents



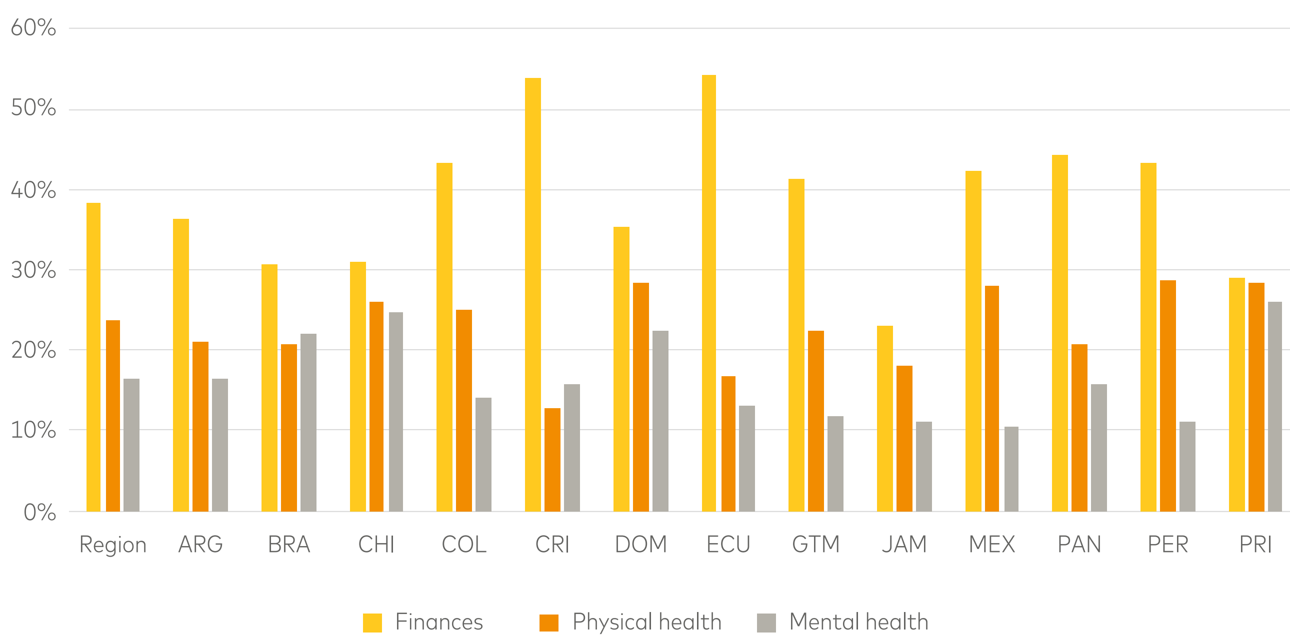
Overall, roughly half of Latin Americans are experiencing greater stress and concern for physical health, and more than 60% are more worried about finances. Finances are their top cause for concern in every market, this being most pronounced in countries with less developed economies (Ecuador) or those most reliant on the travel industry (Costa Rica).

Banks and fintechs report that this is directly visible in spending habits. There was a sharp decline in overall consumption from April to September, especially in credit card volumes. In this time period, consumers demonstrated a strong desire to reduce expenses, avoid taking on debt and manage their finances conservatively. As mentioned by Renato Camargo, Brazil Country Manager and CMO of RecargaPay (Brazilian fintech), "people are facing an uncertain environment, and when in doubt, they prefer to have more control over their expenses and better define how to spend their money."

FIGURE 7

Top area of concern in consumers' lives

% of respondents



Q: What area of your life are you most concerned about right now?

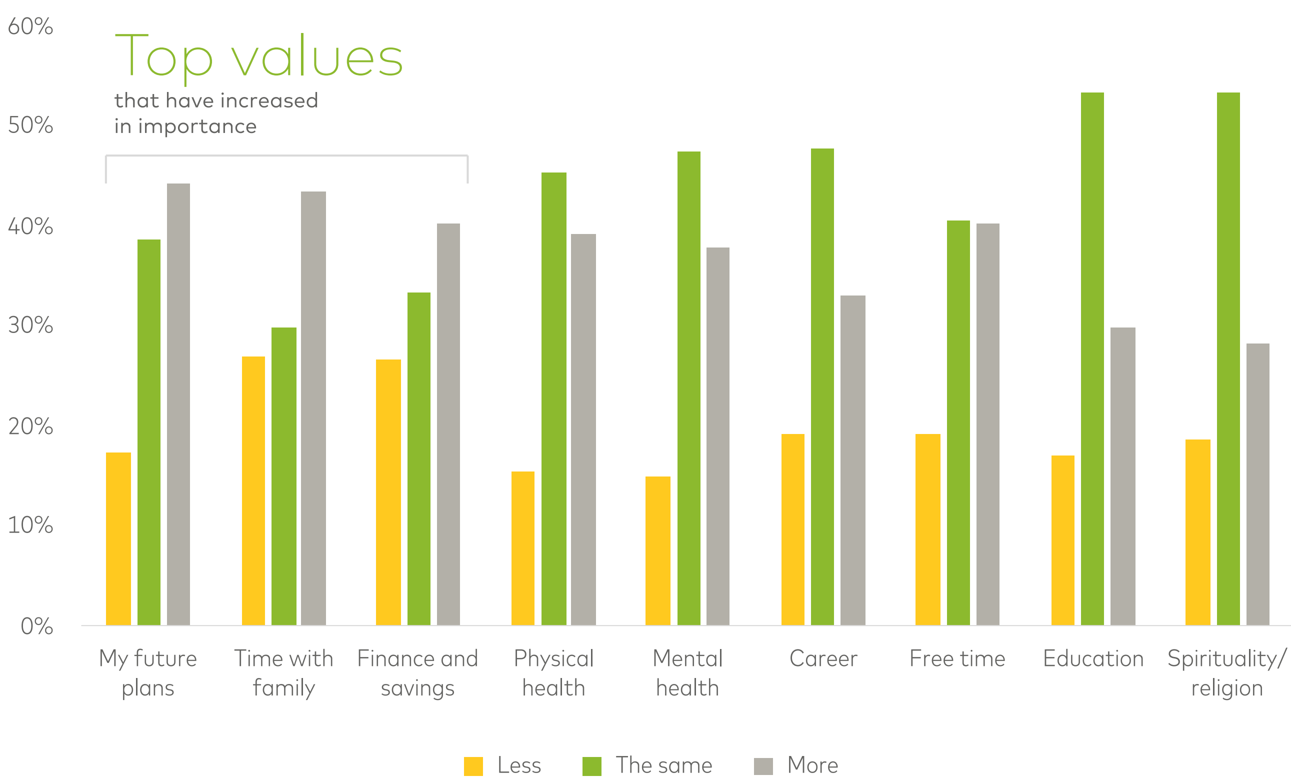
This has provoked Latin Americas to think more seriously about their future and to develop a long-term mentality toward their finances. Fully 44% report that they value their future plans now more than before the pandemic and an additional 40% value their savings and overall finances more. Time spent with family has also become more precious.

