Emerging Segment in Latin America
## Index

Introduction.................................................................................................3

**POTENTIAL OF EMERGING SEGMENTS**

Population .................................................................................................4
Education .......................................................................................................6
Income and Employment ...........................................................................8
Spending ......................................................................................................11
Regulatory Framework ..............................................................................13
Banking Levels ..........................................................................................14
Banked and unbanked population .............................................................15
Financial Industry in the Region .................................................................16
Financial Industry Main Players .................................................................19
Access to Credit ..........................................................................................20
Penetration and Use of Bank Cards ............................................................22
Regional Scenario ......................................................................................22

**PROFILE OF THE EMERGING CONSUMER**

(Attitude towards spending, saving, financial services, credit, credit and debit cards) ..............................................................23
Conclusions ...............................................................................................30
Introduction

Access to financial services for a higher percentage of the population is a growing priority of national governments and the international community. High profile forums, including the G-20, which includes the most economically important developed and developing countries, emphasize the importance of reaching the goal of achieving higher financial inclusion.

Visa is committed to this challenge and recognizes the importance of the so called “emerging segments.” This portion of the population has traditionally not been served by Latin American and Caribbean financial institutions. Given the development potential that this segment represents for the economies of the Region, Visa works closely with client financial institutions, governments and communities in the development of payment solutions that will help bank this audience and improve their financial conditions.

In order to learn more about the characteristics, attitudes and financial habits of the emerging segment in the Region and to determine the scope of coverage of the financial institutions that serve this segment, Visa ordered two in-depth market research studies to measure the opportunity, understand and analyze the financial coverage in the region and thoroughly understand the relationship of this consumer group with financial institutions.

The market research “LAC Emerging Sizing Study”, carried out by Euromonitor International in Mexico, Dominican Republic, Costa Rica, Panama, Brazil, Colombia and Peru, combines data obtained in primary and secondary investigations. This investigation was carried out in June, 2010.

The study “Emerging Segments: Profiles and Attitudes in the Latin American Market” was carried out in 6 countries in Latin America: Mexico, Brazil, Colombia, Peru, Guatemala and Costa Rica. It included 3,000 home interviews among men and women of the emerging socioeconomic group between 25-64 years of age. The study was carried out by De La Riva Group in August, 2010.

This publication aims to combine the findings of both studies to provide a unique outlook of the segment.
CHAPTER I

Potential of Emerging Segments

For purposes of this publication, the emerging segment is defined as the number of households and individuals with national incomes between the international poverty line ($2/day @ PP 2009) and the 60th percentile by disposable income at the national level. This includes consumers of the lowest income socio-economic classes whose financial needs have not traditionally been covered by banks or other financial institutions.

POPOPULATION

The emerging segments in Latin America are estimated to cover more than 65 million households and 156 million people. This represents 55% of the total homes and 49% of the population the countries studied.

Brazil’s size and blooming economy make it the major player in the area: 46% of the homes and in the emerging segments in the Region are in Brazil – almost 73 million people. The 40 million Mexican consumers in the segment represent 25% of the emerging population and almost 60% of the country’s population. The rest of the countries considered in the research represent individually less than 10% each of the Region’s total but they signify between 42% and 50% of their respective population, thereby generating an important potential for local consumption.

The potential represented by this segment is growing. Emerging segment population is projected to grow at least as fast as the rest of the population and, in some countries, such as Brazil and Colombia, at a faster rate. For example, by 2005 the emerging segment in Brazil was 47% of the population but projections estimate that it will be 56% of the population by 2020.

Seventy percent of the emerging population is urban, a ratio that varies from 75% in Costa Rica to a maximum of 95% in Argentina. This means that the majority of the segment has access to services and products typical of cities, including nearby banks that help accelerate financial inclusion. Countries with large rural populations, such as Colombia and Peru are ideal for establishing virtual banking. Bank correspondents, non-banking institutions in business establishments, post offices or other stores that provide services for determined banking institutions have been well received in several countries in the region.

URBAN POPULATION IN THE EMERGING SEGMENT*

* Population over 15 years of age
The average population below the poverty line is 4.6%. Mexico has the lowest index at 1.4% and Colombia the highest at 10.8%. The indexes for Peru, Costa Rica and Brazil are 6.6%, 5.7% and 4.6% respectively.4

Contrary to popular belief that households in the segment house several generations, a high percentage lives only with their spouse and children. Due in part to mortgages, access to houses is easier and there is a reduction of extended family groups. The average number of people per household in the region is 4.5 with Brazil having the lowest number at 3.74 per household. More houses increase consumption, particularly in house goods, services and food. The exception is Peru, where more than 50% of those polled say they live with parents, brothers and other relatives, and it is estimated that there are 5 person living in each house.5

In spite of low schooling levels, government literacy programs have been very successful.

An average of 46% of this segment lacks formal education or has attained only basic studies. Brazil and Central America have the lowest schooling levels, while 66% of Peru’s population has reached high school levels 6.

Notwithstanding, more than 90% of the emerging segment reads and writes, which is a good indication of the potential these consumers have to become users of basic financial services. The leaders in this sector – Argentina and Costa Rica – have literacy rates of 99% and 98%, respectively. In many cases, illiteracy is a problem limited to those who live below the poverty line 7.

Brazil, which has an illiteracy rate of 20%, is last in this field, although the balance of 80% of the population represents more than 58 million people – almost half of the total population in the emerging segment in the Region. The government has given priority to the right and access to schools and a law passed on 1996 established mandatory school attendance and the responsibility of the State to provide education. In fact, more than half of Brazil’s illiterate population is over 50, which shows the success of the government’s efforts among the young.

In Mexico, the government scholarship support program Oportunidades aims to keep children in school and reduce the 10% illiteracy rate existing in the lower classes. The efforts of the government of Peru have contributed to increase the literacy rate among the rural population but has not yet been able to reach areas where indigenous languages are spoken.

In some countries the time-honored tradition of considering children as part of the family’s labor force is still very much alive. This implies an additional challenge for literacy programs since parents don’t give education as much importance as labor.

The majority of people in this segment live as a couple from an early age. Almost 65% are married or live together. More than 80% have children; however, unlike previous generations, families are small – an average of 2.5 children. Most of the children are minors, which implies that families need stable incomes and that many expenses are related to child-raising. While in certain cases children add income to the family from a young age, the trend is for them to stay in school a longer time 8.

