

CONSUMER CREDIT IN LATIN AMERICA: TRENDS AND OPPORTUNITIES IN CREDIT AND STORE CARDS

Mario Capizzani

Felipe Javier Ramírez Huerta

Paulo Rocha e Oliveira

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IESE Business School – University of Navarra

Av. Pearson, 21 – 08034 Barcelona, Spain. Phone: (+34) 93 253 42 00 Fax: (+34) 93 253 43 43

Camino del Cerro del Águila, 3 (Ctra. de Castilla, km 5,180) – 28023 Madrid, Spain. Phone: (+34) 91 357 08 09 Fax: (+34) 91 357 29 13

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CONSUMER CREDIT IN LATIN AMERICA: TRENDS AND OPPORTUNITIES IN CREDIT AND STORE CARDS

Mario Capizzani¹

Felipe Javier Ramírez Huerta²

Paulo Rocha e Oliveira¹

Abstract

Emerging consumers commonly rely on their “virtual wallet” at small-scale retailers who essentially offer a type of informal credit by allowing regular customers to make up these small differences on their next shopping trip. This is a critical service for this group, since having to remove purchases at the time of payment is considered extremely embarrassing. Credit cards, on the other hand, allow for purchases against a preapproved line of credit. The account holder has the choice of paying off the entire balance or opting for monthly installments with the balance serving as revolving credit. Finally, a store card (also known as a retailer or private label card) contains a “pay later” component similar to credit cards. The present paper analyzes key trends and prospects with regard to these forms of consumer credit in Latin America’s six largest economies.

Keywords: Retail; Latin America; consumer credit trends; credit cards; store cards

¹ Assistant Professor of Marketing, IESE

² IESE MBA, 2012

CONSUMER CREDIT IN LATIN AMERICA: TRENDS AND OPPORTUNITIES IN CREDIT AND STORE CARDS

1. Introduction

(Breaking the myths on emerging consumers in retailing, D'Andrea, 2006)

(Financial Cards and Payments, Euromonitor International, 2010)

Emerging consumers commonly rely on their “virtual wallet” at small-scale retailers who essentially offer a type of informal credit by allowing regular customers to make up these small differences on their next shopping trip. This is a critical service for this group, since having to remove purchases at the time of payment is considered extremely embarrassing.

Credit cards allow for purchases against a preapproved line of credit. The account holder has the choice of paying off the entire balance or opting for monthly installments with the balance serving as revolving credit. Credit cards can include affinity cards, reward cards and types of co-branded cards. Co-branded retailer cards-issued by retailers acting as financial institutions and without usage restrictions-are included in this category. Cards issued by a retailer with usage limited to a specific store within a predefined retail group fall into the store card category.

A store card (also known as a retailer or private label card) contains a “pay later” component similar to credit cards. However, store cards limit usage to purchases at specific stores within a predefined retail group. Credit cards issued by retailers acting as financial institutions and without usage restrictions fall into the credit card category.

2. Consumer Credit Trends

(Consumer Credit, Euromonitor International, 2010)

(Retailing in Peru, Euromonitor International, 2011)

a. Brazil

Mortgages/housing presented outstanding growth as a result of a combination of factors, namely: economic stability, higher employment, extended financing periods and improved income levels. With a housing deficit of 6.5 million homes, according to the Ministry of Cities (Ministério das Cidades), Brazil is witnessing an unprecedented expansion in housing and mortgages parallel to significant growth in the construction industry. The housing program

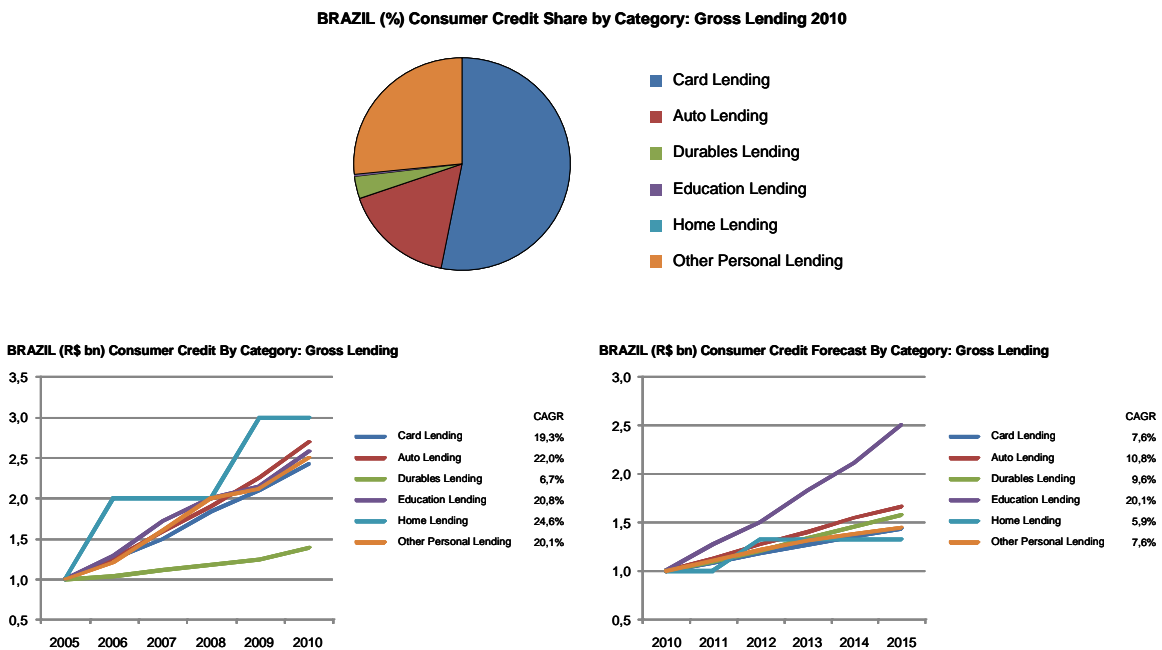
Minha Casa Minha Vida (My House, My Life) continues to attract low-income segments and stimulate mortgage/housing growth.

Auto-lending showed impressive growth in spite of the termination of government tax incentives. Auto-lending increased by 20%, showing the second highest growth rate in consumer lending. Interest rates stability combined with extended payment plans, which offer up to 52 months financing, contributed to continuing demand for auto loans. Strong economic activity and rising employment, both contribute to continuing demand for auto loans.

Card lending grew 15% in 2009. According to the Central Bank, credit cards charge the highest interest rates on the market, with an annual rate of 238%. However, in spite of the high interest rates, card lending growth was accompanied by decreasing rates of non-performing loans, when compared to 2009.