Banks and fintechs have noticed this emerging trend, observing an overall increase in account balances, even among lower-income consumers for whom savings is a challenge. This habit was supported by government subsidies in some cases. Representatives from BAC Credomatic (leading bank in Central America) mentioned many people who received COVID-related government assistance did not necessarily need it; the same happened in Puerto Rico, where laid-off workers received unemployment benefits of USD 600 per week, an amount much higher than many workers' regular income. This led to some consumers being able to save for the first time, and increasing account balances reflect the fact that they are doing it.

FIGURE 8

Top areas that consumers value more as a result of COVID-19

% of respondents



Q: How has COVID-19 impacted your values?
Do you value the following things more, less, or the same as before COVID-19?

Such a focus on financial planning is noteworthy for a region with the lowest savings rate in the world[3]. Traditionally, Latin American consumers have spent more than they have, valuing durable goods over money in an account. The pandemic and economic precariousness has forced consumers to rethink these priorities and become more practical.

How to adjust?

This constitutes a clear call to action to financial service providers. The next wave of financial products and services must align with consumers' developing financial planning mindset, helping them to reestablish a sense of financial security and hope in their future. Many financial institutions are already doing this—personal finance managers are increasingly en vogue and fintechs are helping consumers access interest-bearing savings accounts and investments for the first time.

This also has implications for marketing and loyalty programs. In the past, consumers have wanted help traveling and purchasing; now, they need long-term partners in reestablishing stability, providing convenience and reducing stress. Instead of lavish travel benefits, what drives value may be the ability to exchange points for groceries, free home delivery, access to premium health care services, or home cleaning services. Redefining strategies to align with consumer needs is never more critical than at this moment when the emotions, expectations, and needs have shifted so completely.

More digitized lifestyle in all areas

COVID-19 has also forced Latin Americans to reconsider their relationship with banking and technology. More than 40 million Latin Americans became banked during the pandemic and AMI estimates that in 2020, over 50 million will have shopped online for the first time. Many consumers in the region have tended to resist such digitization—COVID-19 has shattered their objections through sheer necessity.

E-commerce

During quarantines, e-commerce became the only conduit for physical goods, social interaction and entertainment. This is reflected clearly in the data: of e-commerce shoppers, 49% of respondents reported to increase their e-commerce spend during the pandemic, with 17% of these being first-time buyers. It is also notable that 17% report that they still do not buy online, meaning the market still has room to grow.

Chile reported the widest increase (66%), showing that even developed economies have room to grow in terms of e-commerce penetration. Falabella, a leading Chilean retailer, reported that in Q2 2020, e-commerce sales grew 113% over Q2 2019 and home delivery (vs. click-and-collect) grew more than 600%[4]. Panama, Ecuador and Guatemala saw the greatest share of new e-commerce users (20%, 17% and 16% respectively).

FIGURE 9

E-commerce behavior during the pandemic

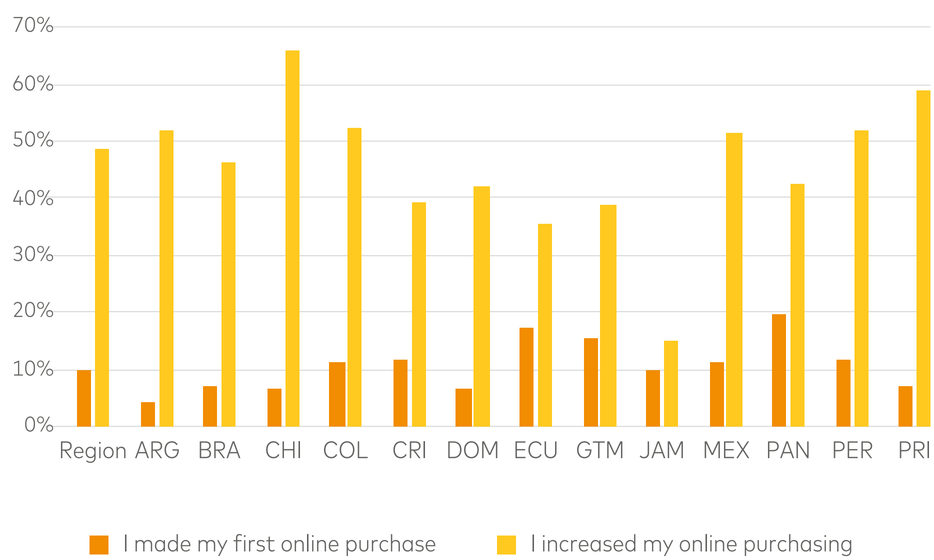
% of e-commerce shoppers, by country

49%
of e-commerce shoppers increased online purchasing

Of these,
17%
bought online for the first time

25%
maintained their level of online shopping

17%
still do not shop online



Q: Please describe your online purchasing/e-commerce behavior during the COVID-19 pandemic.

Looking ahead: Virtual sneaking into all areas of life

Consumers' ability to gather was severely restricted under quarantine, and even now that mobility has been partially restored, consumers are showing a propensity to stay at home. Nearly half of Latin Americans say they plan to go out less often than they did pre-COVID. Fully 40% say they won't attend an in-person sporting event as regularly and one-third say they will travel and take public transportation less often.

The data tell us that consumers are adopting new digital habits to compensate for the loss of conventional social activities. For the first time, about one-third of Latin Americans will attend a virtual conference next year, order restaurant food online, and shop for physical products online. One-quarter (25%) will shop for groceries online, 23% will take a university course and 22% will see live music or theater in a virtual setting. COVID is ushering in new digital industries to accommodate these digitizing consumers, all of which hold opportunities for new payment flows, solutions and loyalty schemes.

FIGURE 10

Top activities consumers will do online in 2021 that they did not do prior to COVID-19