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6 Visa, Emerging Segment: Profiles and Attitudes in the Latin American Market, De la Riva, 2010
WHO THEY LIVE WITH

BRAZIL

- Spouse: 60%
- Children: 64%
- Parents/Siblings: 25%
- Other family members: 16%
- Others: 5%

COLOMBIA

- Spouse: 62%
- Children: 72%
- Parents/Siblings: 24%
- Other family members: 18%
- Others: 7%

CENTRAL AMERICA

- Spouse: 59%
- Children: 64%
- Parents/Siblings: 21%
- Other family members: 6%
- Others: 7%

MEXICO

- Spouse: 70%
- Children: 73%
- Parents/Siblings: 29%
- Other family members: 19%
- Others: 4%

PERU

- Spouse: 60%
- Children: 63%
- Parents/Siblings: 41%
- Other family members: 15%
- Others: 6%

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8 Visa, *Emerging Segment: Profiles and Attitudes in the Latin American Market*, De la Riva, 2010
Regionally, emerging segments generate income for US$ 488.6 billion, representing 23% of the Region’s income. Brazil, Mexico and Argentina represent 86% of the total regional income for the segment 9.

The US$ 207.5 billion generated by Brazil represents 20% of national income and 42% of the segment’s regional income. In Mexico and Argentina the segment’s income is higher in relation to the national total and represents 27% of each country’s total income.

Income level varies from country to country. The annual regional median 10 is US$ 7,290. The highest medians are in Panama – US$ 10,900 and Mexico, US$ 10,000 – due in part to higher formal employment in the segment. The lowest annual incomes are in Colombia and Peru with US$ 4,750 and US$ 5,000 respectively 11.

In most countries one or two members of the family generate this income. The exception is Peru where workers per family are almost three. This reflects the trend of more extended families and incorporating children to the labor market at an earlier age. In spite of having more workers per family, the median income is one of the region’s lowest.

### INCOME RANGES FOR EMERGING HOUSEHOLDS (2009)

<table>
<thead>
<tr>
<th>Emerging segment</th>
<th>Income (US$ mm)</th>
<th>% of Total (Country)</th>
<th>% of Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>207,557</td>
<td>20.7%</td>
<td>42.5%</td>
</tr>
<tr>
<td>Mexico</td>
<td>162,629</td>
<td>27.3%</td>
<td>33.3%</td>
</tr>
<tr>
<td>Argentina</td>
<td>49,197</td>
<td>27.2%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Colombia</td>
<td>29,284</td>
<td>18.8%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Peru</td>
<td>19,537</td>
<td>21.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Dominican Rep.</td>
<td>10,298</td>
<td>24.9%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>4,766</td>
<td>22.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Panama</td>
<td>4,249</td>
<td>22.3%</td>
<td>0.9%</td>
</tr>
<tr>
<td><strong>Region</strong></td>
<td><strong>488,623</strong></td>
<td><strong>23.1%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Less than half of the segment’s consumers can prove income with a salary receipt, which is essential to obtain credit in traditional financial institutions. An average of 44% of those polled in Brazil, Colombia, Central America and Mexico say they have them, but this percentage drops significantly among independent workers. In Peru, only 28% say they can produce proof of income. This explains the success of institutions that offer credit without this requirement or by measuring income in different ways 12.

The frequency of salary payments is important to determine cash flows, to establish a successful management system of loan payments and guarantee an efficient portfolio management. Frequency varies quite a bit by country. In Brazil, people get paid by the month, while in Mexico an important percentage is paid on a weekly basis. In Colombia and Central America wages are paid twice a month, on the 15th and the last day of the month. In Peru, it is mainly daily or variable, due to the economy’s informality 13.

Levels of formality – which facilitate financial inclusion and access to credit – are volatile and highly dependent on the countries’ economic cycles. The formal economy in the segment ranges from 37.4% to 63.3%. Mexico and Panama have the highest level of formal employees – 63%

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10 The median is the value where 50% of data is equal or higher, and 50% is equal or lower.
11, 12 Visa, Emerging Segment: Profiles and Attitudes in the Latin American Market, De la Riva, 2010
and 60% respectively. In the rest of the countries more than half of the workers have informal jobs. According to data reported by the polled consumers, people who work for institutions or companies have consistently higher income than independent workers, which explains the higher income medians in countries with more formal employees.

While it is true that in Brazil the formal economy has grown in the past few years, even today 63% of consumers in the segment have informal jobs which in many cases come from family run micro-businesses.

The use of cash is deeply rooted in this segment. In fact, the majority of consumers get their wages in cash. Payroll cards, however, are used in many cases, exposing consumers to debit cards which many times becomes the first financial instrument they own. Due to its high rates of formal economy Mexico has the highest percentage of payroll cards with 31%, followed by Colombia with 24%.

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13, 15, 16 Visa, Emerging Segment: Profiles and Attitudes in the Latin American Market, De la Riva, 2010
Potential of the Emerging Segments

FREQUENCY OF PAYMENTS

BRAZIL

- Daily: 12%
- Weekly: 11%
- Twice a Month: 15%
- Monthly: 16%
- Variable: 46%

COLOMBIA

- Daily: 21%
- Weekly: 10%
- Twice a Month: 33%
- Monthly: 21%
- Variable: 14%

CENTRAL AMERICA

- Daily: 12%
- Weekly: 18%
- Twice a Month: 41%
- Monthly: 8%
- Variable: 20%

MEXICO

- Daily: 12%
- Weekly: 44%
- Twice a Month: 30%
- Monthly: 4%
- Variable: 10%

PERU

- Daily: 31%
- Weekly: 16%
- Twice a Month: 14%
- Monthly: 18%
- Variable: 20%

INFORMAL LABOR AMONG THE ENTRY LEVEL POPULATION

ARGENTINA: 51% Informal, 49% Formal
BRAZIL: 63% Informal, 37% Formal
COLOMBIA: 55% Informal, 45% Formal
COSTA RICA: 55% Informal, 45% Formal
DR: 70% Informal, 30% Formal
MEXICO: 37% Informal, 63% Formal
PANAMA: 40% Informal, 60% Formal
PERU: 62% Informal, 38% Formal
Regional expenditure in emerging segments in the markets we analyzed is estimated to be US$ 567.5 billion, which is equal to 27% of the region’s total expenditure. Brazil leads the regional ranking and accounts for 44% of total regional and 26% of national expenditures. In Mexico, emerging segment expenditure accounts for 31% of the national total and 32% of the Region. Argentina has the highest expenditure relative to national spending, 32%, which represents 10% of regional expenditure 17.

