

A photograph of two men sitting on a couch, smiling and playing video games. The man on the left is wearing a blue t-shirt and jeans, holding a black controller. The man on the right is wearing a grey hoodie, a maroon t-shirt, and a black cap, holding a blue controller. They are both looking at each other and smiling. The background is a dimly lit room with a patterned blanket on the couch.

# The subscription economy is here to stay

Business model shift that brings opportunities for  
Latin America and the Caribbean

**VISA** everywhere  
you want to be

VISA LAC PERSPECTIVES 2021  
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# The global opportunity

During the pandemic, consumers shifted their spending behaviors. Some may persist or amplify after the lockdowns are over and some may return to previous customs. Businesses that have run into significant challenges had to watch the consumers closely and adjust their business models to attend their new demands. **This led to the subscription economy, a service model that has demonstrated stickiness and growth during quarantine times.** Latin American consumers added new subscriptions since the beginning of the pandemic, from 2 to 3 subscriptions.<sup>1</sup>



According to Bloomberg, the subscription businesses have been one of the more consistent bright spots for tech companies, as physical product sales stumble and ad revenue slow.<sup>2</sup>

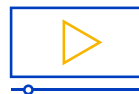
**Streaming video subscriptions have risen during COVID-19 funneling dollars into more and more subscriptions.**



The subscription economy is forecasted to reach **US\$437 Billion market value by 2025.**<sup>3</sup>



**3.6 Billion subscribers** are expected for the **next 5 years.**<sup>3</sup>



In Latin America & Caribbean, the subscription economy will be worth over **US\$16.9 Billion by 2025** with a forecasted to reach **219.3 Million subscribers in the next 5 years.**<sup>3</sup>

This Visa LAC perspective paper was created to provide you insights that may help you leverage this business opportunity by considering this new business model to increase product & services stickiness.

#### SOURCES:

1. C-Space Subscription Services in Latin America & Caribbean report, May 2021.

2. Bloomberg, May 2020. <https://www.bloomberg.com/news/newsletters/2020-05-04/net-ix-disney-and-other-subscription-apps-get-a-pandemic-boost>

3. Juniper Research 2020. Subscription economy: Industry Disruption, Value Chain Analysis & Market Size 2020-2025.





## Latin American customers are demanding new consumption models

Differentiated experiences have become key from every single customer touchpoint – discovery, payment, delivery, and consumption. Today, Latin American consumers demand increasingly advanced, secure, and user-friendly technology. They are looking for new ways to engage with businesses to satisfy their needs and expectations.



Consumers mentioned that since the pandemic they are subscribed to at least **3 subscription services**<sup>1</sup>

SOURCE:

