The cryptocurrency revolution in Latin American payments

How real-world cryptocurrency use cases will enhance—and compete with—mainstream payments

By Americas Market Intelligence

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Americas Market Intelligence

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Americas Market Intelligence

About AMI

Americas Market Intelligence (AMI) is the leading market intelligence firm for Latin America and a celebrated leader in thought leadership in the LAC payments industry. In the digital currency space, AMI is the leading source of knowledge and analysis on emerging integrations between digital currencies and the LAC payments ecosystem.

Beyond digital currencies, AMI's expertise extends to include e-commerce, neobanks and digital wallets, fintech, POS and acceptance technology, financial inclusion, cross-border payments, B2B payments, open banking, and faster payments. Its customized research reports deliver data-based clarity and granular strategic direction based on expert sourcing.

Led by Lindsay Lehr, 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, payments innovation, contactless technology, faster payments, and consumer and payment industry trends.

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Prologue

In late 2021, AMI conducted a study of Latin Americans to understand their attitudes toward cryptocurrency and found that:

- 8% had already purchased cryptocurrency and 18% were interested in purchasing it, although they had not yet done so
- Cryptocurrency penetration was at 12% in Argentina, vs. 29% credit card penetration, indicating impressive crypto uptake in that country
- Other markets also showed surprisingly strong crypto penetration vs. credit card penetration, such as Mexico (6% crypto penetration vs. 15% credit card penetration) and Brazil (7% crypto penetration vs. 35% credit card penetration)
- There is high interest in receiving crypto remittances in various LatAm markets, such as Peru (33%), Argentina (19%), Mexico (15%), and Brazil (8%)

Given the strong consumer interest, it is clear that Latin players in the Latin American payments ecosystem must factor this enthusiasm for cryptocurrency into their future planning. This enthusiasm led us to create this whitepaper. Our goal is to educate payments professionals further about how crypto works, use cases, and its future potential.

Going further

While we hope that our whitepaper is helpful in deepening your understanding of cryptocurrency in Latin America and its implications for the payments ecosystem, it is clear that its usage is still developing and many key questions remain:

- When will the average consumer or merchant in Latin America adopt crypto, and for which use cases?
- How are crypto players integrating with banks and other legacy players?
- Which crypto strategies are payments/ financial services companies pursuing?
- Which pricing models for crypto services are proving most successful?

Further research will answer these and other key strategic questions. AMI's experience in the payments space—which includes both crypto and other key areas, spanning 400+ studies conducted over the past 20 years—can help your company understand both current and future developments that can in turn inform your strategy in 2022 and beyond.

Please feel free to contact this whitepaper's author or AMI directly at **info@americasmi.com** to find out more about how we can devise a study that addresses your strategic concerns about cryptocurrency usage/adoption in Latin America.

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Introduction

Latin America has emerged as the global frontier for real-world digital currency usage, playing host to the world's first "bitcoinized" economy in El Salvador and the first operational central bank digital currency (CBDC) in the Bahamas. Latin America's cocktail of shaky monetary conditions and often inadequate financial infrastructure has created urgent demand for alternatives to mainstream banking, paving the way for use cases of digital currencies, particularly cryptocurrencies, which remain hypothetical elsewhere in the world.

Stagnation in the remittance industry has created a market opening for emerging payment technologies, like crypto, that can accomplish cross-border transfers at almost no cost to users.

With new cryptocurrency products launching daily, crypto appears poised to revolutionize how money is moved, saved, and grown in Latin America and the Caribbean (LAC). To remain competitive in the coming digital currency era, all enterprises with a stake in LAC payments must pay careful attention to emerging crypto products, as well as to growing consumer comfort with these new tools.

Latin America is fertile ground for crypto innovation

Latin American markets represent the perfect laboratories for digital currency experimentation, owing to three key factors:

