

Fintechs - LatAm

Why are neobanks thriving? We asked 1k Brazilians

Industry Overview

Our 5th annual survey summarized in 30+ exhibits

Our 5th annual survey, conducted between 2 February and 5 February 2024 with 1.0k respondents, shows that neobanks continue to make significant strides in Brazil. They are gaining principality, especially in the low-income segment, and are successfully cross-selling credit products, validating the thesis that their business models can be profitable. We also gathered further evidence that the industry is concentrating among a handful of neobanks. However, we also noted the return of some pre-pandemic banking habits, e.g., increased visits to physical branches.

#1 – Neobanks gaining relevance, especially in low-income

The number of respondents using neobanks exclusively increased again in this year's survey to 12% of the total, while the number of users of both neo and traditional banks declined. The increase was particularly supported by low-income customers (c.30% using only neobanks vs c.10% in '19).

#2 – Credit products gaining traction

The number of respondents using credit products has increased sequentially (to 55% of the total from 43% in '21), suggesting that neobanks are successfully able to cross-sell. Cards and deposits were used by c.70% of respondents, key indicators of client principality. On the negative note, sale of insurance products has failed to gain traction.

#3 – Principality reduces risk of delinquency

Users continue to prioritize payments of neobank credit card balances. We believe this is explained by the fact that clients concentrate deposits and credit card expenses in these institutions and want to maintain good relationships with them.

#4 – Further evidence of a few winners

Nu remained the most popular app in Brazil, used by 70% of respondents in our survey, followed by PayPal and PicPay. The number of users not opening new neobank accounts increased to c.30% from 20% in '22, suggesting users are less receptive to new apps.

#5 – Zero fees and higher credit limits are key attractions

Zero fees on cards/current accounts and higher credit limits are key attributes to attract users of both neobanks and traditional banks. More than half of respondents noted that they were offered higher credit card limits by neobanks.

#6 – Branches are making a comeback

70% of respondents reported using bank branches in '23, an unexpected increase from c.50% in '22, reflecting partial resumption of pre-pandemic habits. Importantly, close examination of branch usage suggests challenges for both neo and traditional banks. Close to 80% high-income clients use branches frequently, a challenge to neobanks that expect to serve this group exclusively digitally. Meanwhile, 50% of low-income clients also use branches, illustrating banks' concerns about the economics of this group, as their revenues hardly compensate for the cost to serve them.

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Refer to important disclosures on page 15 to 16.

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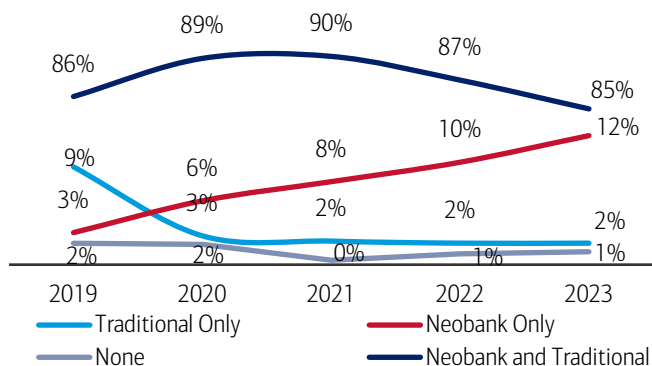
ARPAC: average revenue per active client

Higher principality on low-income clients

The number of respondents using neobanks exclusively has increased sequentially since our first survey. In the first years of the digitalization process, respondents used both neobanks and traditional banks (from '19 to '21). However, since '21, the number of neobanks and traditional banks in Brazil has declined.

Exhibit 1: Breakdown of usage of neobanks and traditional banks

Number of people using exclusively neobanks has increased...



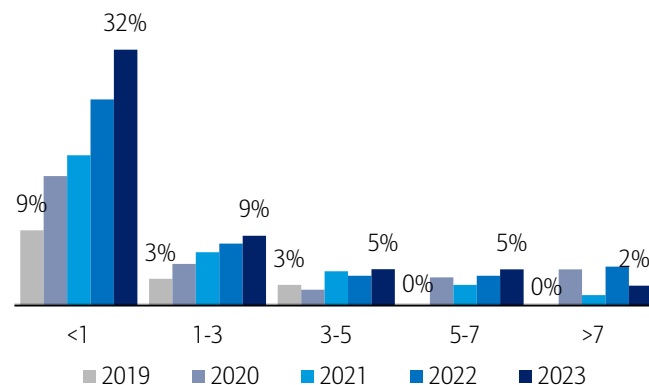
Number of people using exclusively neobanks increased

Source: BofA Global Research

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Exhibit 2: "Neobank only" users over time (% of population by minimum wage)

...especially among lower income bands...



