



Cross-border
e-commerce:

A growing
opportunity for

LATAM



Credits

Cross-border e-commerce: A growing opportunity for Latin America

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Writing and Content:

Estefania Cervantes Reyes

Design and Layout:

Lina Rodriguez Arevalo

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Introduction

A growth opportunity for Latin America

It is hard to believe that **97 million Latin Americans** shopped **online** for the first time during the **pandemic**. Still, e-commerce is a cornerstone of **digital payments** and often a driver of adoption.

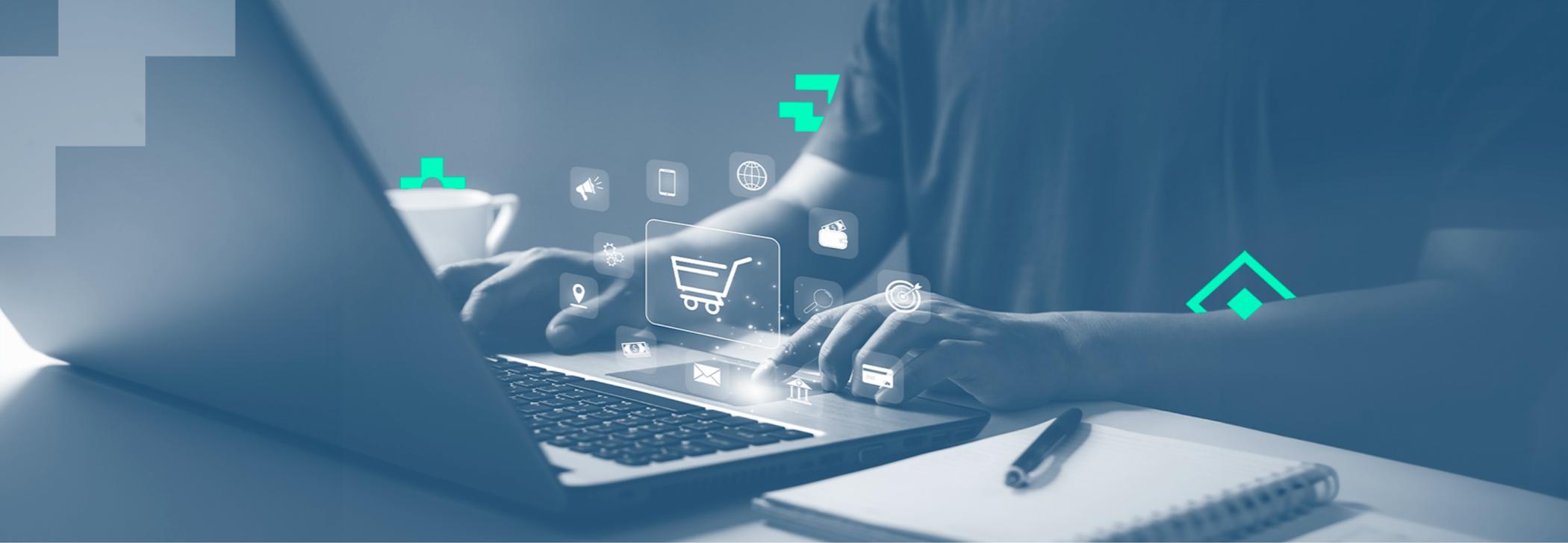


Latin America is not slowing down and continues to make progress even after the COVID-19 boom, with a total of **USD 509 billion** in **2023**, a **27% increase** over the previous year.

What have been the main drivers for e-commerce in LATAM? —

- + **Near-universal digital access** is one of the main drivers of this growth.
- + **Internet access** in the six main Latin American markets has reached 93%.
- + **Smartphone penetration** in the region now exceeds 80%.
- + **Financial inclusion:** In 2017 only 54% of the region's population had some kind of financial account. Today, this figure has raised to 85%.

All these factors create the perfect conditions for **more than 81% of Latin Americans to participate in total e-commerce**, driving the industry at a **compound annual growth rate of 23% until 2026**.



This brings an opportunity to talk about another type of **e-commerce; cross-border e-commerce**. As its name suggests, **cross-border e-commerce** is where payment is made in a country other than the supplier's own, and the goods are shipped from abroad.

Previously, **Latin Americans did not even trust digital shopping; but new needs, innovations, technology and transactional security** have made users in the region more interested in this type of **cross-border digital shopping**.

This can be seen in the numbers. In **2023** alone, the **cross-border e-commerce** revenue was **\$70 billion**, or **14% of total e-commerce**, compared to **13% in 2022**.