1. High digitization, but low bank penetration

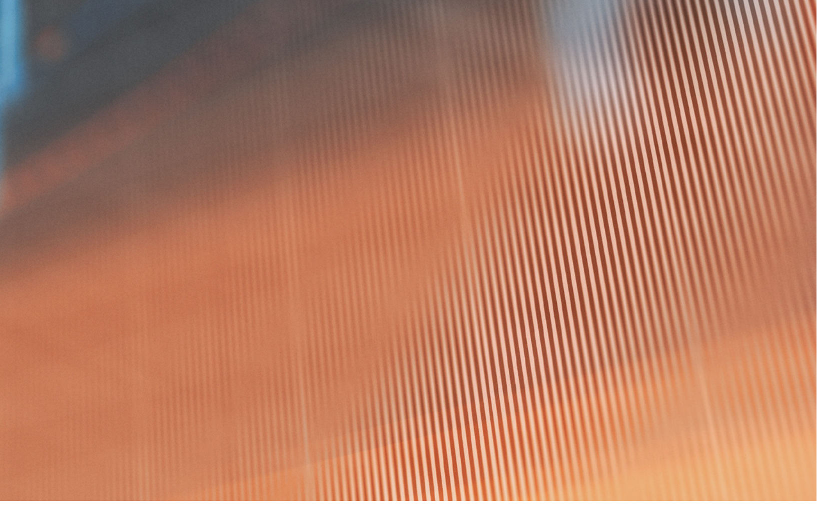
Even amid a rapid, pandemic-era expansion of digital payment methods, Latin American consumers remain more likely to own a smartphone than a bank account. As of 2021, some 76% of LAC consumers owned a smartphone, compared to 69% ownership of a bank account or digital account offered by a fintech or digital wallet.[1] Persistent distrust of banks has constrained growth in financial digitization and maintained the stickiness of cash, even as consumers become comfortable with other digital tools. This creates the possibility that some consumers will leapfrog mainstream banking altogether, adopting a crypto wallet as their first financial account.

2. Growing cross-border remittance volumes, but stubbornly high fees

Despite accounting for just 8% of the world's population, Latin Americans received 20% of its total remittance volume in 2021. Over the last decade, inbound remittances to the region more than doubled, climbing from $60 billion in 2011 to $126 billion in 2021.[2] Despite this

1 EIU, local sources, AMI analysis

2 World Bank

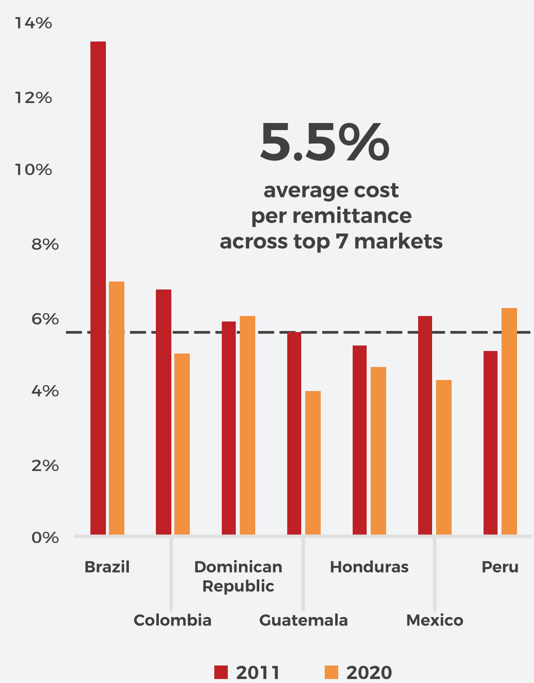


volumetric growth, as well as improvements in money movement technologies, remittance fees for Latin Americans have remained high. In 2021, the average remittance sender paid 5.5% of the transaction amount in fees, a meager improvement from 6.8% in 2011.[3] Stagnation in the remittance industry has created a market opening for emerging payment technologies, like crypto, that can accomplish cross-border transfers at almost no cost to users.

3. Persistent inflation and monetary volatility

Many of the best-known cryptocurrencies, such as Bitcoin and Ethereum, are notoriously volatile in price, fueling skepticism that they represent serious competition for fiat currencies. However, the value proposition of even the most unstable cryptocurrencies is compelling in countries like Venezuela, where the national currency is essentially worthless, as well as Argentina, where inflation erodes savings held in the national currency. Even in more stable LAC markets, certain classes of cryptocurrency, such as U.S. dollar-denominated stablecoins, have the potential to capture considerable demand from consumers and enterprises alike.

