

Adyen Payment Insights Brazil



Global



Omni-channel



Technology



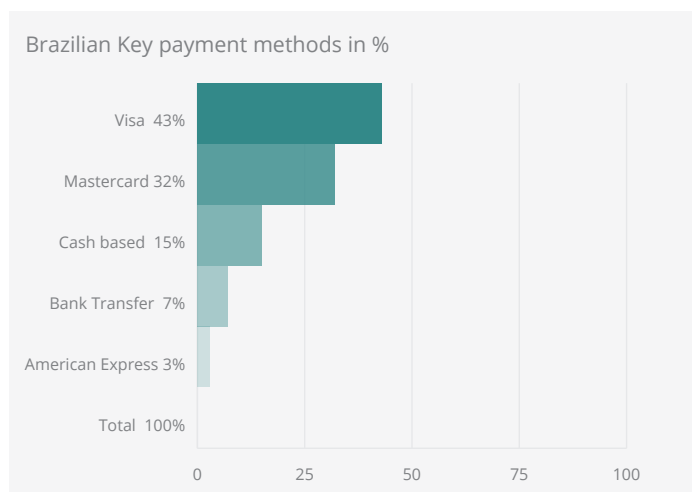
Market overview

One of the most exciting global markets for merchants, in 2013 Brazil represented 61% of the Latin American e-commerce market, and the sector experienced 28% growth. For many merchants looking to gain a foothold in Latin America, Brazil is a compelling choice as the number one target market.

Yet restrictions on banks and currency controls mean that from an outside perspective, entry into the market is not always straightforward. With that in mind, this document will walk you through some of the key issues international merchants should consider prior to market entry, and offer advice based on extensive on-the-ground experience.

Key payment methods

Brazilian consumers are avid users of credit cards, with the overwhelming majority (78%) preferring credit cards for their online purchases. A further 15% prefer cash-based methods such as Boleto Bancário, and 7% use bank transfers and other payment methods. We touch on each of these payment methods below, but first let's take a look at the pros and cons of a cross-border approach as opposed to a local approach to payments.



Cross-border payments versus local payments

Cross-border approach

If your organization lacks a domestic entity, but wants to launch in the market without a sizeable initial investment, a cross-border approach is the way to get started. It is also worth noting that as with the rest of the market, cross-border purchases are growing, particularly from the US and China, despite issues involved in importation activities such as customs processes, and relatively high import taxes.

However, in late 2013, major Brazilian banks began refusing cross-border BRL transactions en masse, and consumers now pay a 6.38% tax on all cross-border transactions. Due to these regulations, it is recommended to process transactions in \$US or EUR rather than BRL, but these initiatives translate into a smaller potential customer base, the risk of a comparatively higher refusal rate, and a more expensive purchase price for customers.

Local approach

There are a large number of advantages in adopting a local solution that is connected with domestic payment methods (such as Boleto Bancário). These include the following:

- Because most cards in the market are not enabled for international transactions, a dramatically larger base of potential customers.
- Access to domestic acquirers and payment methods.
- Additional features important to the local market, such as payment by installments (more on this below).
- Crucially, processing payments domestically brings a 30-40% higher authorization rate when compared to processing payments internationally.

Furthermore, provided that the organization has a domestic entity, there are no significant negatives to a local approach.

Takeaway: Due to compelling benefits in a local approach to payments, Adyen does not recommend a cross-border approach except if a) your organization does not have a local entity, or b) if your organization wants to enter the market with a view to launch a local entity at some point in the future, but does not have a local presence at the moment.



A snapshot of the Brazilian shopper

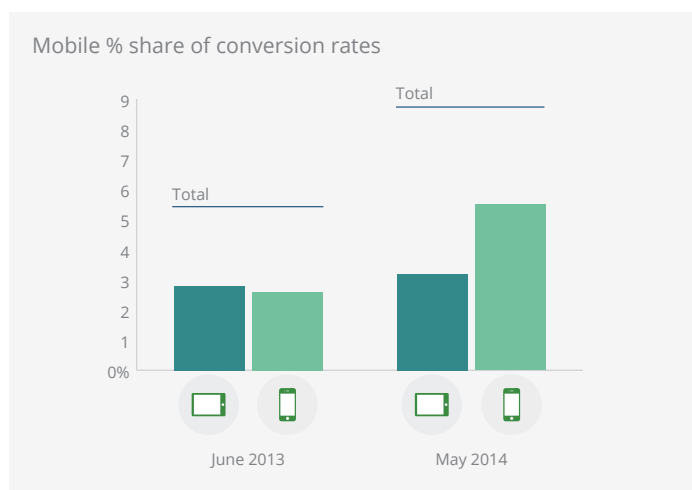
With a population of approximately 200 million, Brazil has around 107 million internet users. Of these, there were an estimated 60 million online shoppers in the second half of 2013.