Figure 2.a

Brazil



Source: Consumer Credit Brazil, Euromonitor International, 2010.

b. Mexico

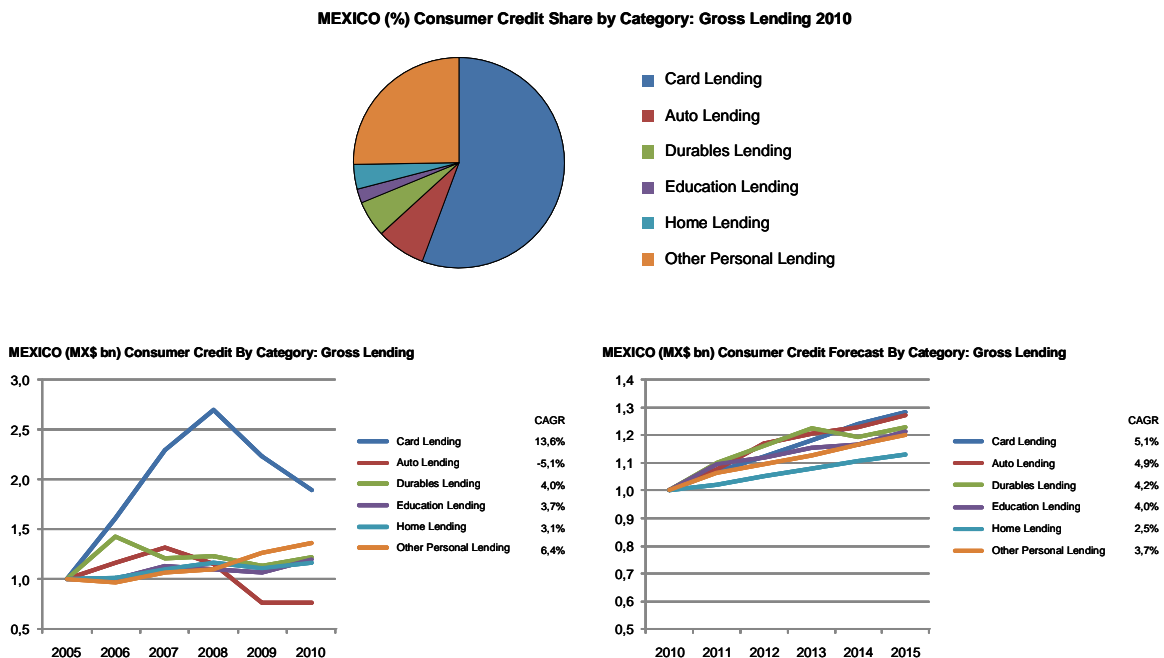
In general terms, 2010 was a year in which Mexico's economic recovery became evident across many economic sectors as the negative effects of the 2009 economic crisis finally dissipated. Mexican consumers began to feel more confident amidst lower unemployment rates and higher levels of certainty with regard to their sources of income. The most obvious consequence of this is that consumers are starting to spend more. However, spending is taking place at a much more conservative level, which in turn has prevented many economic sectors from reaching their fullest pre-crisis potential. Smaller consumer credit categories such as durables lending, education lending and home lending are not expected to experience any lasting negative effects as a result of the 2009 economic crisis. However, larger consumer credit categories such as card lending, which currently accounts for 56% of total gross lending in consumer credit, are not expected to reach pre-crisis gross lending levels until 2012.

Mexico's considerable unbanked population has suffered a long period of exclusion from consumer credit. However, lenders are becoming aware of the potential that this population represents and their lending products are becoming increasingly oriented towards unbanked consumers, who typically comprise those at the base of Mexico's socio-economic pyramid. Retailers are greatly facilitating this process by issuing store cards with little information required from consumers in terms of how the credit will be paid back. Furthermore, as many of these retailers are expanding their card lending operations to include more formal banking operations, they are also expanding the opportunities for this new class of borrowers to access other kinds of consumer lending such as education lending and auto lending.

Traditional lenders such as commercial banks dominate in consumer credit in Mexico. However, a new wave of lenders of a different nature is emerging rapidly and taking some share from more established competitors. This is particularly evident in the case of retailers, which are widening their portfolios of financial products to include not only credit cards but also options for education lending, auto lending and other types of consumer credit. One consumer lending product which undoubtedly represented a breakthrough and revolutionized consumer credit in 2010 was the credit card issued by Banco Wal-Mart. This card not only allows consumers to make purchases in all outlets affiliated with the Wal-Mart retail chain, but also to obtain the equivalent of 3% of the total purchase amount back in cash every time the card is used. Under these highly attractive terms, Wal-Mart is gambling on the likelihood that many Mexican consumers will not be able to cover their card balances fully, allowing the lender to recover the 3% paid in cash in increased interest.

Figure 2.b

Mexico



Source: Consumer Credit Mexico, Euromonitor International, 2010.

c. Argentina

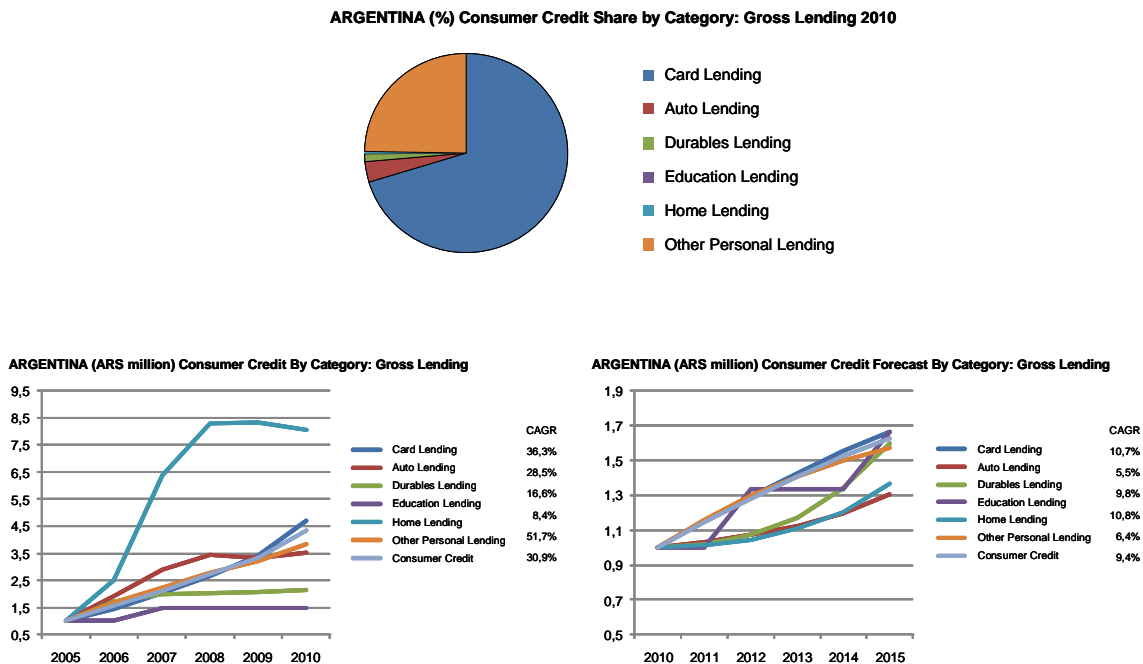
Aggressive marketing campaigns involving discounts, promotions and long-term financing through credit cards led by banks and retailers resulted in a 38% growth in card lending in 2010 and a concomitant increase in the proportion of bank credit accounted for by card lending. Lending criteria became more relaxed in Argentina during 2010 as lower interest rates in other personal lending, more consumer lending products with fixed interest rates and longer repayment terms on mortgages/housing lending enabled many Argentines to gain access to credit. However, some structural problems continued to prevail, which generally served to restrict consumer lending to credit cards. Given the high inflation rates in Argentina, consumers have few incentives to save their Argentinean pesos, which balances out the underdeveloped state of consumer lending in the country.

During 2010, Argentinean consumers more readily accepted increases in their debts as retailers and banks conducted promotions which offered long-term financing for durable goods and travel and tourism on favorable terms such as 50 fixed interest free installments. Within the context of high inflation rates, many Argentinean consumers decided to take up credit as this was seen as the best way to fight against decay in one's personal finances. On the other hand, Argentinean consumers were very much averse to obtaining mortgage loans as the majority of mortgages on offer featured variable interest rates. Given the general volatility of interest rates in Argentina, this entailed a high degree of risk, which compounded the difficulty for many Argentines in getting approval for this high level of credit. With regard to other personal lending, paying with credit cards is almost always regarded as preferable in Argentina, mainly because of the additional discounts and favorable extended terms on offer, which make paying with a credit card preferable to asking for a personal loan and paying for goods and services in cash.