1. C-Space Subscription Services in Latin America & Caribbean report, May 2021.

## Top 5 subscription services in 2021<sup>1</sup>



Video streaming



Music



Videogames



Premium delivery services



Magazines and newspapers

## Top 5 non-entertainment subscription services in 2021<sup>1</sup>:



Premium delivery services



Marketplaces



Food and drink shopping services



Supermarket services



Transportation

## Top 5 entertainment subscription services in 2021<sup>1</sup>



Video streaming



Music



Videogames



Magazines and newspapers



Podcase, e-books and audiobooks

## 50% of consumers have non-entertainment subscriptions such as<sup>1</sup>:



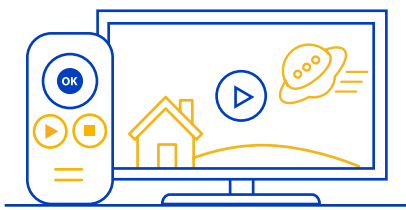
Delivery and online shopping services



Cloud services



Self-health services

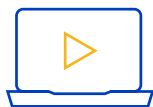


**39%**<sup>1</sup> of the consumers spend between **3 to 4 hours daily** watching streaming services

## Devices used by Latin American consumers to watch streaming content<sup>1</sup>:



**94%**  
use TVs



**67%**  
use personal  
computers



**63%**  
use mobile  
phones



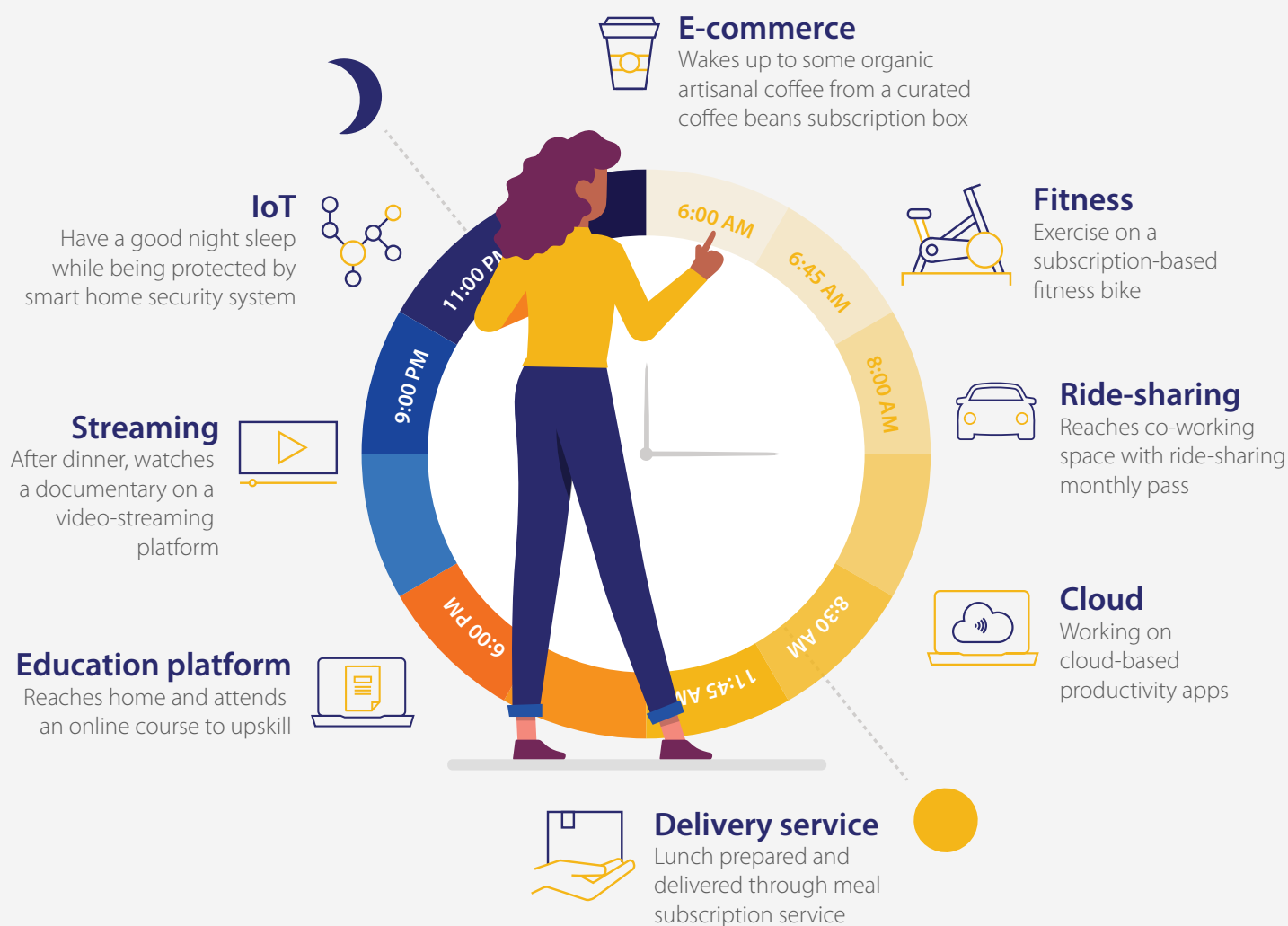
**34%**  
use tablets

SOURCE:

1. C-Space Subscription Services in Latin America & Caribbean report, May 2021.



# A day in the subscription economy<sup>1</sup>



SOURCE:  
1. UBS Wealth Management Global, 2021.



## The comeback of the subscription services bundle

The subscription economy is just getting started and consumers can benefit from it by getting cost savings, convenience and customization. The current boom of this business model is driven by maturing technology ecosystems and the current digital penetration. **In 2020 more than 5 billion people connected to the internet worldwide and is expected that the online community will grow by another 2 billion over the next decade<sup>1</sup>.** These digital consumers are fueling the subscriptions business. According to Ericsson, the number of IoT devices is set to grow from **12.6 in 2020 to 26.9 billion units in 2026<sup>2</sup>.** This digital era is shaping consumers lifestyle and adoption of subscription services.