Digital accessibility has led to **annual growth of 28%**, six percentage points **faster than domestic e-commerce**, so **cross-border trade** will continue to gain share. It is expected that by **2026**, Latin Americans will make international purchases worth **\$144 billion**, which is more than **double the current volume**.

What factors promote the trend in cross-border e-commerce? _____

- + **Greater convenience** with online shopping. Thus, Latin Americans are more willing to shop on foreign websites.
- + Having **greater exposure to retailers with international presence** through **social** networks stimulates interest in international products.
- + Increased demand for digital assets that are heavily **cross-border** in nature such as **streaming, gaming, online education gambling and SaaS (software as a service)**.
- + International merchants are now increasingly attracted to **Latin America** because of its **growth potential**.

LATAM is gaining ground in comparison with any other region in the world

When making a comparison solely between online retail; Latin America is growing faster than any other region in the world:

LATAM **21%** versus **12%** for Asia.

LATAM **21%** versus **11%** for U.S.

LATAM **21%** versus **15%** for Africa.

LATAM in the global spotlight

The Latin American region has evolved from **0 to 100** in the boom of **alternative payment methods**, such as **Pix in Brazil and PSE in Colombia**. This technology in payments that includes several factors that people previously could not access, mainly due to financial and digital inclusion, makes **Latin America a more attractive region for international sellers**, as it allows them to access **almost the entire online population** (as opposed to credit cards which are owned by about a third of online shoppers).

“Local and alternative payment methods are **very important to this market**, but there is also a **high demand for card payments** and the best strategy to ensure **high approval rates is to process the transaction locally.**”

Sherrie Rogers; Global Sales Director at Kushki

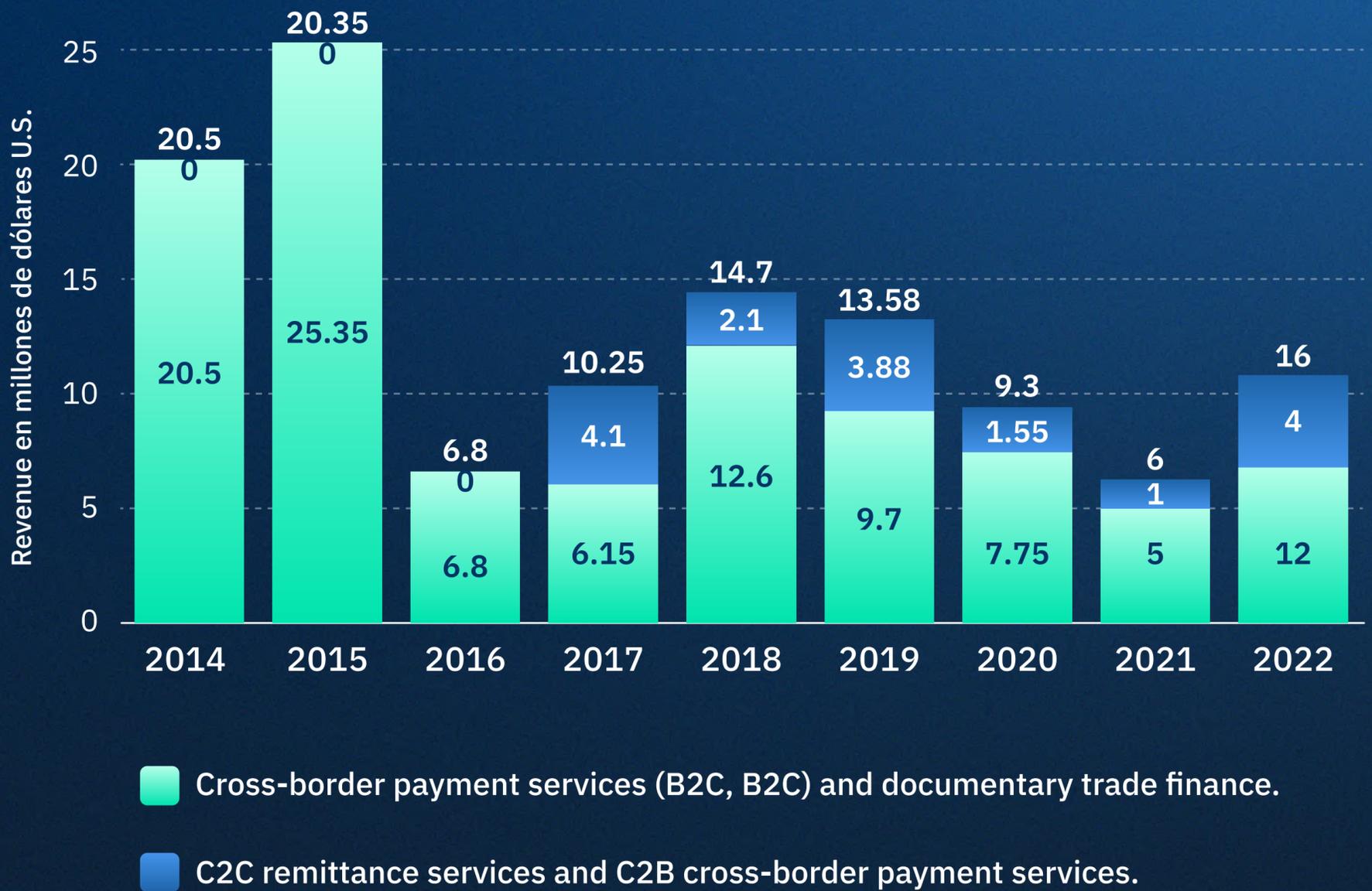
Payment Service Providers (PSP's): What is their role in cross-border trade? —