Almost all advertising campaigns for consumer credit during the first half of 2010 focused on the FIFA 2010 World Cup as promotions with long-term financing options were offered for the purchase of LCD TVs through credit cards. Advertising campaigns were led by retailers rather than banks. With the launch of the Federal Government's Asignación Universal por Hijo or Universal Child Assistance program, Carrefour hypermarket started to offer credit to low-income Argentines, offering in advance double the amount that any individual beneficiary of the government benefit spent during their first visit to Carrefour. This amount could then be used to purchase any kind of products sold in the store, including food, clothes and beauty products, among others.

It is expected that consumer credit gross lending will continue to grow in coming years, rising in constant value by 10% CAGR. This growth will come mainly as a consequence of growth in card lending. Consumption in Argentina is expected to remain high as long as salaries and wages remain high enough to keep up with real inflation rates and government benefits do the same. As consumer lending in Argentina is underdeveloped due to the above-mentioned prevailing structural problems, there is in fact great potential for consumer lending to grow in terms both of the number of products and services on offer and the number of borrowers as more customers are targeted across various different socio-economic segments. Alternative financial service providers will continue to be best positioned to serve the significant unbanked and underbanked populations in Argentina, mainly due to the fact that they are not controlled by the Central Bank and are therefore more flexible and are able to require less stringent application criteria to be met by potential borrowers.

Figure 2.c
Argentina



Source: Consumer Credit Argentina, Euromonitor International, 2010.

d. Colombia

The current favorable economic climate in Colombia is leading to a quick recovery of consumer credit following two years of stunted or negative growth. The improved economic outlook and the resurgence in demand for durable and semi-durable goods, as well as the increased willingness of financial institutions to make credit more readily available, suggest good prospects for consumer credit in 2010.

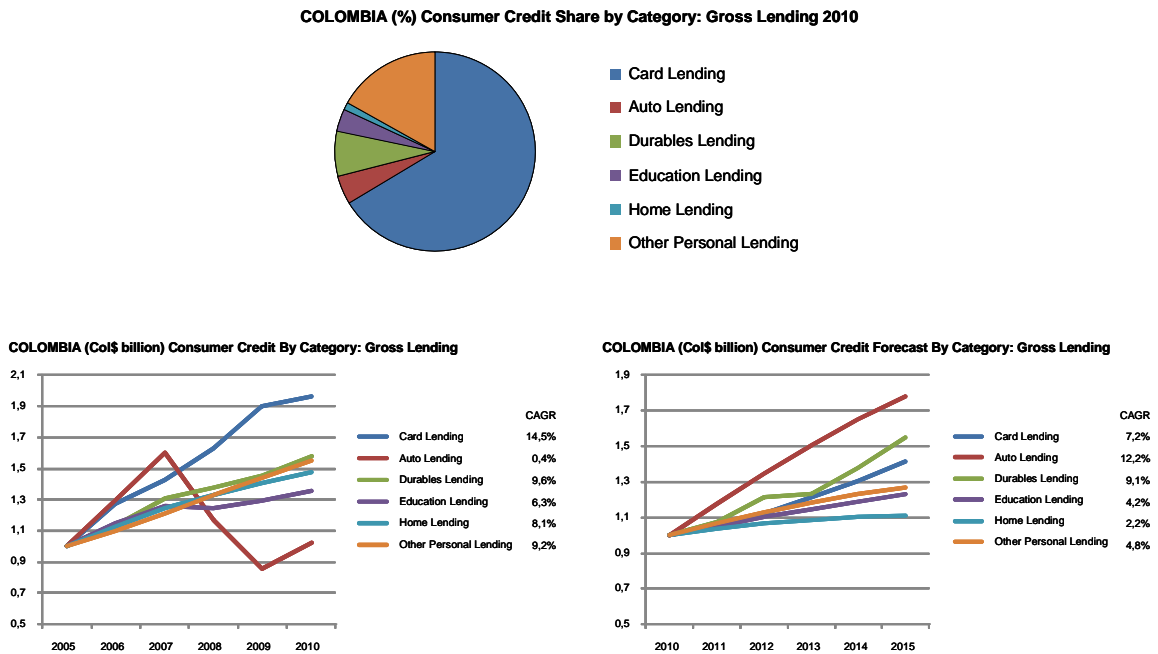
The economic downturn in Colombia during 2008 and 2009 caused lenders to look for more creative ways to attract borrowers in a credit-averse environment. Growth in consumer credit decelerated in 2009 but official subsidies, better economic prospects, and lower interest rates maintained the market in a relatively stable condition in 2009 and allowed for resurgence in growth in 2010. Card lending companies focused on offering their more trusted borrowers favorable promotional rates on balance transfers, as well as free additional cards for borrowers' family members. To spur consumption, credit card issuers such as Bancolombia, Multibanca Colpatría and AV Villas, introduced reward programs which focused on the acquisition of goods in exchange for accumulated reward points, offering large discounts as high as 50%, and prizes for purchasing goods through certain retailers and at certain times of the day, particularly the early morning. In the case of durables lending, auto lending, home lending and education lending, promotions included lower interest rates and customized installment plans that sought to cater to the specific needs of borrowers, particularly with regard to cash flow.

The availability of consumer credit in Colombia in coming years will be based on the entrance of new players and the expansion of well-established lenders and newcomers alike. The newly acquired bank status for companies such as CMR Falabella, Finandina, WWB and others is

likely to lead to an expansion in the range of consumer credit products available in Colombia in coming years. For example, CMR, present in card lending, is a store cards specialist and will look to expand its card lending portfolio by introducing co-branded store cards under the most representative operators such as VISA and MasterCard. Finandina is an auto lending specialist, while WWB is a microcredit specialist. Non-traditional lenders such as retailers are likely to expand their services by offering complementary products with the goal of providing a one-stop shop. Large hypermarkets and major retailers are expected to begin offering insurance, travel services and other products which are indirectly related to consumer lending.

Figure 2.d

Colombia



Source: Consumer Credit Colombia, Euromonitor International, 2010.

e. Chile

The increase in consumer credit gross lending and outstanding balance in Chile during 2010 was the result of the recovery from the global economic downturn during 2008/09. Chile experienced strong economic growth for much of the review period, and the low interest rates encouraged a high level of consumer confidence and increased willingness among consumers to obtain credit.