Projections for the majority of countries in the region expect expenditures to grow faster than disposable income, generating and maintaining the need for access to credit to cover expenses. Projections for Mexico indicate a decrease in disposable income that would not affect expenditures due partially to more access to credit and other financial services 18.

Pollled consumers considered food, electricity, water and gas as priorities in their budgets 19. Their expenses are related to basic needs such as food, beverages, housing and transportation. They spend more money in basic needs than the average for the population as a whole.

Emerging expenses for food and beverages are 40% higher than the general population. This category is estimated at US$ 203 billion in the Region and represents 38% of the segment’s expenditures. In Peru and Colombia it is almost 43% and only 27% in Argentina. In Brazil it accounts for 39% of expenses, which is equivalent to US$ 97 billion 20.

Most of these purchases are paid in cash and, as the banked population increases and electronic payments become more common, these expenditures could be formalized. This would generate benefits both for consumers and the local economy. Since the majority of the population is urban, the infrastructure for electronic operations already exists. There is, however, an opportunity to increase it by including small and medium stores that currently do not have accept payment cards. As the right products are developed for the segment and financial education campaigns are in place, electronic payments for day to day expenses should increase.

The second most important expenditure is housing, whether it be rent or mortgage payments, for a total of US$ 92 billion, which represents 16% of the segment’s income. This item represents 23% of income in Dominican Republic and 10% in Peru. The emerging segment spends 31% more than the general population in housing.

Expenditures in home appliances are linked to housing expenses. In countries where the trend is homes with less inhabitants, such as Mexico, the expansion in housing demand will generate more spending per consumer. This indicates the increase of purchasing power in the segment whose members, under favorable circumstances, could become more mature consumers.

Transportation represents US$ 57 billion and accounts for 10% of the emerging segment income. This expense is proportionally lower than the average for the population due to a lack of automobile credit. The highest expenditure is recorded in Mexico, with 15% of total expenses, because car loans are more accessible. In general public transportation is used extensively and this presents an opportunity to develop alternative payment systems in this area. Emerging technologies, such as cell phones, can become new payment methods for this service.

Clothing and shoes, which represent only 3% of expenditures, accounts for US$ 18 billion and holds a great potential for electronic payment methods. New terminal solutions in informal markets have started to increase card acceptance in these stores.

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19 Visa, Emerging Segment: Profiles and Attitudes in the Latin American Market, De la Riva, 2010
As their quality of life increases, emerging segment consumers invest in new types of products and they often choose high quality items. For example, access to home appliances generates expenditures that can exceed the general population average.

Health expenditures are proportionally similar to those of the general population, reaching US$ 24 billion. In Colombia and Mexico the expenses of the emerging segment are lower because of State covered medical programs. In those countries where the State subsidizes health expenses for the lower income population, subsidies could be distributed via prepaid cards instead of paper vouchers, checks or cash. Automatic distribution of funds is more convenient for beneficiaries, who don’t have to go to an office to get their subsidy and for the government, who not only simplifies their distribution procedures but can control how the funds are used.
An appropriate regulatory framework is essential to create innovative and secure products to reach the unbanked population and promote financial inclusion. According to the G20 Financial Inclusion Experts sub-group the following conditions are necessary to achieve innovative financial inclusion: commitment on the part of all pertinent government entities; policies that promote competition and a vast offer of financial services at reasonable prices; the use of new technologies and institutional guidelines; consumer protection by governments and providers of financial services; financial education campaigns; cooperation among financial institutions, government and other participants; development of a regulatory framework that considers the risks involved and regulation barriers.

In the last few years several Latin American governments have established policies and regulations aimed at the emerging segment. They have included the creation of new basic savings and payroll accounts, financial education campaigns and the creation of new legal framework to include banking agents or correspondents through which non-banking organizations such as retail stores can offer basic banking services (opening accounts, cashing checks and collections, among others) for the account of a banking institution.

The development of bank correspondents in Brazil since the nineties has been an important tool to foster financial inclusion in the country. In the year 2000 there were 63,500 agents and by January 2010 the figure was 132,700. So much so that at present bank branches serve only 38% of clients country-wide. This success has encouraged other countries, such as Mexico and Colombia, to take similar measures in the past few years with new regulations. This is a clear example of the emerging segment’s potential to take advantage of new technologies and the point of purchase terminals that were not traditionally associated with the segment.

There are, however, important challenges to create and market banking products effectively to the emerging segment. These include not only traditional regulations, such as ceilings on interest rates that banks can charge for credit cards in the segment, but also the lack of regulatory definitions of new products such as prepaid bank cards. Since they are not associated to a traditional account, new products such as prepaid cards can well cover the needs of emerging segments, from payroll to government disbursements. Unfortunately, there is no legal framework in most of Latin America and the Caribbean that covers this product category and ease its development. In fact, Mexico is one of the few countries that has specific regulations.

Many governments are playing a key role in promoting the use of banking products such as credit, debit and prepaid cards through the use of promotions and incentives, therefore expanding financial inclusion. One example of these regulatory incentives is the value added tax refunds on purchases made by electronic means during the last decade in Argentina (2001), Colombia (2004) and Uruguay (2006). While the program’s principal aim has been to reduce the informal sector and the tax evasion that is related to the use of cash, in practice they are a fundamental tool to generate greater demand for banking products by the emerging segments.

Most governments in the Region are establishing regulatory frameworks to promote financial inclusion, adding bank service centers and programs of financial education for emerging segments.

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Access to financial tools gives the emerging population the ability to increase or stabilize their income, better prepare for economic swings and develop their equity.

Thirty-five percent of the emerging segment population is banked. Government programs, the increase of micro-finance lenders, the appearance and growth of non-financial players in the market, technological breakthroughs and favorable macroeconomic conditions all helped to significantly increase financial inclusion in the past four years. The banking index of the segment grew 9.6% between 2005 and 2009, and this trend is expected to continue in the next few years, generating good prospects for financial institutions.

Costa Rica registered the largest increase, boosting banking levels by 20% in the emerging segment during the past four years and offering financial services to more than 50% of this population. The reasons for this growth were consistent government planning and the expansion of bank agents throughout the country.