**99%<sup>1</sup>**

are subscribed to **at least one type of subscription service.**



**48%<sup>1</sup>**

of consumers say they prefer a subscription bundle for the convenience of obtaining **access to various services through a single account and login.**



**68%<sup>1</sup>**

of consumers chose the subscription bundle because **it saves money and give access to several services.**



**51%<sup>1</sup>**

of consumers say they are interested in a subscription bundle and among **the top reasons are managing the subscriptions with a single provider.**

#### SOURCES:

1. Investing in Digital Subscriptions, UBS, March 2021.

2. Ericsson, IoT connections outlook, June 2019.

3. C-Space Subscription Services in Latin America & Caribbean report 2021.



# Providing security and reliability to eCommerce transactions

Subscription services have received a large boost from the COVID-19 pandemic. **To drive secure and reliable ecommerce transactions**, confirming cardholder identity, optimizing the authorizations, minimizing fraud levels, and enhancing the customer experience turns fundamental.

## Technologies that enable secure eCommerce transactions



**Real-time risk scoring and rules engine tools**



**Digital authentication tools**

- EMB 3D Secure
- Tokenization (Card-on-File)



**Biometric login authentication services**



**Card life cycle management tools**



**Transaction Alerts services** that provide details of purchase and outstanding available funds





## Opportunities for acquirers to improve products and services to enhance acceptance

Acquirers can provide merchant solutions to accelerate the growth of their subscription services in a safe and reliable manner, including by offering:



**Real-time risk scoring and authentication solutions** (like 3D secure) for merchants to selectively address high risk transactions



**Guidance to comply** with decline reason codes for merchants to avoid unnecessary or excessive reattempts



**EMV Token services** to support merchant initiated transactions



**Partial authorization** for merchants to accept fractional payments



**Assist merchants** to adopt biometric authentication verification to avoid consumer abandonment due to forgotten passwords



**Support to properly comply** with all applicable laws and regulations, particularly for high-risk merchant categories



**Payment receipt services** to notify consumers of purchase details



**Advice on merchant terms and contact information** to directly resolve consumer issues and avoid disputes





# Top things issuers need to focus on to help drive client retention and profit

In this competitive market, while customer acquisition is how a business forms its foundation, customer retention is what determines their growth and success. Higher authorization approval rates will help issuers increase customer satisfaction, transaction volume and profitability.



## **Utilize Risk Based Authentication (EMV 3DS) with security features**

Issuers should adopt Risk-Based Authentication (RBA) as a key means to optimize payment acceptance by combining robust risk scoring solutions and EMV 3D Secure to authenticate select eCommerce and mobile payment application transactions.



## **Prepare for EMV Payment Tokens to offer multi-channel payment options**

Tokens replace primary account numbers with a uniquely assigned value that provides the ability to control or restrict usage to a particular transaction environment, device or another domain. Issuers should prepare and adopt token services to provide their customers with options to activate payment services on all their connected devices.



## **Adopt and regularly optimize real-time authorization rules to maximize valid transactions and minimize fraudulent transactions**

Issuers should review their authorization rules on at least a monthly basis and ensure that they maintain a false positive ratio of less than 5:1.



**Actively enroll customers in a transaction alert service to provide near-real time payment notifications and information on remaining available credit, debit and prepaid balance**

Customers feel more secure when receiving transaction alerts, will typically quickly notify their issuer of suspicious or unrecognized payments and will prevent authorization declines when they know their available balance. Issuers should offer text message, email and mobile application transaction alert options.



**Activate Biometric Authentication Solutions**

Consumers increasingly want the confidence that they or someone they permit to do so can authorize a payment on one of their devices. Issuers should ensure their payment services and authorization systems facilitate and validate biometric authentication, including those currently offered by mobile phones and connected devices – mainly fingerprint, facial and voice recognition.



**Provide accurate response codes for all declined transactions**

Issuers should provide an accurate response code for all declined transactions so that acquirers and merchants can properly manage and minimize declined transactions, particularly for declined transactions related to non-sufficient funds and invalid account credentials.



**Ensure all BINs are open for ecommerce and cross-border payments**

There are still a small number of issuers that block ecommerce, card-not present and/or cross border payments. Customers that cannot use their credentials for ecommerce and cross-border transactions will actively seek payment services that allow them to do so.





## Visa is here to help you

Contact your Visa account executive to learn how we can help you understand the consumer behavior shift, identify opportunities to maximize your portfolios with our Consulting and Marketing services (analytics, managed services, credit lifecycle, digital roadmaps, etc.), and our Innovation & Design services (to co-create/ co-design new consumer payment and commerce experiences).



### About Visa

Visa Inc. (NYSE:V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network - enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device, for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce.