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Why Homegrown Latin American BNPL Providers Are Ahead in Underserved Markets

By **Fausto Ibarra**
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Latin American countries are emerging economies marked by limited access to financial services and consumer goods and characterized by a significant number of unbanked and underbanked citizens. Paying for purchases in installments is much more common and desirable in these economies because it gives consumers access to products and services that would otherwise be beyond their reach.

Buy now, pay later (BNPL) services help finance the cost of expensive purchases through non-traditional channels, but they only made up 1% of total e-commerce in the region in 2021. Brazil and Mexico are the biggest markets in terms of people and sales volume—both countries where many people don't own a credit card.

With Klarna's expansion into Mexico, it's worth looking at what it'll take for foreign BNPLs to succeed in the space at large. No doubt, homegrown BNPLs have the home-field advantage—it's their turf. They know the ins and outs of the financial infrastructure in place and are much more familiar with the on-the-ground realities ordinary people face.

Here's what foreign players need to understand as they enter the market and why native providers have succeeded so far.

Latin America is Not a Monolith

BNPL providers such as Klarna, Affirm and Afterpay have built and expanded their financial services and products in the U.S. and Europe, where the economic infrastructures are near homogenous, broader consumer habits overlap, and most adults have access to traditional financial products. Similar socio-economic environments encourage a little one-size-fits-all approach.

In Latin America, things are not quite so clear. Each country is different, with different consumer habits and varied dynamics with financial infrastructures. In Colombia, for example, the most common form of e-commerce payment is bank transfers (40% of the total volume), much higher than Latin America's average of 13%. Assuming that 300 million LatAm digital buyers have the same or similar consumer behavior across the region would be a catastrophic misunderstanding of the diverse socio-economic challenges plaguing these countries.

Native BNPLs understand these challenges and tend to have a much more flexible game plan to adapt country by country as they grow, and it's something foreign players will have to accept and implement if they hope to gain any traction.

Cash is King

Roughly 178 million people in Latin America were considered unbanked in 2021, with the highest proportion of unbanked adults in Mexico. Lack of access to typical banking services and a booming informal labor economy means that cash is still the most common form of payment in Mexico and across the region. Even in Brazil, the region's largest economy, cash still accounts for one-third of all payments.

Foreign providers still heavily rely on credit and debit card payments, which won't work as the sole payment method in Latin America. Mexican BNPL Kueski found a workaround by establishing a network of locations that allows consumers to pay in cash for their purchases. International providers will similarly need to develop their own payment solutions that center cash payments as an alternative to card payments.

Lack of Data

Because many people in the region are unbanked, there is limited data on consumer cash flow histories, purchasing habits, loan payments, and other consumer financial behavior. Some native providers have been in the game long enough to have generated their own consumer data over time. But even they had customers. Local providers have developed sophisticated risk models and have efficient operations that enable them to offer microloans of $100 or less. Also, some providers offer a single line of credit, which means customers can't make more purchases until the loan is paid off, reducing the provider's risk and curtailing a cumulative debt effect for customers.

Mistrust of the Financial System

High fees, predatory banking practices, lack of transparency, poor financial literacy, and limited access to formal banking services have led to an inherent mistrust of the traditional financial system, especially for individuals with lower incomes or those who live in rural or marginalized communities.

The most successful native BNPL providers understand these challenges and respond with zero hidden fees and robust and active customer service to work with their customers and not against them. They also implement flexible service models with microloans and extended installment plans, instead of the standard pay-in-four biweekly payments that foreign players implement, which makes it easier for customers to pay back the loans.

Foreign players that look at local providers and grasp the underlying factors contributing to their successes are likely to experience smoother expansion into underserved markets.

Tags: BNPL Klarna Latin America Unbanked underserved populations

Card Loyalty Programs Should No Longer Be Dominated by Credit Cards

By **PaymentsJournal**
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Loyalty reward programs have long been primarily the province of credit cards, but rewards for debit programs are emerging as a big opportunity for financial institutions to stand out in this competitive space.

During a PaymentsJournal podcast, Jeri Scheel, Senior Director of Product Strategy at Fiserv, and Brian Riley, Co-Head of Payments at Javelin Strategy & Research, spoke about the advantages of offering loyalty reward programs for credit and debit cards—and how financial institutions can benefit from taking this two-pronged approach.

