



CHILE

e-commerce payments overview

Despite its small size, Chile's e-commerce indicators are impressive.

With the highest banking, Internet and smartphone penetration in the region, Chileans are better prepared than any other Latin Americans to adopt e-commerce.

Chileans' online spend is disproportionately high for their small population of 18 million; in 2016, per capita e-commerce spend in Chile was \$222 compared to \$120 in Brazil and \$138 in Argentina.

KEY STATS

E-commerce market size

\$5B in total e-commerce spend in 2017

23% projected 2018-2021 CAGR

Desktop vs. mobile purchasing

84% of online sales took place on a desktop

16% of online sales took place on a mobile device

Domestic vs. cross-border shopping

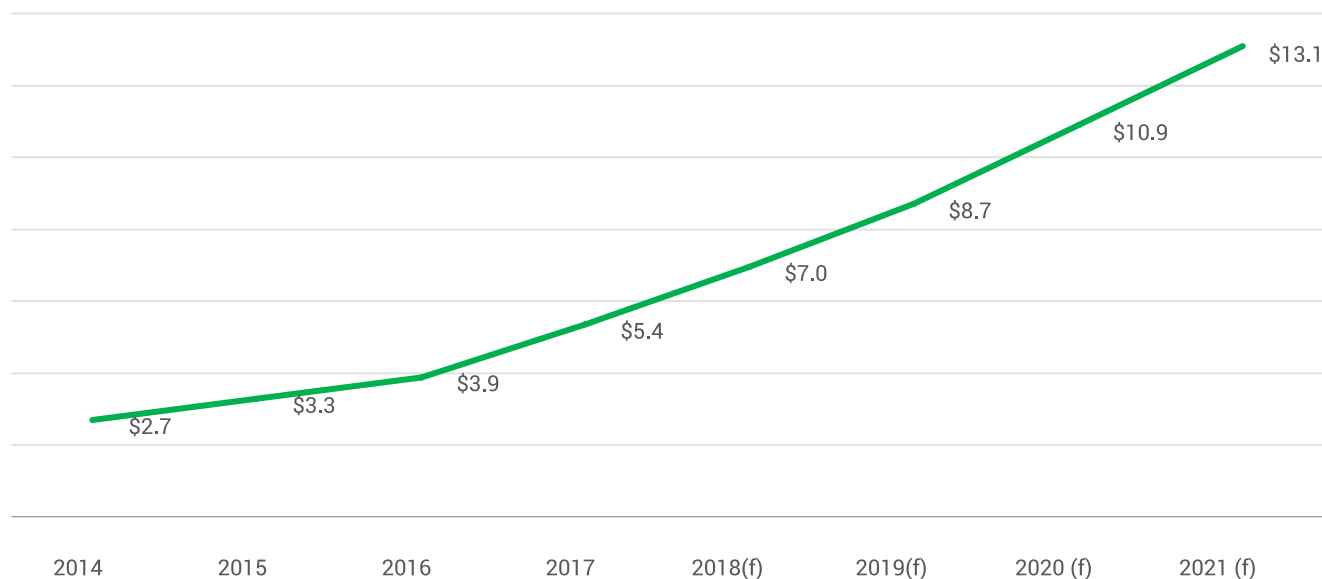
85% of online sales were to local, Chilean merchants

15% of online sales were cross-border —made on an international website

Sources: CCE, Cámara de Santiago, interviews, AMI analysis.

* 2017 data.

FIGURE 7. HISTORIC AND PROJECTED E-COMMERCE, CHILE, 2014-2021, USD BILLIONS



Sources: CCE, Camara de Santiago, interviews, AMI analysis

Success of e-commerce in Chile is due in part to the leadership of inventive merchants who have seen stellar success—and not only in Chile but in the rest of Latin America. Chilean department stores Falabella and Ripley are among the handful of Latin American retailers to become multinational, having successfully penetrated Argentina, Peru, Colombia and recently Mexico. Chile’s LATAM Airlines (formerly LAN) is the region’s largest airline and one of Latin America’s e-commerce pioneers.

Speaking to the sophistication of the Chilean market is the fact that Chile’s local e-commerce association is the only one in the region to have sized the sharing economy market, currently valued at \$300 million. Local organizations have also estimated the volume spent at marketplaces, namely MercadoLibre, AliExpress, Linio, Amazon, and eBay (see Figure 8).

WHAT IS DRIVING GROWTH?

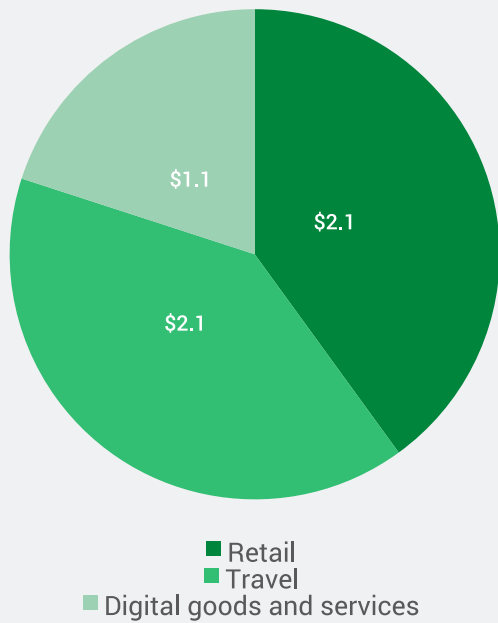
Infrastructure and banking

Chile is a leader in the region in terms of infrastructure and banking.