Payment Service Providers (PSP's) specialize in **facilitating cross-border trade** in the region. They are thriving today; enabling **seamless incoming and outgoing payments**. They make it easy and cost-effective for merchants around the world to sell to Latin American consumers.



Both **commercial and consumer-based cross-border payment transactions** in Latin America will grow by **double digits** between **2021 and 2022**. The consultancy firm McKinsey & Company attributes this largely to **remittances sent from individuals in the United States to other consumers in LATAM**.

Total cross-border payments revenue - B2B, B2C, C2B, remittances - in Latin America from 2014 to 2022 (in billion U.S. Dollars)



Source: McKinsey & Company (McKinsey Global Payments Map) | ©Statista 2024

The payment corridor between the **United States and Mexico** is considered **the largest in the world**. The source adds that the largest global growth beyond 2022 is expected in **C2B cross-border payments**, due to increased **online shopping and international travel**. Consumer categories also continue to have **higher margins** compared to B2B.

Cross-border volume in the region

Cross-border opportunity varies significantly by market. **Cross-border share is highest (over 50%) in small markets** with underdeveloped domestic e-commerce industries, such as **Central America, Bolivia, and Ecuador**.

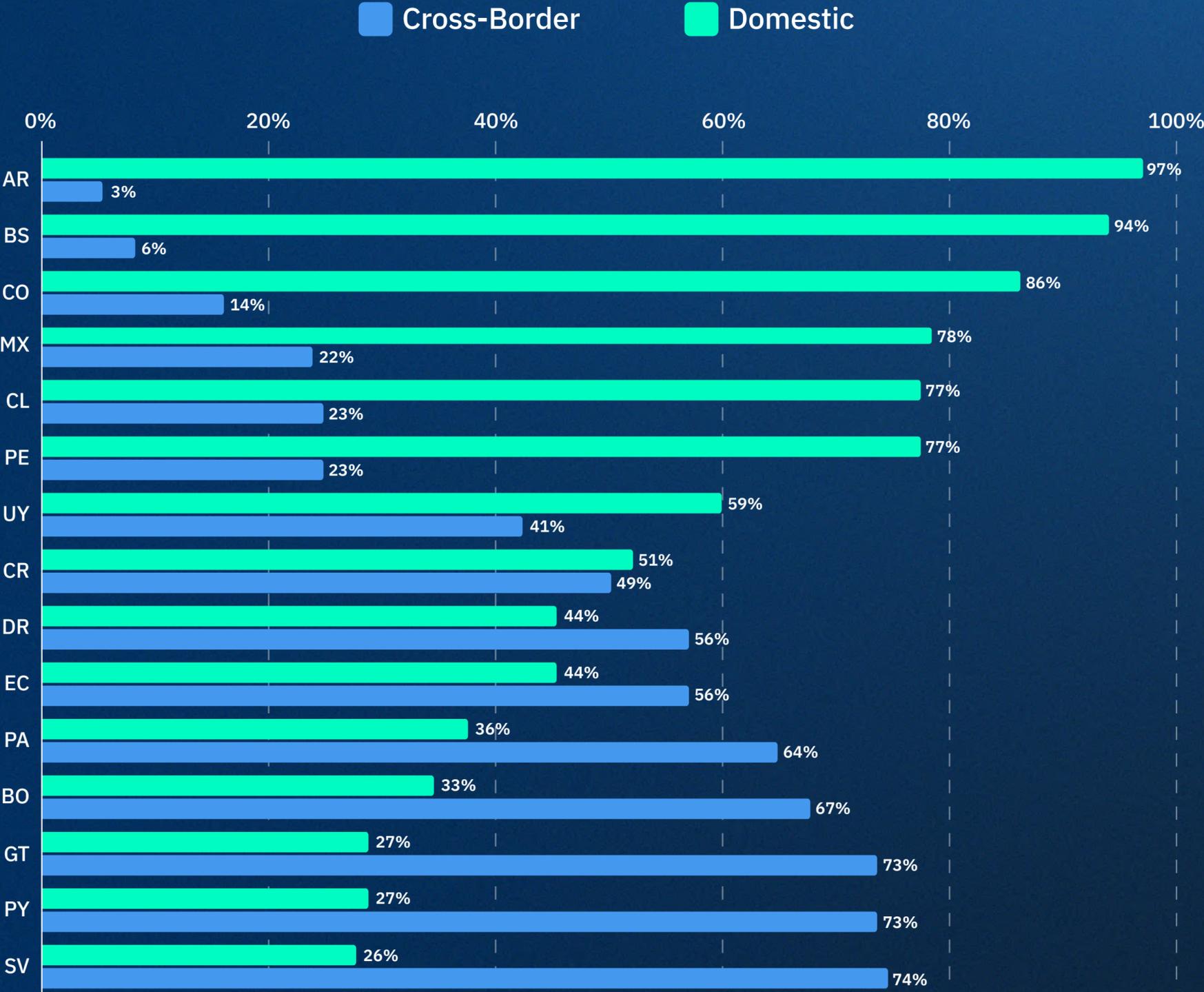
Among the large markets in the region, **Mexico, Chile, and Peru** have the highest shares, as they are countries with open trade regimes and favorable tax codes. In addition, **Mexico's proximity to the U.S.** also contributes to a **cross-border share of over 20%**.