Figure 1. Average remittances fees in major LAC remittance markets
Average remittance fees (% of transaction)



3 World Bank

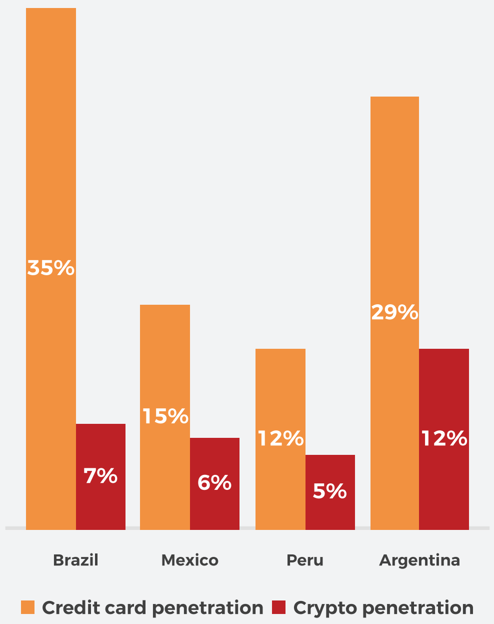
Crypto is gaining traction with consumers—and fast

Fueled by these factors, a rapidly expanding share of Latin Americans have already entered the cryptocurrency ecosystem, and many more are poised to do do. According to Americas Market Intelligence (AMI) survey data from September 2021, 8% of Latin American consumers have already purchased a cryptocurrency, and an additional 18% of consumers are interested, but have not yet made a purchase.[4]

8% of Latin American consumers have already purchased cryptocurrency.

LAC's crypto penetration remains lower than that of markets like the United States, where around 16% of adults have invested in crypto.[5] However, the rate of crypto uptake by Latin Americans has already reached nearly half the rate of credit card ownership in some markets (see Figure 2), an impressive foothold in just over a decade since Bitcoin, the first cryptocurrency, was deployed. In addition, the breakneck growth of crypto appears to be accelerating. Bitso, the largest regional crypto exchange, took six years to reach its first million users, 10 months to add its second million, five months to add its third million, and just four months to add its fourth million (achieved in January 2022).

Figure 2. Cryptocurrency ownership vs. credit card penetration (% of adult consumers)



4 AMI survey data, collected in September 2021. N=400 smartphone owners in Brazil, Mexico, Argentina, and Peru. Methodological note: Region-wide figures have a confidence level of 95%, with a margin of error of 5%. Country-level figures have a confidence level of 95%, with a margin of error of 10%.

5 Pew Research Center, November 2021.

18% of LatAm consumers are interested in crypto, but have not yet made a purchase.

The earliest adopters of crypto in LAC were a tech-savvy group, skewing upper/upper-middle class and male. Many of these early crypto users, especially those who joined the ecosystem prior to the 2020 crypto price boom, were drawn in by the foundational anti-establishment spirit of cryptocurrency, but still maintained use of a diverse range of mainstream financial products.

The next generation of cryptocurrency consumers will be different. The population of "crypto-curious" consumers—those who are interested in crypto but have not yet made a purchase—covers a broader swath of demographics, including young adults, middle/lower-income consumers, and unbanked consumers. Notably, 40% of these crypto-curious consumers do not own a checking account. At present, unbanked consumers have limited options for accessing crypto, since most exchanges require a bank transfer or credit card to cash in. However, if regional exchanges can successfully develop cash-based, AML/KYC-compliant on-ramps, they will find many unbanked consumers poised to join the crypto ecosystem.

Crypto allows consumers to protect—and grow—their savings

In addition to broader demographics, the crypto-curious population has a different set of priorities for crypto than those pursued by early users. Both groups are attracted to crypto as an investment vehicle. However, the crypto-curious are much more cautious and more interested in practical use cases such as savings protection and monetary stability. For example:

- 54% of the crypto-curious cited "savings protection" as a key crypto benefit, vs. 47% of current crypto users.
- The crypto-curious indicated a slightly higher level of interest in stablecoins than current crypto users.
- 46% of the crypto-curious expressed concerns about the fraud risk related to crypto, vs. 33% of current users.

