DISCUSSION NOTE

Latin America and the Caribbean Toward a Cashless Reality[i]

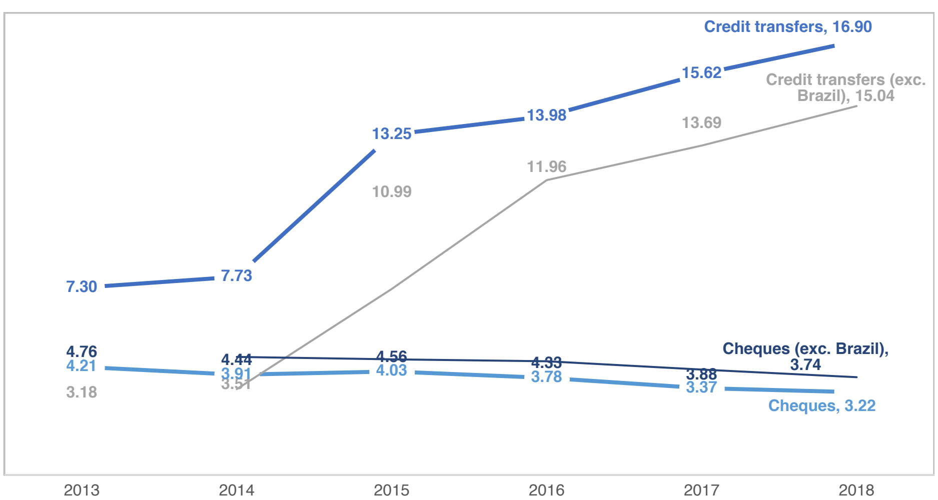
Highlights

- Cash remains as the preferred payment method in most jurisdictions but cashless instruments continue to gain space.
- Card payments are the most used cashless instrument, especially for smaller payments.
- Only a few central banks have available information on e-money schemes, despite its growing presence across the region.

Financial technologies, new service providers and an unceasing modernization of the region's payment systems characterizes Latin America and the Caribbean toward a cashless reality. Notwithstanding, the pace of change remains relatively modest and digitization of all payments is yet to occur. Payment cards are the most used cashless instrument while the number of physical terminals is also expanding, especially POS terminals.

This reflects a state of change for which payments usually done with cash are becoming digital. Payment cards are replacing cash for smaller payments, and credit transfers are making cheques disappearing and are also a useful instrument for payments over USD300. Fast payments available in RTGS systems handled by central banks are a game changer in this respect. There are more than ten jurisdictions either running or planned to deploy a fast payment scheme making retail payments increasingly convenient, instantaneous and cheaper. Again, innovation is an important driver that will be influencing the coming years, possibly resulting in a new transformation of the payments ecosystem.

Graph 1. Annual number of transactions per inhabitant with cashless instruments



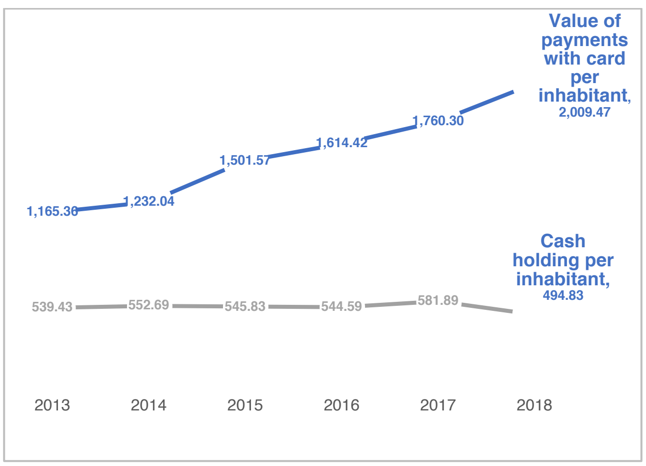
Source: Own elaboration with Yellow Book Statistics 2019
Notes: Series on payment instruments excluding Brazil are presented as a moving average.

But while cheques tend to disappear, cash remains in people's pocket. The range of cash holdings in Latin American and Caribbean population is wide among countries; in some Caribbean countries and Ecuador cash holdings doubles the regional average (USD495), while in about 30% of the region's countries the annual cash holdings per inhabitant is below USD300. Interestingly, large-denomination banknotes continue to increase across the region, reflecting its use as a store value and alternative to bank accounts.