Banking levels in the emerging segment in Mexico grew faster than the general population and are now at 35%, which is 15% higher than in 2005. The most important marketing tools to capture the emerging segment are the advantages of debit cards, specially payroll accounts that are gradually being more and more accepted by consumers in spite of the low levels of financial education.

The percentage of Brazil’s banked emerging segment is 37%, an index that has grown consistently during the past four years due to the increase of minimum wages and easier access to credit. The “Bolsa Familia” program established by President Lula helped increase consumption through a monthly subsidy to 12 million low income families with children. The government also promoted financial inclusion, establishing, for example, a “simplified” savings account that has certain restrictions, such as a limit on how much money may be deposited and an exclusive relationship with the bank.

While Argentina shows banking levels below the regional average, access to financial services has increased by 9%, due in part to government subsidies paid through banks, discounts on purchases and VAT when paying with debit or credit cards, and the increased employment in the country. In Colombia, the government program Banca de las Oportunidades established in 2007 with the aim of making banking services available in remote areas, has lowered the unbanked population significantly. Added to the general growth of the economy, it raised general banking levels to 54% and the emerging segment to 37%. Other incentives, such as the partial return of sales taxes when paying electronically have contributed to foster this means of payment.

Peru’s economy has grown considerable in the last decade, aided by favorable conditions for the development of businesses and the international demand for its commodities. However, the non-banked population and the low level of financial education are a barrier to financial inclusion. The 25% of emerging population in rural areas are a big challenge for the adoption of new products.

The low banking level in the Dominican Republic – only 17% - is due to the small level of financial education and the lack of strategies from banks to approach these segments. It’s only in the past few years that some banks started advertising for products designed for the segment. Government disbursement programs like Solidaridad have contributed to create a more financial inclusion. At the same time, non-financial players such as cooperatives and savings and loan associations have been able to enter the segment and some of them have become important players.

The most popular account in the Region is the savings account, except in Mexico where the payroll account is used the most as a result of higher levels the formal economy. In Brazil, besides deposit accounts (payroll and savings) bank credit is also popular due to the availability of credit from large stores and banks. Peru has the lowest levels of accounts and bank credits as a result of the country’s low percentage of banked population.

Savings are still informal. One quarter of those polled says they save part of their income and the majority keeps funds at home, tandas or savings groups. The savings trend is higher in Central America with 33%, and lower in Brazil, where only 17% save. Banks are the preferred place to save in Central America (13%) and Brazil (10%), where banking levels are rather high. When withdrawing cash there is a tendency to go to the bank since ATMs are sometimes perceived as unsafe. This perception offers the possibility of positioning purchases at the point-of-sale with payments cards, and even cash withdrawals at stores as a safer alternative than ATM’s. It also confirms the need of counting
with the physical presence of the bank, whether a branch or correspondent, near the consumers’ home or job.

The main argument of the unbanked population in all countries for not having an account is lack of money. There is a lack of trust in financial institutions that decreases as banking levels increase. On average, 44% feels that having a bank account is difficult, but the level decreases to 36% in Brazil and Central America where there are more banked emerging consumers.25

As a result of the processes to promote financial inclusion, the financial industry has managed to break into the segment at different levels according to the country, reaching an estimated total portfolio of US$ 109 billion in loans granted to the segment in 2009. The most successful case is registered in Brazil, where the estimated loan portfolio is US$ 76.5 billion.26

Brazil has a high penetration of financial services in the emerging segment. The segment’s consumers have access to personal and home loans, and credit cards. Estimates indicate that almost half of personal loans in the country are granted to this segment for a total value of US$ 32.7 billion. Thirty-eight percent of home loans are granted to the emerging segment, an indication of the beginning of the transition of this population to the home-owning middle class.

Since President Fox of Mexico considered access to home loans one of his key initiatives, they became more accessible and several institutions were created for this purpose. Estimations are that 34% of home loans are granted to emerging consumers. Automobile, education and personal loans to emerging segments represent between 20% to 30% of total portfolios. Durable goods represent 82% of the segment due to popular credit plans offered by stores.

25 Visa, Emerging Segment: Profiles and Attitudes in the Latin American Market, De la Riva, 2010
Emerging consumers in Argentina have practically no access to credit, since banks target their offer to higher income consumers. However, it is expected that in the next few years there will be more access to credit through retail stores and non-traditional players.

In Colombia, partially due to the government’s incentive programs, the segment has access to home loans, which represent 18% of the total portfolio. As opposed to other financial services, this segment is strong in loans for education, durable goods and personal loans where the rates are 53%, 36% and 87% respectively.

Access to loans is low in Peru and the few credits granted are used for home improvement or the purchase of vehicles. Only 4% of home loans are granted to the emerging segment, partially because of the trend of buying a parcel of land and building their own homes.

Panama is one of the region’s more mature markets. Forty-five percent of the emerging population is banked and has high per capita income; therefore consumers in this sector have ample access to several types of credit. Home loans are relatively high, with 38% of the total, and are used not only for purchasing but for renovating homes. Most consumer credit is aimed at emerging consumers who represent 70% of loans for durable goods, 40% of automobile loans and 65% of loans for education.

In Costa Rica, 30% of durable goods loans are granted to the emerging segment and are used mainly to buy electrical appliances and electronic goods that imply an increase in the population’s quality of life.

**FINANCIAL INDUSTRY PLAYERS**

Besides the traditional banks, main players in the region include retail stores, micro-finance institutions and other non-traditional financial institutions. Retail store credit has been well received and has grown quickly, which shows the possibilities offered by non-traditional channels to reach this segment.

Traditional banking is particularly strong in Brazil where it holds 66% of the market, one of the highest percentages in the region, and has an estimated portfolio valued at US$ 51 billion for the segment. For example, Caixa Economica Federal established an aggressive strategy of increasing bank correspondents and now has more than 13,000 throughout the country. It also reduced interest rates seven times to meet the needs of its low income customers.

Many banks have a strategy of participating in the funding of retail store operations and stock ownership of micro-finance institutions as an additional means of participating in the segment. Recent mergers and acquisitions in the financial sector and the retail chains have strengthened the position of these institutions in the segment.