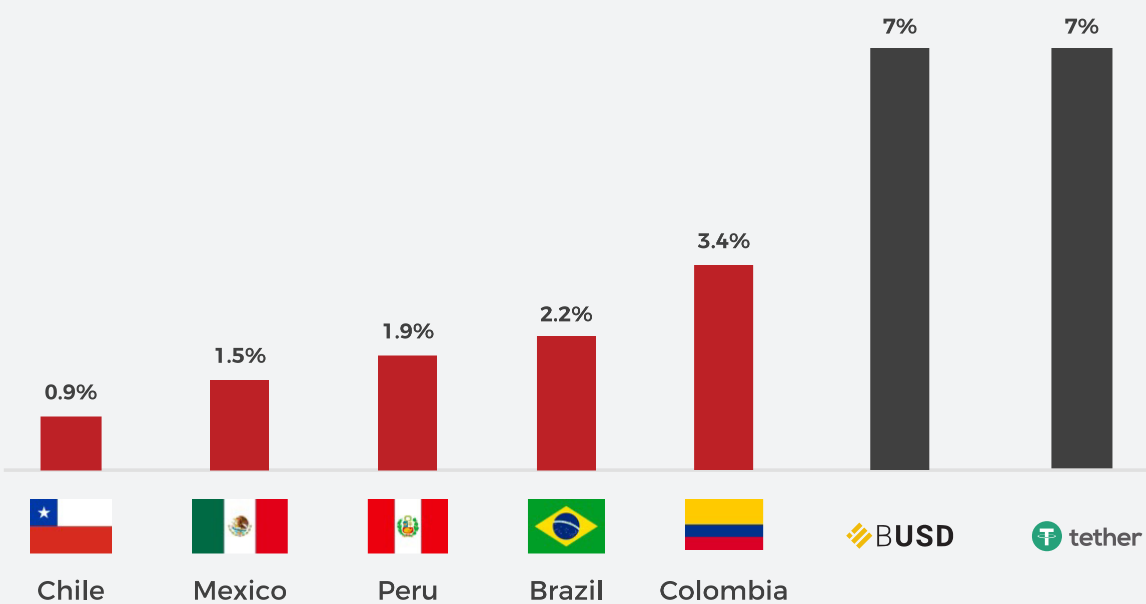
This underscores the opportunity for stability-oriented crypto products, such as U.S. dollar–backed stablecoins like USDC, Dai, and USDP. Particularly in high-inflation markets like Venezuela and Argentina, stablecoin accounts represent safer alternatives to domestic bank accounts, allowing consumers to protect their savings in the form of USD-tracking assets.

Even in more stable LAC markets, certain classes of cryptocurrency, such as U.S. dollar-denominated stablecoins, have the potential to capture considerable demand from consumers and enterprises alike.

40% of crypto-curious consumers in Latin America do not own a checking account.

Across all markets, interest rates on stablecoins further enhance the value proposition of crypto-powered savings products. These yields are generated by decentralized finance (DeFi) protocols, which facilitate borrowing and lending through smart contracts on a blockchain, rather than through a financial institution. As shown in Figure 3, interest rates for Binance deposits in BUSD and USDT, two popular USD stablecoins, far outstrip rates offered by traditional savings accounts. Although stablecoins still carry risk, such as the absence of deposit insurance, access to stable currencies and high interest rates make them a compelling financial instrument.

Figure 3. Domestic bank interest rates vs. Binance Earn stablecoin yields



Source: World Bank, Binance.com

Blockchain enables cheaper, faster cross-border money movement

Beyond investments and savings, many regional crypto players are jockeying to position themselves as the go-to facilitator for crypto-powered money transfers. Many of the best-known blockchains, including Bitcoin and Ethereum, are ill-suited to compete in the money movement space, owing to lower network transaction capacity vs. traditional payment rails and high transaction fees during peak network usage. However, more viable approaches to crypto remittances are emerging and launching to market.