“In **Brazil and Argentina**, due to the **stricter trade regime, fluctuating exchange rates** and **currency controls, cross-border penetration** is limited.”

The **strength of the domestic market** is also a challenge for **international sellers** in markets such as **Brazil**, where **cross-border e-commerce** accounts for only **6%**. However, due to the big size of this country, **that 6% equates to nearly USD 16 billion, putting it on par with Mexico in terms of volume**, as well as being one of the main targets for **international merchants**.

Argentina could become more favorable in the medium term, as with the recently elected new president in October 2023, dollarization is a possibility that would provide the necessary currency stability to facilitate cross-border transactions.

Share of e-commerce volume by origin



Source: (PCMI) Payments and Commerce Market Intelligence, 2023.

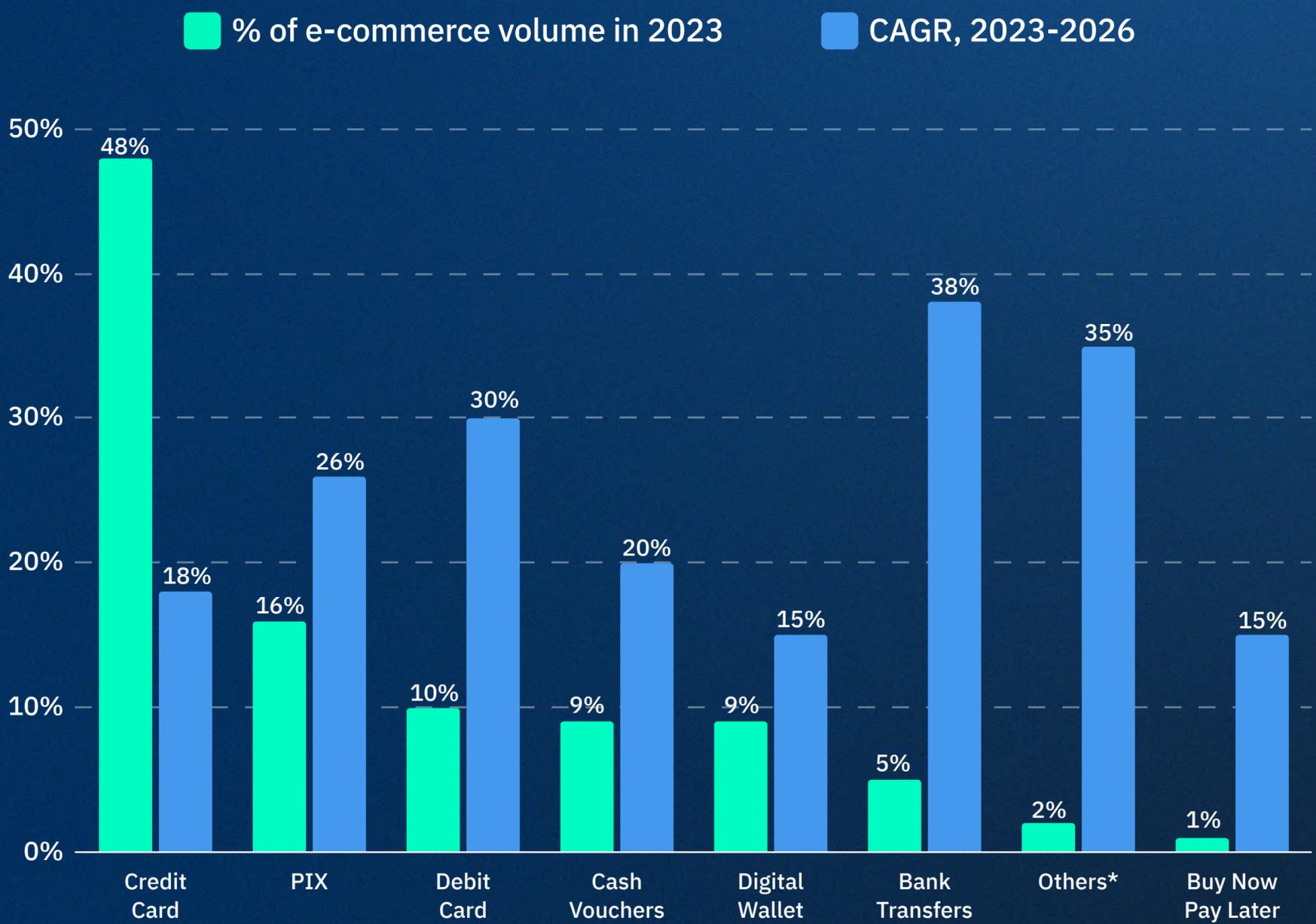
Introducing payment methods

Alternative payments are fueling the **growth of domestic and cross-border payments**. Alternative payment methods now account for more than **40% of e-commerce volume**, with **credit cards losing share** year on year to **instant payments**.

The differences between different **payment methods and RTP's** are to be taken into consideration when looking to **expand a business to other regions** because there are **many local complexities and legal hurdles** that the merchant and its legal team must first fully understand. In turn, they must **have a local team in each country** that, in addition to understanding the market, can enable payment methods offerings that adjust to the local preferences and growth forecasts currently in place.

According to **Payments & Commerce Market Intelligence**, bank transfers, debit cards and the Pix electronic payment system (the Brazilian Central Bank's instant payment system) **are the fastest growing payment methods in the region.**

Payment method share of e-commerce volume and compound annual growth rate (2023 - 2026) in LATAM

