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FEATURED Q&A

Will Mobile Wallets Gain Currency in Latin America?

Q Media outlets reported last month that Apple is in talks with major banks in Brazil to introduce its Apple Pay service in South America's largest economy. Does Apple Pay, and similar mobile wallet technologies, have a bright future in Latin America and the Caribbean, and how far away is it? What are the differences in rolling out service in the region compared to more mature markets? How do countries and markets within Latin America compare in terms of potential and readiness to embrace the mobile wallet?

A Jan Smith, partner at KoreFusion in Mexico City: "Many factors bode well for the launch of Apple Pay in Brazil, but headwinds remain strong. The mobile penetration rate is 30 percent, making Brazil one of the top 10 global mobile markets, and the rate of annual growth is toping 11 percent. Consumers are enthusiastic early adopters of technology—nearly 60 percent of Brazilians who shop using smartphones use apps to make purchases. Apple holds a loyal following in Brazil, particularly after opening its own stores there in 2014. On the merchant side 62 percent of point-of-sale terminals have near field communication functionality. It is unfortunate that this confluence of positive factors arrives at the country's weakest economic moment in over a decade. Prices of the iPhone 6 were already 50 percent above those in the United States last year, and the recent currency slide has only aggravated the difference. This has contributed to retail sales falling 3.7 percent since December. This will slow adoption, but is not a deal breaker. Similar solutions, which were launched last year, met disappointing results: MasterCard's MasterPass had weak traction, as did Visa's payWave, which was launched in conjunction with Banco do Brasil's Ourocard. This points to the need for reinforcing training among merchants and doubling down on consumer marketing—the latter Apple will likely do well.

Continued on page 3

Argentine Government Suspends Citi's Capital Market Operations

Argentina on Friday suspended Citibank from conducting capital market operations in the country. Citi has been embroiled in the battle between President Cristina Fernández de Kirchner's government and holdout creditors. See story on page 3.

Photo: Argentine Government.

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NEWS BRIEFS

Maduro to Give Obama Petition With 5 Million Signatures

Venezuela has collected more than 5 million signatures on a petition asking U.S. President Barack Obama to repeal an executive order that declared the South American nation a security threat, Caracas mayor and initiative coordinator Jorge Rodríguez said Sunday to local TV station Venezolana de Televisión, China's state-run Xinhua news agency reported. Venezuelan President Nicolás Maduro, who previously said the signatures will be delivered to Obama during the Summit of the Americas in early April, called on Venezuelans to continue supporting the initiative. [Editor's note: See related Q&A in the March 26 issue of the *Advisor*.]

DEA Agents in Colombia Partied With Prostitutes: Justice Dept.

U.S. drug enforcement agents allegedly took part in "sex parties" with prostitutes paid by drug cartels in Colombia and visited brothels while on foreign assignments, which could have created security risks, a 131-page report released by the Justice Department found, Bloomberg News reported last week. The Justice Department looked into how some government agencies handle sexual harassment and misconduct claims. It found few reports of such inci-dents, but found "significant sys-temic problems" with disciplinary processes.

Mexico's Factory Exports Experience Decline in February

Mexico's level of factory exports declined in February at the same time that its consumer imports not including oil also fell, the country's statistics institute said Friday, Reuters reported. The declines point to sluggish economic growth.

Political News

At Least 14 Killed, 20 Missing in Chile Flooding

At least 14 people have been killed and 20 remain missing in flash floods that have pounded Chile's northern Atacama region, BBC News reported today. The rains started falling Tuesday in the desert region, one of the world's driest places. The floods are the worst to hit the area in 80 years. Altogether, the flooding has affected 11,000 people, forcing 4,500 people into shelters. "We as a country will have to put a lot of effort in to get out of this situation," said Interior Minister Rodrigo Peñailillo, who said there are entire communities in the region that now have no drinking water. The deluge of rain caused rivers to overflow, sending floodwater into valleys and flooding towns. Mud covered many streets in the desert village of Chanaral, and rescue crews came to the aid of 13 miners who had been trapped for five days in a remote mining camp in Tierra Amarilla. Roads to more than 40 communities had been blocked, and many of those villages lost access to electricity and drinkable water, said Interior Subsecretary Mahmud Aleuy. "As we clear the roads and flooded zones, we may have a higher number of dead and missing," he said, the Associated Press reported. Chilean authorities were sending medications including tetanus shots, insulin and drugs to fight hepatitis in an effort to prevent outbreaks of disease, said President Michelle Bachelet. The government is also deploying military personnel and more police officers to hard-hit areas, she said. In addition to the floods, Chile has recently grappled with high temperatures and a drought in south-central parts of the country, where the weather conditions caused wildfires that have burned almost 93,000 hectares of land.