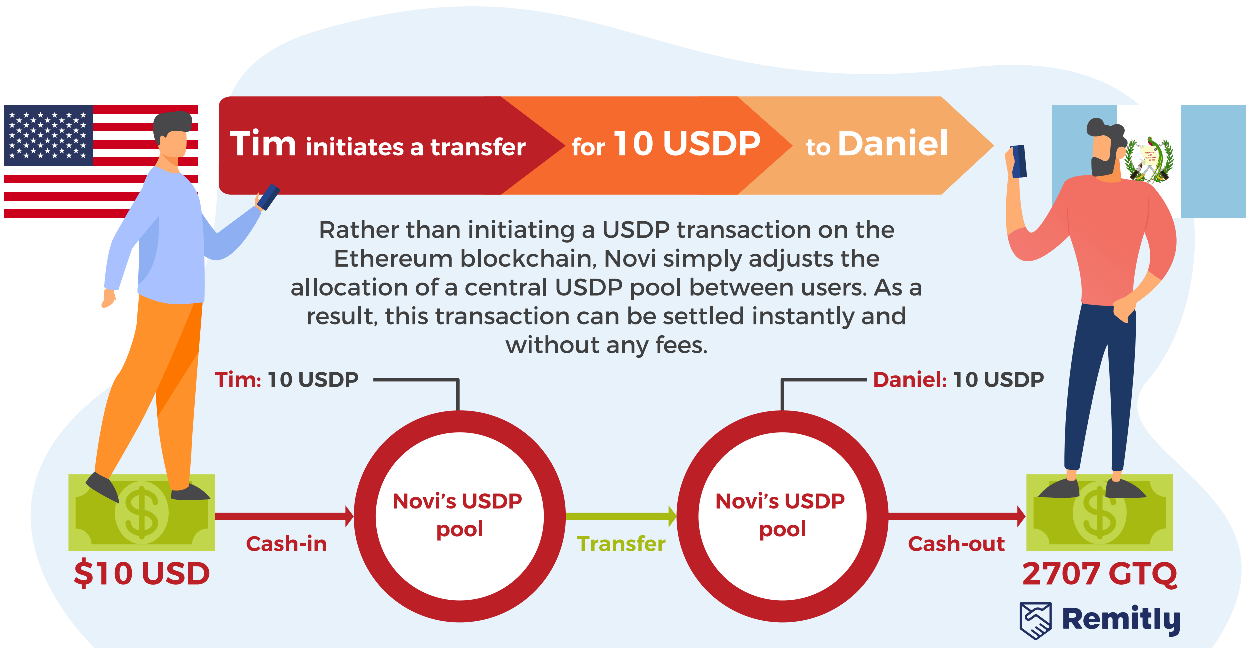
Some crypto remittance products, such as El Salvador's Chivo wallet, rely on layer 2 protocols like the Bitcoin Lightning Network. These protocols divert some transactions, especially lower-value transactions between trusted parties, away from the main blockchain in order to improve speed and lower transaction costs. Layer 2 protocols are a popular project for blockchain developers, but they have significant limitations, particularly in terms of the relatively high level of technical sophistication they still require of end users. In addition, some layer 2 protocols, such as the Lightning Network, struggle to efficiently route payments across participating nodes, resulting in occasional payment failures (although this is improving). As such, they have limited potential in the near term to achieve scale and reach the majority of remitting consumers.

A second approach involves facilitating money movement on lighter-weight, higher-throughput blockchains. Stellar USDC, a U.S.-dollar stablecoin on the high-speed Stellar blockchain, has emerged as a favorite vehicle for cross-border transfers, with payments settling in seconds and at practically no cost. Bitso integrated Stellar USDC in August 2021 to enhance its U.S.–Mexico remittance offering. Even some traditional Money Transfer Operators are adopting this approach, as exemplified by MoneyGram's integration of Stellar USDC in October 2021 to enhance its real-time settlement capabilities.

Across these early crypto remittance products, a common theme has emerged: deliberately seeking to minimize the negative connotations of risk and volatility normally associated with crypto.

A final strategy for crypto remittances is the use of an internal ledger for crypto transactions, as in the case of Facebook's Novi wallet, recently launched for the U.S.–Guatemala remittance corridor. Novi facilitates free, instant transfers of USDP, a U.S. dollar-backed stablecoin on the Ethereum blockchain, avoiding network fees by settling payments as "on-us" transfers on the Novi internal ledger. If Novi withstands regulatory scrutiny, it will likely enjoy a powerful growth trajectory in Latin America as a free, real-time WhatsApp-integrated cross-border wallet.

Figure 4. Facebook Novi launches "on-us" crypto remittances between the U.S. and Guatemala



Across these early crypto remittance products, a common theme has emerged: a deliberate effort to minimize the negative connotations of risk and volatility normally associated with crypto. Indeed, the word "cryptocurrency" is conspicuously absent from Novi's advertising and user interface. This reflects the developing differentiation in marketing for blockchain products according to use case and target audience. It is easy to imagine similarly positioned products from any number of trusted brands, which provide the benefits of crypto while specifically drawing a distinction from riskier crypto assets/products.

Paying with crypto: Consumer spending tools proliferate, well ahead of merchant-side acceptance

Crypto-backed debit cards are emerging as the preferred tool for enabling crypto balances as a funding source for commercial activity. These products—such as the Crypto.com Visa card, recently launched in Brazil, and the belo Mastercard card, in Argentina—permit the expenditure of a crypto balance via an instant conversion to fiat at the point of sale. Cardholders can thus keep their savings in crypto and spend in their local currency through a card, without merchants ever needing to accept crypto directly (or even know that crypto is involved in a transaction). Consumers may be hesitant to spend growth assets like Bitcoin and Ether, for fear of suffering the same fate as an early crypto consumer who purchased a pizza with 10,000 bitcoin in 2010 (an amount now worth $343 million). However, crypto balances held in stablecoins represent a more compelling funding source, safely holding funds until consumers are ready to make a purchase. Stablecoin accounts may well become alternative checking accounts.

Crypto products, especially stablecoin accounts, will come to serve unmet demand among LAC consumers for stable money and smooth cross-border payments.

Merchant-side crypto acceptance tools are also becoming available, though with limited uptake so far. Many of these tools, like BitPay's crypto payment gateway and PayU's announced integration with the Celo blockchain, permit merchants to enable (and advertise) crypto acceptance without having to handle digital assets themselves. Mexican retail chain Grupo Elektra's recently announced Bitcoin acceptance scheme employs this strategy.

No-conversion crypto C2B transactions—in which consumers pay in crypto and merchants accept and hold crypto assets directly—are still relatively rare in the LAC region, except in El Salvador, where the country's Ley Bitcoin requires all merchants, including international brands like Walmart and Starbucks, to accept bitcoin for payment.

At least in the near term, the deployment of crypto in commerce will take place mostly on the consumer side, especially through crypto cards. Most merchants in the region are taking a "wait-and-see" approach so far, delaying any potential crypto integrations until the legality (and benefits) of such acceptance schemes becomes clearer.

The bottom line: What to expect from LAC crypto in 2022

1. "Cryptocurrency" will remain synonymous with volatility, enticing some users but discouraging others.

Investment will remain the leading cryptocurrency use case, as millions of LAC consumers join the crypto ecosystem hoping to ride crypto asset prices "to the moon." Bolstered by news stories about crypto market movements, the popular understanding of "cryptocurrency" will remain focused on high-volatility assets like Bitcoin and Ether. Many early crypto offerings from mainstream digital wallets and financial institutions will enable crypto access exclusively for investment purposes, with limited support for other use cases like P2P money movement.

2. Monetary stability and swift money movement will grow in importance as crypto use cases, often while avoiding the "cryptocurrency" label.

Crypto products, especially stablecoin accounts, will come to serve unmet demand among LAC consumers for stable money and smooth cross-border payments. In contrast to investment-oriented crypto integrations, these initiatives will seek to minimize the impression of risk and volatility, even by avoiding the word "cryptocurrency" altogether. Instead, these products will be branded as "digital currency" or "digital dollar" instruments.

3. As exchanges launch card programs to remain competitive and financial institutions explore card network offerings, 2022 will become the year of the crypto card.

Following the launch of crypto debit cards by players like Crypto.com, NovaDAX, and belo, other regional exchanges will feel pressured to launch their own card programs to remain competitive. Mainstream issuers will also begin experimenting with crypto cards in partnership with the card networks, likely favoring crypto-rewards credit or debit cards at first. These programs offer cashback in the form of bitcoin or other cryptocurrencies, but would spend a traditional credit line or bank account balance.

4. Most decentralized finance (DeFi) products will remain accessible (and attractive) to a minority of users.

At least on the borrower side, DeFi products will struggle to compete with traditional financial offerings for the time being, given that DeFi loans require substantial collateralization, as well as a high level of technical sophistication. However, on the depositor side, DeFi interest rates, which far outstrip those offered by regional savings accounts, will attract the attention of many regional consumers. Many regional exchanges will expand access to these rates in the coming months, as in the case of Bitso+, launched by the Mexican exchange in late 2021.

5. Central Bank Digital Currencies (CBDCs) will have limited near-term impact, representing poor competition for cryptocurrencies.

Central banks throughout the Latin America region are announcing CBDC initiatives. Brazil will reportedly begin piloting its digital real this year. In the near term, the benefits of these technologies will be minimal, especially in countries like Brazil and Mexico, which already have robust real-time bank transfer schemes. In addition, although the two asset classes are often compared, CBDCs would serve very different use cases than cryptocurrencies. Many consumers join the cryptocurrency ecosystem expressly to remove their finances from the purview of government regulators, and they would have little interest in a government-controlled coin.

