

FOUR TRENDS TO WATCH

Building value in Latin America





A world of opportunity

Connectivity and the pandemic has reshaped consumer behavior and accelerated changes in Latin America, where millions of people are coming online and using e-commerce for the first time.

Businesses are responding. In Brazil, the country's open banking mandate is inspiring small digital banks to partner and position themselves as larger platform players.¹ Meanwhile in Mexico City, a growing number of startups² aim to disrupt traditional processes such as car buying.³ And in Colombia, local and multinational apps have funded unofficial kitchens in strategic neighborhoods to help restaurants fill meal orders for home delivery.⁴

The shift toward digital-first business models in Latin America is similar to what happened in China and Southeast Asia not too long ago.

- Like Southeast Asia, Latin America includes multiple countries, each moving at its own pace.
- Infrastructure is evolving rapidly. In some areas, technology leapfrogs. People who never had a landline now have a smartphone with internet connectivity or, increasingly, mobile broadband.
- A large portion of the 625 million population has limited access to credit or bank services.
- Mexico, like Thailand, is rich in light manufacturing.⁵

“Latin America had to adapt during the pandemic. You couldn't pay with cash, so companies had to reinvent themselves and provide new ways of collection. People switched from cash to digital wallets. This adaptability represents huge untapped opportunities for the market—like blockchain and digital currencies.”

Ignacio Munoz De Cote
Head of Latin American Solutions,
J.P. Morgan Payments

Four trends to watch in Latin America

Indications suggest that Latin America is poised for breakout growth similar to what took place in China and Southeast Asia. Whether you want to expand in the region or enter it, opportunity awaits. And while challenges exist and opportunity is unevenly distributed across the countries, the four trends discussed in this guide reveal regional vitality.

1. Broadband expansion and smartphone adoption
2. Explosion in marketplace e-commerce
3. Venture capital investment
4. Internet of Things (IoT)



Key considerations for companies based in Latin America

- Move up the value chain by moving closer to the end-customer experience—by adding a direct distribution channel, for example.
- Partnerships with mobile app developers help traditional brick-and-mortar operations compete.
- Alternative payments can complement existing e-commerce capabilities.

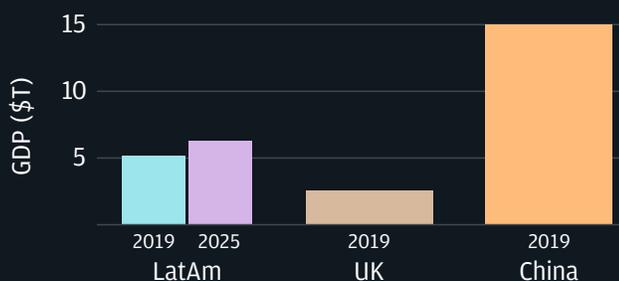


Key considerations for multinationals

- The best technology doesn't always prevail; sometimes it's about understanding the local nuances to achieve market penetration.
- Your ability to meet objectives depends on your industry and the country you enter.
- A local treasury unit can help you compete by laying a foundation to send and accept payments.

“Many of the regional unicorns are now looking at comparable companies from other regions to identify proven paths to accelerate growth.”

José David Otero
Head of Trends and Intelligence Advisory for Latin America,
J.P. Morgan Payments



The countries comprising Latin America had pre pandemic GDP of \$5.2 trillion. For comparison, that is nearly double the size of the UK 2019 GDP, but only a bit more than one third of China's 2019 GDP.⁶ GDP in Latin America contracted during 2020, but is expected to grow to an estimated \$6.3 trillion by 2025.⁷

1. Broadband expansion and smartphone adoption

Two leading indicators of digital acceleration are broadband expansion and smartphone use. These technologies lay the foundation for sophisticated e-commerce models such as marketplaces and online financial services, opening new markets to attract a large portion of the population that has been traditionally underbanked. In Southeast Asia and other regions, we saw similar periods of broadband expansion give birth to breakout tech companies that delivered on pent up customer needs.

Multiple technologies are connecting businesses and households in Latin America. Internet penetration as of January 2021 was 72 percent in South America and 67 percent in Mexico and Central America.⁸ Two factors are driving this growth:

- Fast fiber-optic connections are replacing DSL.
- Telecoms are continuing to upgrade mobile networks to 4G and 5G.



