



2016 Top Markets Report **Financial Technology** Country Case Study

Brazil

Brazil is the seventh largest economy, the fifth most populous country in the world and a natural top-market candidate for many different industries, including FinTech. Brazil's high level of consumption and rapid smartphone growth help it to rank 10th in our projected FinTech payments ranking. Brazil's 199 million inhabitants own over 270 million mobile phones, of which approximately 100 million are smart phones, making Brazil one of the fastest-growing smartphone markets in Latin America. For the overall projected FinTech sector size ranking, Brazil's relatively low concentration of financial assets and broadband penetration cause it to rank only 21st overall.

Payments
Rank

10

Overall
Rank

21

Brazil also contains, in São Paulo and Rio de Janeiro, two of the leading GFC's. São Paulo remains the top Latin American center in GFCI 18's ranking and, along with Rio de Janeiro, made significant progress in climbing the rankings last year.¹ Furthermore, according to Di Markets, São Paulo is the GFC that attracted the largest foreign direct investment (FDI) volumes among financial centers in Latin America and the Caribbean in 2014.

Sectors

Private sector credit to GDP as a share of GDP in Brazil is only estimated to be about 39 percent of GDP for 2017. In Australia, China and the United States, it is 193 percent, 143 percent and 121 percent, respectively. This suggests that the opportunities for

FinTech in the credit subsector may lag those in the payments subsector. The more immature asset management and insurance markets will likely lag both the credit and the payments subsectors in FinTech opportunities.

Brazil's non-life insurance premium volumes as a percentage of GDP were only 1.05 percent in 2013 (compared to 3.16 for the United States), suggesting that insurance might not be a good sector for FinTech opportunities in the near-term.² The asset management sector, however, might provide opportunities for growth in the long-term, as the mutual fund system is 49 percent of GDP, as opposed to only 10 percent in Mexico and even smaller shares in India and China (the share in the United States is 91 percent).³ The payments and marketplace lending subsectors are likely to be some of the most vital

Figure 1: Brazil at a Glance

<u>GDP</u>	<u>Population</u>	<u>Consumption</u>	<u>Fin. Assets</u>	<u>Smartphone</u>	<u>Broadband</u>
\$1,682 bill.	208 mill	64.0% of GDP	280% of GDP	32.1%	13.7%

Source: See methodology, 2017

subsectors for FinTech over the next few years.

Payments Subsector

Payments revenue surged 22 percent in Brazil in 2014 to over \$200 billion, and Brazil accounted for about 60 percent of the total payments market in Latin America.⁴ Brazil's demographics are advantageous for payments, with over 39.4 percent of its population predicted to be between 20 and 44 in 2017, compared to 31.5 percent in the G7.⁵

Given Brazil's large unbanked population, financial education focused on the benefits of using electronic payments would increase consumer use of this type of payment.⁶ Mobile payments could be another solution to bringing Brazil's large unbanked (65 million) and underbanked population into the electronic payment mainstream. Brazilians' use of mobile phones exceeds that of payment cards.⁷

Regulations governing Brazil mobile payments allow non-banks to offer payments services on a relatively equal playing field. Entrants in the mobile payments sector are classified as "payment institutions" and have non-discriminatory access to the domestic payment and settlement system.⁸ These regulations reduce uncertainty for mobile payments providers, which continue to operate with fewer capital restrictions than traditional financial institutions. Payment institutions are required to hold BRL2m (\$703,000) in minimum capital and a minimum equity of 2 percent of the average monthly value of transactions they have handled in the last 12 months.⁹ Visa is already in a good position to benefit as it announced in October 2015 that it had launched its online payment service (Visa Checkout) in Brazil.¹⁰

Crowd-Funding Subsector

The equity crowdfunding scene in Brazil is growing fast but remains small with only a few platforms operating in Brazil, such as Broota and EqSeed. The Comissão de Valores Mobiliários (CVM), the securities regulator, listed 40 requests for funding in 2015, compared to three in 2014. Non-equity crowdfunding destined for products and services also experienced significant growth in 2015, with Kickante, for example, making 24 times the number of offerings than in 2014.¹¹

CVM Instruction 400 regulates public offerings in Brazil and provides for several exemptions that allow SMEs (defined as firms with annual turnover of US\$1 million)

to forego registration requirements. The only other restriction in place is that companies can only raise up to R\$2.4 million (\$690,000) per year.¹²

Most market participants expect that the CVM will pass regulations in 2016 to guarantee more security to the investor and increase capitalization limits.¹³ If the CVM does issue rules that encourage the development of the equity crowdfunding subsector in 2016, Brazil will solidify its place as one of the global crowdfunding leaders. The equity crowdfunding-specific rules may require more stringent documentation requirements, and there are also likely to be investment limits of up to 10 percent of individuals' total financial investments or their annual income, whichever is higher. The CVM is also expected to open up the exemptions to all company types.¹⁴

2016 could be a tumultuous year for the Brazilian FinTech sector as the country experiences joint political and economic crises. Last year, for the first time, although more than half of all Brazilians had internet access, smartphone sales suffered the first year of declining sales (13 percent) after a growth of 55 percent in 2014.¹⁵ This decline appears to be due to the ongoing recession in Brazil.

¹ "Global Financial Centres Index" Mark Yeandle at Z/Yen Group. (May 4, 2015)

² "Startups Bet on Financial Services and Still Dreams from Banks," *O Estado de São Paulo* by Claudia Tozetto and Laura Macdonald, (October 12, 2015).

³ World Bank Financial Development database.

⁴ "World Payments Report 2015" by Capgemini and The Royal Bank of Scotland

⁵ EIU Statistics.

⁶ "Cash Dominates Brazilian," *MarketLine Expert View* (April 17, 2015).

⁷ "Brazil Lagging Behind Colombia." *Electronic Payments International* by Robin Arnfeld. (March 23, 2015)

⁸ "The Biggest Mobile Payments Story You've Never Heard" by Elizabeth McQuerry (January 30, 2014)

⁹ "Brazil Lagging Behind Colombia." *Electronic Payments International* by Robin Arnfeld. (March 23, 2015)

¹⁰ Angelia Mari, "Visa Launches Online Payments Service in Brazil," *Brazil Tech* (October 23, 2015).

¹¹ Daniel Vivacqua, "Busca por Financiamento Coletivo Cresce na Crise," *Folha de São Paulo* (December 28, 2015).

¹² *Ibid.*

¹³ Gabriela Lara, "Nos EUA, Modelo Deve Movimentar US\$ 3,5 bi neste ano," *O Estado de São Paulo* (January 21, 2016).

¹⁴ "A look at Equity Crowdfunding Regulations in Brazil," *Crowdsourcing.org* by Anton Root, (December 17, 2015).

¹⁵ "Retrocesso Digital," *O Estado de São Paulo* (December 13, 2015).