



Netherlands Enterprise Agency

Fintech in Brazil

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This article presents the fintech situation in Brazil, including the main areas of fintech activities and examples of companies currently active in this field. The Brazilian government and Central Bank have been facilitating the growth of fintech by implementing new supportive laws and policies.

Fintech is the use of technology for financial services and products in any area of finance. In practice, this means that companies will deliver their financial services in relation to technology ranging from online on the internet, digital on mobile devices to the use of artificial intelligence.

Fintech is often used and praised for its efficiency (many things can be done online or through an app instead of personally), convenience and the potentially lower costs as there is no need for physical infrastructure. However, there are challenges, such as the threat of hackers, no clear view on regulation (few laws on fintech, especially in terms of privacy) and how to include consumers who are not familiar with the technology.

The financial sector in Brazil

São Paulo is the financial heart of Brazil (and the South-American continent) with many of the international companies located in the city of twelve million people. Data from the World Development Indicators of the World Bank shows that for every 100 people in Brazil, there are 113 mobile cellular subscriptions (2017). It is Latin America's largest economy and the ninth largest economy (GDP: USD 1,93 trillion according to the IMF DataMapper) in the world.

In the Global Findex from the World Bank, which has the goal of promoting financial inclusion, the following information was presented for 2017:

- 70% of the Brazilian adults have a bank account at a financial institution or a mobile bank account. Of the 30% of the Brazilians who do not have a bank account, 24% has a mobile phone (nearly 50 million people);
- The percentage of adults with a mobile phone in Brazil is 85%.

At the moment, Brazil's financial market is dominated by four national banks - Itaú, Bradesco, Banco do Brasil and Caixa Econômica Federal, which held 76,35% of the deposits in 2018 [1] and similar concentrations were found in the areas of credit [2] and assets [3]. The banks have started to innovate in the field of fintech and/or acquire fintech companies.

Another characteristic of the Brazilian market is the high interest rates charged by the traditional banks on loans and credit cards; they are higher than in most countries with rates over 50% [2]. Furthermore, owning a credit or debit card in Brazil is expensive. These two conditions together with the above mentioned financial inclusion information set Brazil apart from other countries in the world. A Goldman Sachs report (Fintech's Brazil Moment) expects a potential fintech revenue of over BRL 75 billion (around EUR 20 billion) in Brazil in the coming ten years.

Brazil's fintech ecosystem

Mapping

According to a mapping performed by Finnovista¹, there are in total 377 fintechs spread over 12 areas in Brazil with the biggest areas being *Payments and Remittances* (electronic money transfers), *Enterprise Financial Management* (organize financial data for companies), *Consumer and Business*

¹ A Spanish fintech platform founded by entrepreneurial professionals with different backgrounds with the goal of using the entrepreneurial interest in digital transformation to create a better financial services industry

Lending. Although not the biggest areas, the fastest growing areas are *Digital Banking* and *Investments in Wealth Management* and *Markets & Trading*. The most well-known and biggest fintechs in Brazil are in the areas of digital banking (Nubank) and payments (Stone Pagamentos and PagueSeguro; both companies recently had an IPO² in the US). These three companies are Brazil's fintech unicorns³.

Of the Brazilian fintechs, 30% already expanded abroad of which 81% in Latin America and the Caribbean and respectively 11% and 5% to the US & Canada and Europe. The aforementioned Nubank for example, opened an office in Germany last year.

Concentration

Data from Finnovista and the Fintechlab⁴ shows that 71% of all Brazilian fintechs are located in São Paulo, closely followed by Rio de Janeiro (8%) and Belo Horizonte (5%) in 2017. Not only are these three cities in the top 10 biggest cities of the country in terms of inhabitants [4], they also contribute most to the national GDP [5] (in both cases, São Paulo is number one and Rio de Janeiro number two). Some characteristics of the three cities:

