



Neobanks a Game-Changer for Unbanked in Brazil



Source: [Canva](#)

Despite economic [woes](#), Brazil has [emerged](#) as an unlikely global leader in the next generation of banks. It is home to the largest digital-only bank in the world, Nubank, which boasts 20 million customers and has expanded to Colombia, Mexico, and Argentina.

Visionary financial regulations in the early 2010s have been stimulating the [fintech](#) industry's development in a highly competitive market that caters to [45 million](#) residents without a bank account.

What are neobanks and how do they fit in Brazil's financial sector?

Neobanks are a [new generation](#) of lean institutions with banking licenses that operate exclusively online and offer streamlined, low-cost services. By leveraging cutting-edge technology such as artificial intelligence, they offer tailored finances and better user experiences.

They differ from other fintech companies in that they [are](#) legally able to operate as banks and not just intermediaries between them and customers, such as PayPal or Venmo.

Neobanks made their appearance [seven years ago](#) in Europe, where entrepreneurs took advantage of lower requirements to start banks. The German firm [N26](#) emerged in 2013, and [Atom](#), based in the United Kingdom, began operating in 2014.

Despite Latin America's legendary bureaucracy and burdensome regulations, the first neobank in the region also [emerged](#) in 2013. The Sao Paulo-based Nubank was born as a hassle-free alternative in a country where the four largest banks controlled [80 percent](#) of deposits and almost [40 percent](#) of the population did not have a bank account. Other neobanks in the region include [Albo](#) (Mexico), [Ualá](#) (Argentina), and [Nequi](#) (Colombia).

Neobanking has [thrived](#) in Brazil's [tech-savvy](#) culture thanks to ubiquitous phones and ultra-low costs. Nubank, for example, offers an international credit card and digital savings account with no maintenance or annuity fees. Internet access reached [70 percent](#) of the population in 2019 and continues to grow.

Neobanks provide faster and more personalized services than traditional banks by doing without physical branches and investing in digital channels, customer support, and data mining. However, the range of services available through neobanks is limited to retail payments, transfers, and some credit lines for individuals.

[Open banking](#), a regulatory environment whereby banks share clients' financial data with third parties to provide more specialized services, is the next frontier. Although [73 percent](#) of Brazilians surveyed by Ernst & Young Americas in 2019 were comfortable with using a digital-only bank, barely half said they felt safe with open banking.

To reach the last mile and unleash its full potential, Ernst & Young recommends the fintech strengthen data privacy, refunding policies, and user experience.

Which regulations triggered fintech and open-banking alternatives?

- **2013.** Brazil enacted new rules for payment institutions and arrangements to [modernize](#) the payment system, encompassing electronic payments. They came into force in 2014, regulating mobile payments, prepaid cards, and electronic currencies.
- **2018.** The Brazilian Central Bank [allowed](#) fintech companies to offer limited loans on electronic platforms and tightened cybersecurity and privacy requirements.

The new rules enabled the registration of digital-only peer-to-peer lending companies and direct-credit companies. Credit fintechs still must comply with minimum capital requirements (around \$280,000), anti-money laundering and know-your-customer regulations, as well as permanent internal audits.

Due to growing malware attacks against banks, Brazilian authorities ordered more stringent cybersecurity measures.

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- **2019.** The central bank [kicked off](#) the open-banking process and released a draft text for public consultation in November. The proposal seeks to open up financial institutions' customer data and banking services to third-party providers through shared software.

In October, the central bank [sent](#) Congress a bill to allow firms and qualifying individuals to open dollar-denominated bank accounts, which are currently forbidden for most Brazilians outside the remittance and tourism industries.

If approved, the bill will lower international trading costs and red tape for merchants and individuals. However, the bill remains stalled in Congress, which can take up to two years to vote on the matter.

- **2020.** After the banking and payment-processing industry [submitted](#) comments on the open-banking bill, the central bank [announced](#) implementation will start in November.

Due to the planned gradual approach—in which financial institutions open up products, services, and customer information to other financial actors—the central bank [expects](#) full implementation to extend until October 2021.

How many neobanks are there in Brazil?

There are nine legally recognized neobanks in Brazil. In most cases, they started as digital branches of traditional financial institutions with banking permits of their own. Many have participated in successful rounds of capital raising.

[Agibank](#)

- It reported 1.1 million accounts and over 0.8 million active clients as of Q2 2020.
- Fitch Ratings gave it a long-term rating of BBB with a stable outlook.

[Banco Inter](#)

- As of Q2 2020, it had 3.4 million active users and 5.9 million accounts.
- Fitch and S&P gave it a long-term rating of A- and AAA-, respectively.

[C6 Bank](#)

- On December 31, 2019, it reached 1 million users.
- It has around 2.5 million individual checking accounts and holds more than 600,000 business accounts.

[Meu Pag!](#)

- Founded in Brazil, it has more than 1 million active users around the world.
- More than 50 percent of clients reside in cities with fewer than 100,000 inhabitants, and 40 percent were first-time users of formal financial services.

Neon

- It has around [2 million](#) accounts based in Sao Paulo and Rio de Janeiro.
- In 2018, the Spanish bank BBVA [returned](#) to Brazil and injected \$22 million of fresh capital into Neon.
- In total, Neon has raised [\\$420.3 million](#) in three funding series to [expand](#) beyond Brazil's largest cities and double its customers.

Next

- It is the neobank branch of Bradesco, one of Brazil's largest traditional banks.
- It won the 2019 Best Digital Bank in Latin America award by Euromoney Awards for Excellence and the Best Digital Bank in Brazil award by *Global Finance* magazine.

Nubank

- It has more than [25 million](#) customers across Brazil, Mexico, Argentina, and Colombia.
- On March 30, 2020, S&P [downgraded](#) its long-term rating outlook from stable to negative. Long-term and short-term ratings on debt notes remain at A-.
- The company has raised [\\$1.4 billion](#) in eight venture-capital rounds.

Original

- The first Brazilian digital-only bank that started as a branch of a traditional institution.
- In December 2019, it reached 3 million clients across Brazil.
- It holds a long-term rating of BBB and a short-term rating of F3 by Fitch Ratings.

Superdigital

- Founded in 2012 as ContaSuper, it became Superdigital in May 2017, when the Spanish bank Santander bought it. In 2018, Superdigital started operating in Chile as well.
- It has more than 1.9 million accounts.

Why has Nubank climbed to the top of the world among its kind?

With a [\\$10 billion](#) market valuation, Nubank is the world's highest-valued neobank. Further, it is the sixth-largest financial institution in Brazil and has the most-downloaded phone app.

Although millennials have been its early adopters, Nubank now serves a broader public.

For Nubank CEO David Vélez, its success relies on [four cornerstones](#):

1. In-house technology.
2. A transparent and user-friendly platform that increases customer trust.
3. Data science to mine information, improve services, and personalize marketing.
4. Around-the-clock customer support.

Another reason for Nubank's success is the [network effect](#) stemming from its sizable customer base, economies of scale, and aggressive initial expansion.

In June 2020, Neobank [announced](#) an alliance with WhatsApp—the country's most popular messaging service—to offer in-app payments. Brazil's central bank, however, [ordered](#) the company not to roll out the service, which is pending regulatory review.

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