Pay bills
36%

Take a class related to job/career
31%

Attend a job-related virtual conference
31%

Order restaurant food
29%

Shop for physical products
27%

Shop for groceries
25%

Take an exercise class
23%

Take a university course
23%

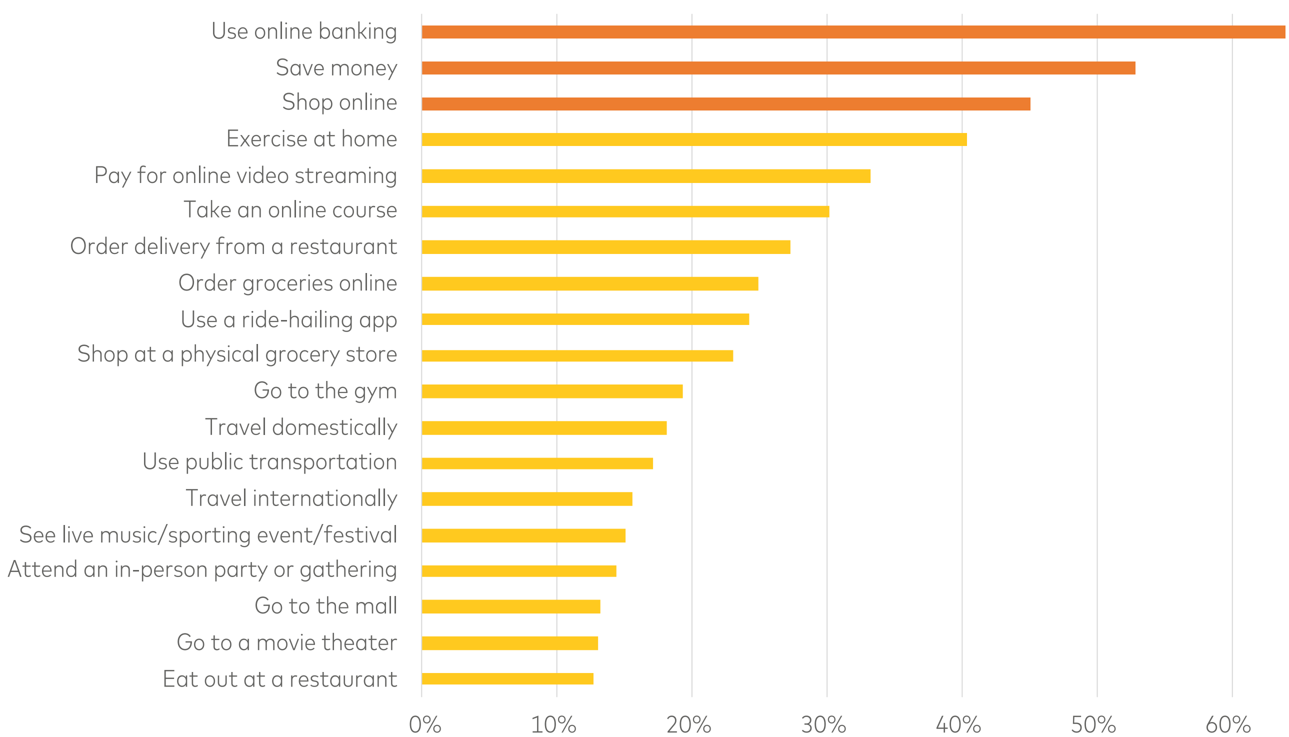
See live music or theater
22%

Finance-related activities are positioned to experience the biggest uptick, particularly saving money (46%) and paying bills online (46%). These are also the behaviors that are expected to be most lasting. Nearly two-thirds of respondents (64%) who plan to do more online banking say that this change will be permanent.

Banks and fintechs have seen this firsthand. All issuers surveyed for this report observed a migration toward digital channels among customers in general, and customers have stuck with this behavior even after lockdown conditions have relaxed. For Banco Itaú in Brazil, online credit card bill payments now represent 70% of the total, up from 55% before the pandemic. BAC Credomatic registered an average of 7.1 digital transactions per user per month vs. 5.5 in January, with 83% of customers using online channels to make payments and transactions.

FIGURE 11

Percent of respondents who think the reported change will be permanent



The movement toward digitization is strongest in countries that have been slower to adopt it. The following chart shows consumer expectations regarding how often they will perform various activities in the future, compared to before COVID-19.

FIGURE 12

Changed consumer behaviors due to COVID-19

% of respondents

Q: In the future, how often do you expect to do the following activities, compared to before COVID-19?

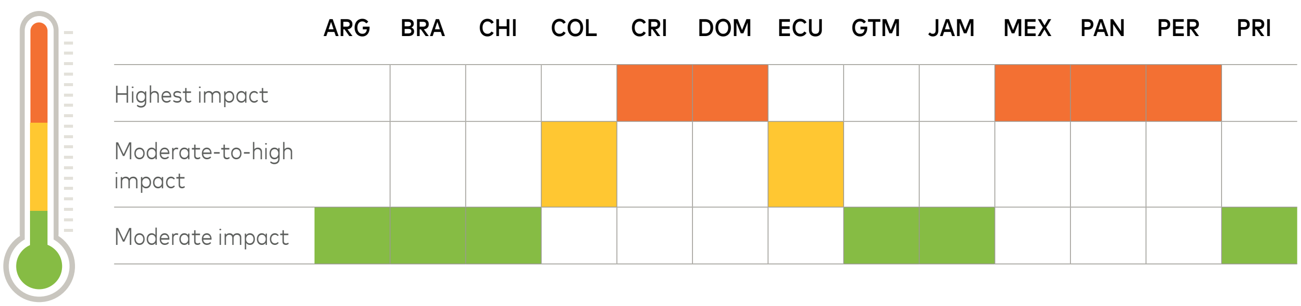
	Less often	The same	More often	% of respondents in each market
Save money	17%	28%	46%	65% - Panama 61% - Guatemala
Use online banking	6%	35%	46%	→ 52% - Costa Rica 52% - Puerto Rico 50% - Ecuador
Exercise at home	14%	31%	41%	
Take an online course	12%	26%	35%	
Shop at physical grocery store	24%	55%	17%	
Order delivery from a restaurant	17%	35%	32%	→ 47% - Costa Rica 41% - Colombia
Pay for online video streaming	14%	32%	20%	
Go to the mall	48%	31%	12%	
Eat out at a restaurant	46%	26%	14%	
Attend an in-person party or gathering	45%	23%	15%	
Go to a movie theater	45%	19%	13%	
Use public transportation	44%	25%	8%	
See live music/sporting event/festival	40%	17%	11%	
Travel domestically	33%	25%	19%	
Travel internationally	32%	15%	11%	
Go to the gym	30%	15%	13%	
Use a ride-hailing app	22%	28%	18%	27% - DR 26% - Chile
Order groceries online	18%	22%	20%	→ 25% - Peru 25 % - Puerto Rico

Demonstrates the overall trend. Indicates the largest percent of respondents in the category

The activities associated with digital adoption—like online banking or ordering groceries online—show greater adoption among smaller markets, sometimes as much as 20 points more than average. COVID-19 appears to have jumpstarted widespread digitization in these countries. Markets in more advanced stages of digitization (Brazil, Argentina, Chile) did not experience the same degree of impact.