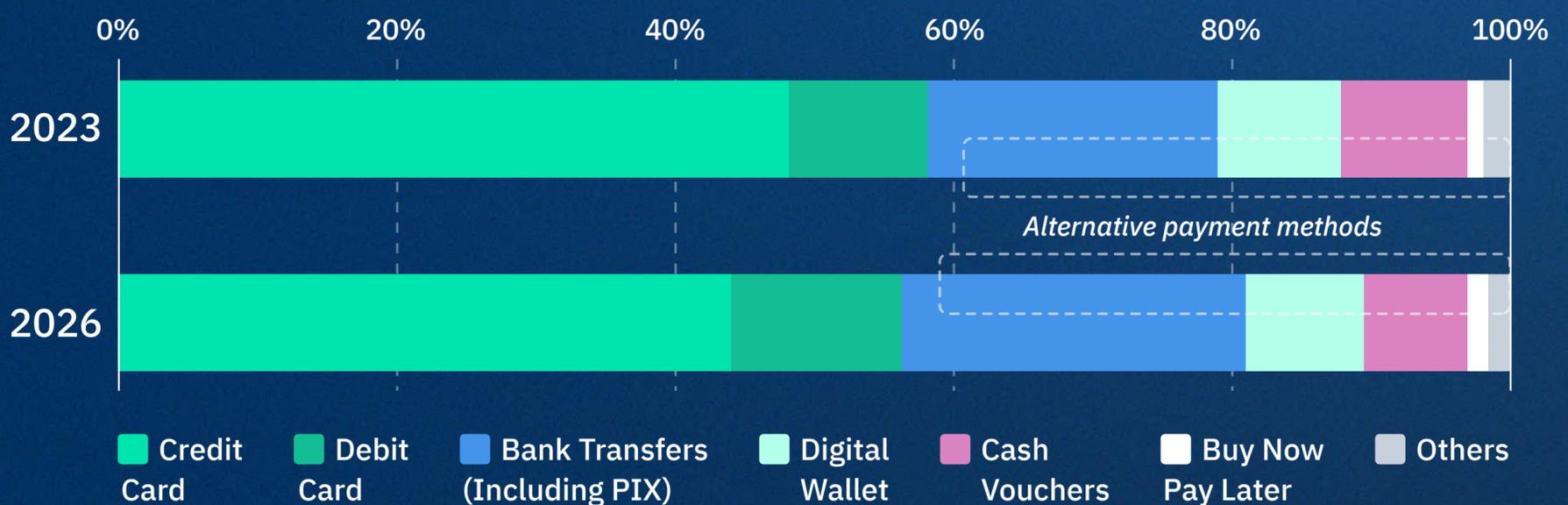


Source: (PCMI) Payments and Commerce Market Intelligence, 2023.



It is remarkable how fast **RTPs or real-time payments** have reached such high numbers in such a short time. Pix, for example, already has **29% of the volume in Brazil and 16% of the entire region**. Because