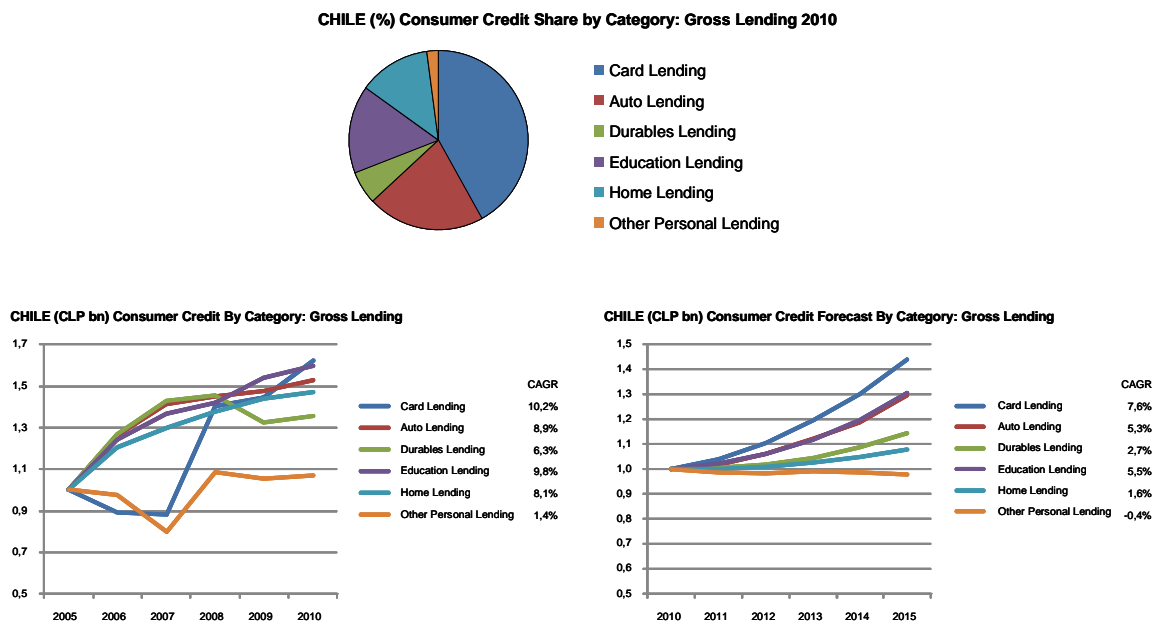
Consumer credit products geared towards middle and low-income consumers have typically been promoted in terms of simplicity and flexibility. However, more recent strategies have focused more on credit suppliers differentiating themselves from each other by targeting specific income groups.

Consumer credit in Chile is expected to become more competitive in coming years. Less traditional credit suppliers such as chained retailers are expected to increase their presence in consumer credit thanks to their detailed knowledge of consumers and their spending behavior.

Retailers, cooperatives and cajas de compensación will continue to focus on attracting middle and low-income consumers in a bid to boost the overall value of their consumer credit operations. According to SBIF, non-bank consumer credit companies, excluding card lending, currently represent a third of overall consumer credit in Chile and this proportion is expected to rise in coming years. Many of Chile’s leading retailers operate their own banks, insurance companies and travel agencies and this extends to the maintenance of strategic alliances with other retailers operating in areas which do not place them in direct competition with each other. Multiple product lines, combined with strong customer loyalty, will support the growth of non-bank players in consumer credit in coming years.

Figure 2.e

Chile



Source: Consumer Credit Chile, Euromonitor International, 2010.

f. Peru

After the slowdown of the Peruvian economy in 2009, the quick recovery recorded at the beginning of 2010 has allowed more middle-income consumers to gain access to credit through bank credit cards or store cards. According to the Superintendency of Banks and Insurance (Superintendencia de Bancos y Seguros – SBS), there were 7.7 million credit cards in Peru as of June 2009. In the particular case of retailers, many of them ventured into agreements with banks to launch their own store credit cards and they also launched discounts on different types of products, both grocery and non-grocery, which have contributed significantly to increasing their sales.

During 2009, the slowdown of the Peruvian economy meant that consumers became more cautious about their expenses and cut down on their use of credit cards. Nevertheless, in 2010, with the rapid recovery of the Peruvian economy, consumers benefited from higher disposable incomes and many of them gained access to credit cards and increased the frequency of using them for periodical purchases.

In coming years, it is expected that retailers will continue to strengthen and favor the use of credit cards at their stores in order to attract lower-income consumers and earn their loyalty by offering them attractive interest rates and special purchasing discounts, as a way to speed up the transition of middle- and low-income consumers from traditional to modern retail. Low-income consumers are now gaining access to credit cards thanks to the more relaxed requirements stipulated by banks and other credit institutions for obtaining a credit card, aimed at boosting the credit market, and the high payment performance rate by these low-income consumers. In addition, domestic department store Estilos has launched its own credit card, which is not linked to any bank and provides payment facilities such as up to two months interest-free payments and discounts at other stores such as bookstores, oral healthcare clinics and restaurants.

3. Store Card Trends and Prospects

(Store Cards, Euromonitor International, 2010)

a. Brazil

a.1) Trends:

Historically, retailers in Brazil have played a pioneering role in offering credit to lower-income segments. At times when consumer credit was hard to find, retailers offered installment payment plans through 'carnês de loja' (store booklets which contain payment dates and amount due). Over time, "Carnês" evolved to store cards, which have been a common credit instrument for lower-income consumers. According to research conducted by the institute Data Popular, specializing in lower-income segments, classes C, D and E have traditionally been suspicious of banks and have found a warmer welcome in retailers for their credit needs.

As the economic conditions of lower-income consumers improved the market potential for financial services, classes C, D and E started to attract the attention of banks. Accordingly, banks aggressively pursued retailers, offering partnerships and attractive deals in financial services in exchange for their customer bases. Additionally, the aggressive pursuit of lower-income consumers, particularly by public banks, alerted retailers, who realized that they faced a new source of competition.

Partnerships with banks were at first perceived as taboo by retailers but gradually gave way to business deals in which banks offer co-branded credit cards to retailers' customers, enabling retailers to offer a myriad of financial services to customers. Using such a model, retailers are able to earn additional revenue from other financial services, besides store cards, for example, insurance plans. Accordingly, strong partnerships between banks and retailers emerged, for example, Itaú Unibanco and Grupo Pão de Açúcar, Casas Bahia and Magazine Luiza, among others. From the other end, retailers such as Lojas Renner are awaiting the Central Bank's authorization to create their own banks. Other retailers, such as Carrefour, Riachuelo and Pernambucanas, control their own financial institutions.

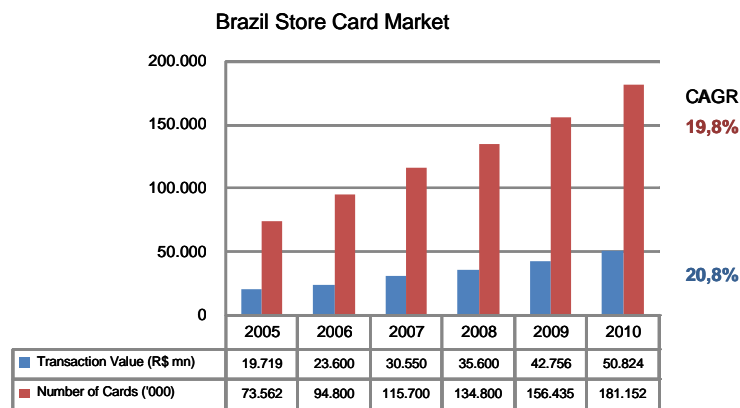
As banks and retailers work closer together, co-branded cards continue to replace store cards. It is estimated that, on average, the store cards replacement rate by co-branded cards is around 25%. The co-existence of the two types of cards is arranged such that the sales made within the retailer's stores are accounted for as exclusively store card sales. Therefore, no tariffs/fees are

paid by retailers to the corresponding card operators. On the other hand, if the co-branded card is used for sales at other retail establishments, retailers gain additional revenues as a result of specific contracts with banks or through interchange fees if the retailer happens to have its own financial institution, such as Carrefour.

So far, retailers have found ways to benefit from the increasing replacement of store cards by co-branded cards. By adopting co-branded cards, their main goal is to increase customer loyalty by offering other financial services besides store cards. Retailers now offer insurance plans, consumer loans and other credit services for store card holders and co-branded cardholders alike, generating revenues through store card sales and, additionally, through other financial services.