> "We as a country will have to put a lot of effort in to get out of this situation."
>
> — ***Rodrigo Peñailillo***

Economic News

Brazil's Economy Grew 0.1 Percent Year-on-Year in 2014

Brazil's gross domestic product grew 0.1 percent in 2014 as compared to 2013, its worst performance during the government of President Dilma Rousseff, *The Wall Street Journal* reported Friday. GDP expanded 0.3 percent in the fourth quarter as compared to the third quarter, but shrank 0.2 percent as compared to the same quarter last year, Brazil's statistics agency said. The agency modified its method for calculating GDP growth beginning in the fourth quarter to include investment in research and development as well as other activities that make the methodology more comparable to international standards. While the changes may have given GDP figures a bit of a boost, economists told the newspaper that Brazil's economy is still struggling and needs reforms. "The only thing that we're seeing is that some of the statistics switched to the positive side," said Alfredo Coutiño, senior economist at **Moody's Analytics**. "Nothing really changed in terms of the structural weakness of Brazil's economy." Since beginning her second term earlier this year, Rousseff has been working to restore market confidence and pass an austerity program through Congress to reduce the budget deficit. Congress is resisting some tax increases and spending cuts amid political turmoil arising from an ongoing corruption scandal at state oil company **Petrobras**. The scandal and slowing economy have taken a toll on Rousseff's approval ratings, which recently hit 13 percent, the lowest for a Brazilian presi-

Rousseff

File Photo: Brazilian Government.

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dent since 1999. [Editor's note: See Q&A on the effects of the Petrobras scandal on Rousseff and the country's economic outlook in the March 25 issue of the *Advisor*.]

Company News

Argentina Suspends Citibank From Capital Market Operations

Argentina's government on Friday suspended the local unit of **Citibank** from carrying out capital market operations in the South American country, Reuters reported. The Argentine securities regulator announced the suspension, accusing **Citibank Argentina** of violating the law by making an agreement with so-called "holdout" creditors who are trying to force Argentina to pay them in full. Under the agreement, Citibank said it would not appeal a ruling by a U.S. court that said the bank could not process interest payments on some restructured bonds if it was allowed to make two payments as part of its exiting its custody business in Argentina, Reuters reported. The government of President Cristina Fernández de Kirchner is concerned that the deal could hinder future interest payments from reaching creditors who accepted debt restructurings in the wake of the country's massive default 13 years ago. The regulator suspended Citi's capital operations "on the grounds that there is a situation of grave danger and uncertainty for holders of restructured debt," the wire service reported. The regulator's decision does not affect Citibank Argentina's commercial banking operations, Bloomberg news reported. Citibank declined to issue any immediate public comment on the move. The securities regulator also said Friday that Argentina-based **Caja de Valores** would administer the interest payments that Citibank had processed, Reuters reported. Citi is the 12th largest bank in Argentina, with 22.82 billion pesos ($2.67 billion) in deposits as of December. That amounts to 2.6 percent of all deposits in the South American country's banking system, according to central bank data.

Featured Q&A

Continued from page 1

The headwinds Apple Pay faces are strong, particularly on the economic front, but the solution will surely shape the Brazilian payments landscape, with the strongest impact being felt between 2018 and 2020."

