

Brazil: Breeding Ground For Fintech and Change

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INTRODUCTION

Brazil is currently under an ideal condition for the fintech industry to grow due to its banking system, regulations and need for innovation. Fintechlab reported in 2017 that Brazil was home to **244 fintech** companies compared 50 in 2015. This is the largest total in Latin America with Mexico coming next with half this amount at 158. In this same year Brazil was found to have the **fourth largest adoption rate** of Fintech behind China, India and the UK. As the Brazilian population's desire for improvement in the financial sector intensifies, Fintech companies will continue to sprout and developed to service these people with more efficiency than traditional banks, whilst filling in the areas of the financial sector that traditional banks cannot reach.

Negative Situation

The rise and need for fintech in Brazil came about as a consequence of issues in the financial sector. After facing the aftermath of both the Brazilian Markets Crash of 1971 and the Rio De Janeiro Stock Exchange Crash in 1989 banking regulations had to become more robust and strict. However, this made banking a hassle for citizens as process became much more complex and lengthy. Opening new financial institutions required a great deal of work and did not happen often as the process was arduous. These consequences led to the an extremely centralized banking system in Brazil. Bank branches did not extend far forcing clients to travel great distances and wait in lengthy lines to be serviced. **This has led to 35% of people older than 18 in Brazil to not have bank accounts.** Another issues creating great strife for the Brazilian people are extremely high interest rates stemming from historical and governmental issues. Thus, people are only further pushed away from banking.

Ranking	Institution	% Month	% Year
1	GENP S.A. - CF	7.74	50.1
2	BCO BRG S.A.	4.32	66.1
3	BANCO INTER S.A.	4.27	74.26
4	BCO QLE BONSUCESSO CONSIGNADO	4.02	75.98
5	BCO DAYCOVAL S.A.	5.27	85.21
6	BCO INDUSTRIAL DO BRASIL S.A.	6.91	90.24
7	CCB BRASIL S.A. - CFI	7.15	128.04
8	CABANA SCFI	8.03	132.78
9	BANCOBS	8.46	134.85
10	BCO DO NORDESTE DO BRASIL S.A.	8.91	178.57
11	BCO ITAUCARD S.A.	9.64	201.63
12	ITAU UNIBANCO BM S.A.	11.11	238.11
13	PORTOSEG S.A. CFI	10.21	221
14	BCO DO BRASIL S.A.	10.33	225.42
15	BCO DO ESTADO DO RS S.A.	10.59	234.68
16	BCO BANESTES S.A.	10.82	243.01
17	BCO DO EST. DO PA S.A.	10.93	247.13
18	BCO MERCANTIL DO BRASIL S.A.	10.94	247.67
19	BCO SANTANDER (BRASIL) S.A.	11.03	250.96
20	CAIXA ECONOMICA FEDERAL	11.09	253.16
21	CREDIARE CFI S.A.	11.19	256.58
22	BCO CETELER S.A.	11.86	283.85
23	BRASIL S.A. - CF	12.79	300.63
24	NOVO BCO CONTINENTAL S.A. - BM	12.61	315.85
25	BCO SAFRA S.A.	12.69	319.28
26	BANCO CBS	12.93	330.08
27	BV FINANCEIRA S.A. CFI	13.54	358.92
28	BCO BRADESCO CARTOES S.A.	13.92	372.91
29	FIN. ITAU CIB CFI	13.98	380.93
30	BANCO ORIGINAL	14.22	393.07
31	BANCO BRADSECARD	14.35	409.98
32	HIFERCARD BM S.A.	14.75	421.19
33	BCO CIB S.A.	14.99	434.24
34	LIJAZCRED S.A. SOC CFI	15.05	337.75
35	REALIZE CFI S.A.	15.88	488.5
36	LECCA CFI S.A.	15.92	471.64
37	BANCO PAN	15.93	489.48
38	HS FINANCEIRA	16.03	492.14
39	BCO DO EST. DE SERA.	16.08	498.34
40	OMNI SA CFI	16.33	513.92
41	BCO S. FERREIR S.A.	16.35	516.48
42	VIA CERTA FINANCIADORA S.A. - CFI	16.65	524.1
43	PARANA BCO S.A.	16.78	543.88
44	PERNAMBUCANS FINANC S.A. CFI	17.01	559.92
45	AVISTA S.A. CFI	17.28	679.88
46	BCO LOSANGO S.A.	17.41	586.28
47	REWAY S.A. - SCFI	18.01	629.43
48	BCO BRADESCO S.A.	18.27	649.05
49	BCO ABERIAN S.A.	18.79	747.88
50	BCO TRIANGULO S.A.	19.85	787.13
51	DACASA FINANCEIRA S/A - SCFI	20	791.19
52	SOROCRED CFI S.A.	23.63	1,174.79