of this, many **PSPs and merchants** prioritize **Pix activation over debit cards in Brazil**, as it has almost completely cancelled the use of debit cards in digital channels.

Share of e-commerce expenditure



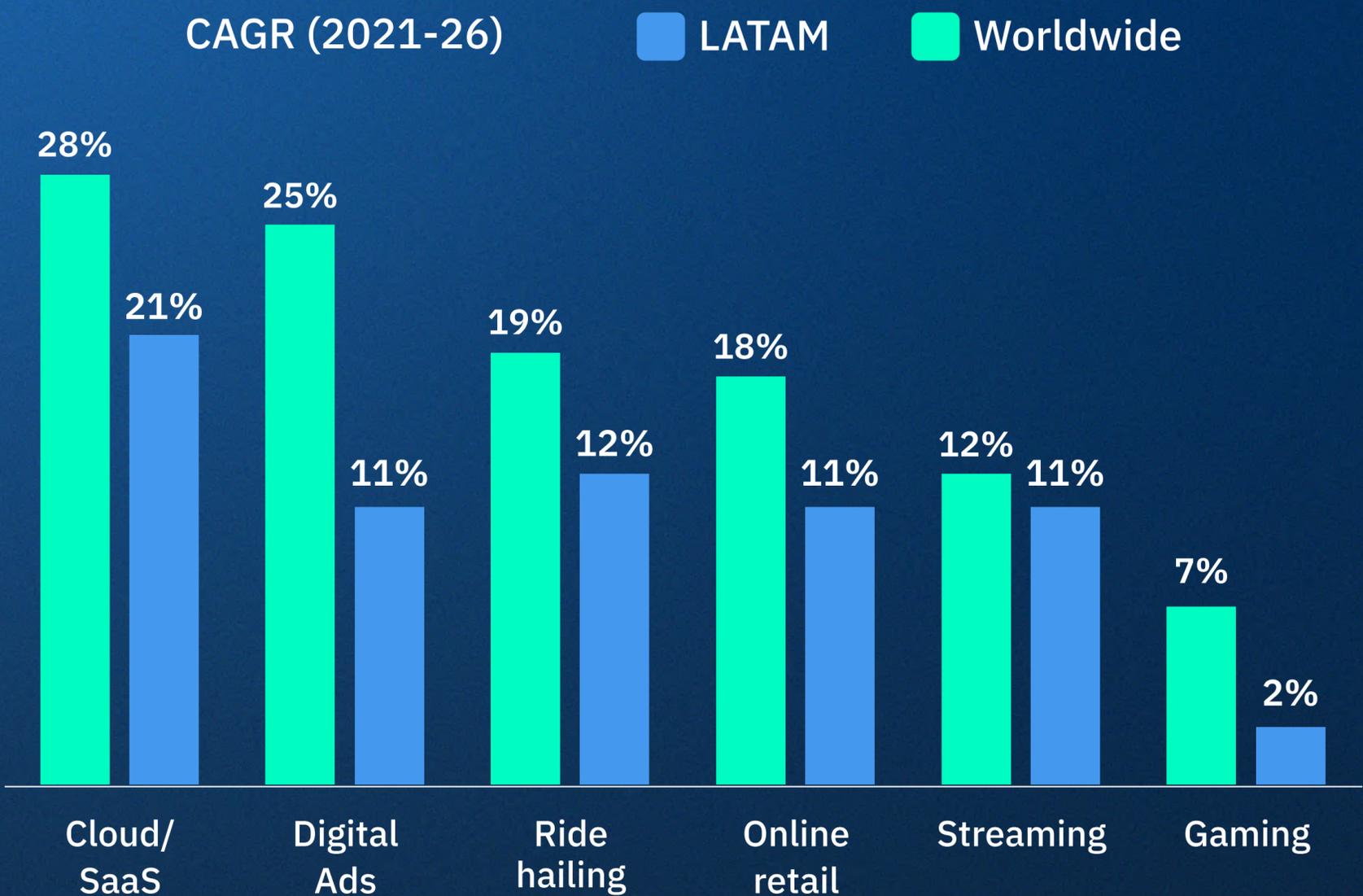
Source: (PCMI) Payments and Commerce Market Intelligence, 2023.