Anabel Pérez, president and CEO at NovoPayment, Inc.: "Mobile wallets definitely have a bright future in the region. The timing will depend on some major tasks: Apple's current standards will need to be adapted to the region and certified by the global acceptance networks like MasterCard and Visa so that local banks can affiliate and start offering them to their clients, and they must be certified by local acceptance networks, so that merchants can start accepting them. Based on past trends, the most promising markets are likely to be Brazil, Chile, Colombia, Mexico and Peru because they have the most big-box retailers and several large retail centers. The main difference in rolling out service in the region is a lack of 'connective tissue'—regional and local specialists experienced in this type of interconnection—and also the less-consolidated value chain. In the United States and Europe, these roles are filled well by a few established players, well-understood processes and standards, whereas in Latin America, the payments business is very local and in general has been closed by comparison and slow to certify new actors. It can be done, however. We've done it in four countries and are today helping others. Roll-out will have to be country by country, though. Currently, just over 20 percent of mobile users in Latin America have smartphones, but this is expected to change quickly and reach 50 percent by next year. The largest market in terms of total dollar volume and transactional potential is actually the unbanked or under-banked mobile consumer who today conducts most of his transactions in cash. For most, a mobile wallet in the pure sense is probably not possible today because most mobile users have basic phones. However, mobile payments are within reach. Addressing this consumer requires a different, more thoughtful approach based on stored value (prepaid) and the existence of a reloading network where they can convert cash to digital currency to send and spend. The banked consumer with a smartphone has more individual purchasing power and is relatively simpler to address and affiliate because he or she probably already has a banking relationship, a credit or debit card and receives income electronically."

> "Currently, just over 20 percent of mobile users in Latin America have smartphones, but this is expected to change quickly and reach 50 percent by next year."
>
> — *Anabel Pérez*

Richard Child, CEO of Mattrix Group: "I believe Latin America is well poised to accept the next generation of mobile payments such as Apple Pay. This is particularly true in the largest markets such as Brazil. Banks and payment schemes have made important investments in technology enabling their point-of-sale systems to process payWave and PayPass transactions. This means that the basic infrastructure is in place. As for consumer acceptance, it is anticipated that it will be rapid, given Latin American consumers' appetite for innovation coupled with the increasing number of smartphones.

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Featured Q&A

Continued from page 3

Further, the tokenization standards agreed to by MasterCard and Visa will ensure universal consumer experience, dramatically increasing satisfaction at the point of sale. Having said that, I would not be surprised if markets such as Brazil, Chile and Mexico are at the forefront in developing the next generation of mobile payments."

Alexander Sjögren, chief technology officer at YellowPepper: "Mobile wallets definitely have a bright future in Latin America. The future might be even brighter than in more technologically advanced markets due to the particular characteristics of the region. Latin America is currently struggling with tremendous fraud on traditional card purchases and is in a stage where it can leapfrog the traditional point-of-sale infrastructure and directly enable mobile payments. This along with an innovative youth and a rapidly increasing smartphone base bodes well for mobile payments in general. The catch with Apple Pay is that it solely operates on Apple devices, and their penetration in Latin America is quite limited (15 percent). There are certain technological challenges associated with launching in Latin America, and one cannot anticipate launching a m-wallet solely based on contactless technologies as done in the United States. The reason is simple: the technological infrastructure on both sides (phone and point-of-sale) is limited, and the replacement cycle for new POS terminals in Latin America is 36-48 months out. Latin America needs a bridge solution that can operate with the current infrastructure until the critical replacement cycle takes place and the ecosystem is enabled to do contactless transactions. When we at YellowPepper analyze which market to enter with our mobile wallet YEPEX, we have a rigorous review process starting with a number of indicators: m & e-commerce penetration, card and POS infrastructure along with smartphone penetration and responsiveness to innovative solutions. Markets starting with Mexico, Colombia, Chile and Brazil all score high with these indicators."

Pablo García Arabéhéty, Washington and Buenos Aires-based consultant on mobile financial services: "Apple Pay and similar payment-interface services are certainly going to be increasingly attractive for a sizeable segment of consumers, especially the younger, higher-income urban population. But they will not contribute to solving the real challenge for the financial industry in Latin America: catering to the un-banked half of the population with efficient and low-cost alternatives. The same barriers that hinder traditional banking apply to Apple Pay: limited geographical coverage and acceptance, expensive hardware and high fees."

> "They will not contribute to solving the real challenge for the financial industry in Latin America: catering to the un-banked half of the population with efficient and low-cost alternatives."
>
> *— Pablo García Arabéhéty*

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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