Interest rates by rank at Brazilian banks

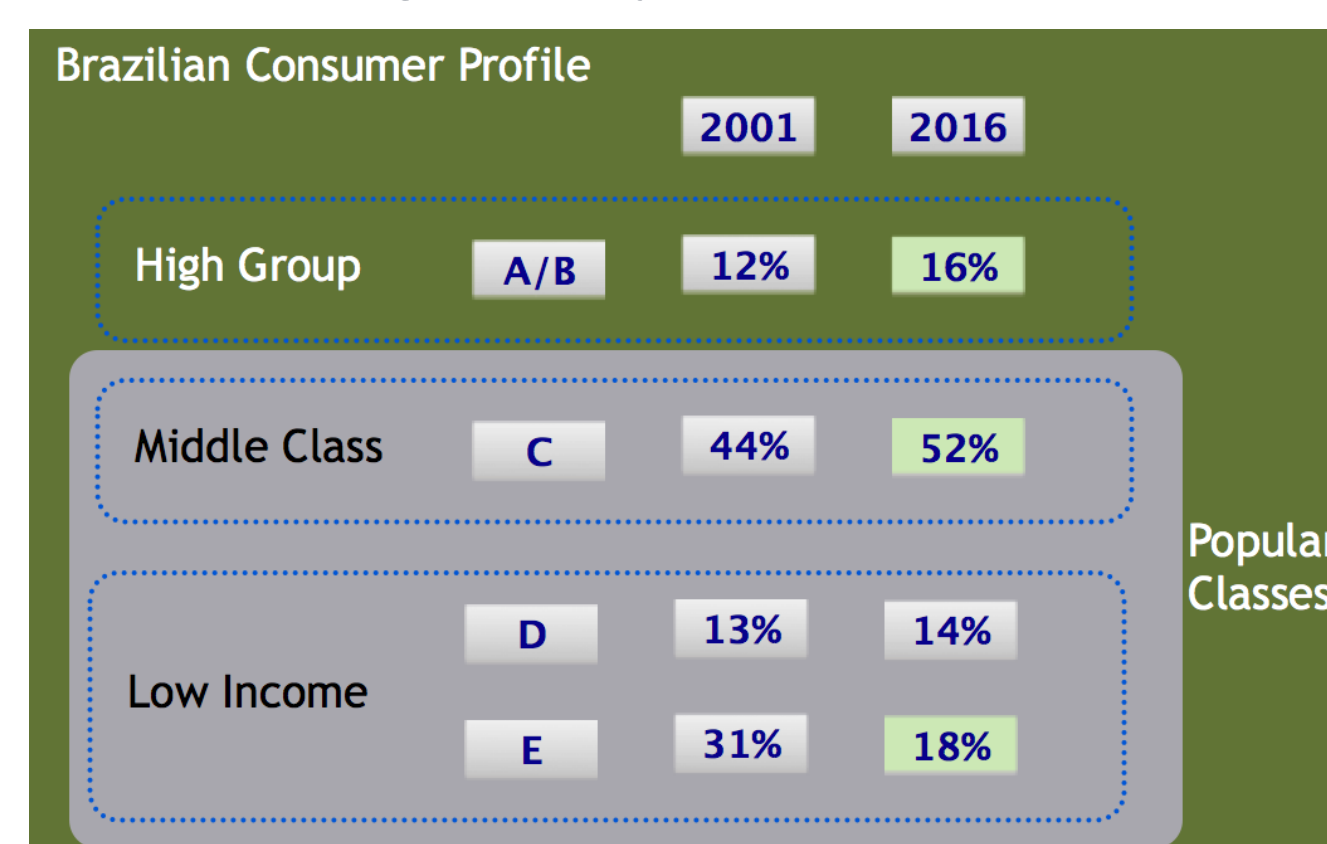
Positive Outlook

The Central Bank of Brazil over the past decade has actively been taking steps towards remedying these issues. New rules and regulations have been set to open the financial sector to new players and the innovations they bring.

- 2011 – Authorized banks to offer exclusively digital accounts to clients. This reduced cost, bureaucracy of banking and allowed people to create bank accounts without travelling great distances to a branch.
- 2013 – New rule set released detailing payment methods, procedures and guidelines for payment arrangements and payments institutions

These two new regulations alone set the stage for fintech businesses like Nubank and Creditas to open. With in a few years investors abroad took notice of the growth of these companies and the large market in Brazil for Fintech industries. A simple example of the treasure trove investors see in brazil:

- Nubank serves the middle and upper class in Brazil through credit cards. The middle class in Brazil is expanding rapidly



- In 2016, there were more than 100 valid cards in circulation with 12 billion transactions worth \$300 billion.
- 2016 also saw a new regulation allowing clients to open banks remotely
- The 35% of people older than 18 years of age that do not have bank accounts represent \$200 billion in financial transactions. The large portion of this group can now open bank accounts.

This example is a reason for why 72% of the 244 fintech companies in Brazil are now funded by third parties, being mainly foreign investors.