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The Current State of Loyalty Programs

Credit and rewards programs have been synonymous for quite some time, and those programs are one of the first things customers seek when they apply for a new credit card. Rewards have become an expected feature and are no longer just another perk for card issuers to offer.

"Whether it's consumers or businesses, a credit card is expected to have rewards," Scheel said. "But the real opportunity for financial institutions is to think about how to tie in rewards on the debit side because

"They're a differentiator and determine which card gets top-of-wallet status. In fact, research has shown that 68% of people with a credit card have more than one, 90% of those have a go-to (card) that they use most often. And a majority, 71%, of multiple card users choose their credit card for the opportunity to accumulate rewards."

These data points highlight how much rewards are table stakes for credit—and how financial institutions can leverage that information when thinking about rewards within the debit space.

But launching a rewards program for debit in a haphazard way, such as simply applying a cut-and-paste credit rewards program, is not the right approach. Financial institutions must be more strategic.

"Finding a way to make it work well on the debit side of the house is important," Riley said. "When Dodd-Frank was coming out and after the Great Recession, a lot of the interchange went away. Therefore, all those programs died up quickly. A lot of debit issuers have found it hard to make that work on that side of the house."

How FIs Can Benefit from Loyalty Programs for Debit

The most important way to determine whether a loyalty program for debit cards will benefit financial institutions is to look at spending patterns.

"For the debit side of the house, what we have seen is debit users spend more than credit card holders just in general, regardless of rewards," Scheel said. "Debit card holders without rewards spend about $13,000 a year. Credit card holders in the same period only spend $4,000. The dollar value you're starting at is already higher.

"The percentages are greater on the credit side, but the total dollar value is better on the debit side. In the debit space, if I'm spending $13,000 a year without rewards, just offering a rewards program may increase my spend by 25%, which is certainly nothing to shrug at, but it takes me up to $16,000 a year growing that interchange on the debit side.

"And then if you get them to redemption—which shows that they're engaged in the program— their average spend for the year is $21,000, almost double where you started with no rewards. That's how financial institutions can really drive usage and spend and ultimately revenue and stickiness for their cardholders."

Retention is crucial and should be the main focus for financial institutions. As Riley pointed out, it's about more than booking an account. It's having a lasting relationship with the customer and being able to get into the vertical integration of the household budget. "Having that balance of credit and debit with that relationship is good," he said. "Being able to harmonize where the reward strategies are will have a long-term play in how that account performs with the institution."

Similar to how merchants must provide a variety of payment method options to keep and retain loyal customers, card issuers must offer a variety of redemption options.

"Loyalty participants are engaged in a loyalty program due to how they can redeem," Scheel said. "Roughly 40% of folks have said they pick a rewards partner because of where they can redeem their points. Another interesting stat is 60% would prefer to use their points at the point of sale instead of cash back, so cash is always king. But offering a differentiation of redemption options and making them relevant to your cardholders is absolutely critical."

Most Preferred Rewards by Cardholders

Most cardholders seek out the best rewards program before applying for a credit card. And in the end, consumers earn points because they want to eventually use them.

"Whether it's a trip to Hawaii (or something else), we save up," Scheel said. "Travel redemptions tend to be very high in Q3 and drop off in Q4, and that's because people are traveling in Q4, so they book the travel in Q3 with their points. Conversely, gift cards tend to be purchased more often around Q4 because they're shopping for the holidays."

The growing trend that card issuers must be aware of is where consumers prefer to use their redemptions. Use at the point of sale is growing in popularity, Scheel said.

"We experienced a shift in Q4 last year of about 6% of the redemptions that typically had been for cash had shifted over to pay with points," Scheel said. "People prefer to be able to spend at a place where they were going to spend anyway, but getting that extra benefit of using their points instead of always having to use cash."

The Bottom Line

Establishing card loyalty programs within the debit space holds a lot of opportunity, as the spending value tends to be considerably higher. By adding a rewards program, spending amounts can increase even more dramatically.

Financial institutions should examine their card portfolio holistically and look across the different sectors to target market each.

When it comes to forming key partnerships, it is important to offer a wide range of redemption options. You should also be free to market and communicate these available options to your customers regularly.

Tags: card usage cardholder loyalty Credit Cards Debit Cards Debit Rewards Fiserv Loyalty Program Rewards