

Prospects for the brazilian fintech scene in 2021

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In 2020, fintechs in Brazil showed their resilience and attracted US\$ 1,7 billion in investments. Check some of the trends and opportunities in the sector this year.

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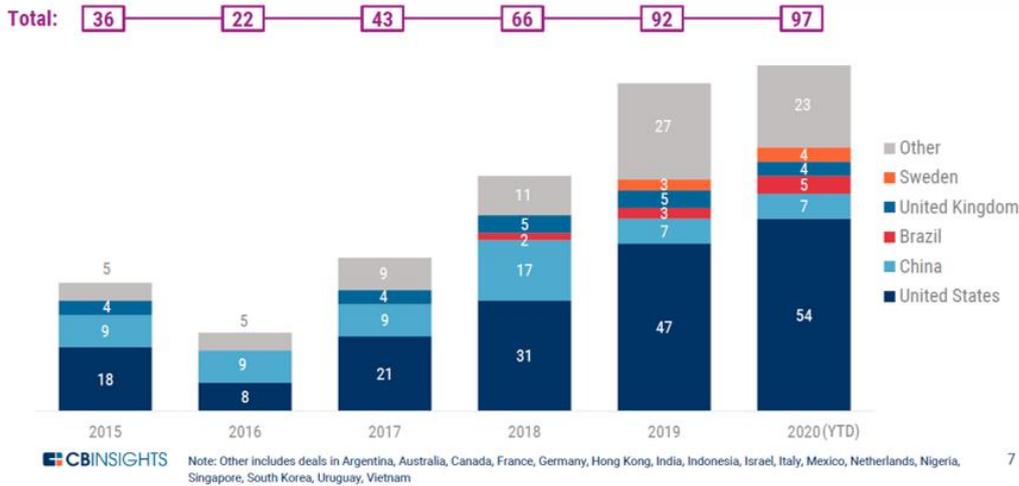
As we say goodbye to one of the most unpredictable years of all time, we look ahead and try to ponder what awaits us in the next cycle. Thinking about the fintech environment and financial innovations, 2020 was a milestone for introducing important regulatory and infrastructure changes in Brazil (with the regulatory sandbox, open banking and Pix - the local instant payments system), in addition to opening up the digital path as the main way for people to consume financial services in a world that requires low contact due to the pandemic.

The fintechs showed their resilience (or should I say, antifragility?) and attracted US\$ 1,7 billion in investments in 90 deals according to the brazilian consultancy Distrito, as opposed to US\$ 910 million in 2019. That's a truly historic achievement for the local scene!

And there's another important achievement to consider. In mid december last year, CB Insights released a preview of their Q4 Fintech Report, which showed that 2020 (until 12/12) had a total of 97 mega rounds (\$100M+) globally, 5 more than the previous record from 2019. Suprisingly, Brazil took the 3° place in number of mega rounds (5 deals), with USA coming first (54 deals) and China coming second (7 deals)! It is worth remembering that the recent Creditas deal (in which the secured loans platform raised US\$ 255 million and became an unicorn) might not have been included, because it happened in the last days of 2020.

2020 has set a record for mega-rounds YTD

Annual fintech mega-round deal count by region, 2015 – 2020 (as of 12/12/20)



Some of these investment movements, combined with global trends and possibilities that are being unlocked by the regulator, give us some clues as to what to expect in 2021. And that is what we will explore next.

The "second act" of some movements from 2020

In 2021 we will certainly have an acceleration in the use of digital payments, both due to the sedimentation of new habits imposed by Covid-19 and by the growth in the use of Pix, as the new instant payments system gets popular and gains scale. The multiple use cases shows Pix's potential to occupy several fronts, competing with different instruments, ranging from banking slips (the local "boleto") to debit cards and transfers.

While studies conducted by Oliver Wyman and Boanerges and Cia predict that in 2030 this means of payment will represent around 22% to 24% of the market (respectively), it is worth remembering that, in India, the UPI system (similar to Pix in several aspects)) went from 1% of representativeness in the country's total payment mix in 2017 to around 24% in 2019 - all of that in a pre-pandemic reality. Telcos and other utilities companies are beginning to encourage the use of the solution, adding it as an alternative for the payments of their bills by clients. However, it is the traditional retailers, e-commerce players and, above all, SMEs, that will play a key role in advancing the instant payment system.

In 2021 we should also see a strong development of new solutions using Pix. It is worth mentioning that in 2020 Banco Bradesco started offering credit via Pix, while Banco do Brasil made it possible to use Pix through Whatsapp. As the Central Bank releases more features, such as "Pix Cobrança" (a clear substitute for the local "boleto"), which is scheduled to go

live in March, we will have fertile ground for the creation of other new and interesting possibilities that should be explored by more market participants.

Last year we also witnessed the creation of regulatory sandboxes by CVM (Brazilian SEC), SUSEP (the insurance regulator) and the Central Bank. Sandboxes are environments for testing innovative solutions, in which entrepreneurs apply to participate and develop their projects under the direct supervision of the regulator, which eases regulatory requirements in order to allow their solutions to be offered initially to a limited group of customers, to then operate widely (if they complete the process successfully). SUSEP's sandbox is already in operation and has received several Insurtechs that seek to revolutionize the insurance market, such as Pier, Komus, 88i, among others.