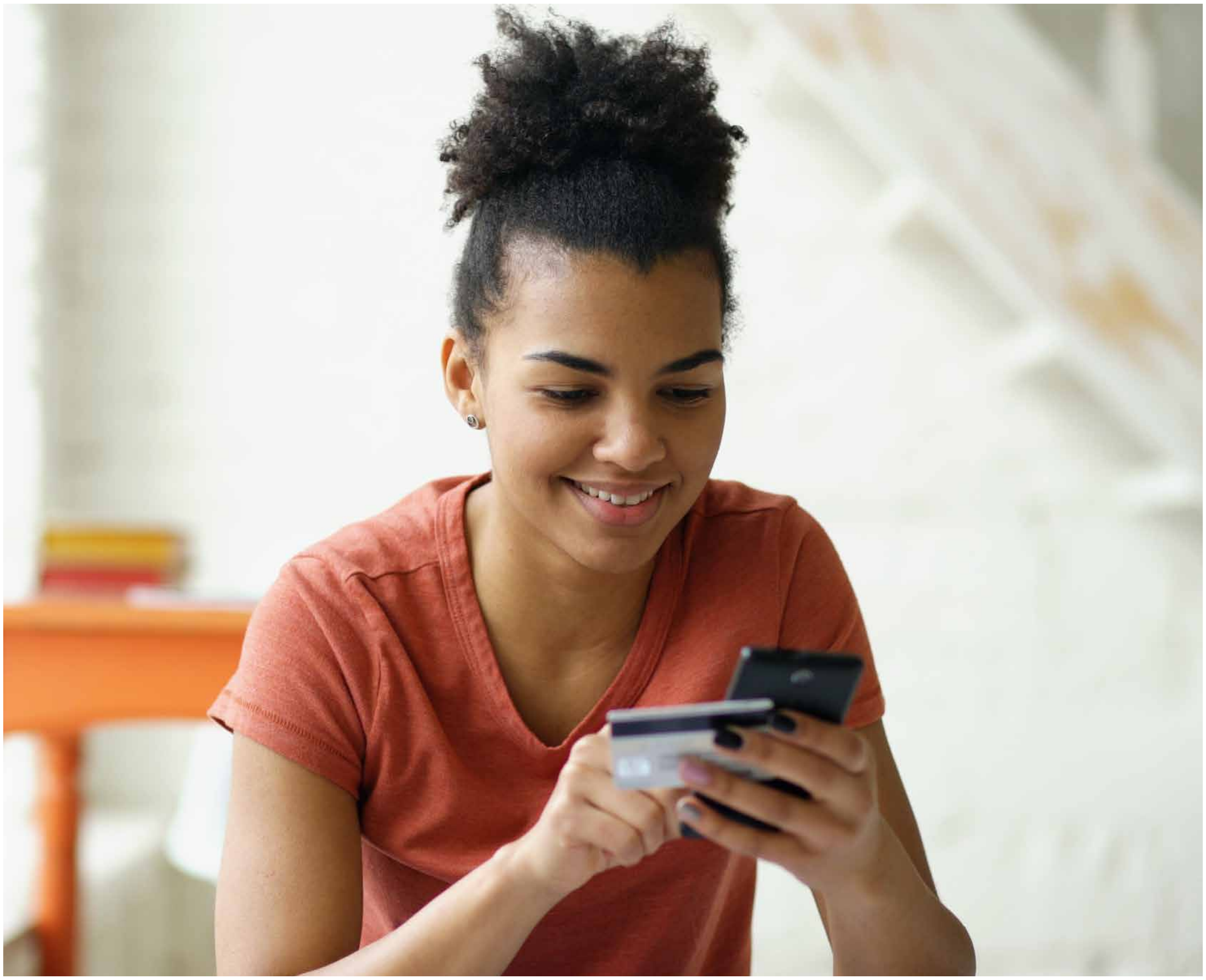
FIGURE 13

Level of impact on adoption of digitization by country[5]



In short, COVID-19 has helped to transform the way people do things, especially in those segments that have traditionally been hardest to reach. Some shifts will be temporary—consumers expect restaurant dining to return to normal within the year, as well as use of public transportation, traveling, and going to the gym.

But other changes are here to stay. Online shopping and banking are well-proven in world markets and can be counted on to last. Almost two-thirds of Latin Americans (64%) say they plan to pay their bills online from now on; 25% bought groceries online for the first time during the pandemic and will continue to do so. While e-commerce had a 45% penetration rate among Latin Americans before COVID-19, that number has nearly doubled to a startling 83%. COVID-19 has compelled those Latin American consumers—who were dragging their feet to digitize—to now boldly declare themselves as digital consumers.



Finally, an obvious step away from cash

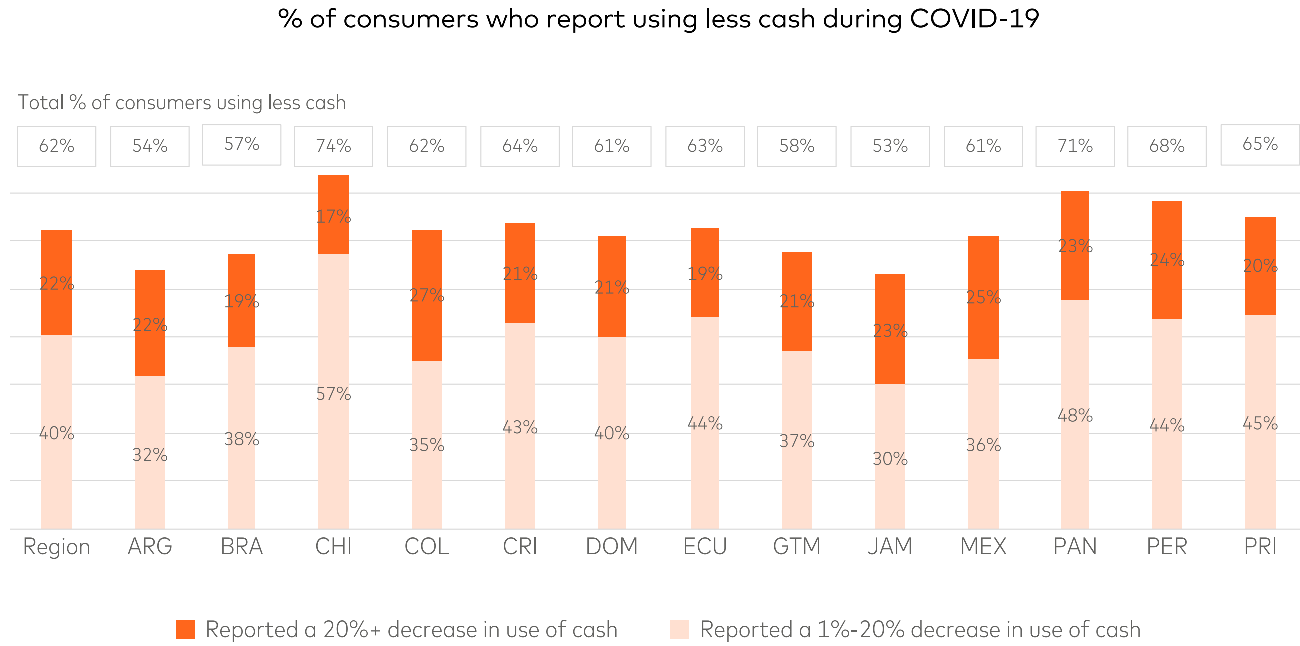
The heavy use of cash is endemic to Latin America for both cultural and practice reasons. But now, cash use has declined in every market, largely due to the increase of e-commerce and the requirement to limit social contact during COVID-19. In our study, 62% of consumers report using less cash due to COVID-19 and 40% of these reduced their cash spend by at least 20%.

The market where most consumers report reducing cash use is Chile, one of the most banked and digitized markets in the region. Panama, Peru, Puerto Rico, and Costa Rica are also above the regional average for cash use reduction.

With this data, it is possible to estimate the overall impact on cash usage across Latin America. Regionally, the use of cash (defined as the number of total cash transactions) has decreased by an estimated 12% since the onset of the pandemic, the regional maximum decline being in Chile (17%) and the smallest decline in Jamaica (7%).

FIGURE 14

Reduction of cash usage during COVID-19



Q: How has your use of cash changed during the COVID-19 pandemic?

This is significant considering the stickiness of cash over the course of the last decade—especially in markets like Mexico and Colombia. And while cash use remains present, the data demonstrate a considerable and accelerated shift toward non-cash payment methods.