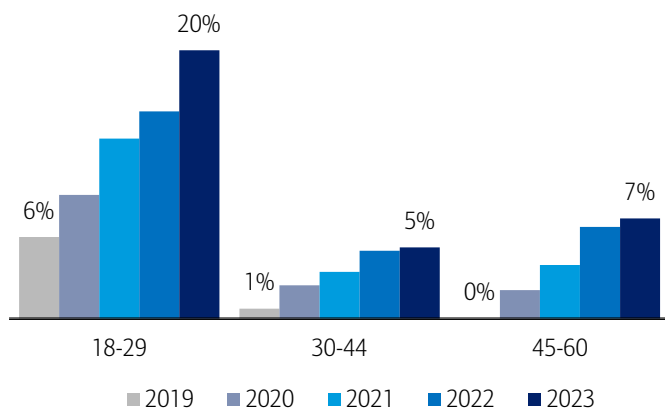
Source: BofA Global Research.

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The increase in digital users has been concentrated in low-income and young respondents. One-third of respondents who earn less than one minimum wage used only neobanks in '23, a sharp increase from 9% in '19. Similarly, 20% of respondents less than 29 years of age used only neobanks vs 6% in '19.

Exhibit 3: "Neobank only" users over time (% of population by age group)

...and younger audiences

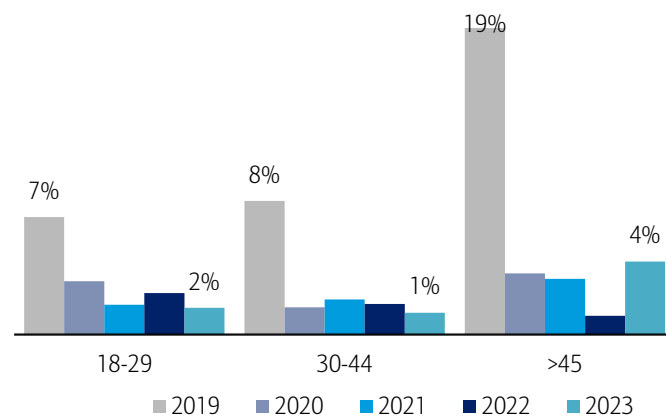


Source: BofA Global Research

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Exhibit 4: "Traditional banks only" users over time (% of population by age group)

Older audiences have adopted fintechs since '19



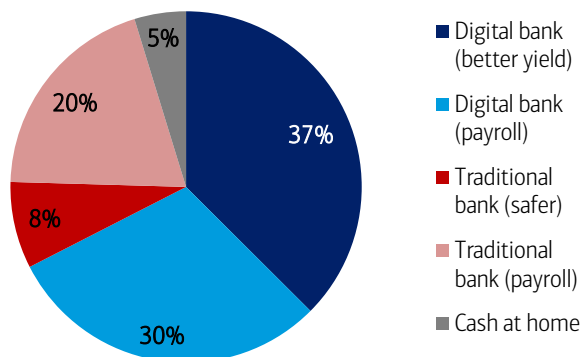
Source: BofA Global Research

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Importantly, stronger adoption of neobanks was followed by higher inflows into deposits and higher volumes of credit card transactions – which are key indicators of principality. 67% of respondents invested their savings in neobanks, explained by most as because of higher returns on deposits vs traditional banks. Similarly, 65% of respondents concentrate most of credit cards expenses on cards issued by neobanks, driven mostly by higher credit limits vs traditional banks.

Exhibit 5: Where do you concentrate most of your deposits, and why?

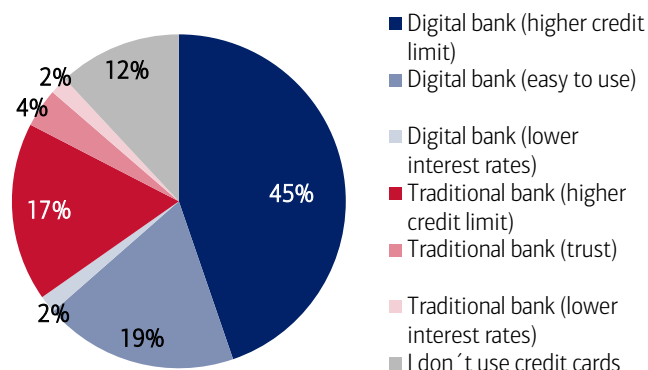
More than 60% of respondents concentrate deposits at neobanks' accounts...