For example, Banco Bradesco recently acquired Banco Ibi’s operations, the financial arm of retail chain C&A, and Pao de Açúcar Group bought part of Casas Bahia – portfolios that are already financed by banking institutions. In addition, microfinance institutions such as CrediAmigo, a relevant player in the segment in Brazil belongs to Banco del Nordeste, and RealMicrocredito is partly owned by Banco Santander. Hipercard (a credit card company, issuer, processor and acquirer of its cards) was taken over by Itau Unibanco.

Operations financed directly by retail stores in Brazil are estimated at US$ 8 billion, which represents 10% of loans placed in the country’s segment. This financing is provided by financial institutions created by the stores, which have traditionally financed their customers through consumer loans and private label credit cards. These cards have been gradually converted to hybrid cards – which are not exclusive for the store that issues them.

In Mexico, retail stores have become the main provider of credit for the segment and represent 46% of loans that represent almost US$ 5 billion. Coppel, Elektra and Famsa, grant 85% of loans through their respective financial

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institutions, Bancoppel, Banco Azteca and Banco de Ahorro Famsa and they represent the main hub of their business. Micro-finance institutions are strong in relation to other countries in the Region with a portfolio of more than US$ 2.6 billion in 2009, that represents 25% of loans to the segment. Product offers by these institutions are increasingly sophisticated due to the competition of banks and retail stores. Loans granted by traditional banks depend on the country’s macroeconomic situation and therefore vary greatly. Credit in general has decreased with the economic crisis and has affected deposit and savings accounts in the banking system.

The Argentine financial system has traditionally offered few credit options and banks have only recently started to offer their products to low-income consumers who increase as banked levels grow. Retail store credits represent 19% of credit granted and are growing faster than other sources of credit. With an unbanked emerging population of 71%, non-traditional banking has grown stronger in the last few years, becoming practically the only source of credit.

As in Argentina, retail stores in Colombia are the main source of credit for this growing segment and account for 22% of loans. The recent expansion of retail stores contributes to accelerate this trend. Several retail stores are considering becoming banks. Micro-finance institutions are growing in Colombia and are considered an important alternative as a source of credit. Traditional banking is the dominant presence, with 51% of loans in the segment but it is growing slower than retail stores and small finance companies.

In Peru, the non-traditional banking sector grants 47% of loans to the segment. There are more than 40 of these

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### LOAN PORTFOLIO BY COUNTRY (2009)

<table>
<thead>
<tr>
<th>Category</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Colombia</th>
<th>Costa Rica</th>
<th>Dominican Rep.</th>
<th>Mexico</th>
<th>Panama</th>
<th>Peru</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Stores</td>
<td>1,077</td>
<td>7,952</td>
<td>633</td>
<td>293</td>
<td>49</td>
<td>4,835</td>
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<td>Microfinance Institutions</td>
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<td>490</td>
<td>4</td>
<td>125</td>
<td>2,601</td>
<td>25</td>
<td>993</td>
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<tr>
<td>Traditional Banking</td>
<td>2,793</td>
<td>50,868</td>
<td>1,449</td>
<td>1,374</td>
<td>251</td>
<td>2,819</td>
<td>4,265</td>
<td>1,759</td>
</tr>
<tr>
<td>Non-Traditional Banking</td>
<td>1,696</td>
<td>16,614</td>
<td>267</td>
<td>593</td>
<td>706</td>
<td>168</td>
<td>143</td>
<td>2,892</td>
</tr>
<tr>
<td>Total</td>
<td>5,628</td>
<td>76,534</td>
<td>2,839</td>
<td>2,264</td>
<td>1,131</td>
<td>10,423</td>
<td>4,496</td>
<td>6,080</td>
</tr>
</tbody>
</table>

Note: Retail stores are measured by transaction values and not by loan portfolio.
municipal and rural loan associations and Edpymes that reach clients throughout the country and have become important in banking the population. As opposed to other countries, the traditional banks in Peru consider the emerging segment as a key for growth and develop strategies to attract it. The main player in traditional banking for the emerging segment, MiBanco, started as a micro-finance institution and is considered a pioneer in financing the segment. Micro-finance institutions are very well developed and are the fastest growing sector in Peru. Micro-finance institutions are regulated by the Bank Superintendence and some of the main institutions operate as independent subsidiaries of some of the most important banks in the country. Retail store credit is highly developed in Lima and other urban centers, and their loans are generally backed by financial institutions.

The main players in Central America are the traditional banks, which grant 95% of the loans in Panama and 61% in Costa Rica. In Costa Rica non-traditional banking such as savings and loan coops and non-profit mutual benefit groups grew 22% in the last year and are the second source of credit for the segment. There was also high growth in retail store credit, where the two main players capture 75% of the market. In Panama this category is just beginning to develop.
A high percentage of emerging consumers polled state that they have trouble paying their installment or debt on time. Seventy-three percent of emerging consumers in Brazil and 70% in Central America say that they find it slightly difficult, difficult or very difficult to meet their financial obligations. The situation is slightly different in Colombia and Peru, where more than 50% say they have no difficulties in paying their debts. This data reaffirms the need to carry out financial education campaigns to teach consumers how to manage their money more efficiently and also to offer this segment the proper payment plans.

Access to home loans vary greatly from country to country and is an important factor in the development of this segment and its transition towards middle class. Home loans for the emerging segment represent 38% of the national total in Brazil and 34% in Mexico – US$ 7 billion and US$ 1.3 billion respectively. The percentage is also high in Panama – 38% - but because of its small population it only represents US$ 193 million.

Access to consumer credit is led by Panama with 49% of the total; Colombia, 41%; and Mexico, 37%. The respective volumes are US$ 588 million, US$ 1 billion and US$ 1.7 billion. While consumer credit in Brazil is only 29% of the national total, the dollar value is US$ 37 billion.

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Visa, Emerging Segment: Profiles and Attitudes in the Latin American Market, De la Riva, 2010
The preferred means of payment in the segment is cash, since they perceive that they can control their expenses better – although budget control is precisely one of the main advantages of bank cards.

Regional use of debit cards in the emerging segment is estimated to be 10% compared to 16% for the general population. This represents an immediate opportunity to increase levels of use to reach the national average. Panama has the highest penetration, with 18%; Brazil is second with 14%; Argentina, 13%; Costa Rica, 12%; and Mexico and Colombia are 5% each.  

The participation of the emerging segment in the use of purchases with bank cards is estimated at 30% for Panama, with US$ 866 million; 29% for Argentina with US$ 7 billion; and 23% in Mexico with US$ 9.2 billion. The volume of transactions with bank cards at the point-of-sale represents US$ 35 billion.