Figure 3.a.1

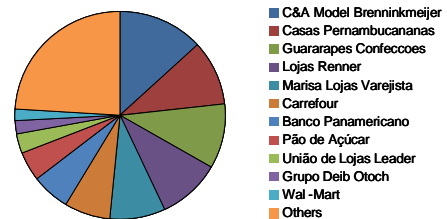
Brazil



BRAZIL: Number of Cards by Issuer ('000)

	2005	2006	2007	2008	2009
C&A Model Brenninkmeijer	14.000	15.000	15.900	18.600	20.550
Casas Pernambucanas	8.613	9.710	11.361	13.917	15.796
Guararapes Confeccoos	10.700	11.400	13.224	15.369	15.760
Lojas Renner	8.700	10.000	12.000	13.126	15.230
Marisa Lojas Varejista	5.161	7.385	9.694	11.300	13.350
Carrefour	5.540	5.710	6.800	8.500	11.050
Banco Panamericano	8.167	7.777	8.100	8.911	9.250
Pão de Açúcar	2.900	3.500	4.400	5.216	7.100
União de Lojas Leader	2.500	2.800	3.500	4.010	4.750
Grupo Deib Otoch	2.300	2.500	2.600	2.837	3.192
Wal-Mart	1.875	2.100	2.250	2.523	2.826
Others	3.106	16.918	25.871	30.492	37.582
Total	73.562	94.800	115.700	134.800	156.435

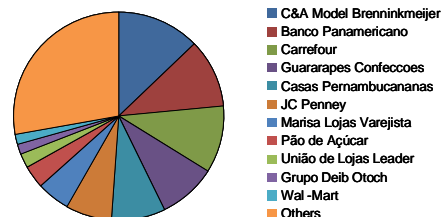
BRAZIL: Number of Cards Share by Issuer 2009



BRAZIL: Payment Transaction Value by Issuer (R\$ million)

	2005	2006	2007	2008	2009
C&A Model Brenninkmeijer	2.731	3.038	3.441	4.715	5.458
Banco Panamericano	3.269	3.106	3.454	3.871	4.585
Carrefour	2.291	2.715	3.126	3.847	4.447
Guararapes Confeccoos	2.089	2.463	2.901	3.247	3.815
Casas Pernambucanas	1.749	2.117	2.469	3.041	3.544
JC Penney	1.430	1.774	2.356	2.626	3.032
Marisa Lojas Varejista	991	1.301	1.684	1.952	2.182
Pão de Açúcar	657	852	1.053	1.298	1.499
União de Lojas Leader	464	552	677	812	958
Grupo Deib Otoch	365	396	425	585	675
Wal-Mart	347	427	484	582	672
Others	3.336	4.860	8.480	9.025	11.889
Total	19.719	23.600	30.550	35.600	42.756

BRAZIL: Transaction Value Share by Issuer 2009



Source: Store Card in Brazil, Euromonitor International, 2010.

a.2) Prospects:

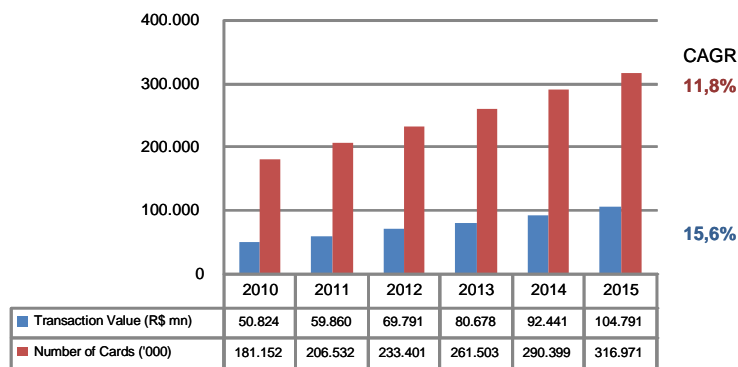
In spite of the store cards' continuing replacement by co-branded cards, the sector is expected to show robust growth in coming years. The number of store card transactions is expected to grow by 88.6% between 2011 and 2015. Growth will be fuelled primarily by the inclusion of lower-income groups.

As larger retailers move to co-branded cards, store cards show growth opportunities among small and medium-sized retailers which have yet to implement store cards. Smaller retailers are beginning to learn about the potential benefits of store cards when used in combination with loyalty programs and customer relationship strategies.

The challenge facing store cards is their ability to provide additional financial services and to operate in combination with promotions designed to increase customers' loyalty to the store. However, competition from co-branded cards is likely to be unrelenting, limiting store cards' market potential to specific niches.

Figure 3.a.2

Forecast Brazil Store Card Market



Source: Store Card in Brazil, Euromonitor International, 2010.

b. Mexico

b.1) Trends:

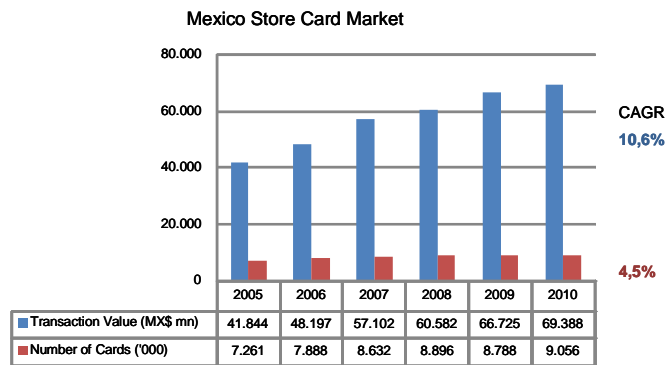
The number of store cards issued by supermarkets and retail stores grew slowly in 2010 as a result of the credit crunch recovery in value terms. Volume, however, experienced a 3% rebound compared with 2009 levels. This category has little regulation and limited risk assessment, which led retailers to overextend credit lines during 2009. This resulted in many customers with non-performing loans and a significant contraction of the store card category.

The fact that store cards are limited to in-store purchases has led consumers to prefer credit cards that are accepted in many different establishments. This has encouraged certain chains that can afford it to issue credit cards. For example, El Puerto de Liverpool and Almacenes Coppel have credit cards operated by Visa, which allows customers to use their card in many establishments other than the issuer's stores.

There is greater awareness of the commissions charged by some store cards. Clients have realized that using them can be much more expensive and they have become more reliant on acquiring them. According to the Mexican Central Bank, store cards' annual percentage rates (APRs) range from 116% to 198%, while credit cards' APR averages 40%. This is the result of the 5% increase in the volume of transactions and the slow recovery of consumer spending.

Most store cards in Mexico can only be used in the issuer's stores. Nevertheless, Grupo Wal-Mart de Mexico owns several types of groceries stores, retail stores and restaurants, and allows its store cards to be used in any establishment belonging to the group. El Puerto de Liverpool and Almacenes Coppel issued a credit card operated by Visa which can be used in every establishment with Visa acceptance.