Source: BofA Global Research

Exhibit 6: Where do you concentrate most of your credit card expenses, and why?

...and concentrate expenses on neobank credit cards



Source: BofA Global Research

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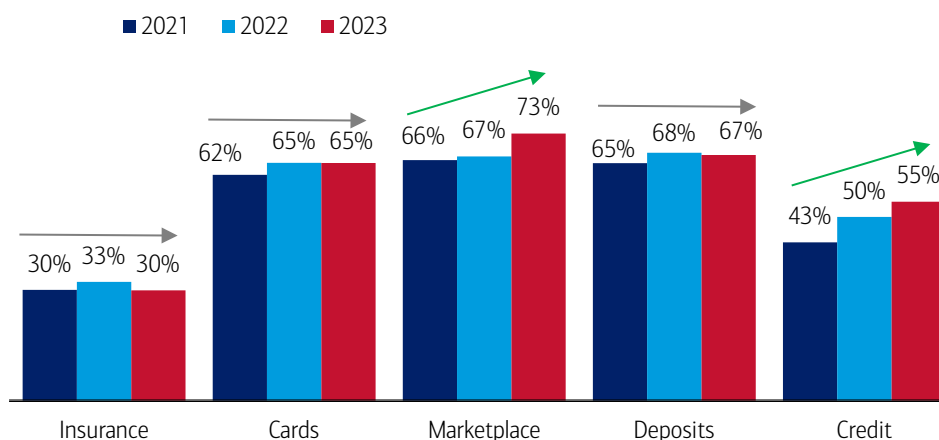
Credit is gaining traction at neobanks

Credit cards and deposits are not the only products used by neobanks' clients. Our survey indicates that credit products have gained relevance over the last years, with more than half of respondents using a credit product from a neobank (vs 43% in '21).

This is very important for monetization and ARPAC expansion, as neobanks rely on credit products and alternative fees to support ROEs, given that they usually operate with zero fees on current accounts, credit cards and transactions. The marketplace has been successful among alternative business verticals, while insurance has failed to gain traction.

Exhibit 7: Usage of products on neobanks (% of respondents)

Credit and marketplace have gained traction among users



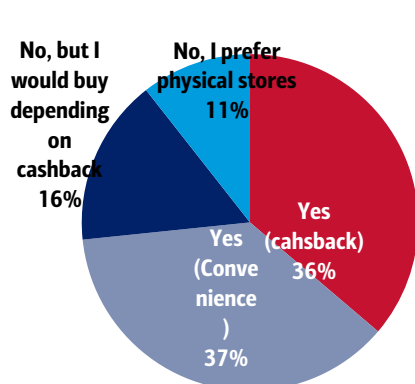
Source: BofA Global Research

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One-third of respondents are willing to take a credit product from a neobank, depending on the interest rate charged, which represents an opportunity for neobanks. Also, half of marketplace clients were driven by cashbacks, while the other half was driven by the convenience of buying a product on the banking app, suggesting that the business could be pressured by reductions in cashback incentives. Finally, half of respondents would purchase an insurance product in a neobank, illustrating an important opportunity to expand this product.

Exhibit 8: Do you buy in the marketplace in your banking app?

Almost 2/3 of respondents bought in a banking app marketplace in '23

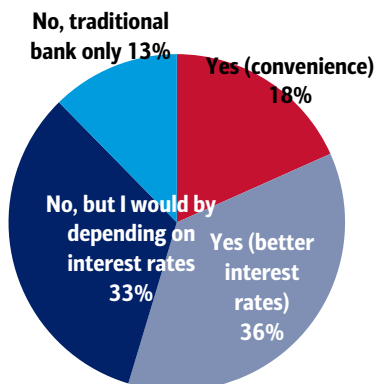


Source: BofA Global Research

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Exhibit 9: Do you have a credit product with a neobank?

More than half of respondents have a credit product with a neobank

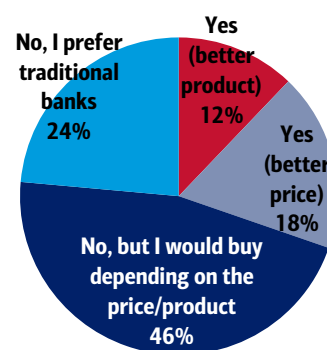


Source: BofA Global Research

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Exhibit 10: Do you have an insurance product with your neobank?

