

THE ALTERNATIVE PAYMENTS LANDSCAPE IN MEXICO



by **docomo** digital

A problem of infrastructure: E-wallets in Mexico

In many respects, Mexico is a country of dual realities. As a middling economy in the wealthy North American continent, it comprises both sprawling metropolises and large rural swathes to the south. For years, Mexico's geography and underdeveloped infrastructure have limited its people's access to financial services and the country's growth potential. An estimated 6% of the population lives at least seven kilometres from a bank or cash machine,¹ while over half its adult population does not own a bank account.²

Mexico's overall fintech industry has the potential to benefit from a number of factors that could eventually solve its financial inclusion issues thanks to high mobile broadband penetration rates (88%)³ and government policies. In 2021, Mexico's digital payments segment is projected to reach \$54 billion in total transaction value – that number is set to grow to \$90.1 billion by 2025.⁴ These numbers explain the big appeal of the Mexican market for digital wallet operators.

¹ Euromoney. Financial inclusion: Mexico plans a bank-building spree. Available online at: <https://www.euromoney.com/article/b1klktqwt9s9fy/financial-inclusion-mexico-plans-a-bank-building-spre>

² S&P Global Market Intelligence. Coronavirus could spark demand for e-wallets, digital banks in LatAm. Available online at: <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/coronavirus-could-spark-demand-for-e-wallets-digital-banks-in-latam-57885746>

³ DataReportal. Digital 2020: Mexico. Available online at: <https://datareportal.com/reports/digital-2020-mexico>

⁴ Statista. Digital Payments: Mexico. Available online at: <https://www.statista.com/outlook/296/116/digital-payments/mexico>

E-wallets navigate around cash

Despite having access to a number of different digital wallets, Mexicans (like their neighbours all over Latin America) are used to working with both online and offline services, such as those offered by OXXO, a popular retail chain whose OXXO PAY service allows customers to pay for online transactions in-store,⁵ and Amazon's cash deposit service, where customers can bank cash with local convenience stores to be used online as a kind of wallet.⁶

The Mexican digital wallet market is led by international offerings, like Visa Checkout and Masterpass, but by far, the most popular digital payment provider is US fintech PayPal, whose dominance is driven by its large global footprint and reputation for security. Another popular option is the local e-wallet platform MercadoPago which was launched by Argentine e-commerce firm, MercadoLibre. International transactions make up a quarter of Mexico's online sales, so it makes sense that PayPal and MercadoLibre have announced a partnership to introduce more cross-border wallet solutions to their customers.⁷

Despite its proximity to North America, OEM digital wallets are somewhat elusive in Mexico, but a handful of companies do offer the service, including Samsung Pay⁸—which launched back in 2018—Fitbit and Garmin.

In December 2020, Apple began teasing the launch of Apple Pay in Mexico, though it's unclear precisely when in 2021 the service will make an appearance.⁹ There are still no signs as to whether Google Pay will launch in Mexico, despite already having outposts in other Latin American countries like Brazil and Chile.

As in Brazil, Mexican telcos have yet to launch a digital wallet, but direct carrier billing is proving to be a growing segment in Mexico with the potential to make big strides among its young, digitally native population. What is currently visible is the growing number of telcos that are bundling digital services into their packages. Telcel, the carrier with the biggest market share,¹⁰ now allows its subscribers to make a purchase through Google Play, while Movistar gives its customers free access to Spotify. Back in 2018, UK-based payments firm Bango launched Latin America's first direct carrier billing (DCB) service in Latin America that allowed Nextel and Iusacell Mexico customers to make purchases off Google Play and access Netflix.¹¹

⁵ Ebanx. OXXO Payment Method. Available online at: <https://business.ebanx.com/en/resources/payments-explained/oxxo>

⁶ Reuters. Amazon launches cash payments in Mexico to lure shoppers online. Available online at: <https://www.reuters.com/article/us-amazon-com-mexico-idUSKBN1CT32W>

⁷ Paymentwall. Mexican Payment Market Overview. Available online at: <https://www.paymentwall.com/en/payment-methods/mexico>

⁸ GSM Arena. Mexico officially gets Samsung Pay. Available online at: https://www.gsmarena.com/samsung_pay_officially_launched_in_mexico-news-29376.php

⁹ 9to5Mac. [Update: Coming in 2021] Apple Pay launch in Mexico coming 'very soon' with Banregio, Hey Banco. Available online at: <https://9to5mac.com/2020/12/11/apple-pay-launch-in-mexico-very-soon/>

¹⁰ NTH Mobile. Activate Mobile Payments in Mexico. Available online at: <https://www.nth-mobile.com/conditions/mexico/>

¹¹ Business Wire. Bango Brings Carrier Billing to Netflix Subscribers in Mexico. Available online at: <https://www.businesswire.com/news/home/20180108005975/en/Bango-Brings-Carrier-Billing-to-Netflix-Subscribers-in-Mexico>