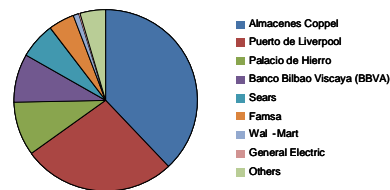
Figure 3.b.1
Mexico



MEXICO: Number of Cards by Issuer ('000)

	2005	2006	2007	2008	2009
Almacenes Coppel	2,715	2,949	3,200	3,128	3,339
Puerto de Liverpool	1,879	2,171	2,519	2,690	2,375
Palacio de Hierro	643	725	760	844	850
Banco Bilbao Viscaya (BBVA)	892	913	864	769	757
Sears	569	554	572	564	561
Famsa	297	310	366	400	405
Wal-Mart	-	-	-	50	85
General Electric	8	9	10	14	19
Others	258	257	342	437	397
Total	7,261	7,888	8,632	8,896	8,788

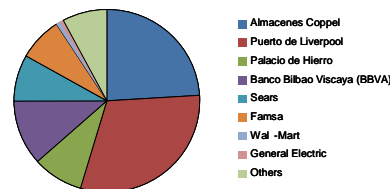
MEXICO: Number of Cards Share by Issuer 2009



MEXICO: Payment Transaction Value by Issuer (MX\$ million)

	2005	2006	2007	2008	2009
Almacenes Coppel	9,388	10,442	12,155	13,438	16,042
Puerto de Liverpool	10,119	12,024	14,300	14,228	20,418
Palacio de Hierro	4,441	5,000	5,792	6,561	5,907
Banco Bilbao Viscaya (BBVA)	5,621	6,961	8,580	7,905	7,657
Sears	5,059	5,696	6,435	6,324	5,469
Famsa	3,317	3,987	4,648	5,533	5,104
Wal-Mart	-	-	-	-	510
General Electric	135	152	172	387	379
Others	3,765	3,935	5,022	6,207	5,239
Total	41,844	48,197	57,102	60,582	66,725

MEXICO: Transaction Value Share by Issuer 2009



Source: Store Card in Mexico, Euromonitor International, 2010.

b.2) Prospects:

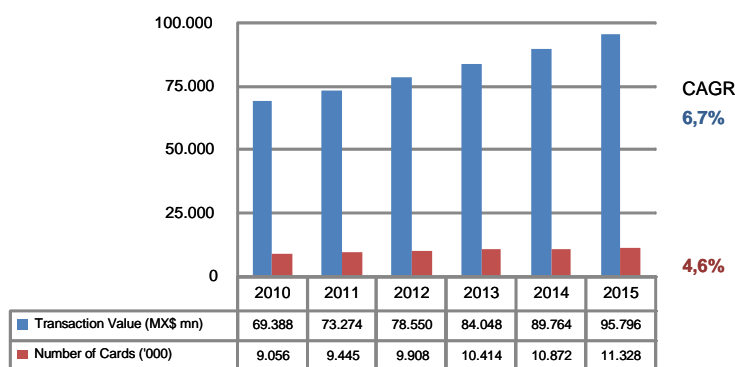
In coming years, the store cards category is likely to recover from the credit crunch. The store cards segment is likely to increase at a CAGR of 7% in constant value terms and 8% in terms of transactions volume. Growth is fuelled by retail chains targeting the low-income segment, with the goal of increasing their number of cardholders.

The number of store card transactions is likely to increase as consumers become more familiar with this type of payment. However, the amount spent per transaction is expected to decline as penetration increases among the low-income segment.

Store cards represent an interesting opportunity for those who do not yet have their own card, mostly low-income consumers who need credit to make seasonal purchases, such as buying Christmas gifts or children's school apparel. However, there are a number of challenges for regulators in terms of increasing transparency in fees, contracts and total cost of store card use, as well as controlling delinquent loans.

Figure 3.b.2

Forecast Mexico Store Card Market



Source: Store Card in Mexico, Euromonitor International, 2010.

c. Argentina

c.1) Trends:

Store cards captured part of the economic recovery during 2010, which showed sales growth in supermarkets/hypermarkets and shopping malls, amongst others.

Store cards in circulation are expected to increase by 15% in 2010, current value sales by 41% and transaction volume by 18% in the same period. Retailers increased their efforts to capture the unbanked population mainly by offering discounts higher than those offered by credit cards and having low requirements for issuing the store card.

Average spend per transaction is set to increase by 19% in 2010, mainly due to the inflation rate, while the average number of transactions per card increased by 3% as a consequence of growing consumption.

As store cards have been used by retailers as marketing tools to compete in the market, gaining market share by giving more aggressive discounts to those customers who have the store card and encouraging customer loyalty, it was not common to see store cards converted into credit cards in this market.

Figure 3.c.1

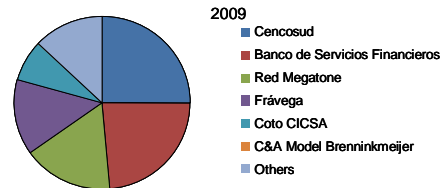
Argentina



ARGENTINA: Number of Cards by Issuer ('000)

	2005	2006	2007	2008	2009
Cencosud	-	-	427	763	845
Banco de Servicios Financieros	275	369	523	698	794
Red Megatone	304	384	319	486	563
Frávega	375	418	262	397	473
Coto CICSA	167	209	162	250	260
C&A Model Brenninkmeijer	480	528	550	815	-
Others	0	0	26	0	439
Total	1.600	1.907	2.269	3.410	3.373

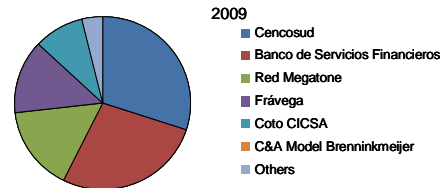
ARGENTINA: Number of Cards Share by Issuer



ARGENTINA: Payment Transaction Value by Issuer (ARS million)

	2005	2006	2007	2008	2009
Cencosud	-	-	483	1.013	1.721
Banco de Servicios Financieros	219	372	587	891	1.574
Red Megatone	149	239	321	629	907
Frávega	213	335	288	366	787
Coto CICSA	150	238	205	360	529
C&A Model Brenninkmeijer	277	408	514	832	-
Others	192	221	-	0	222
Total	1.200	1.812	2.398	4.091	5.740

ARGENTINA: Transaction Value Share by Issuer



Source: Store Card in Argentina, Euromonitor International, 2010.

c.2) Prospects:

As the banked population grows due to government benefits implemented through debit cards and store cards, lower-income consumers will have access to discounts and VAT rebates at supermarkets and other retailers. This would increase competition and might slow down store card growth in coming years.

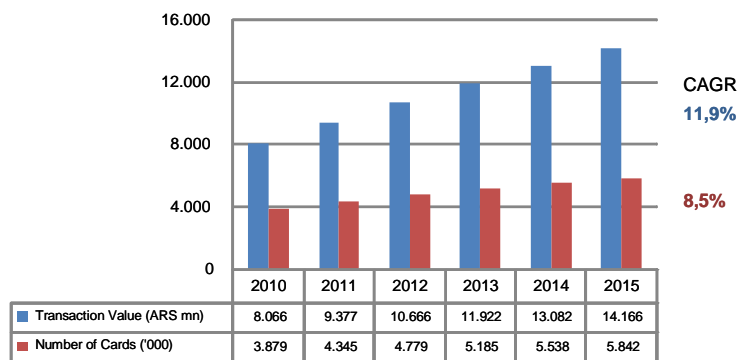
Expected consumption growth in coming years is the most significant opportunity in this market. Furthermore, in the consumer appliances and electronics industries, retailers would benefit from import restrictions that would increase the price of national products, fuelled by a

growing demand. Store cards in circulation are expected to increase at a CAGR of 8% in coming years while transaction value is predicted to increase at a CAGR of 12% in constant terms due to consumption growth.