Calls for projects in the CVM and Central Bank sandboxes have already been announced and soon we will learn about the chosen initiatives. I predict that we must have among the candidates solutions aimed at asset tokenization (applying Blockchain technology for this), new stock exchange projects, reverse mortgage initiatives, among others. The boundaries of the financial market will be tested throughout 2021, bringing new horizons for entrepreneurs and users.

Speaking of Insurtechs, this is a sub-segment that should grow this year in the country. In 2020, the global market witnessed the IPO of Lemonade on NYSE and Root on Nasdaq. In addition to that, we saw Hippo raise US\$ 350 million and Metromile planning its debut on Nasdaq (via SPAC acquisition).

In other parts of the world such as India, where there is a low percentage of people insured (like Brazil), PayTM acquired an insurer to enter this market and Amazon started distributing health and bicycle microinsurance at affordable prices. These are some signs that we have a lot to explore about this thesis here, so much so that Nubank started offering this product on its platform and insurtech Pier (digital insurer for cars and cell phones) received US\$ 14.5 million in investments in November 2020 to expand its operations - in addition to being one of the companies participating in the SUSEP sandbox. There is much to be done in the democratization of insurances in Brazil and perhaps we are in the ideal time to do so.

The moment of truth for new entrants

In 2020 companies from different segments created their own digital financial arms, some of which are still in early stage now. This phenomenon will ignite fierce competition in certain niches, especially in the ones where some well-known companies from outside the financial market have a huge user base and established brands. In these cases, hyperspecialization within the niche will be a key factor.

Digital financial solutions aimed at individuals belonging to the bottom of the pyramid (like Banqi, from Via Varejo), restaurants (a niche where both food delivery apps, Ifood and Rappi, created their financial initiatives), Bars (AB Inbev created their digital wallet, called Donus), Logistics (Target released their solution to truck drivers, which is evolving to the logistics sector as a whole), and several others, have already entered the battlefield.

In addition to these cases, many other initiatives are expected to be launched soon, driven by the embedded finance movement that took the world by storm in 2020 and is characterized by the possibility of allowing companies from different segments to make financial offerings. It will be interesting to see the fire power that the entrants will bring to this war, especially when combining financial and non-financial solutions, and how traditional banks will react.

Companies that provide Banking as a Service (BaaS), a core element for embedded finance, should also gain even more prominence. Fintechs like Fitbank, Iugu, Conductor, Zoop and Swap received significant investments and grew a lot last year. Considering the "Platformization" of the financial market, the relevance of these players will become greater, after all, they are the main suppliers of "weapons" in this new war. We definitely should see more investments and mergers and acquisitions in this area, like the acquisition of Hub Fintech (BaaS provider) by Magazine Luiza that happened in December.

Fintechs focused on infrastructure for open banking should also fly high, as the market prepares for a turnaround with the Open Banking regulation. Several companies in this segment have entered the radar of investors and banks, who are looking to get ahead and take advantage of opportunities in an increasingly integrated financial market, supported by the use of data to customize solutions and experiences. Most traditional players are not technically and culturally prepared for the changes brought about by an open banking scenario. Therefore, there will be a huge space for companies such as Quanto and Belvo, for example, which are operating in this field.

Trends in other subsegments

Looking at the investment market, there is a great gap to be explored in the so-called "alternative investments". Investment platforms focused in equity crowdfunding for startups, such as Captable and SMU, have great opportunity to grow, leveraged by the new economy and the investor's search for diversification in a low interest rates scenario.

Opening the range of possibilities, there are additional opportunities in legal assets, energy assets, agricultural assets and even music royalties, offered by platforms such as Bloxs and Hurst. We cannot forget about crypto assets, which also entered the investors' radar, followed by the popularization of Bitcoin (which reached a record price in late 2020). In this field, the sector's traditional fintechs stand out, such as Mercado Bitcoin, BitcoinTrade and Foxbit, as well as newer ones, such as Nox Bitcoin and Bitfy.

Among the global trends in the credit market that are expected to increase in Brazil, there are the salary prepayment solutions, a market where Xerpay and Creditas operate. The category is broad and has been included in a sub-segment called "Payroll fintech". In addition to that, given some M&A movements that occurred with credit fintechs in general in 2020 (such as the purchase of Antecipa by XP Inc and the merger between Adianta and Liber Capital), we might see an acceleration in this sense, indicating the beginning of consolidation within this group.

Looking at neobanks, there will be a race in the SME segment, a category that has long suffered from the lack of alternatives. Challengers like BTG + Business, Cora, Linker and Conta Simples should speed up and show how they can make the life of entrepreneurs easier, something that the big banks haven't done right yet. That will bring about a new level of competition to this market.

A new era of innovation

2020 established the beginning of a new moment in the financial market, showing that fintechs can withstand the stride and, more than ever, present themselves as tangible alternatives for a greater number of users. It is also important to consider that many people have recently learned to use digital financial services out of necessity, either to avoid contact at the height of the pandemic or to receive government aid.

Analyzing the history of fintechs, we can see the 2008 crisis as an important occasion that helped shape new financial solutions at the beginning of this movement. A watershed in terms of development of this segment.

Passing through the crisis caused by the Covid-19 pandemic, we see the fintech ecosystem driven by adversity once again, but in a more mature moment and ready to take a leap in popularity and impact on people's lives. From now on there is no longer any doubt, the fintechs are here to stay, and this is just the beginning of a new era of competition and innovation in the financial market.

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