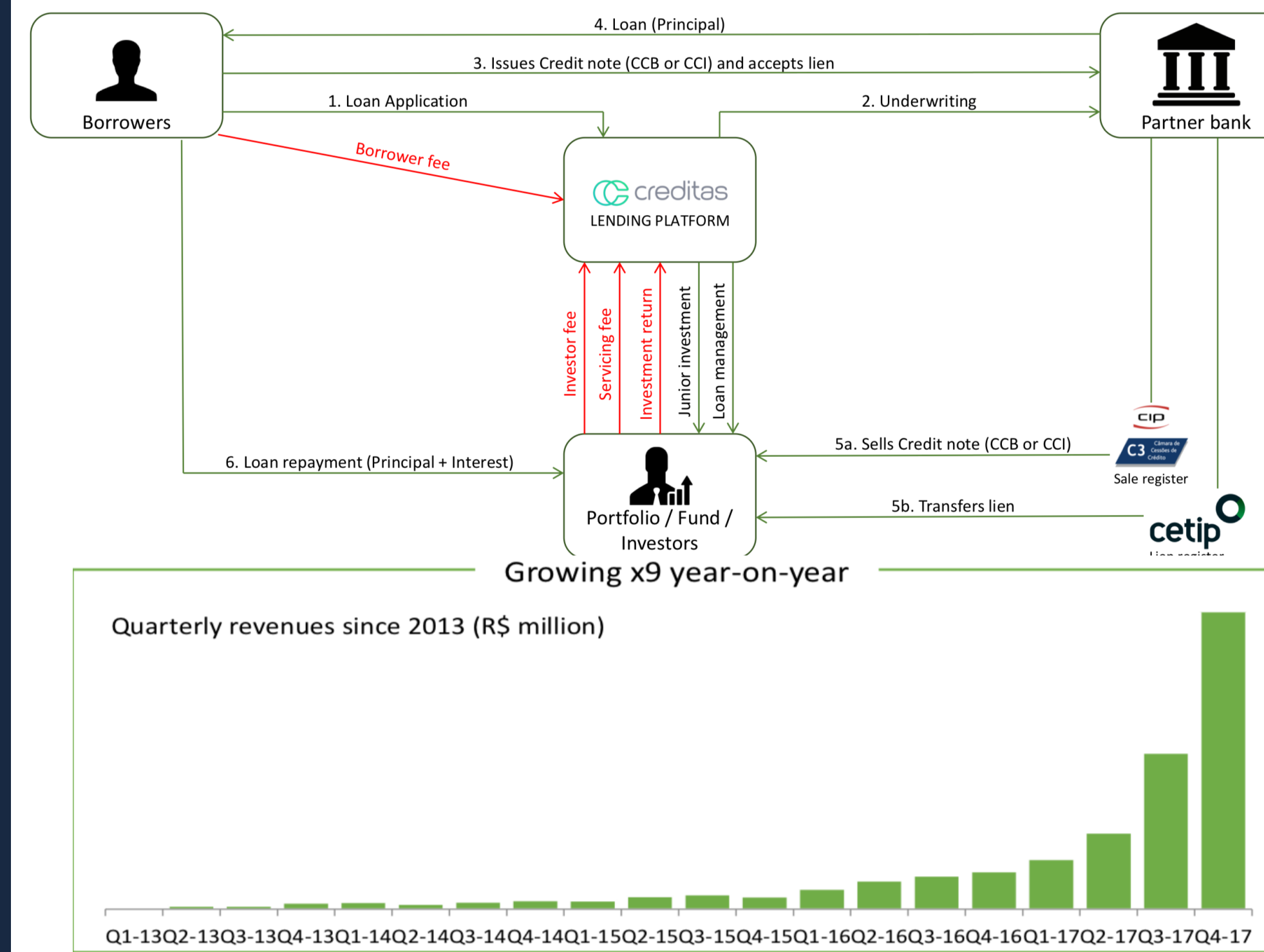


These are a few of the most prominent investors in Brazilian fintech.

Fintechs and Their Solutions

Creditas

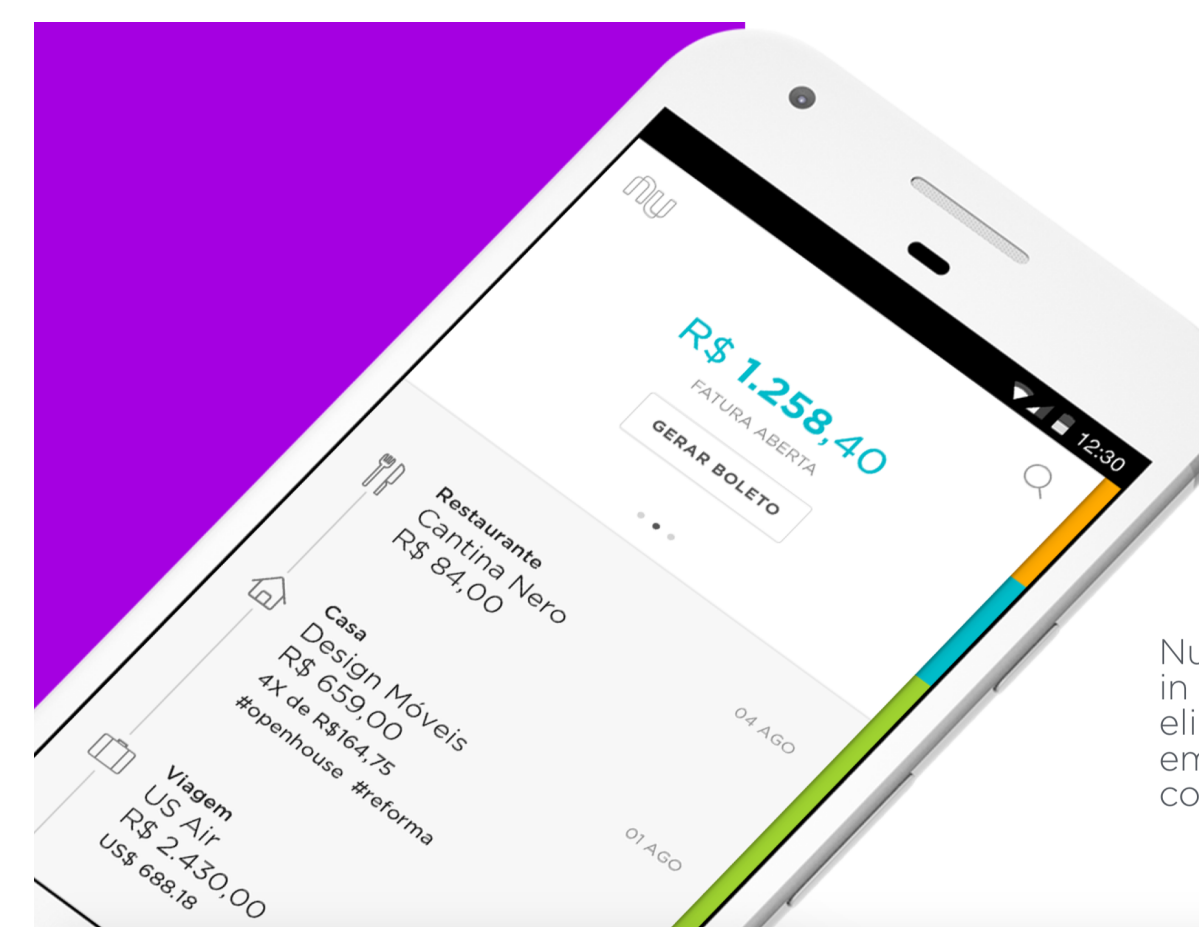
Currently the top five banks in Brazil hold 84% of total loans. Brazilians also currently pay 230% APR on credit cards, overdrafts and loans. Creditas is offering a new method to obtain a loan with significantly lower interest rates than their competitors. 70% of homes and cars in the the country are debt-free. Creditas allows clients to use their homes and cars as collateral when applying for a loan. This in turn allows the company to offer interest rates of 19% through automotive collateral and 15% if a home is used as collateral. They youth in the business world, small size and flexibility have allowed them to develop a streamlined borrowing process helping cut down interest rates