The most popular payment cards used by the segment in Panama are credit cards. It is estimated that 33% of the value of national transactions with credit cards are made by emerging consumers. The segment is responsible for 30% of debit card transactions nationally and 15% for prepaid cards.

Twenty-two percent of the volume of purchases with credit cards in Brazil are made by the emerging segment, which is estimated at US$ 31 billion.

Argentine consumers in this segment are responsible for 35% of the purchase volume with debit cards, with an estimated value of US$ 2.5 billion and 28% of credit cards, with an estimated volume of US$ 4.4 billion.

In Mexico, the large number of payroll accounts is reflected in the high volume of debit cards, which is estimated at more than US$ 7 billion, equivalent to 41% of the total volume. Card transactions in Costa Rica are few compared to the rest of the region due to the size of its population, but high per capita in a regional context. The participation of the emerging segment is moderate, with 16% in credit cards, 8% in prepaid cards and 7% in debit cards.

The use of bank cards in this segment in Colombia is lower than in other countries. Credit card transactions represent only 5% of national totals and debit cards, 14%.

Most of credit cards transactions are related to the purchase of shoes and clothing, particularly in Brazil where 29% of the segment says they use it regularly for this purpose. Cards are also used to buy food and pay utilities, although not as often.

There is a general feeling that public transportation, gas, electricity, water services and cell phone companies do not accept payments with cards. This underlines the need for communication campaigns to promote those services that can be paid with cards, and shows there is an opportunity to extend acceptance to new services that interest consumers.
Potential of the Emerging Segments

PRESENCE OF THE FINANCIAL INDUSTRY

Key Segmentation Services (2009)

BRAZIL

% of Total

Debit Cards
Credit Cards
Prepaid Cards

US$ mn

MEXICO

% of Total

Debit Cards
Credit Cards
Prepaid Cards

US$ mn

ARGENTINA

% of Total

Debit Cards
Credit Cards
Prepaid Cards

US$ mn

COLOMBIA

% of Total

Debit Cards
Credit Cards
Prepaid Cards

US$ mn

PERU

% of Total

Debit Cards
Credit Cards
Prepaid Cards

US$ mn

R. DOMINICANA

% of Total

Debit Cards
Credit Cards
Prepaid Cards

US$ mn

PANAMA

% of Total

Debit Cards
Credit Cards
Prepaid Cards

US$ mn

COSTA RICA

% of Total

Debit Cards
Credit Cards
Prepaid Cards

US$ mn

Emerging Segments
Other
The potential of the emerging segment in each country depends on a series of factors that can be divided in four categories: macroeconomic situation (per capita GNP, projected growth, private consumption, urban population, size of population); the credit environment (card purchases, private expenditure, coverage of credit bureaus, legal restrictions); the situation of the emerging segment (number of households in the segment, income per family, banked levels, use of financial services, relations with traditional banks); and entry barriers (ease of doing business, perception of corruption, employment levels, formal employment, literacy rates). The most advanced countries in the category are Brazil, Mexico and Argentina, followed by Panama, Colombia, Costa Rica and Peru, with Dominican Republic being the least prepared for financial penetration in the emerging segment.
According to their attitude towards spending, consumers are classified as “cautious” or “impulsive”. “Cautious” consumers are savers, careful with their money, set funds aside to cover certain expenses, worry about consuming too much and don’t spend more when they carry cash. “Impulsive” consumers are spendthrifts by nature and consider themselves adventurous and audacious. They keep all their money together, spend as the need appears and don’t worry about spending too much. They admit they spend more money when they carry cash.

In the analyzed countries, most people are “cautious.” Brazil has the highest percentage of “impulsive” spenders – over 40% - which can be explained by the easy access and greater use of credit in the country.

With regard to attitude toward saving, 55% of the Region is considered “formal”, which means that they save unexpected income, prefer to save in banks and put savings before fun. The other 45% likes to spend unexpected funds for their own pleasure, they save at home and place having fun above savings.

Brazil and Central America, with the highest levels of banked population have the highest percentages of “formal” individuals, while in Colombia, Peru and Mexico “informal” individuals are the majority. On a regional level, 51% of the emerging population has a favorable attitude towards financial services. This attitude is greater in Brazil and Central America, where there is greater use of financial services. In the rest of countries in the Region, however, people’s trust in banks, their coverage and their

33 Visa, Emerging Segment: Profiles and Attitudes in the Latin American Market, De la Riva, 2010
price structure are not at optimal levels in the perception of the segment’s consumers.

Consumers classified as “bank oriented” think of the bank as the first option when they need a loan. They find that having a bank account is easy. They trust financial institutions and feel backed by the bank when problems arise. They consider ATM’s safe and prefer to use them, although they feel that it is important to have branch nearby.

On the other hand, “non-bank oriented” consumers would not go to a bank to get a loan. They feel that opening an account is difficult and that commissions are very high. They don’t trust financial institutions or ATM’s, which they consider unsafe.

With regard to their attitude towards credit, only 40% of the emerging consumers in the Region feel comfortable requesting and paying a loan. Classified as “trusting,” they prefer installment purchases, feel that loans are for people like them and do not generate too much pressure. They trust loans – not only would they apply for one if they need money, but also to buy a car or invest in a business. The most favorable attitude towards loans is in Brazil, where 60% of the emerging segment is “trusting.”

The majority of emerging consumers is classified as “fearful” and does not yet have a favorable attitude towards credit. Sixty-one percent consider that credit is not for them and generates too much pressure. They prefer to save and buy when they have the cash, even if it means spending all of their cash reserves. They don’t trust personal or business loans and, when short of money, they prefer to spend less rather than request a loan.

This reflects the need to educate consumers on the features and use of credit in order to promote a healthy administration of their money so that when they do apply for and manage a credit it will be a positive experience.

A high percentage of the segment – 44% - feels favorably towards credit cards. These consumers, classified as “with card” consider that credit cards are for people like them and that they provide many benefits, among them a greater
control of expenses, the card’s general acceptance, the opportunity of buying more and safety.

The population classified as “without card,” that comprises 56% of the sample, prefers to pay in cash since they feel that credit cards are not for people like them. They consider that they are less safe than cash, imply risks and make them lose control of the expenses.