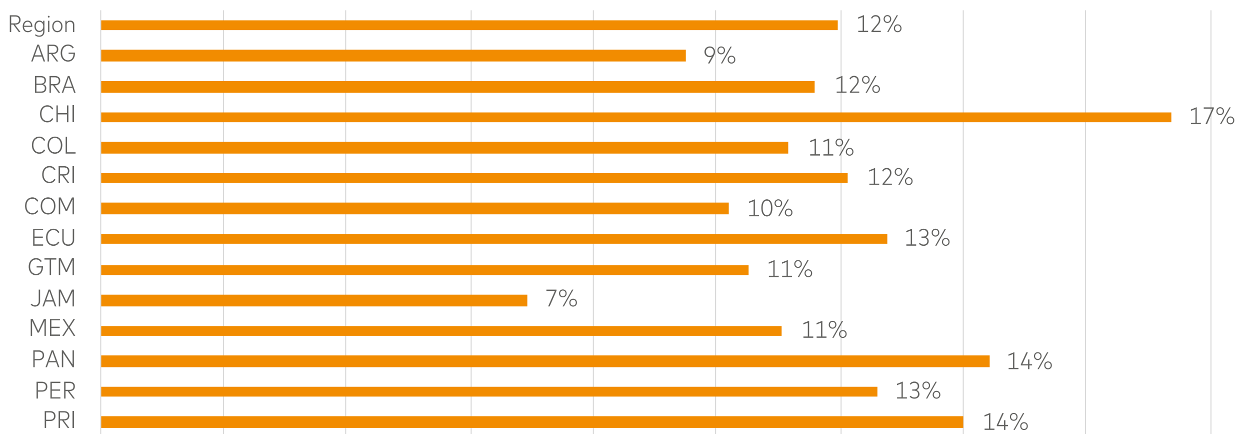
COVID-related social benefits disbursed into a digital account have promoted less use of cash. In Colombia, Hernando Rubio, CEO of fintech Movii, shared that of the Ingreso Solidario beneficiaries (a subsidy paid by the federal government to low-income Colombian families), only 25% of them withdrew funds in cash as of October 2020, (compared to 100% when the first payment was made in June). Even more indicative of this trend is the fact that 40% have made an additional cash-in deposit into their Movii account after receiving the subsidy.

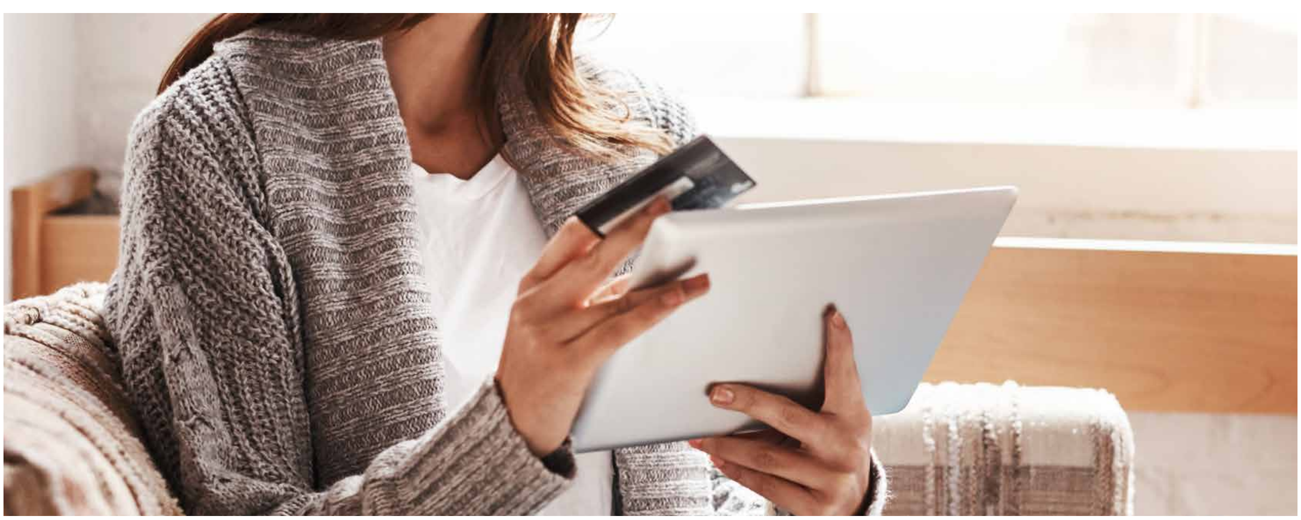
FIGURE 15

Estimated decline in the number of cash transactions as a result of the COVID-19 pandemic

% decline in cash transactions

Bars may not appear to be exact in size due to rounding





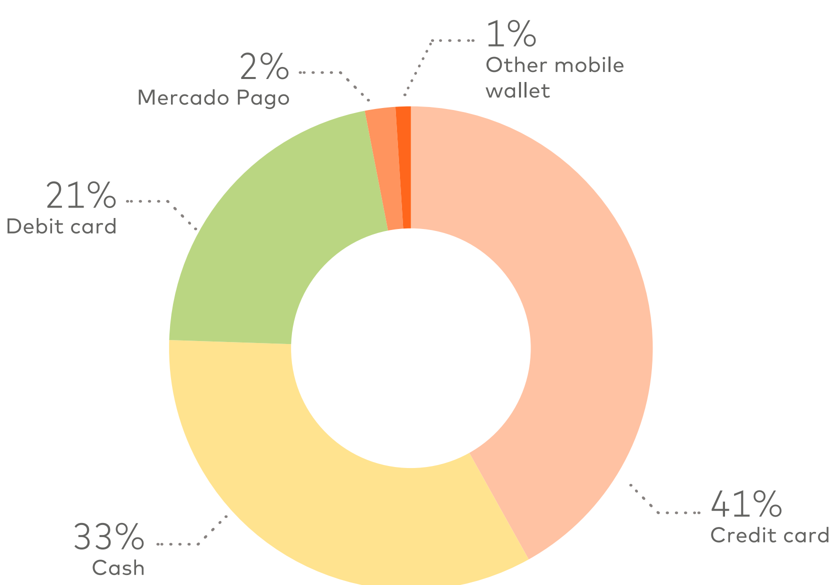
So how are consumers paying instead?

For in-store purchases, 41% of respondents indicate they use a credit card most often, compared to 33% who selected cash[6]. This applies to 9 out of 13 markets studied; the highest number of consumers still report using cash most often in Colombia, Jamaica, Ecuador and Puerto Rico.

FIGURE 16

In-store payment methods during COVID-19

% of respondents



Q: For in-store purchases, what payment method do you use most often today?

Payment method used most often for in-store purchases by country

	ARG	BRA	CHI	COL	CRI	DOM	ECU	GTM	JAM	MEX	PAN	PER	PRI
Payment method used most often	Credit	Credit	Credit	Cash	Credit	Credit	Cash	Credit	Cash	Credit	Credit	Credit	Cash
(% of respondents)	39%	34%	60%	45%	57%	43%	39%	47%	56%	40%	52%	57%	56%

Markets where credit card is used most often

Markets where cash is used most often

The use of contactless technology has also increased. At the time of this survey, 40% of cardholders reported having a contactless debit card, and 29% a contactless credit card. This indicates a surge in contactless card issuing and increased awareness of the technology by consumers. It is also encouraging that 12% of respondents requested their first contactless card during the COVID-19 pandemic, 18% used their contactless card for the first time and 40% increased their contactless card usage.