According to comScore Media Matrix, almost half of online shoppers are aged between 18-34, and are overwhelmingly located in urban zones in the southeast (including São Paulo, Rio de Janeiro), the northeast (Salvador and Recife) and south (Porto Alegre, Curitiba, Florianópolis). In early 2013, fashion and accessories overtook household appliances as the most popular items to buy.

The mobile landscape

Due in part to local payment preferences such as paying by installments and using local methods such as Boleto Bancário, m-commerce in Brazil is underdeveloped in comparison to some other emerging markets. However, in the first half of 2013, the mobile channel almost tripled its share of total B2C e-commerce sales, and by 2014, Brazil had become the world's fifth-biggest mobile market.

It is also worth noting that by 2017, it is estimated that almost all internet users (close to 60% of the country's population, or over 100 million people), will access the internet with a mobile device. Therefore, it is important for merchants to keep mobile payments in mind to fully capitalize on the potential in the market.



Credit cards

The market situation

The most popular credit cards for online purchases are VISA (43%), MasterCard (32%) and American Express (3%). However, local credit cards targeted at lower income earners, such as Hipercard and ELO, are gaining market share and may play an increasingly important role in coming years.

Related to our advice that a local approach is highly preferable to a cross-border approach, an important point to note is that around 70% of consumers have cards that are not suitable for cross-border payments, i.e., they are domestic Visa and MasterCard cards.

There are four acquirers in Brazil that are capable of processing e-commerce transactions: Cielo, Rede (formerly Redecard), Elavon, and Santander. At this point in time, all acquirers can process both MasterCard and Visa. In addition, newcomers are beginning to explore the market.

Local credit cards are an exception. Due to exclusive contracts, only Rede can offer Hipercard and Diners, while only Cielo can offer AMEX and ELO.

What Adyen offers

Adyen has direct technical connections and acts as a payment gateway for local and international merchants. Merchants can sign up with Adyen directly for acquiring, or use an existing acquirer, and Adyen is connected directly with all acquirers via API, enabling merchants with full coverage of credit cards in Brazil.

In addition, Adyen's multi-acquirer connection helps merchants to:

- Secure better commercial conditions in the negotiation with acquirers.
- Maintain processing stability. Multi-acquirer connection is imperative for contingency reasons since Brazilian acquirers tend to experience connectivity problems more often than acquirers in the US or Europe. A live-live switchover as offered by Adyen is a significant advantage for merchants in the market.
- Optimize approval rates across acquirers. Adyen has investigated that approval rates among the same cards differ between the acquirers and can route transactions optimally.



Up to 80% of all e-commerce payments are made in installments

Boleto Bancário

What it is

Boleto Bancário, simply referred to as Boleto (literally meaning 'ticket') is a payment method regulated by the Brazilian Federation of Banks. A boleto can be paid at ATMs, branch facilities and internet banking of any Bank, Post Office, Lottery Agent and some supermarkets until its due date. After the due date it can only be paid at the issuer bank facilities. Because Boleto payments cannot be disputed or reversed by the consumer, it is a low-risk payment option.

Boleto Bancário represents about 15% of all payments in this country. Although its technology is somewhat out of date, it is a must-have option for any serious merchant in the market.

What Adyen offers

Adyen enables the storage of shoppers' Boleto Bancário payment information using secured tokenization of the data. This is an advantage because it means that although Boleto Bancário is not an automated process, Adyen can help merchants speed up the process by pre-filling certain information for repeat customers.

How it works is that merchants send the shopper references and payment information together with a shopper mandate, which is a pre-filled bankslip from Boleto issued to the customer and registered by the shopper's bank (Santander, Itau, Banco do Brasil, Bradesco, HSBC). Adyen stores a mandate electronically using a tokenization of the payment information, which enables future use of the stored payment data.

Online banking

Market situation

Online banking has low penetration but still is important for a segment of shoppers who choose not to make purchases with credit cards. Customers using eBanking are typically redirected to their own bank to make a payment in a familiar environment.

What Adyen offers

Adyen is currently integrated with two major banks in Brazil: Banco Bradesco and Banco do Brasil. In addition, Adyen supports Visa Electron transactions – a solution which is aimed at replacing direct bank integrations.

Other methods

In addition to the key payment methods, Adyen supports multiple local wallets similar to (and including) PayPal. The key thing to know about these wallets is that limited reach means that they are optional, rather than must-haves.

Installments

Market situation

Payments in installments are very common in Brazil and widely spread among large parts of the population. Up to 80% of all e-commerce payments are made in installments. The quantity of installments typically varies between three and 12.

Payments in installments are usually free of interest for the buyer and are collected month-by-month by the vendor. Vendors have the possibility to anticipate the payment of the full amount but this generates a so-called anticipation fee, which is charged by the acquirer. Anticipation fees may vary between 1 and 2% to up to 18%, depending on the amount of installments to be paid upfront.

What Adyen offers

Adyen already offers payments in installments to its customers in Brazil, and reconciliation facilities for payments executed via installments. This development was implemented with the collaboration of local acquiring banks.



Why Adyen?

Adyen provides a dedicated, flexible local team in Brazil, consisting of highly qualified people coming from the payment industry. This team is able to fully assist and successfully support the growth of large e-commerce merchants in Brazil.

In addition to offering the most stable Brazilian processing platform on the market, Adyen has also built in some additional features that make the total set of available functionalities unrivaled for e-commerce merchants, via a single platform:

- One-click payments, giving merchants access to a way to ease the checkout process for consumers. Adyen will flag/store the card details and offer an API call for subsequent transactions. This can be done in combination with installments.
- Fully automated refunds (partial and full refunds). Adyen has built this functionality in its processing platform.
- Live switch-over and load balancing between three acquirers.
- Real-time conversion analytics, displaying the success rate of the various connections, ability to make changes to routing set up in real-time.
- All major local forms of payment available through a single technical interface.
- Reconciliation on installments.
- EU/US type SLA's and operations.

Payment methods

The following payment methods (apart from credit cards) are supported by Adyen in Brazil:

Credit Cards



Online banking



Bank Transfers



Cash-based



Wallet



Acquirers

Adyen is connected to the following acquirers in Brazil:



Brazilian acquirer offering domestic and international Visa, MasterCard, Amex and Diners cards including payment by installments. Local entity and local settlement in BRL are required.



Brazilian acquirer offering domestic and international Visa, MasterCard and Diners Club including payment by installments. Local entity and local settlement in BRL are required.



Acquirer for Brazil

Summary

For international merchants looking to gain a foothold in the Brazilian market, it is advised to keep the following key points in mind:

- An overwhelming majority of Brazilian consumers use credit cards, but due to currency controls and bank restrictions, the bulk of these can only be used in the local currency. Therefore, international merchants are advised to process payments locally if they have a domestic entity.
- Boleto Bancário is a local payments method that accounts for around 15% of transactions. Although it is based on outdated technology, it is a must-have payment option for international merchants serious about reaching a mass audience in the market.
- Due in part to local payment preferences such as paying by installments and using local methods such as Boleto Bancário, m-commerce in Brazil is underdeveloped in comparison to some other emerging markets. However, rapid growth in mobile internet access may have an impact on this channel in the near-mid term future.



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THE BRAZILIAN PAYMENTS LANDSCAPE

The Brazilian market

200 m
people



107 m
internet users



60 m
online shoppers



Compared to Latin America

61% of the e-commerce market



40% of 169 Million Internet Users



E-Commerce

How big is the e-commerce sector?



Per comparison

The internet audience

65% 65% of the internet audience in Brazil is under 35.

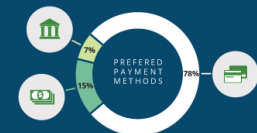
The share of B2C e-commerce

2x The share of B2C e-commerce on total retail will double from 2011 to 2016.

Preferred payment methods

- 78% Credit cards for online purchases.
- 15% Cash-based methods such as Boleto Bancário*
- 7% Bank transfers and other payment methods

80%: E-commerce payments made in installments.



Online or offline?

When a customer chooses to pay online via Boleto Bancário, a popup window with a Boleto Bancário bank slip appears. The customer has two options -

1. To print the form and physically pay with cash at a bank.
2. Pay online with internet banking.

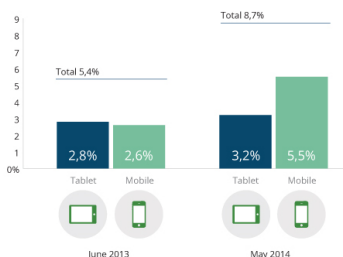


*Boleto Bancário (literally meaning 'bank ticket') is a cash-based payment method that can be paid at ATMs, branch facilities and internet banking of any Bank, Post Office, Lottery Agent and some supermarkets.

Trends

Mobile trends

As of 2014, 72 million Brazilians are mobile phone internet users, that's 20 million more than a year ago.



Growth

100%: Growth in m-commerce over 2013.



But it's still only a small percentage of total retail e-commerce market.

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