Card acceptance is not a barrier to the use of credit cards by the emerging segment, since the majority realizes that they are accepted in many stores. However, there is still a challenge and that is to include small or informal stores where these consumers generally shop.

The attitude towards credit cards is tied to user habits. In countries where penetration is high, such as Brazil where 22% of credit card transactions are made by the emerging segment, the attitude is clearly favorable or “with card.” On the other hand, in Mexico, where these transactions are only 8% of the total, there is an overall feeling of mistrust, or “without card.” It should be pointed out that financial education is key to promote a healthy administration and a positive attitude towards cards.

In addition to their general acceptance and low interest rates, the most valued features of credit cards by the emerging segment include flexibility of payment delays and few requirements to qualify for them. The main advantages that were pointed out were the ability to make unexpected purchases and buy on interest-free installments. In Mexico, Colombia, Peru and Central America, more than 60% mentions that one of the advantages of credit cards is the ease with which one can solve emergencies. In Brazil, on the other hand, this percentage drops to 45%, which reflects that they feel that cards are used for daily purchases. As markets mature credit should not be perceived so much as a solution to an emergency or unforeseen event, but a normal financial tool for daily expenses or business needs.
In the case of debit cards, the emerging segment’s attitude is also slightly more “pro-cash” than “pro-debit.” Forty-six percent of consumers recognize that debit cards have good features, among them safety and convenience, and are accepted in many stores. Fifty-four percent, however, still considers cash to be safer and believes that debit cards don't have many benefits and are accepted only on a limited basis. It should be pointed out that debit cards are mainly used for cash withdrawals in ATM's. As education and promotion campaigns increase its use to buy at the point-of-sale, people will value their benefits more.

Combining consumer attitudes towards credit, savings, expenditures, financial services, credit cards and debit cards, three broad groups were established: the weary consumer, institutional and financial.

The financial consumer is the most involved and approves of financial practices. Thirty-five percent of the segment belong to this category, which peaks in Brazil at 61% of those polled.

The institutional consumer trusts banks but mistrusts loans. Twenty-nine percent of the segment belongs in this category, which peaks in Central America with 52% of those polled.

The weary consumer rejects financial instruments and prefers to use cash, keeping savings at home. Thirty-six percent of the segment belongs to this group, which shows high percentages in Peru, Colombia and Mexico.
### Potential of the Emerging Segments

#### FINANCIAL

- **HOW MANY?**
  - 35% belong to this segment

- **PRINCIPAL CHARACTERISTICS**
  - Most involved and approves of financial practices.
  - Uses more banking services
  - Trusts banks
  - Considers saving in banks
  - Considers that credit is a good option
  - Is in favor of credit cards
  - Also likes debit cards

- **WHO ARE THEY?**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>53%</td>
</tr>
<tr>
<td>Young People age 25-35</td>
<td>40%</td>
</tr>
<tr>
<td>Married / Live Together</td>
<td>63%</td>
</tr>
<tr>
<td>With children</td>
<td>78%</td>
</tr>
<tr>
<td>Schooling (High School and College)</td>
<td>54%</td>
</tr>
<tr>
<td>Best income</td>
<td>US$ 439.43</td>
</tr>
<tr>
<td>More stable income</td>
<td>50%</td>
</tr>
</tbody>
</table>

- **WHAT DO THEY DO?**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>They work</td>
<td>72%</td>
</tr>
<tr>
<td>In companies</td>
<td>49%</td>
</tr>
<tr>
<td>They get paid in cash</td>
<td>47%</td>
</tr>
<tr>
<td>They receive proof of income</td>
<td>45%</td>
</tr>
</tbody>
</table>

- **WHERE ARE THEY?**

<table>
<thead>
<tr>
<th>Location</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>61%</td>
</tr>
<tr>
<td>Other countries in the Region</td>
<td></td>
</tr>
</tbody>
</table>

- **FINANCIAL ATTITUDES AND PRACTICES**

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>81% trusts banks</td>
</tr>
<tr>
<td></td>
<td>64% has an account</td>
</tr>
<tr>
<td>Savings</td>
<td>75% considers banks the best option</td>
</tr>
<tr>
<td></td>
<td>32% has an account</td>
</tr>
<tr>
<td>Credit</td>
<td>79% considers it a good option</td>
</tr>
<tr>
<td></td>
<td>40% has credit</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>91% approves of credit cards</td>
</tr>
<tr>
<td></td>
<td>35% has a credit card</td>
</tr>
<tr>
<td></td>
<td>6% of expenses are paid by credit card</td>
</tr>
<tr>
<td>Debit Cards</td>
<td>76% approves of debit cards</td>
</tr>
<tr>
<td></td>
<td>48% has a debit card</td>
</tr>
<tr>
<td></td>
<td>5% of expenses are paid by debit card</td>
</tr>
</tbody>
</table>

- **INTEREST AND EXPECTATIONS**

<table>
<thead>
<tr>
<th>Interest and Expectations</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is most interested in a credit card</td>
<td>40%</td>
</tr>
<tr>
<td>General acceptance of the card is the most important feature</td>
<td></td>
</tr>
<tr>
<td>Unforeseen expenses are the main advantage</td>
<td></td>
</tr>
</tbody>
</table>
HOW MANY ARE THERE?
29% belong to this segment

PRINCIPAL CHARACTERISTICS
- Trusts banks
- Considers banks the best place to save
- Banks are only seen on these terms
- They completely distrust credit
- Also Credit Cards
- Debit Cards are more accepted but they are refused by a sector
- They consider themselves well organized and cautious
- They feel they have more control if they pay in cash

WHO ARE THEY?

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>50%</td>
</tr>
<tr>
<td>Women</td>
<td>50%</td>
</tr>
<tr>
<td>Over 35</td>
<td>66%</td>
</tr>
<tr>
<td>Married / Living together</td>
<td>64%</td>
</tr>
<tr>
<td>With children</td>
<td>82%</td>
</tr>
<tr>
<td>Schooling (Grammar and High School)</td>
<td>65%</td>
</tr>
<tr>
<td>Best income</td>
<td>US$ 398.56</td>
</tr>
<tr>
<td>Some stable</td>
<td>45%</td>
</tr>
<tr>
<td>Some variable</td>
<td>55%</td>
</tr>
</tbody>
</table>

WHAT DO THEY DO?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work</td>
<td>66%</td>
</tr>
<tr>
<td>Self-employed</td>
<td>55%</td>
</tr>
<tr>
<td>In companies</td>
<td>45%</td>
</tr>
<tr>
<td>Get paid in cash</td>
<td>44%</td>
</tr>
<tr>
<td>With proof of income</td>
<td>43%</td>
</tr>
</tbody>
</table>

WHERE ARE THEY?