In 2011, the Mexican company Coppel is expected to start operating in Argentina; it is one of the 50 biggest companies in Latin America. With an investment of US\$50 million, Coppel will open four stores oriented to low-income consumers in the Buenos Aires province. The Mexican company will be focused on giving easy-to-access credits to D and C3 economic segments to buy domestic electrical appliances, furniture and clothing. Coppel will compete with the stores Falabella/Sodimac and hypermarkets such as Carrefour, Jumbo or Coto.

Figure 3.c.2

Forecast Argentina Store Card Market



Source: Store Card in Argentina, Euromonitor International, 2010.

d. Colombia

d.1) Trends:

Despite enjoying double-digit and even triple-digit growth in previous years, store cards saw a strong deceleration in 2010, when the current value and number of transactions grew by only 1% and 3%, respectively. The deceleration in this sector was related more with pessimistic expectations due to the unemployment situation and the change of government than with the overall economic performance. A high percentage of cardholders, especially in the case of the store card leader, Almacenes Exito, are from the low-income population, and the financial crisis hit those consumers the hardest. The fear of unemployment and negative economic outlook forced low-income groups to limit their consumption habits.

La Polar, a large retailer from Chile, arrived in 2010, looking to take advantage of the increase in retail and shopping mall construction. The low-income population is the main target, as it is not served by the company's direct competitor, CMR Falabella. CMR Falabella is expected to become a bank and will probably start to offer a wider product portfolio, including co-branded cards. The Polar format is similar to Falabella's (department store) but prices are lower, according to trade sources.

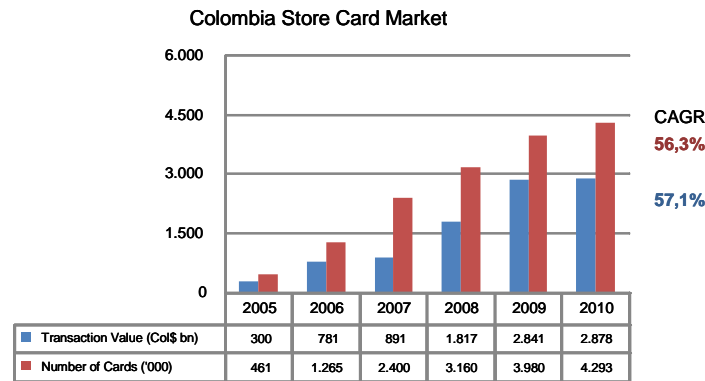
Store cards saw robust growth over 2008 and 2009. In spite of the late impact of the economic downturn felt in 2010 by store cards, issuers did not stop their expansion efforts focused on

increasing the number of networked merchants that accept the card. During this time, the average spend per transaction was similar to that of credit cards and the average number of transactions per card declined. This can be attributed to consumers using the cards for specific and planned purchases instead of impulse and indulgence purchases. Consumers are still using their cards mainly in the originating store and for higher-ticket purchases, taking advantage of the specific promotions for cardholders.

Store cards have not yet suffered cannibalization by credit cards. The limited banked population permits a concurrent growth of both types of cards. Store cards have been clearly more focused on mid- and low-income groups with no previous banking experience, whilst credit card screening procedures favor consumers with a financial record. Store cards have sought to expand the merchants' acceptance network without becoming credit cards.

Figure 3.d.1

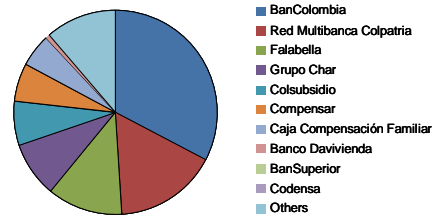
Colombia



COLOMBIA: Number of Cards by Issuer ('000)

	2005	2006	2007	2008	2009
BanColombia	224	575	975	1.108	1.300
Red Multibanca Colpatría	-	-	-	-	650
Falabella	42	187	361	423	478
Grupo Char	78	50	100	305	350
Colsubsidio	-	-	49	280	278
Compensar	-	-	24	187	241
Caja Compensación Familiar	-	111	240	190	207
Banco Davivienda	-	166	227	25	27
BanSuperior	117	-	-	-	-
Codensa	-	125	400	610	-
Others	0	51	25	32	450
Total	461	1.265	2.400	3.160	3.980

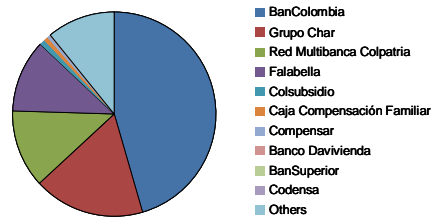
COLOMBIA: Number of Cards Share by Issuer 2009



COLOMBIA: Payment Transaction Value by Issuer (Col\$ billion)

	2005	2006	2007	2008	2009
BanColombia	150	385	375	701	1.293
Grupo Char	45	20	22	128	502
Red Multibanca Colpatría	-	-	-	-	350
Falabella	18	111	125	207	327
Colsubsidio	-	-	8	29	24
Caja Compensación Familiar	-	17	28	20	19
Compensar	-	-	2	17	14
Banco Davivienda	-	127	130	24	3
BanSuperior	87	-	-	-	-
Codensa	-	86	152	345	-
Others	-	35	50	345	309
Total	300	781	891	1.817	2.841

COLOMBIA: Transaction Value Share by Issuer 2009



Source: Store Card in Colombia, Euromonitor International, 2011.

d.2) Prospects:

Store cards are expected to gradually recover over the forecast period. Store card issuers are expanding the merchants' network and the number of products and services that can be bought using them. The Codensa card is now accepted in Almacenes Exito to buy non-durable goods and new cards such as Versilia and EPM have been launched with new issuers such as Fenalco. However, the conversion of CMR Falabella into a retail bank also anticipates the launch of co-branded cards, which will increase merchant acceptance. There is still room for store card growth but in the long run, many of them are likely to become credit cards with a wider acceptance, while retaining the benefits of the original store cards.

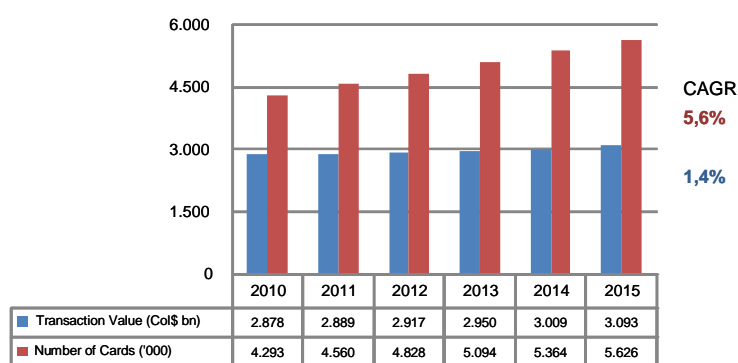
As Codensa did, other utilities companies are expected to give management of their store cards to specialized financing companies that have the assets and experience in risk management. Codensa's acquisition of Multibanca Colpatría allows it to focus on its core business of customer management, maintaining the invoicing system through its utilities bill while transferring card funding and screening to Multibanca Colpatría.

Challenges for the store cards subsector are to increase their merchants' acceptance network and install a smart chip in them to allow multifunctional applications such as use of new POS and ATMs. The upgrade of store cards into smart cards poses a challenge for card issuers as, along with the use of new ATMs and POS, card issuers will be likely to leverage the possibilities of this technology to manage data from customers related with consumption habits (frequency, preferred products), enabling them to make customized recommendations based on particular consumer characteristics.