A sampling of popular e-wallets across markets and their fees

Mercado Pago charges anywhere between 0.99% to 3.79% per transaction.¹²

BBVA Wallet charges a fixed fee of 2.25% for every transaction made using either a debit or credit card through its app.¹³

Merchants in Mexico do not need to pay any additional charges to banks for any debit or credit card transactions.¹⁴

Top e-wallets: Mercado Pago, BBVA Wallet and Citi Pay.¹⁵

A problem of infrastructure and culture

Despite the growing prominence of these alternative digital payments, the dominant payment methods in Mexico are still debit and credit cards, which make up 47% of total transactions.¹⁶ Digital wallets are catching up, with a 19% share of the payments space, somewhat displacing the use of cash in online transactions.

Digital wallets still have a long way to go before they can be regarded as a true alternative to cash payments. E-wallets will benefit from Mexico's strong rate of smartphone penetration (89%), but they account for only a sliver of total online payments – averaging a meagre 15% in 2019.¹⁷ Between 87%-95% of transactions are still cash-based according to the 2018 National Financial Inclusion Survey (ENIF).¹⁸ Adding to the prevalence of cash is also the fact that most individuals continue to engage in the informal economy where six out of 10 adults are paid in cash.¹⁹

The growth of DCB in Mexico could be significant, however there exists real infrastructural issues at play. For one, despite high smartphone penetration rates, most mobile contracts in Mexico are prepaid, which makes DCB billing somewhat challenging for carriers. Furthermore, Mexico applies a relatively high taxation rate at 16%, making carrier-billed services expensive and unattractive for customers.

Another major issue is the rate of digital payments adoption by merchants, the other side of the informal market so many consumers are bought into. Most merchants eschew card-based payments because of high costs—payment fees can add up to around 2.5%-3% of each transaction and may take days to process—and as a result, there is a prevailing sense of distrust around digital transactions among merchants.²⁰ For small businesses, the time and financial cost make adopting digital transactions unfeasible. Cash, in comparison, is a known entity – one that is less costly, more trustworthy and immediate.

A number of neo banks and challenger banks are beginning to emerge in response to these infrastructural and socio-economic challenges, such as local fintech Klar—a “digital alternative”²¹ that would give customers access to a debit card and a line of credits—as well as foreign entrants, like Argentine Ualá and Brazilian Nubank.



The government helps out (with mixed results)

Mexico's regulators and public policymakers have been working on a slew of initiatives designed to foster the growth of the country's fintech ecosystem. In 2018, the Mexican Congress passed the Fintech Law which was designed as a “framework for key fintech groups”²² that would introduce certainty and regulation into the industry, as well as a licensing process for two types of fintechs: electronic money issuers (digital wallets and banks fall into this category) and crowdfunding platforms.²³ The legislation was heralded as a landmark bill which was credited for the 2018 surge of fintechs in Mexico. A 2020 report by KoreFusion found that that over 200 Mexican fintechs have raised \$1.3 billion in capital,²⁴ with some like neo bank Klar raising an unprecedented \$57.5 million, one of the biggest seed investments the country has seen.²⁵

Yet, major regulatory hurdles still stand in the way of the development of fintech and digital payment solutions.²⁶ Despite the initially positive reception to the 2018 law, many argue that the law's impact has been muted due to the imposition of daunting requirements and high costs that place licensing out of reach for most startups. As of January 2021, around 85 startups have applied for the license,²⁷ but only one has been issued since January 2020 as a result of COVID-19 stalling the Mexican banking and financial regulator's approvals process.²⁸

The new government has also attempted to solve the country's financial inclusion problems through technology uptake.

In 2019, the Mexican Central Bank launched Cobro Digital (CoDi), a digital wallet platform that enables instant transfers via smartphones and QR codes. The platform would cut out costs associated with digital payments for both consumers and merchants. In doing so, it will reduce the prominence of cash in everyday transactions.²⁹

“In the future, it will no longer be necessary to have a bank in the sense of a traditional, established bank,” said Arturo Herrera, Mexico's Deputy Finance Minister, at the time. “Mobile phones will become banks.”³⁰

However, the service has seen lacklustre take-up. According to Latin American tech publication Contxtto, although 3 million people have downloaded the app, only 167,424 users have actually made payments through the platform.³¹ The app is also still relatively unknown, with over 76.6% of surveyed Mexicans reporting they had no idea what CoDi was. And for all its future-forward promises, CoDi has not overcome the simple but widespread problem of access. It still requires users to have a traditional bank account³² and a smartphone capable of scanning QR codes.³³ Only time will tell whether the CoDi platform will make a bigger splash among the population. Currently, infrastructure will continue to pose a significant impediment to progress for all e-wallets in Mexico. Cash is not just an issue of convenience, but also culture and context.