Implications for regional players

- Build familiarity with the markets and local operations.
- Consider how to personalize app experiences and deliver contextual commerce on social media or in search results.
- Focus on serving unbanked people to help them buy online. With a digital banking license, available in some Latin American countries, companies can embed payments with a local digital wallet.
- Capture cross-border fund flows with wallet interoperability.



Implications for multinationals

- Partner with local companies that can help localize your offering.
- Due to sluggish internet growth, choose markets with high smartphone penetration and channels with user-generated content. Internet-based business plans must include an eventual realignment around smartphones.
- Identify local partnerships to bring last-mile delivery services to residences in broadband-rich areas.

“Similar to what happened in China and Southeast Asia, we are seeing new players coming in and reducing the cost of smartphone ownership. With smartphones, unbanked people can start to use bank services and buy online even if they don’t have credit.”

Renata Vilanova Lobo
Head of Global Clearing,
J.P. Morgan Payments



Connectivity case studies

Southeast Asia

Grab started as a ride sharing company in Singapore in 2014 when smartphone adoption was at 74 percent, then moved into food delivery.⁹ Grab launched online GrabAcademy for its driver partners, has expanded across the region and evolved into a super app offering financial and business-focused services. Financial services also help the company attract and retain drivers with micro loans, micro insurance and buy now, pay later (BNPL) services.¹⁰



Latin America

Rappi, a Colombia-based super app available in nine countries in Latin America, offers on-demand delivery of groceries, restaurant meals, furniture, medicine and more. The company started in 2015, when smartphone penetration in Colombia was 51 percent among phone users.¹¹ Since then, Rappi has expanded into financial services through partnerships and joint ventures with fintechs and banks. The company now offers RappiPay digital wallet, which customers fund with debit or credit cards or with cash paid to Rappi couriers.¹²



Mobile phones in Latin America are key to connectivity

As smartphone adoption increases, mobile may become the prime method of connectivity. Mobile phone use is heavier in urban areas, but coverage degrades outside cities. Continued growth in smartphone adoption depends on device costs dropping and improved network response time, which is starting to happen.

Subscriber Penetration



Smartphone Adoption



Mobile Network Speed is Increasing

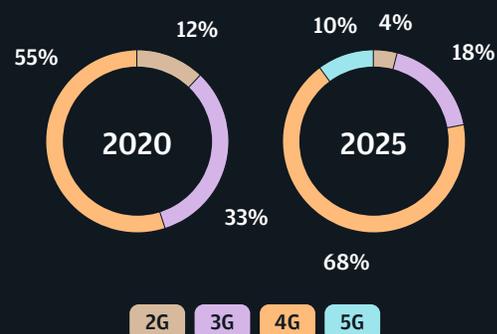


Chart source: GSM Association, 2021, "The Mobile Economy"

2. Explosion in marketplace e-commerce

The marketplace ecosystem model of commerce uses payments as the connecting infrastructure between end customers and multiple merchants. E-commerce expanded dramatically with the global pandemic, and Latin America is now the second fastest growing market for e-commerce after Southeast Asia.¹³ With continued growth and smartphone adoption in the region, we will also see the emergence of m-commerce, or mobile commerce.



Implications for regional players

- Expect Latin America to remain cash dependent for the near term, despite alternative payment methods.
- To move toward a marketplace model, find ways to merge the brick-and-mortar world with online purchasing. Offer the ability, for example, to purchase something online using a convenience store code that represents payment.



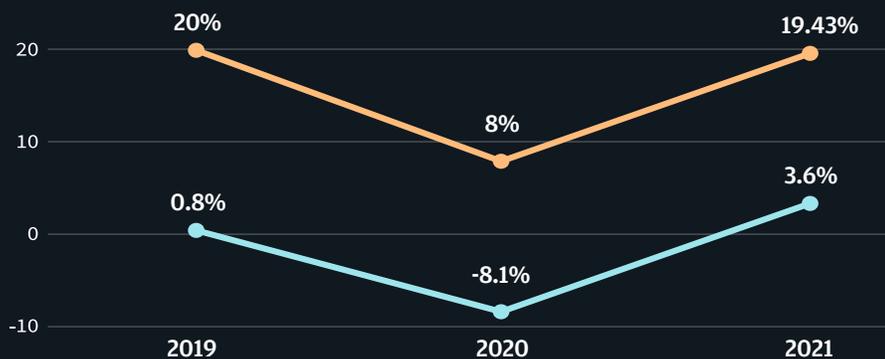
Implications for multinationals

- Although Shopee, an e-commerce giant, has launched a localized website and app in Brazil, there is room for other players to offer online marketplaces as the digital-native population grows comfortable with purchasing online.
- Use consumer data to personalize app experiences, deliver contextual commerce and refine best practices that have worked in other regions to fit Latin America.