Just like Pix; other account-to-account (or A2A) payment methods have been crucial to expanding **cross-border e-commerce in Brazil** in verticals such as **gambling and betting**. In this sense, these are verticals that **require fast, agile, and spontaneous payments**, which are sometimes complicated attributes for card payments.

Thus, Pix in Brazil, PSE in Colombia and digital transfers have helped international merchants overcome the barriers of traditional payment methods and have exponentially increased the target market.

A hyper-growth region

Digital verticals in Latin America are growing up to 3x the global average.



16%

of online purchases in Latin America will be cross-border by 2025 (per AMI).



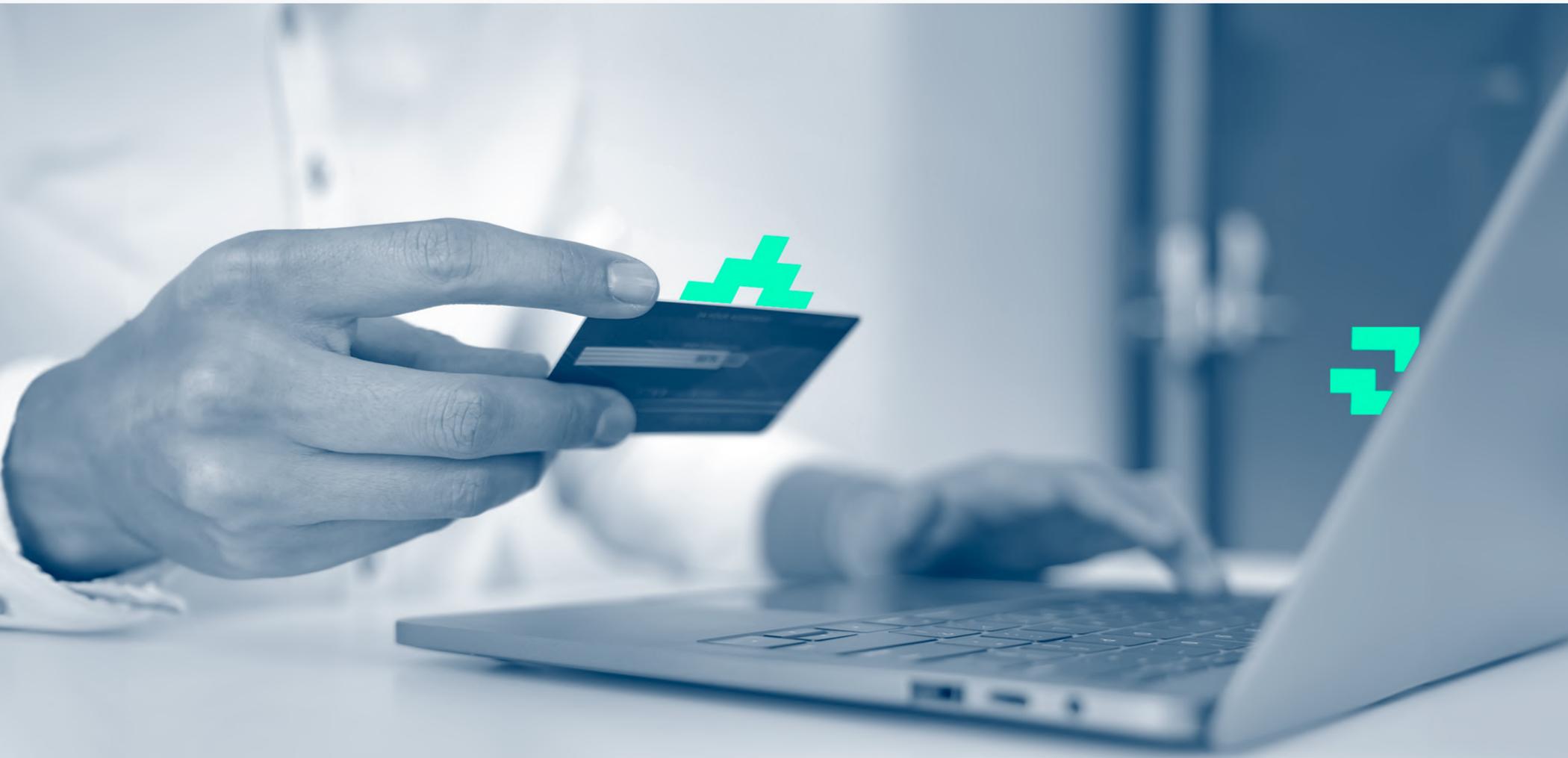
Global digital businesses are looking for growth opportunities, and they are becoming easier to find. **Cross-border growth** will be faster due to the current **interconnectivity** of the **global economy**. For some merchants, it may be a better opportunity for growth abroad.