FIGURE 17

Use of contactless cards during COVID-19

	Of respondents who have a credit or debit card
Has a contactless debit card	40%
Has a contactless credit card	30%
Requested a contactless card for the first time during COVID-19	12%
Used my contactless card for the first time during COVID-19	18%
Increased my usage of contactless during COVID-19	40%

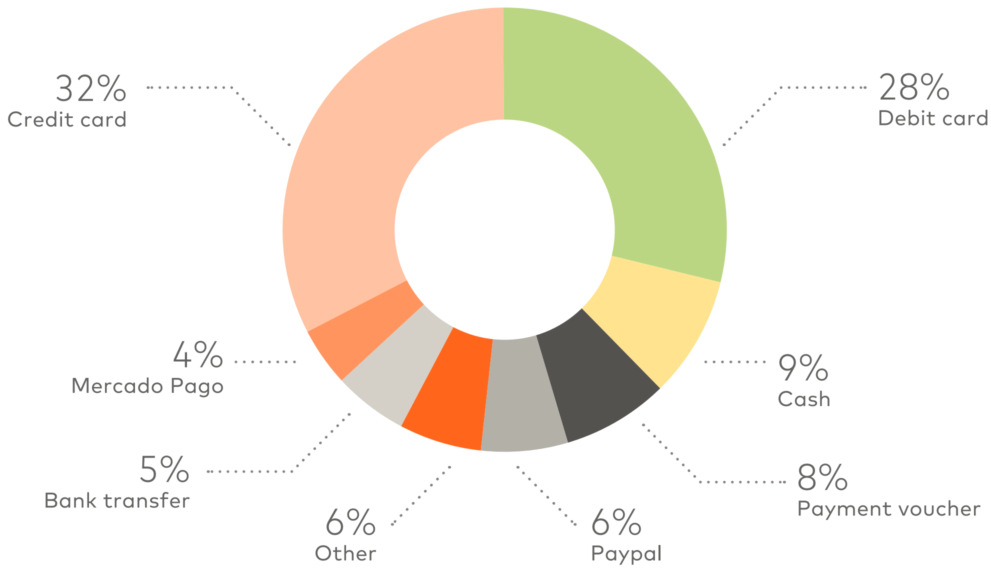
Within e-commerce, credit is also reported to be the payment method used most often, followed closely by debit. Credit has always been the leading payment method for e-commerce, but it is noteworthy that debit is being used most often in Brazil, Jamaica and Argentina. Until recently, debit cards in those countries were largely not enabled for e-commerce and the user experience was poor. With issuers prioritizing debit for online use, it is projected to be the fastest growing payment method for e-commerce volume through 2023[7].

Most notable is that 43% of respondents report changing their most-used payment method when buying online as a result of the COVID-19 pandemic. More than half of these (54%) made the switch to debit or credit away from cash-on-delivery: an undoubtedly sticky change in behavior considering the superior user experience and increased security with respect to physical health.

FIGURE 18

Use of payment methods for e-commerce during COVID-19

% of respondents who shop online



Q: For in-store purchases, what payment method do you use most often today?

Payment method used most often for e-commerce purchases by country

	ARG	BRA	CHI	COL	CRI	DOM	ECU	GTM	JAM	MEX	PAN	PER	PRI
Payment method used most often	Debit	Debit	Credit	Other*	Credit	Credit	Credit	Credit	Debit	Credit	Credit	Credit	Credit
(% of respondents)	32%	46%	43%	32%	60%	43%	46%	46%	37%	43%	44%	55%	34%

Markets where debit card is used most often

Markets where credit card is used most often

*Botón PSE (local online bank transfer)

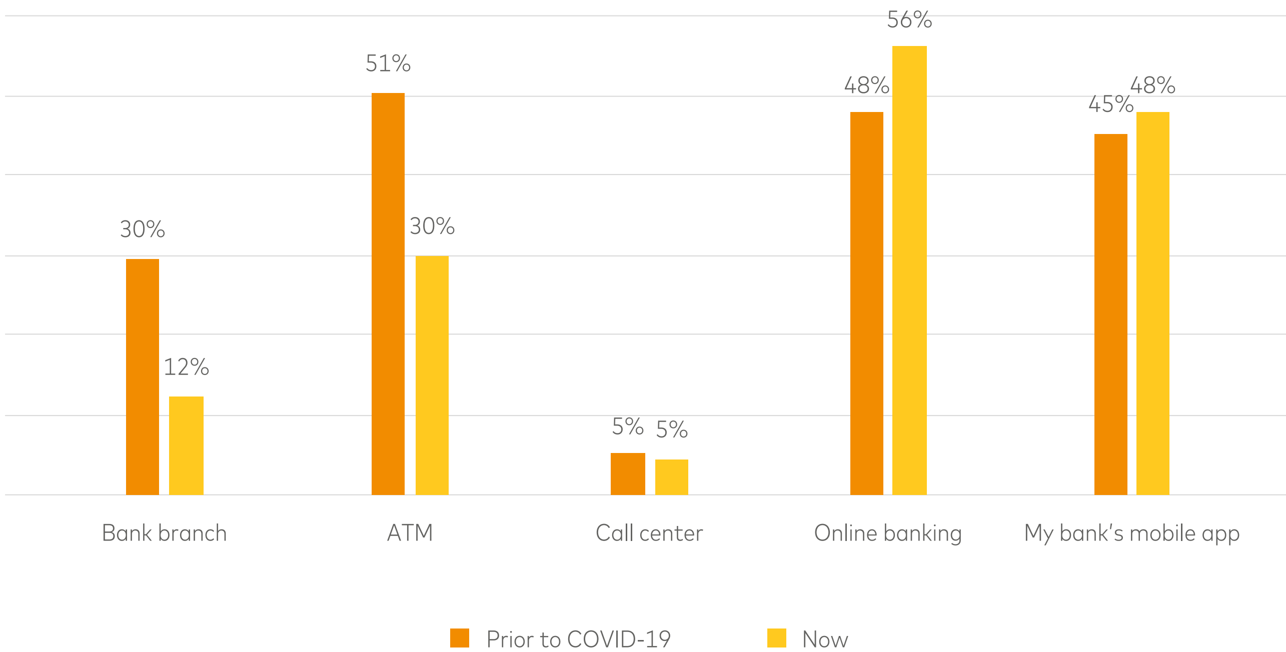
Adoption of digital channels and evolving consumer needs

Banks have a firsthand view of some of the early changes in traditional banking behavior as a result of COVID-19. Our survey reveals that ATMs were the most-used bank channel before the pandemic, highlighting the importance of cash even to banked customers. COVID-19 forced banks to restrict access to branches and ATMs, pushing many new consumers to digital channels for the first time. Usage of branches and ATMs has dropped, while that of online banking and the mobile channel has increased. Today, 56% of Latin Americans use online banking and 48% use their bank's mobile app.

FIGURE 19

Use of bank channels pre-COVID-19 and now

% of respondents who use each channel



The financial institutions themselves support these findings. Scotiabank Peru reports that digital channel use tripled during the pandemic. Banco Popular de Puerto Rico saw the acquisition of products and services over online channels rise from 10% to 35%, fully 70% being acquired in the mobile channel. Within our survey, only 7% of respondents say they use digital channels for "very few transactions"—a 44% decline from before the pandemic—while fully 75% claim to use digital for all or most transactions.

A seamless digital experience is a major priority for consumers when access through traditional channels is limited. When survey respondents were asked about the top areas in which their financial service providers (including both banks and fintechs) need to improve, 30% cited areas related to customers service and 22% cited areas related to the digital experience.