- Central America 52%
- Less frequently in other countries 48%

FINANCIAL PRACTICES

<table>
<thead>
<tr>
<th>Financial Practice</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>52% completely trusts banks</td>
</tr>
<tr>
<td></td>
<td>54% has an account</td>
</tr>
<tr>
<td>Savings</td>
<td>100% considers banks the best option</td>
</tr>
<tr>
<td></td>
<td>32% has an account</td>
</tr>
<tr>
<td>Credit</td>
<td>84% mistrust credit</td>
</tr>
<tr>
<td></td>
<td>75% do not have credit</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>86% mistrust credit cards</td>
</tr>
<tr>
<td></td>
<td>87% does not have a credit card</td>
</tr>
<tr>
<td></td>
<td>1.4% of expenses are paid by credit card</td>
</tr>
<tr>
<td>Debit Cards</td>
<td>37% approves of debit cards</td>
</tr>
<tr>
<td></td>
<td>35% has a debit card</td>
</tr>
<tr>
<td></td>
<td>3.4% of expenses are paid by debit card</td>
</tr>
</tbody>
</table>

INTEREST AND EXPECTATIONS

<table>
<thead>
<tr>
<th>Interest and Expectation</th>
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<tbody>
<tr>
<td>Is most interested in a credit card</td>
<td>25%</td>
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<tr>
<td>General acceptance of the card is the most important feature</td>
<td>65%</td>
</tr>
<tr>
<td>Unforeseen expenses are the main advantage</td>
<td>100%</td>
</tr>
</tbody>
</table>
### Potential of the Emerging Segments

#### WARY

**HOW MANY ARE THERE?**

36% belong to this segment

#### PRINCIPAL CHARACTERISTICS

- Great mistrust of banks
- Rejects financial instruments
- Prefer to use cash
- Keep money at home

#### WHO ARE THEY?

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td>54%</td>
</tr>
<tr>
<td>More than 45 years-old</td>
<td>40%</td>
</tr>
<tr>
<td>Married / Live together</td>
<td>66%</td>
</tr>
<tr>
<td>With children</td>
<td>84%</td>
</tr>
<tr>
<td>School (elementary and high school)</td>
<td>71%</td>
</tr>
<tr>
<td>Menores ingresos</td>
<td>US$ 353.96</td>
</tr>
<tr>
<td>Ingresos Variables</td>
<td>62%</td>
</tr>
</tbody>
</table>

#### WHAT DO THEY DO?

<table>
<thead>
<tr>
<th>Action</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work</td>
<td>61%</td>
</tr>
<tr>
<td>Self-employed</td>
<td>63%</td>
</tr>
<tr>
<td>Get paid in cash</td>
<td>49%</td>
</tr>
<tr>
<td>No proof of income</td>
<td>67%</td>
</tr>
</tbody>
</table>

#### WHERE ARE THEY?

- Peru 49%
- Colombia 45%
- Mexico 43%
- Less frequently in Brazil and Central America

#### FINANCIAL PRACTICES AND ATTITUDES

<table>
<thead>
<tr>
<th>Financial Practice</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>78% do not trust banks</td>
</tr>
<tr>
<td>Savings</td>
<td>100% considers home the best option</td>
</tr>
<tr>
<td>Credit</td>
<td>87% mistrust credit</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>78% rejects credit cards</td>
</tr>
<tr>
<td>Debit Cards</td>
<td>76% rejects debit cards</td>
</tr>
<tr>
<td></td>
<td>83% do not have a debit card</td>
</tr>
<tr>
<td></td>
<td>0.5% of expenses are paid by debit card</td>
</tr>
</tbody>
</table>

#### INTEREST AND EXPECTATIONS

- Is not interested in any card 36%
- General acceptance of the card is the most important feature
- Unforeseen expenses are the main advantage
The emerging segment represents a significant and growing sector for local economies, due not only to its volume but to its economic growth and the increase in the formal economy that has taken place in the last few years. Its income and spending in 2009 were estimated at US$ 488 billion and US$ 567 billion respectively. In many countries this segment has been the motor of economic progress.

The improving lifestyle of the segment through education, financial inclusion and technology has long been the aim of many governments in the region. They have generated the conditions to create solutions that offer products and services to these consumers. The implementation of new technologies and the expansion of existing ones that ease the access to credit and implement easier methods of payment contribute to the development of this important segment. Brazil has become the market of reference not only because of its large population, which represents 40% of the segment in the Region, but also due to the penetration and development that its financial industry has accomplished. If the rest of the markets in the Region reached the same levels as Brazil, the potential for credit as a means of payment could reach US$ 30 billion per year.

Emerging segments represent a tangible opportunity for financial institutions.

The maturity of the segment allows for a greater relationship with the financial industry by offering the proper products, such as deposits, savings, and loans for homes, business and purchasing. These consumers represent an important potential for the development and use of means of payment such as debit, prepaid and credit cards and the implementation of technical solutions that allow the development of channels for the segment. The most obvious use of electronic payments are transportation, health, household goods and services, clothing and shoes, and food and beverages. The total potential volume for these goods and services is estimated at US$ 458 billion.

There are five key conditions for the implementation of financial products for the emerging segments:

1. A regulatory framework that clearly defines the roles and responsibilities of all players, that recognizes new products and defends the rights of financial users is the key to increase a healthy financial offer for the emerging segment.

2. Financial institutions must develop a profound knowledge of the perceptions, habits and needs of emerging consumers and reach this public with products that gives them added value and meets their lifestyle and habits.

3. Products must be offered through the right channels, which are not usually the traditional means used by banks. The success of retail stores is a clear example of using the proper channels. It is also essential to implement technologies to ease transactions and expand the acceptance of cards at store where the segment shops.

4. Due to the lack of the segment’s credit history, new risk management techniques must by created to allow the development of new products and financial services.

5. A financial education campaign, both government and privately funded, to give the potential user the tools to understand the benefits of the financial products, manage his finances responsibly and set the stage for a properly managed portfolio.
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