“The regulatory environment has evolved, which builds consumer trust in e-commerce and digital wallets. Systems and consumers need to know the settlement process is working in their favor, otherwise, they will not participate.”

Ignacio Munoz De Cote
Head of Latin American Solutions,
J.P. Morgan Payments

GDP Growth Versus E commerce Growth in Latin America



● GDP growth* ● E-commerce growth**

* annual growth and projections by the IMF

** projections by AMI

Despite the political uncertainties and the economic setback, the e-commerce sector is growing way ahead of the region's general economy.

Chart source: EBANX, [“Beyond Borders 2020-2021: A study on the state of cross-border e-commerce in Latin America”](#)



E-commerce marketplace case studies

Southeast Asia

Shopee, a unit of Singapore giant Sea Limited, is a pure-play marketplace—all products are sold by third parties. Shopee started in 2015 as a mobile app for consumer-to-consumer selling and focused on the six largest Southeast Asian economies and Taiwan. As it built a customer base, it added a website with new merchandise to compete with established e-commerce rivals.¹⁴ The Shopee model is by now familiar: Shopee provides an escrow service that holds payment to merchants until the buyer or shipping service confirms fulfillment and acceptance. Shopee continues to expand globally, including to Latin America.



Latin America

Banco Inter is the first digital-only bank in Brazil, a full-service banking and investment platform certified by the Central Bank of Brazil. The bank earned attention and customers by offering digital checking accounts free of charge. In 2019, Banco Inter launched Inter Shop, an Amazon-like super app marketplace within its digital banking app. Cash-back rewards can be directly deposited into the Banco Inter user's digital account.¹⁵



“Disruptive thinking and advances in technology create more opportunities to solve real-world challenges.”

José David Otero

Head of Trends and Intelligence Advisory for Latin America,
J.P. Morgan Payments

3. Venture capital investment

Venture capital investment can help drive and solidify a regional digital agenda and launch new success stories. As connectivity infrastructure comes online across Latin America, startups have more opportunity to flourish. And where there is opportunity for startups, expect venture capital funding to flow from both inside and outside the region. This investment helps to accelerate the market cap growth of startups and serves as a proof point of the region's viability.

Large investments have poured into Latin America, especially from Asia. Startups raised \$9.3 billion in the first six months of 2021.¹⁶



Implications for regional players

- If interested in super apps and digital wallets, replicate business models that worked elsewhere. For example, Amazon focused on localization in Southeast Asia, and Alibaba focused on interoperability with its Alipay wallet.



Implications for multinationals

- Consider partnering with established regional portfolio companies. Your external investment helps to validate market opportunities.
- Look for patterns in investment, such as in cloud-first neo and challenger banks that emphasize customer growth and user experience.



“Multinationals generally enter through Brazil and Mexico and then expand across the region. Sometimes, they choose a smaller country to limit initial investment. Once they prove the model, they can expand to the bigger markets.”

Renata Vilanova Lobo
Head of Global Clearing,
J.P. Morgan Payments

Challenges and opportunities in Latin America

As we saw in Southeast Asia, a regional shared vision on technologies enables growth. Southeast Asian governments drove regional cooperation and private players helped fill gaps.

In Latin America, the Economic Commission for Latin America and the Caribbean offers a good beginning. Regional cooperation can help countries with different cultures, political landscapes and economic policies improve intercountry coordination around technology and payments. Unified rules of engagement can help coordinate regional plans across different markets. Policy priorities and gaps include:

- Common frameworks, guidelines and tools for cybersecurity, privacy and data protection, copyright and online piracy
- Consumer protection and delivery logistics
- A regional market that promotes e-payments, e-contracts, e-signatures



Investment success stories

Southeast Asia

When Alibaba and Amazon invested in their platforms in Singapore, it signaled growing confidence in the region's digital capabilities.

Latin America

EBANX, founded in Brazil in 2012, offers white-labeled payment solutions such as checkout pages for its online gaming partners and does not interact with customers directly. EBANX attracted investors and grew rapidly supporting global brands in Latin America. Solutions include bundles for pay-to-play, subscription, and download-to-own gaming platforms and localized payout solutions for e-sports tournaments.¹⁷ EBANX encouraged adoption by offering its gaming-platform merchants 5 percent cash-back rewards to customers if 100 percent of the merchant's Brazilian payments are processed digitally by EBANX.¹⁸

Nubank was founded in 2013 in Brazil. Smartphone penetration in Brazil was low at the time and stayed below 50 percent until 2016.¹⁹ As smartphone adoption grew, so did Nubank. The company now offers digital banking services in Mexico, Argentina and Colombia. Customers register and manage accounts with a smartphone. The fintech saw opportunity in Brazil, where bank fees are among the highest the world. Nubank reports that more than 6 million customers earn less than the minimum wage, which excludes them from traditional banking. Today the bank estimates it's saved Brazilians \$4.1 billion over the cost of traditional banking and claims nearly 4 million people have opened their first bank account or credit card with Nubank. Its primary revenue stream is a no-fee international credit card, which it offers along with personal loans, life insurance and financial education platforms.²⁰



4. Internet of Things

With the expansion of bandwidth, companies can connect more devices and sensors to the internet, adding artificial intelligence, cognitive services and the ability to turn data into insight. With the rollout of 4G and 5G mobile internet, more households are likely to adopt smart and connected devices that use the Internet of things (IoT).

IoT ushers in opportunities for wearables, supply chain solutions, machine connectivity, robots and more. The technology is expected to enable new productivity gains in the farms and factories of the future. IoT will power connected vehicles, automate manufacturing and provide real-time monitoring and decision-making across farms.



Implications for regional players

- Consider strategically subsidizing IoT devices to help achieve critical mass. Otherwise, price points might stymie adoption until the cost of manufacturing drops.



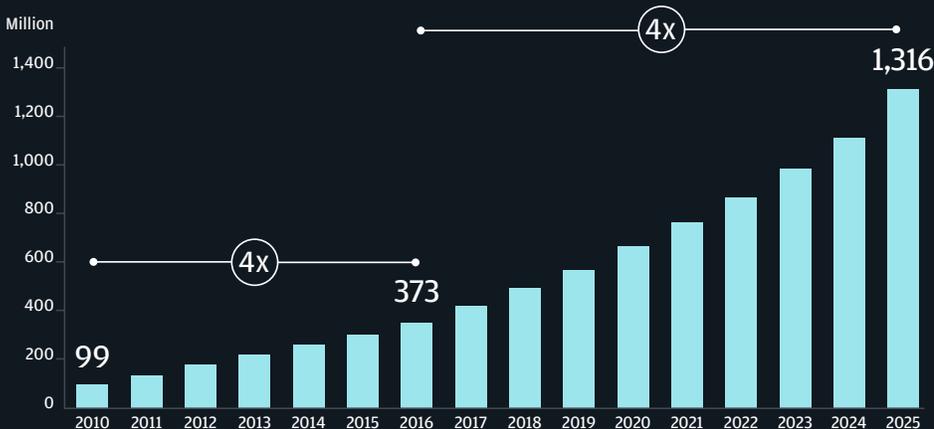
Implications for multinationals

- Be aware of rollout plans for mobile internet and local telecom investment in your target market. Some markets will leapfrog broadband in favor of mobile internet.
- Consider partnering with local firms to identify appliance entry points. A different device might make more sense than smart speakers, for example.

“Latin America has benefited greatly from external investments. While we see growing interest and excitement, success is case-by-case and requires the right partner and guidance.”

Ariel Mosnaim
Executive Director, Latin America,
J.P. Morgan Payments

Total IoT Connections in Latin America, 2010-2025



IoT connections in Latin America are expected to grow to 1.3 billion by 2025, double the 2018 number of 526 million, driven by enterprise demand for smart factories and smart building solutions.

Total revenue opportunity in the region is expected to be \$176 billion by 2023, according to Machina. Machina estimates \$77 billion of that will be for applications, \$5 billion for connectivity and \$94 billion for related services, such as data monetization, system integration and middleware replacement.

Source for chart and statistics: GSMA, 2018, [“Making smart cities and IoT a reality in Latin America: a quick guide for decisionmakers”](#)



Smart-home success stories

China

When Baidu launched its smart speaker in 2017, it competed against products from Alibaba and Xiaomi. Chinese households embraced the use of voice commands and Baidu Xiaodu speaker sales grew 384 percent after 2018. Xiaodu became the number-one speaker in China. In the second quarter of 2019, Xiadou ranked number-two worldwide in units shipped, despite being available only in China. Baidu speakers provide similar functionality to Google Home but focus on search and maps localized to the Chinese market. Baidu subsidized sales, leading to quick adoption. Baidu says its speakers are used 20 to 30 times daily.²¹



Latin America

The smart-home industry is starting to gain momentum in the region. As of 2018, 11.5 percent of Latin American households were equipped with smart security devices. Smart energy devices were present in 5.1 percent of households.²² While the trends are important, no company has yet emerged with a breakout connected device.



“One of the biggest regional opportunities we are observing is with the adoption of smart devices. Soon we will have all of these connected devices collecting information from every facet of our lives. How do we use these in a smart way to change lives and help with societal progress?”

Alexandra Lugo
Executive Director, Latin America,
J.P. Morgan Payments

Meet market needs with confidence

The region is poised for growth. With the right strategy and guidance, you can be part of it.

- Real-time payments are a must-have in Brazil and Mexico and are already starting to proliferate in other parts of the region. Expect to see the same speed of settlement with business transactions you see with P2P payments.
- Alternate payment options will expand to include QR codes, contactless and frictionless payments.
- Fintech companies will begin to be regulated like banks, leveling the playing field.
- Connected devices will eventually create new payments nodes that pay centrally or send payment info from node to node, using blockchain technology to mitigate security concerns.

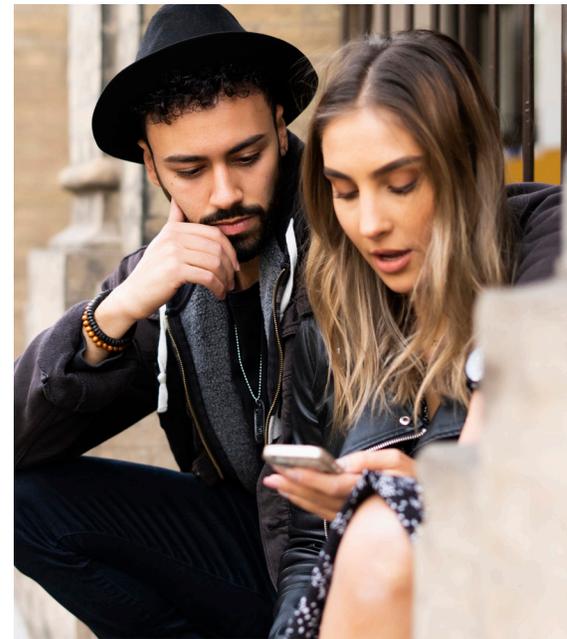
Build your business in Latin America to last

There's no single best way to enter or expand in Latin America, but J.P. Morgan can help.

Companies with technology at their core have different requirements than a typical multinational company based on payment needs, treasury functionality and volumes. You may need to be able to process high volumes with high frequency and you may require solutions for key capabilities such as reconciliation purposes and chargebacks. J.P. Morgan offers customized solutions built to help you meet your goals. We want to work with you to build a customized solution that can meet your needs today and tomorrow.

Our Latin American operations connect countries by providing a similar client experience and solutions that are seamlessly integrated into our global solutions.

Local expertise. Global resources. It's part of our commitment to the region.



“Marketplaces are focused on cross-selling multiple products and creating integrated supply chain models. These companies are expanding into different markets, with key things happening simultaneously: new technologies; new types of consumers and new regulatory structures. Increasingly these new companies are offering a full suite of products and services.”

Eduardo Pera
Head of Brazil Payments
J.P. Morgan Payments

J.P. Morgan roots in Latin America



120 years in Brazil



125 years in Argentina



50 years in Colombia



15 years in Chile



125 years in Mexico



120 years in Peru



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- \$12 billion annual investment in technology – including Artificial Intelligence, machine learning and blockchain technology – to drive innovation and accelerate transformation
- Real-time insights and optimization based on data derived from massive scale in payments combined with our in-house card-issuing business

Get started

Talk to your J.P. Morgan representative. Learn how you can be part of the transformation in Latin America.

[GET IN TOUCH](#)



Ignacio Munoz De Cote
Head of Latin America
Solutions,
J.P. Morgan Payments



Renata Vilanova Lobo
Head of Global Clearing,
J.P. Morgan Payments



José David Otero
Head of Trends and
Intelligence Advisory
for Latin America,
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Photo locations

Cover: Rio de Janeiro

Page 1: Buenos Aries

Page 3: Mexico City

Page 4: Brasília

Page 8: São Paulo

Contributing writer: Bartholomew Baptista

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