Within store cards, the companies best positioned to win will be those with the largest merchant network. A large merchant network will promote use of the cards. Almacenes Exito is one of the best-positioned companies to play an important role in store cards over the forecast period. Carulla, Pomona, Surtimax and Home Mart are also part of the group expanding acceptance of the Exito Store Card.

Figure 3.d.2

Forecast Colombia Store Card Market



Source: Store Card in Colombia, Euromonitor International, 2011.

e. Chile

e.1) Trends:

Store cards are being converted to credit cards, thereby allowing cardholders to use the card at a wider range of merchants. Some companies in the sector are going to allow purchases by store cards in different merchants. Other services allowed are purchasing pre-paid minutes for mobile phones and digital television.

Promotional campaigns are also being implemented to stimulate purchases using discount coupons, discounts on the first purchase using a store card or store card purchases via the Internet. However, loyalty programs are less intensive than those of credit cards.

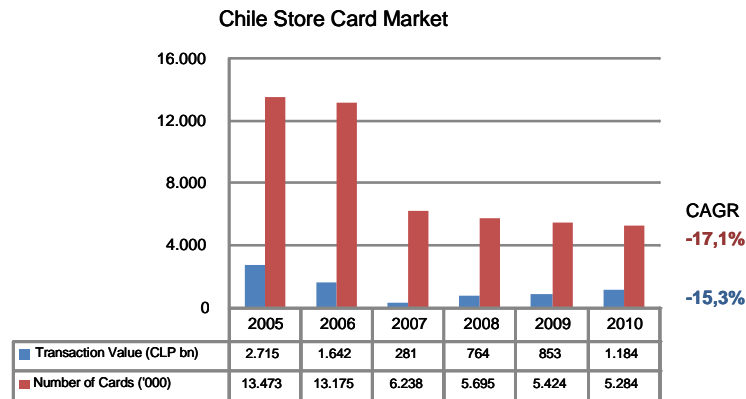
Major retailers, such as Promotora CMR Falabella SA and Cencosud Administradora de Tarjetas SA, have opened their networks and now operate as credit cards. They continue to add additional retailers in order to increase merchant acceptance and remain competitive with improved loyalty programs and discounts for cardholders. This has resulted in the declining popularity of store cards, which are limited to just one retailer.

During the 2008/2009 financial crisis, store cards suffered from high rates of non-performing loans. But in 2010, the ratio of non-performing loans over total lending returned to pre-crisis levels. The economic recovery and the decline of unemployment caused issuers to become less risk averse, while consumers incremented their debt level.

As of April 2007, retailers offering financial services that exceed CLP1.8 billion in merchant payments annually have to fulfill the same requirements as banks. One of the main consequences of this is a restriction on maximum interest rates. Minor competitors that do not exceed the amount established by the SBIF can continue operating in the same way as before. Many of these small competitors do not have the capital or the inclination to enter the wider financial services business and will continue operating their store cards as part of their loyalty programs. This remains the case in 2010.

Figure 3.e.1

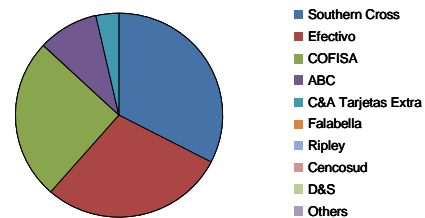
Chile



CHILE: Number of Cards by Issuer ('000)

	2005	2006	2007	2008	2009
Southern Cross	997	1.598	2.089	1.635	1.769
Efectivo	1.436	1.394	1.779	1.710	1.564
COFISA	1.106	1.162	1.581	1.545	1.383
ABC	495	494	645	643	514
C&A Tarjetas Extra	74	94	144	162	194
Falabella	3.360	4.527	-	-	-
Ripley	2.141	3.906	-	-	-
Cencosud	2.105	-	-	-	-
D&S	1.760	-	-	-	-
Others	0	0	0	0	0
Total	13.473	13.175	6.238	5.695	5.424

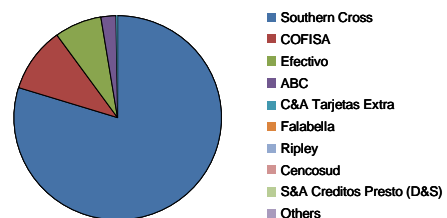
CHILE: Number of Cards Share by Issuer 2009



CHILE: Payment Transaction Value by Issuer (CLP\$ million)

	2005	2006	2007	2008	2009
Southern Cross	89.524	100.739	120.899	485.432	680.694
COFISA	32.829	41.571	59.790	94.612	87.409
Efectivo	46.805	58.344	70.422	137.867	62.859
ABC	10.869	17.066	24.563	35.060	20.216
C&A Tarjetas Extra	2.380	3.562	5.018	10.835	2.143
Falabella	1.024.855	984.043	-	-	-
Ripley	564.239	437.043	-	-	-
Cencosud	483.062	-	-	-	-
S&A Creditos Presto (D&S)	460308,2	-	-	-	-
Others	0	0	0	0	0
Others	2.714.871	1.642.367	280.691	763.806	853.321

CHILE: Transaction Value Share by Issuer 2009



Source: Store Card in Chile, Euromonitor International, 2010.

e.2) Prospects:

There are growth opportunities related to the low number of store cards per capita (nearly four million cards in 2009, representing less than one card per capita). This is low compared with the penetration of other financial cards. Although the expansion of retailers will boost the number of cards in circulation, there are also challenges that may affect growth, related to the possible transformation of store cards into co-branded credit cards (Falabella may be the most important case). For other cards, such as those issued by the Cajas de Compensación Familiar, the challenges will be related to rising unemployment and increasing informality in labor relationships. These will negatively affect growth, as the system depends on funds paid by companies and affiliates through formal contracting instruments.

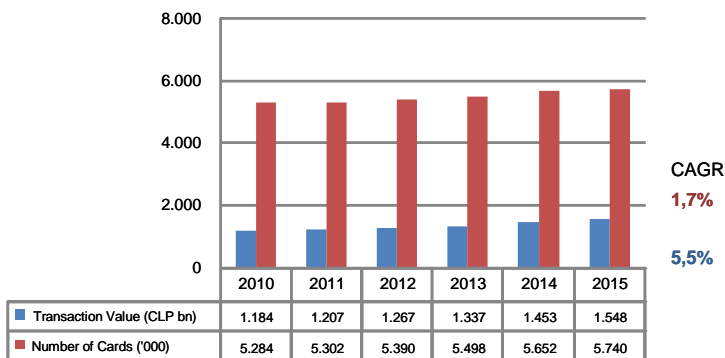
The transaction volume for store cards is expected to grow at a CAGR of 4% in coming years, which is one of the lowest rates within the Chilean financial cards and payments market. Furthermore, growth will be slower than during the review period.

The number of cards in circulation is expected to increase at a CAGR of just 2% over the forecast period to stand at less than six million, reflecting retailers' tendency to migrate towards an open network that utilizes a credit format. Average spend per transaction will increase slightly in constant terms in coming years.

More mergers and acquisitions are expected to be seen during the forecast period as supermarkets/hypermarkets and other multiple retailers compete to gain share from smaller shops. This will have a significant impact on the store cards sector, with cards gaining wider acceptance and new brands appearing. Chileans are becoming very accustomed to satisfying all their shopping needs in one place, and retailers are responding to this trend.

Figure 3.e.2

Forecast Chile Store Card Market



Source: Store Card in Chile, Euromonitor International, 2010.