Their low interest rates, streamlined process and digital platform have gained incredible growth

Nubank

Nubank has been a great success story and an extreme disruptor in the financial sector of Brazil. They offer credit cards with no fees which can be applied for remotely on the internet. They eliminated the hassle of lines and traveling to a bank by bringing banking to the Brazilian people. Nubank created a digital platform which is easy to read and has a great deal of educational elements to help their customers maintain good financial habits. Instead of dealing with the long process of traditional banks, Nubank offers its clients simple and quick customer services through emails and Facebook messaging. Building their whole company around the idea of customer satisfaction has helped grown their company worth to over one billion US dollars. Thus, earning them a coveted title of Fintech Unicorn.



Nubank is the leading fintech in Latin America, born to eliminate complexity and empower customers to take control of their finances.

Future

At first I was purely interested in how businesses like Nubank and Creditas grew so quickly but after this trip I learned what really matters is the impact they create and the change that follows. Creditas and Nubank have given the Brazilian people more options in the financial world. They drive the big traditional banks to replicate their new concepts and search for their own innovation, improving the banking process in Brazil. This is already helping to lower the interest rate gradually in Brazil. More people are able to obtain credit and loans. Other fintechs like Empiricus are helping to educate the Brazilian people on finances, preparing the population to lead itself into a brighter economic future. Catarse is another fintech that allows for consumers to invest in business ventures they support, giving the Brazilian people the power to select what matters and should be invested in for their country. These fintechs give not only the financial sector a great boost but the Brazilian people the ability to help select the direction their economy moves towards.

Takeaways

I learned a great deal on this trip. In a traditional classroom, a student learns the concepts, the theories, the mathematics but this trip offers a chance to see how these knowledge is applied. Even more interesting is being able to actually see and hear about the real life effects of the economic principles we learn in class. Being able to see all these different companies and how they attempt to improve the circumstances of the country showed me a great deal about life. This trip also helped me find more areas in the professional world I am interested in. Getting to meet the founders of many of these companies taught me a great deal about character, perseverance and passion. As professionals they are not their for the purpose of becoming wealthy, they were genuinely interested in what they did and wanted to help improve society more than anything else. To an employer I would highlight that this trip taught me the importance of constant research on the field one is working in.

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