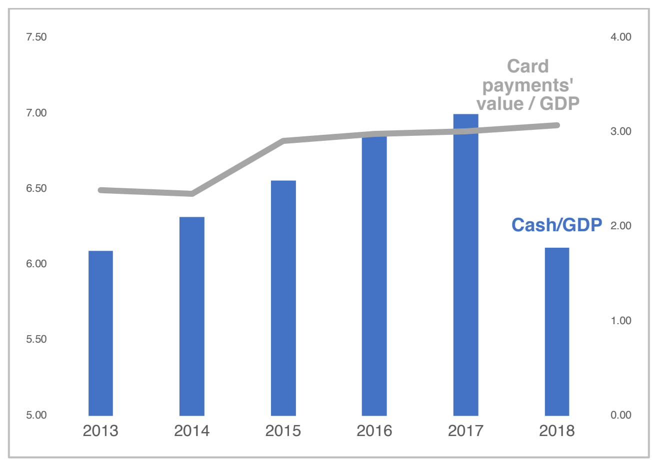
From another angle, cash is still king as a percentage of GDP with a growing but stable ratio of 7%. Cashless payment instruments grew between 2013 and 2016 but presented a sluggishness at 3% after that year.

In contrast, cash as a mean of payment records a significant drop in comparison with card payment transactions. This is mainly explained by the increasing value of payments done with debit and, especially, credit cards, and a steady amount of pocket's cash. Moreover, small-denomination banknotes reduce its presence year over year; in some Latin American and Caribbean countries, the smallest denominations now represented less than a half of what they summed five years ago.

Graph 2a.
Cash and cashless
as a percentage of GDP



Graph 2b.
Cash holdings and value of payments with cards per inhabitant

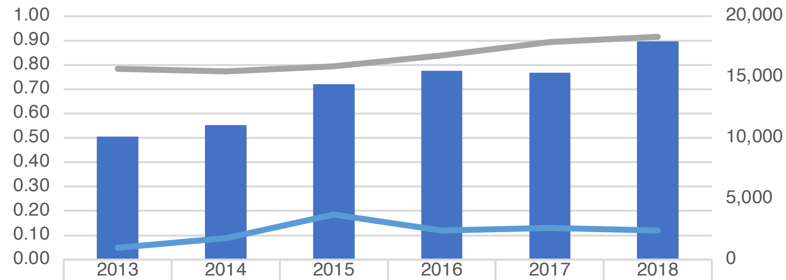


Source: Own elaboration with Yellow Book Statistics 2018.

Notes: On Graph 2B, Cashless to GDP are found in the right-axis and Cash to GDP in the left-axis.

On the face of becoming cashless societies, Latin American and Caribbean countries also record a growing number of available cards and points of acceptance. This could eventually lead to a situation where cash is being replaced by digital payment instruments. POS terminals and the number of payment cards both increased from 2013 to 2018. On average there is 0.92 debit card per inhabitant in the region, but only 0.12 e-money cards. In the Caribbean the average is higher and in countries like Curacao and Sint Maarten and Trinidad and Tobago there are about two cards per inhabitant.

Graph 3. POS transactions and number of cards per inhabitant



	2013	2014	2015	2016	2017	2018
POS terminals	10,128.20	11,038.15	14,439.55	15,498.96	15,371.11	17,926.26
Cards with a debit function	0.78	0.77	0.79	0.84	0.89	0.92
Cards with an e-money function	0.05	0.09	0.19	0.12	0.13	0.12

Source: Own elaboration with Yellow Book Statistics 2018.
Notes: Series on payment instruments excluding Brazil are presented as a moving average.

As expected, card usage varies significantly across countries. The average value of transaction with payment card in Argentina, Brazil, Chile, Costa Rica, Guatemala and Paraguay is below USD40, while in Colombia and Ecuador the average moves between USD50 and USD60.

Transactions around USD30 and USD60 seem to be a range for daily transactions that used to be done in cash. This effect of dropping cash against card for an increasing number of smaller payments can be explained by a larger and more convenient POS infrastructure.

Concerning POS terminals, the figures vary widely across the region. On average, there are near 18 terminals per 1,000 inhabitants, but countries like Bolivia and El Salvador lag behind with less than 5 terminals on average. And despite the major number of POS terminals and cards, individuals still use these payment instruments and channels to cash out.

On another note, from 2013 to 2018, the average value of cash withdrawal at ATMs increased in 60%, in real terms1. This should not be the case for a cashless reality looking ahead.

The propagation of payments based in mobile phone phones is a key aspect to continue monitoring, to determine if new alternative access channels promote a greater cashless environment. For instance, in countries where e-money schemes are already present, mobile payments should tend to grow among the population without bank accounts, under certain acceptance conditions. Moreover, POS terminals are seeing an important reform with mobile and contactless technologies internationally, yet its presence is still low along the region. Investments in such technologies could help to deepen the use of payment cards in the coming years.

To conclude, payments will continue to change as technological innovation does2. Central bank digital currencies, fast payments schemes, among other developments will be shaping the future of payments sooner or later. The appetite for such a modernization is explained by a society moving to digital, and in the case of payments this should be nurtured by the industry, including central banks.

[1] Values adjusted by CPI inflation.
[2] Bech, M. et. al. Shaping the future of Payments. CPMI Red Book Statistics. Bank for International Settlement. November 2019.

The Yellow Book Statistics are a purposeful tool to understand the rapid transformation in payments and market infrastructures across Latin America and the Caribbean. This note was prepared to reflect the Statistics' potential uses.

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