The **economic downturn** in developed markets such as the **U.S. and Europe** due to **inflation hikes and the war in Ukraine** were another push for multinational companies to invest in emerging markets. International online sales in Latin America must also expand the cross-border share of e-commerce in the region so as not to be left out of the new payment trends.



With this trend accelerating, it will be increasingly important for merchants and PSPs approaching the region to be smart and manage a localized strategy in Latin America, because **credit and debit cards will continue to generate more than 50% of volume in the coming years** (although **credit card share is expected to decline from 48% to 44% by 2026**).

Digital assets still drive strong demand for card payments, given the need and the large supply for recurring payments: **cards account for 69% of the region's streaming share and 65% of gambling**. In addition, **credit cards** are also critical for their ability to offer **installment payments**, which can account for more than **50% of credit card spending** in some markets and verticals.





Latin American consumers are evolving —

Shopping online is no longer an unusual experience for Latin American consumers. **74%** of the region's population shopped online in 2022, a leap of 19 percentage points from just **55% in 2020**.

With **increased digital awareness** and **better Internet connectivity** across the region, especially on mobile devices, consumers are eager to experiment with new things online.

44%

was the annual growth rate of cross-border e-commerce in LATAM in 2022. *(Source Getbyrd).*

Why is cross-border e-commerce between Europe and LATAM so important? ---

Cross-border e-commerce between **Europe and LATAM** is crucial, offering opportunities for **market expansion, diversification, revenue growth and global reach** for both markets, as well as leveraging cultural ties, promoting innovation and contributing to economic development. This type of trade goes beyond that; it is a key driver of economic and commercial relations between the two regions.

The **European e-commerce market** stands out for its **breadth and continued growth**, as well as its **diverse demographics and purchasing power**. For **Latin American companies** in the sector, entering Europe represents a valuable opportunity to explore a new and potentially lucrative customer segment. This diversification strategy is particularly beneficial as it **mitigates the risks associated with relying exclusively on the domestic market**. By expanding into Europe, these companies can reduce their dependence on a single market, thereby strengthening their resilience and stability.

How do users want to pay for their international purchases?

Consumers have a growing need for **seamless, transparent and fast international payments**. According to a report by the Economist Intelligence Unit (EIU), following the digital revolution in local retail payments, customers are now demanding a similar transformation in real-time **cross-border payments**, through the use of **APIs (application programming interfaces)** and open banking.



Alternative payments, such as **instant transfers and digital wallets**, offer an effective solution due to **their speed and in the case of wallets, the possibility of chargebacks**, which can motivate consumers to make **international purchases online**.



The expansion of the **cross-border market** is also influenced by the **fluctuation of the U.S. dollar**. Merchants interested in tapping into this market should consider this factor and, if possible, offer prices in local currency to mitigate the impact of **currency fluctuations**.

The outlook for **LATAM** and its global expansion looks promising, not only thanks to the digital and financial maturity of its inhabitants, but also to the **new opportunities** that e-commerce technology and alternative payment methods offer to stay connected from anywhere in the world.



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