FIGURE 20

Top areas where banks/fintechs can improve

% of respondents

30%

Shorter wait times in branches and on phone

Better quality customer service

Customer service via chat

Customer service available 24/7

Better customer service

22%

More services and features available in mobile channel and online

Simpler mobile experience

More security online

Ability to open new products online

Better online/mobile experience

22%

Lower bank fees

Lower credit card interest

Lower fees

6%

Better rewards program

Q: Please select the top area where you believe your primary bank or other financial service provider needs to improve

Financial service industry leaders assure us that their companies are working to satisfy consumer desire for a better online experience. This challenge has been generally easier for fintechs, which were digitally born and experts in UX. But they lack some of the products and services that many consumers are looking for, such as investment accounts, loans and insurance. Traditional banks, on the other hand, have progress to make in terms of enabling a seamless, intuitive and complete digital experience.

Both are working on these respective areas. Traditional banks are seeking to replicate every service and stage of the customer lifecycle, from acquisition and validation to negotiation and cancellation. As of October 2020, 70% of bank products at Banco Itaú in Brazil were available in the online channel, when this was true for only 40% of products prior to the pandemic. The focus has been on expanding capabilities in the bank's mobile app, ranging from renegotiation and chargeback requests to credit limit increase requests.

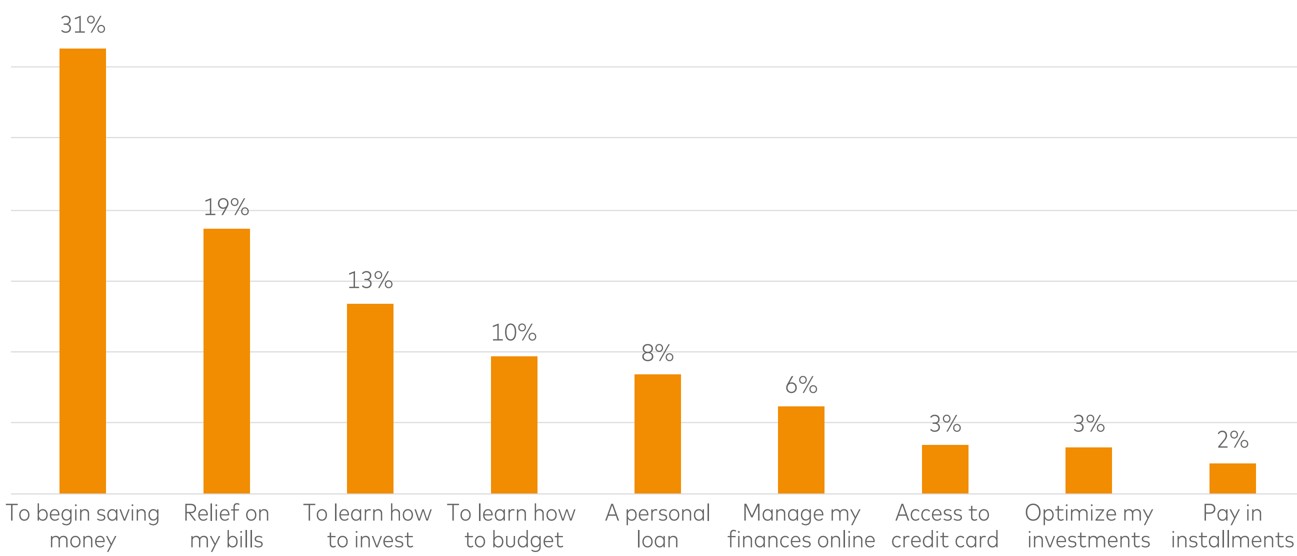
Even institutions outside of retail banking are working toward offering the full spectrum of financial services. BTG, an investment bank in Brazil, exemplifies this: as a traditional investment bank, it wants to give clients a fully digital transactional offering and is launching BTG+, a digital account to enable payments. It is also considering how to offer the most relevant loyalty program to its affluent customer base given COVID-related lifestyle changes.

Fintechs are working to improve as well, specifically by building out their product suite and offering savings tools, investments, loans, and insurance. As per our survey, this is aligned with what consumers say they need: when surveyed eight months into the pandemic, consumers identified their top financial need as to "begin saving money." Learning how to invest and learning how to budget are also top concerns.

FIGURE 21

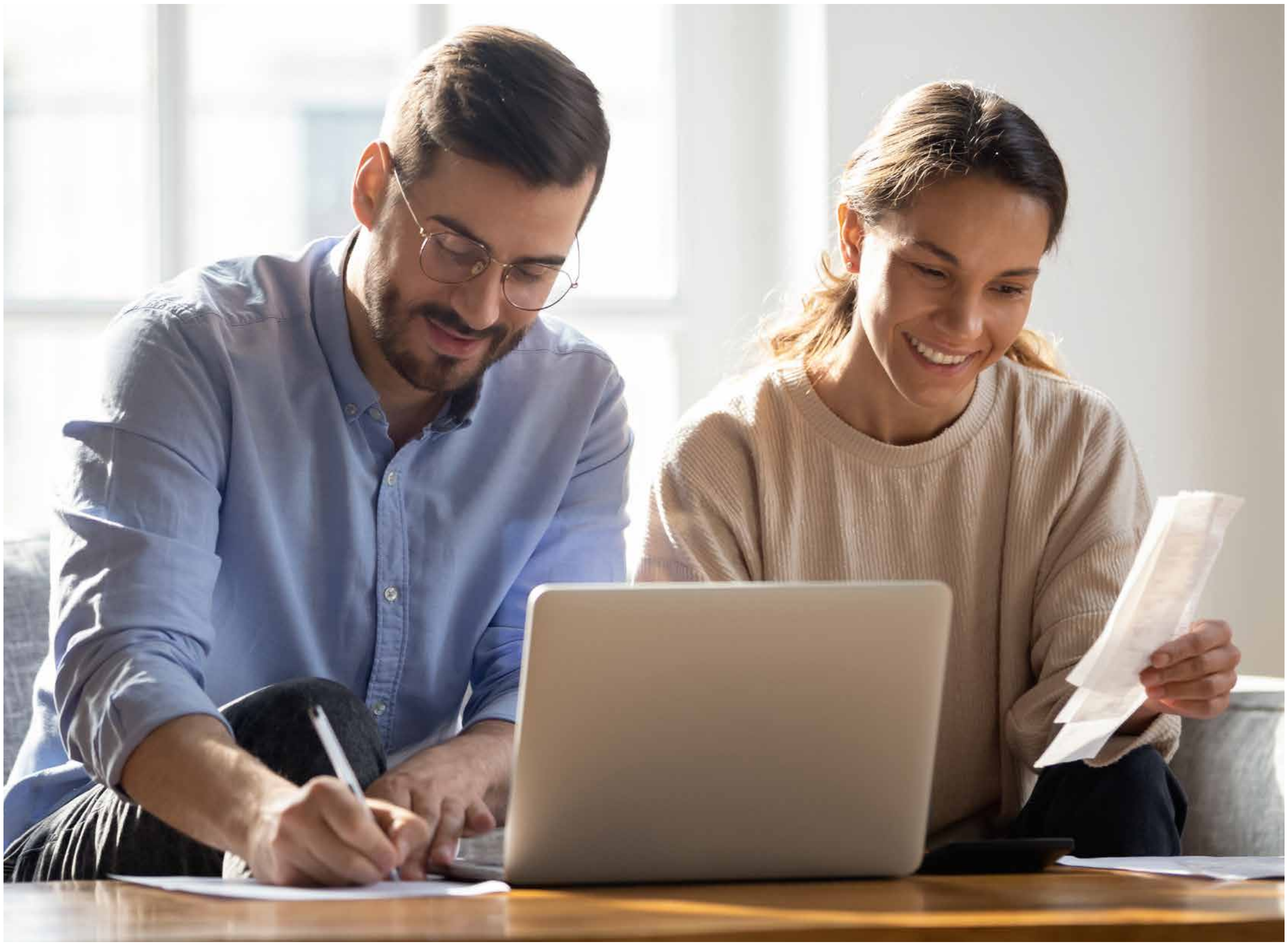
Consumers' biggest financial need

% of respondents



Q: What is your biggest need with respect to your finances right now?