- São Paulo already houses South-American headquarters of among others Google, Uber and Airbnb besides offices of venture capital firms. Lately, the municipality has put more effort in automating processes and improving technological access by for example installing several new Wi-Fi-spots in the city.
- São Paulo also made it possible to open a company in five days (instead of over 100 days before) and most of the important incubators and accelerators for start-ups are located in the city. Google, for example, has its only Latin-American incubator in São Paulo, which is one of the six worldwide. Both Itaú and Bradesco – two important private banks – have their incubators in São Paulo and work closely together with well-known venture capital funds.
- Rio de Janeiro and Belo Horizonte have locally initiated fintech startups and initiatives. Rio has for example Banco Maré: a blockchain based digital platform focusing on people who are not included in the financial system. Belo Horizonte has San Pedro Valley: a private hub with over 300 startups including some fintech companies.
- Although most of the activity is centered in São Paulo, Rio de Janeiro and Belo Horizonte each have their own unique fintech climate. In Rio, many fintechs are created from social inequality as many companies focus on the inhabitants without access to traditional financial services [6]. Belo Horizonte, on the other hand, is known for delivering IT graduates and Google opened its engineering center in the city in 2016 [7]. Moreover, the state of Minas Gerais, of which Belo Horizonte is the capital, aims to attract foreign investors through its Startups and Entrepreneurship Ecosystem Development (SEED) program.

Brazilian fintech cases

The Brazilian company Nubank offers free credit cards at low interest rates and uses an algorithm with over 3000 variables to assess its clients as opposed to the ten variables used by traditional banks [8]. Nubank is able to offer lower rates to its clients. The companies Stone Co and PagSeguro both offer payment devices at lower rental and selling prices than their traditional competitors. PagSeguro targets the clients in the lower price segment and Stone Co targets the clients in the higher price segment. Whereas for example taxi drivers only accepted cash in the past, many of them now use PagSeguro. Another growing fintech company is Credits; an online platform that offers loans to individuals at lower interest rates than the traditional banks. This is due to the use of collateral; when the borrower uses collateral such as a house, the lender will have lower risks and is therefore able to offer lower interest rates.

A Dutch fintech company in Brazil is Adyen. The company started in the Netherlands in 2006 as a payment service provider, but nowadays it has expanded to other countries with a total equity of USD 7 billion and no debt. Online companies such as Netflix and Uber can offer several payment methods (iDeal, Paypal, creditcard) in one single payment system provided by Adyen. The company also filters out shady transactions. The company started to process payments in Brazil in 2010 and has an office in São Paulo. In 2014, the volume of its payment transactions in Brazil had grown by 160% and in 2016, it obtained the Brazilian acquiring license.

² Initial Public Offering; the first stock issued and sold by a company making it a public company

³ Capital backed private companies with a value of more than USD one billion

⁴ A Brazilian hub to connect and facilitate the national fintech ecosystem

Different technologies are used ranging from Near Field Communication and cloud-based technology platforms (payment devices) to Application Programming Interface (Creditas) and Big Data Analysis and Machine Learning (Nubank).

Brazilian law promoting fintech activities

All the above mentioned developments have been facilitated by recent changes in the Brazilian law in different areas. In the payment device area, two companies were oligopolists by law until 2012. After the law was changed, the competition in the market increased with the introduction of new players such as PagSeguro and Stone. The traditional players are now trying to offer their clients some extras or launch new products to prevent them to go to the cheaper start-ups. They are also actively acquiring other start-ups in payments.

Another recent change in law (resolution 4.656, April 2018) allows fintech companies to lend money (give credit) without intermediation of a traditional bank. In the past, it took a lot of money and time to become an official financial institution (for example traditional banks). Now, fintech companies can register themselves as a limited financial institution, which allows them to work directly with the client. The two types of limited financial institutions are the *direct credit company*, which lends its own capital through electronic platforms, and the *lending between people company*, which brings lender and borrower together on an electronic platform. Fintech companies expect more competition on the credit market and thus lower interest rates offered.

The Brazilian Central Bank (BCB) is also active in the fintech market with the goal of facilitating these new developments. One example is the fintech cooperation between the BCB and the Hong Kong Monetary Authority to enhance collaboration between the two institutions regarding fintech by stimulating innovation in financial services in both markets and supporting innovative financial companies to expand their businesses to each other's jurisdictions. The Brazilian Central Bank also introduced a blockchain platform – the Information Integration Platform for Regulators (PIER) - in June 2018 through which it can exchange information with other financial institutions from the Brazilian Financial System (SFN) such as the National Pension Funds Authority (Previc).

Concluding remarks

Brazil has seen many new fintech companies develop in the last couple of years with different target groups and goals. They challenge the already existing 'non-fintech' companies and these more traditional companies are trying to keep up with the fintech companies. The pro-active approach of stimulating new laws and cooperation with other countries by the Brazilian Central Bank could potentially help the fintechs to grow and change the Brazilian market as a result of more competition.

More information

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