¹² Mercado Pago. MY MERCADO PAGO, MY WAY OF CHARGING. Available online at: https://www.mercadopago.com.mx/herramientas-para-vender#from=home_landing

¹³ BBVA. Electronic Payment. Available online at: <https://www.bbva.mx/empresas/productos/cobros-y-pagos/pago-electronico-bbva.html#>

¹⁴ Pymnts. How Mexico's Central Bank Plans to Move Payments to Digital. Available online at: <https://www.pymnts.com/news/banking/2021/how-mexicos-central-bank-plans-to-move-payments-to-digital/>

¹⁵ Comscore. Mobile Contactless Payments Rise to the Centre as Mobile Device Focus Grows. Available online at: <https://www.comscore.com/Insights/Blog/Mobile-Contactless-Payments-Rise-to-the-Centre-as-Mobile-Device-Focus-Grows>

¹⁶ J.P.Morgan. 2020 E-commerce Payments Trends Report: Mexico. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/mexico-2020>

¹⁷ DataReportal. Digital 2020: Mexico. Available online at: <https://datareportal.com/reports/digital-2020-mexico>

¹⁸ Mexicanist. Mexican payment system CoDi makes progress. Available online at: <https://www.mexicanist.com//banxico-codi-mobile-payments-platform/>

¹⁹ Medium. The challenges of digital wallets in México. Available online at: <https://medium.com/@guillermoantonioaraizatorres/the-challenges-of-digital-wallets-in-m%C3%A9xico-7791d9c7ad43>

²⁰ Ibid

²¹ Entrepreneur. This ‘neo bank’ tripled its clients in the pandemic (and without using the Credit Bureau). Available online at: <https://www.entrepreneur.com/article/358229>

²² S&P Global Market Intelligence. LatAm turns to Mexico's year-old fintech law as a model for regulation. Available online at: <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/latam-turns-to-mexico-s-year-old-fintech-law-as-a-model-for-regulation-50081755>

²³ CGAP. Is Mexico's “Fintech Law” Leading a New Trend in Fintech Regulation? Available online at: <https://www.cgap.org/blog/mexicos-fintech-law-leading-new-trend-fintech-regulation>

²⁴ KoreFusion. KoreFusion 2020 LATAM Fintech Report. Available online at: <https://imgcdn.larepublica.co/cms/2020/10/09182602/KoreFusion-2020-LATAM-Fintech-Report-2.pdf>

²⁵ Catalyst Fund. Fintech's unfulfilled promise: why many Mexicans remain excluded. Available online at: <https://bfaglobal.com/catalyst-fund/insights/fintech-unfulfilled-promise-many-mexicans-remain-excluded/>

²⁶ Contxtto. There is one great equalizer for challenger and neo-banks in Mexico. Available online at: <https://contxtto.com/en/mexico/mexico-top-neobank-mexican-government/>

²⁷ CGAP. Is Mexico's “Fintech Law” Leading a New Trend in Fintech Regulation? Available online at: <https://www.cgap.org/blog/mexicos-fintech-law-leading-new-trend-fintech-regulation>

²⁸ S&P Global Market Intelligence. Coronavirus could spark demand for e-wallets, digital banks in LatAm. Available online at: <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/coronavirus-could-spark-demand-for-e-wallets-digital-banks-in-latam-57885746>

²⁹ Lexology. Mexico launches CoDi, a new digital payment platform for financial inclusion. Available online at: <https://www.lexology.com/library/detail.aspx?g=8f4d3f92-1635-4cca-b0bd-b0de69249402>

³⁰ Reuters. Mexico pushes mobile payments to help unbanked consumers ditch cash. Available online at: <https://www.reuters.com/article/us-mexico-fintech-unbanked-idUSKCN1Q80FN>

³¹ Contxtto. Government's payment platform CoDi has yet to take off in Mexico. Available online at: <https://contxtto.com/en/mexico/payment-codi-mexico/>

³² Contxtto. Electronic payments in Mexico. Are we there yet? Not really, says recent survey. Available online at: <https://contxtto.com/en/government/electronic-payments-mexican-government/>

³³ Catalyst Fund. Fintech's unfulfilled promise: why many Mexicans remain excluded. Available online at: <https://bfaglobal.com/catalyst-fund/insights/fintech-unfulfilled-promise-many-mexicans-remain-excluded/>

ABOUT US

DOCOMO Digital is the international payments business of NTT DOCOMO. We partner with carriers, merchants, OTT services, app stores and payment providers in both developed and emerging markets around the world. We solve for the challenges of customer acquisition and retention, regulation, and complexity for our partners with alternative payment methods such as direct carrier billing and digital wallets. With teams based in 15 countries, we enable our partners to grow their digital services revenues while enhancing the customer experience for their users. Our robust managed services platform and coverage across carriers and the most locally relevant payment methods enable faster time-to-market, especially for streaming, gaming, e-commerce, and productivity application providers.

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