- ▶ Internet penetration: 77%
- ▶ Smartphone ownership: 70%
- ▶ Credit card ownership: 55%
- ▶ Bank account ownership: 74%

The access to infrastructure in Chile means consumers do not face the same barriers to e-commerce that deter consumers in other countries. Growth is largely organic.

FIGURE 8. E-COMMERCE VOLUME BY VERTICAL, CHILE, 2017, USD BILLIONS



Sources: CCE, Camara de Santiago, interviews, AMI analysis

The importance of marketplaces in Chile will drive growth among small businesses, who may not have the resources to build their own online store but who will access marketplace platforms to sell online.

The sophistication of demand in Chile makes it an appealing market for international merchants. The challenge, however, is that the country often represents too small a market to justify an on-the-ground local strategy. The mix of payment methods and the consolidated acquiring market can make Chile tricky to navigate without a local payments partner.

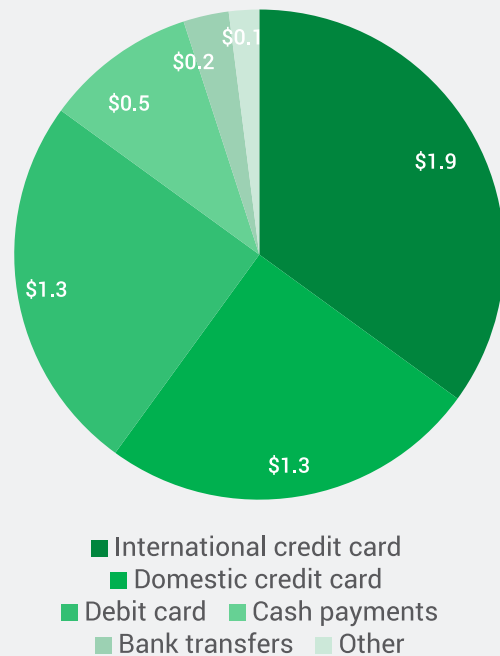
HOW CHILEANS PAY

Credit cards are the leading payment method for online commerce in Chile, although international cards account for only 30% of spend. Domestic credit cards, including domestic-only Visa and Mastercard cards, make up an additional 25%.

Chile is unique in the region in that it has just one acquirer, Transbank. As a monopoly, Transbank built e-commerce acceptance infrastructure without competition; as a result, the user experience tends to be clunky and unintuitive. Nevertheless, Transbank's online payment portal Webpay, is well-known in Chile and Internet shoppers are accustomed to using it. In addition to credit cards, Transbank's Webpay processes \$1 billion in debit card annually.

Unlike other markets in Latin America, cash and other non-Transbank payments make up only 15% of the market (compared to upwards of 30% in Brazil, Mexico, Colombia, etc.). This means that merchants can access 85% of the market through just one integration with Transbank, a true luxury in Latin America.

FIGURE 9. E-COMMERCE VOLUME BY PAYMENT METHOD, CHILE, 2017, USD BILLIONS



Sources: CCE, Camara de Santiago, interviews, AMI analysis

However, because of its monopoly, merchants report that Transbank can be difficult to work with as well as expensive. Fortunately, Multicaja (a competing payments processor) has recently received an acquiring license from Mastercard that took effect in late 2017. This should eventually bring down processing fees for merchants and improve the overall e-commerce experience, although it is impossible to predict when this will happen.

The strong prevalence of domestic-only credit cards and debit in Chile means international merchants who do not process payments locally can only access 35% of the market. This leaves \$3.5 billion on the table.

ESSENTIAL CHILE TAKEAWAYS

- ▶ Chile is Latin America's most prepared market for e-commerce, with the highest Internet, smartphone, and banking penetration in the region.
- ▶ It has the lowest penetration of cash payments, which translates to overall better payment conversion.
- ▶ 25% of all credit card spend in e-commerce is via domestic-only cards and 25% via domestic-only debit cards. International merchants need a local payment strategy to access these.
- ▶ The acquiring market is slowly opening up, creating more competition and better market conditions for all players.

RELEVANT REGULATORY DEVELOPMENTS

In 2017, the Chilean legislature passed a law that enabled non-bank entities to issue and store prepaid funds in various forms, including prepaid cards, online accounts or mobile wallets.

The law essentially created a new type of payment method aimed at Chile's underbanked. In the medium term, this will provide low-income Chileans with an electronic payment method for use online.

This law is bound to spur a wave of innovation, opening the door for merchants and payment providers to design and implement new payment methods for e-commerce—particularly digital wallets.