Here is another powerful call to action: maintaining the ability to adjust the product offering to consumers' changing needs. To capture and retain new customers, banks and fintechs must know what consumers want and need and deliver a value-proposition that is individualized, relevant, and powerful. Whereas concepts of *status, shopping* and *travel* may have resonated with consumers 12 months ago, planning, savings, low-cost, convenience, simple, and value are more likely to grab them today.



Top trends and how the industry should respond

We have all felt the impact of COVID-19 in our own lives and it is easy to see how that impact has reverberated across the payments industry. Cash use has declined by an estimated 12% regionwide. Eighty-three percent of the population now uses e-commerce. Consumers are stressed and are deeply concerned about their financial futures. They are exploring new online experiences and testing digital platforms. They are more willing than ever to experiment.

Development of a financial planning mindset

Banks and fintechs are facing what is, quite literally, a once-in-a-lifetime opportunity: to partner with consumers through this difficult time and be their ally, rather than their debt collector.

Ways to win with Latin American consumers in 2021 include:

- User-friendly personal finance managers
- Financial education programs
- A variety of savings products to fit diverse needs
- Wealth management tools
- Virtual financial planning
- Social competitions and games to promote savings
- Tools to find savings on purchases

Increased need for virtual experiences and convenience

Working from home has vaulted Latin American families into a new reality where there are no clear boundaries between work and home life. With work bleeding into all hours of the day and limited options for recreation over the past eight months, families need new solutions to have fun, de-stress and add convenience to their lives.

This creates opportunities for retailers and marketplaces to create niche online experiences, tools and services—and for brick-and-mortars to improve their delivery experience and find ways to cater to home-bound families. It also opens up the prospect for innovative loyalty programs to help consumers cover the essentials and improve their day-to-day.

Increased comfort with digital; less of a vice grip on cash

Latin Americans' digital habits are opening them up to new purchasing models and payment flows. E-commerce has crept into new areas of consumers' lives; one novel example is offered by RecargaPay, which launched the capability to purchase gas online—users purchase a gas voucher in the RecargaPay app and a gas cylinder is delivered directly to their homes (upon delivery alignment with the supplier). More than ever, it is critical for retailers to offer seamless in-store payment experiences and for card networks to be top-of-wallet as the electronic payment pie expands.

As more Latin Americans embrace digital payments, especially in cash-dominated economies, there is likely to be a snowball effect. Digital payments will continually gain momentum, opening up consumers to new payment experiences using P2P apps, QR codes, biometrics and more. The share of retail payments represented by cash will dwindle, unlikely to rebound.

How can industry players compete in this new digital reality?

Players in the financial services industry must help to support customers along their digital journey—while also taking great care that they don't have a poor experience and backslide. Top recommendations to achieve this include:

Make savings easy and fun

Find creative ways to help consumers save, meet their goals, and feel positive about their financial futures.

Innovate in loyalty

Provide personalized offerings that are relevant to consumers' new realities.

Promote online/ digital security, control and autonomy

Enable consumers to fully monitor, control and operate their funds virtually.

Adapt quickly

Time to market is more important than ever as banks and fintechs race to be the first to help consumers through this tough time.

Communicate clearly with a focus on education

Clear, specific, and rich in content, avoiding financial jargon, specific to niche consumer segments.

Is the payments industry prepared to meet this new client wish list?

Banks and fintechs have learned that they cannot afford to ignore current trends. In recent years, as digitization ramped up, fees declined and focuses shifted toward the customer-centric, not all banks and other financial players reacted. For large banks, their size and reputation enabled them to survive despite ever-increasing competition. Not anymore. Industry players agree that COVID-19 marks a true turning point in which financial institutions must adjust—or face extinction.

This is true not only for banks, but for fintechs, which also need to keep up with changing trends. At this point, all the barriers to entry have been removed and consumers can bank with almost anyone. Competition is at an all-time high. As Maia Hojman, Payment Methods and Marketing Manager for Banco Falabella in Chile, affirms, "Companies with a true vision for their brand to be aligned with consumer needs, desires and emotion—and that can make consumers' lives easier and better—will win the race for the consumer post-COVID-19."

The answer then is that the payments industry is on the correct path, as most players now truly recognize what is needed to meet customers' wish list and compete. With room for everyone to improve and evolve, we can be sure that 2021 will see not only an evolved Latin America consumer, but also a transformed financial services industry.

Notes

1. Throughout this report, Latin America should be understood to mean Latin America and the Caribbean regions

2. Throughout this report, the following countries abbreviations are used: ARG (Argentina); BRA (Brazil); CHI (Chile), COL (Colombia), CRI (Costa Rica), DOM (Dominican Republic), ECU (Ecuador), GTM (Guatemala), JAM (Jamaica), MEX (Mexico), PAN (Panama), PER (Peru), PRI (Puerto Rico)

3. According to the World Bank, in 2019, Latin America had a savings rate of 16% (gross savings as percent of GDP), compared to a world average of 25%, 18% in sub-Saharan Africa, 29% in South Asia and 19% in North America.

4. Falabella Earnings Call Presentation, Second Quarter 2020

5. Levels of impact on digitization were determined by analyzing the percent of consumers in each market who said their adoption of the following digital activities would be permanent: ordering groceries online, paying for online streaming service, using a ride-hailing app, taking an online course, and using online banking.

6. Important to consider is the fact that 45% of the survey sample report owning a credit card; this means that for almost all credit card owners, they use this payment method most often. The rest of the sample is divided between debit cards and cash.

7. *2019-2023 Latin America E-commerce Breakdown*, Americas Market Intelligence, 2020.

About Americas Market Intelligence

Americas Market Intelligence (AMI) is the premier market intelligence firm for Latin America, providing powerful market and competitive intelligence-driven insights for companies to succeed in the region. Its industry expertise includes payments, healthcare, logistics, resources/infrastructure, insurance, consumer/retail and more. Its customized research reports deliver data-based clarity and granular strategic direction based on expert sourcing. AMI's payments practice is focused on helping financial institutions, merchants and others navigate the unique payments landscape in Latin America and compete in a rapidly digitizing environment. AMI consultants are recognized thought leaders in verticals such as e-commerce, mobile payments, digital wallets, online banking, contactless payments and other digital payment technologies.

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