Call to action: How should payments players prepare for the digital currency era?

1. All payments players need a crypto strategy

There can no longer be any doubt that crypto will disrupt and transform payments in LAC. Even if crypto proves to have limited staying power in the long term, crypto products are forcing mainstream players to improve on the status quo, offering faster and cheaper payment experiences to remain competitive.

That being the case, all companies offering payments and banking products must develop a clear, flexible strategy for cryptocurrency and blockchain technologies, continually updating this as new technologies emerge. Even companies with no plans to integrate crypto in the near term must develop an understanding of how crypto affects their competitive landscape.

2. Stop thinking of crypto as a monolith—immediately

Too many payments professionals still think of bitcoin as the beginning and the end of crypto, consequently dismissing crypto as too volatile to have any meaningful role in payments. This view is dangerously shortsighted, ignoring the wide diversity of crypto products, many of which are already competitive with traditional payments products.

Companies need to get smart on crypto, and fast. Those that fail to develop a basic proficiency in crypto, especially the capabilities and advantages of different classes of crypto assets, risk being caught off-guard by crypto products that start competing with them for share.

3. Crypto is in its infancy: Expect bubbles to pop and focus on use cases

We are living through the dot-com-bubble era of cryptocurrency, and the market seems poised to get even frothier. Many emerging crypto products—the Pets.coms—will collapse, while others—the Amazon.coms—will retain their value in the long term. While market movements are nearly impossible to predict, the golden rule for determining long-term value should be *usefulness*. Products that sustainably solve concrete problems—eliminating friction, moving money faster, providing stability—are likely to have long-term staying power. Products that generate high yields through opaque mechanisms should be regarded with greater scepticism.

Crypto products that sustainably solve concrete problems—eliminating friction, moving money faster, providing stability—are likely to have long-term staying power.

These calls to action point to one common theme: the need to become educated. With cryptocurrency enabling smoother, more user-powered financial experiences, it is clear that a new, opportunity-rich era of payments has begun.

Next steps: Building your company's cryptocurrency knowledge

While AMI can easily provide a detailed study to help your company understand the nature of cryptocurrency adoption in Latin America and how to best accommodate your strategy by using these insights, many companies may not yet require such an exploration. Because of this, AMI offers the following services:

Corporate Crypto Training

We offer three different types of modules for this training, with each session lasting 75 minutes and focusing on a different aspect. Here is a quick breakdown:

- **Module 1:** Blockchain technology and the future of money, including understanding blockchains, mining and validation, benefits/risks of stablecoins and implementation scenarios for central bank digital currencies
- **Module 2:** Crypto disruption in the payments ecosystem, including crypto remittances, card network crypto integrations, Facebook's Novi, cross-border blockchains, and more
- **Module 3:** Cryptocurrency in Latin America, which includes survey data of LatAm consumer cryptocurrency usage, competition in the region's cryptocurrency market and regulatory dynamics for crypto in Latin America and more

All of these modules can be customized according to your needs and training can be provided in English or Spanish.

Crypto Strategy Workshop

Consisting of two sessions lasting two hours each, this workshop allows companies to:

- Understand your competition from the crypto space
- Brainstorm crypto products and integrations for your organization
- Identify potential collaborators for your crypto initiatives
- Develop crypto action items and determine success criteria

Available in English and Spanish, the Crypto Strategy Workshop allows your company to answer crucial questions, such as:

- What crypto integrations are my competitors planning?
- Which emerging crypto players/products might become new competition?
- What are the potential benefits and risks of currently available crypto products/integrations?
- Should these crypto integrations/products be developed in-house or with a partner?
- What action items are needed to execute your crypto initiative?

And much more.

Crypto Thought Leadership

If your company already possesses deep knowledge of cryptocurrency in Latin America, but you lack the bandwidth or time to create your content, our team can help you showcase this knowledge by developing the following thought leadership products for you:

- Industry whitepapers
- Webinars/speaking engagements
- Presentation decks
- Forum/discussion moderation

With AMI's expert track record in content development, you can offer guidance to the industry, establish your company as trusted voice and partner for the digital currency era, and further deepen your overall brand equity.

Next steps

Contact us at **info@americasmi.com** or visit our **website** to find out more about these services.

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