About 1/3 have an insurance product from a neobank



Source: BofA Global Research

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No fees and high credit card limits

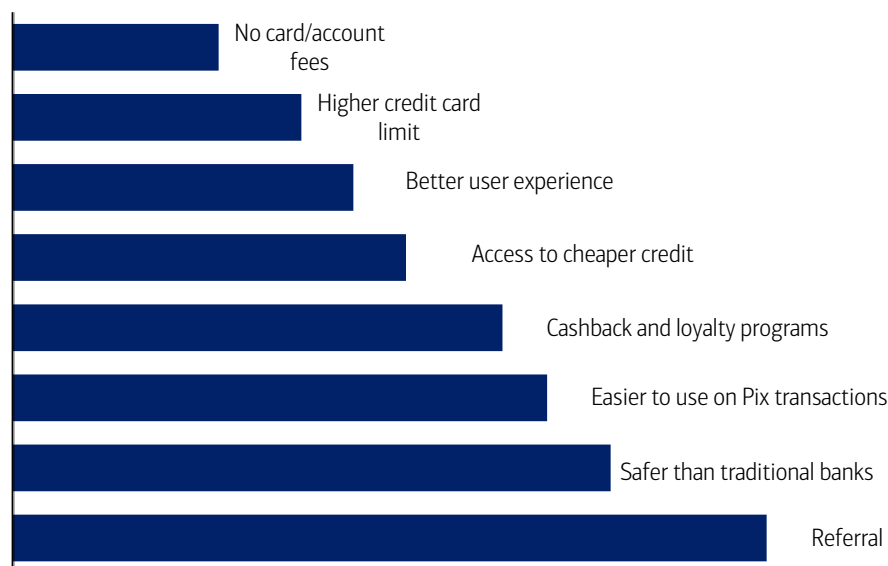
Higher penetration of credit and alternative revenues are an important step for neobanks, as free credit cards, current accounts and transfer are key demands from consumers.

Indeed, free cards/accounts were chosen as the most important reason to have bank accounts (both neobanks and traditional banks). The second most mentioned attribute (for users of both neobanks and traditional banks) was higher credit cards limits.

In the third place, users of neobanks and traditional banks diverge. While users of neobanks prefer better user experience, users of traditional banks privilege cheaper access to credit.

Exhibit 11: Reasons to use a neobank (most mentioned on top)

Users of neobanks privilege zero fees and higher credit limits

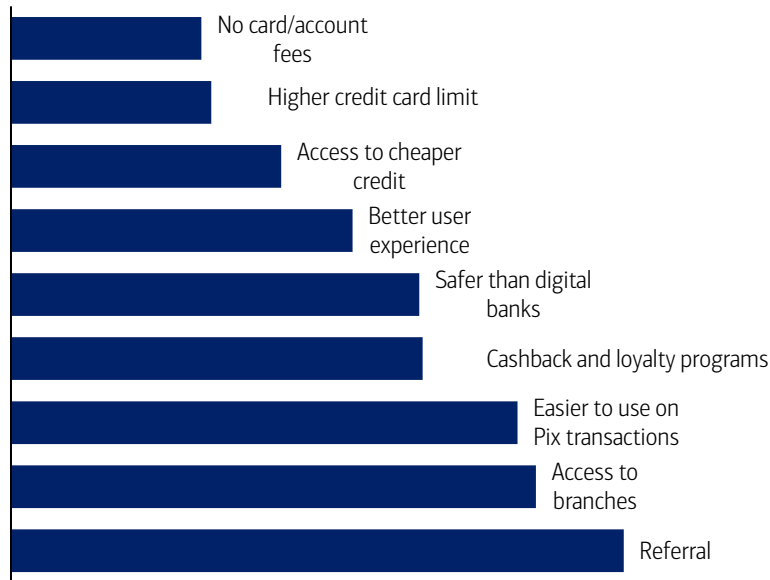


Source: BofA Global Research. Note: respondents were asked to rank these 8 reasons in terms of importance. The data above represents an average score of each alternative.

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Exhibit 12: Reasons to use a traditional bank (most mentioned on top)

Users of traditional banks have the same priorities vs neobanks



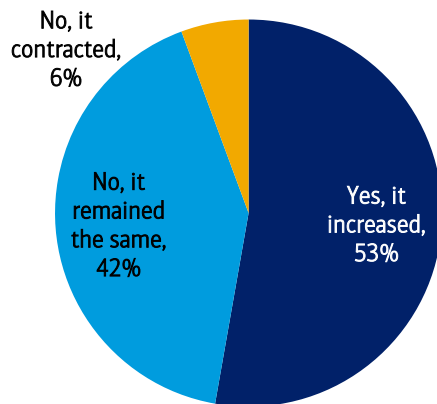
Source: BofA Global Research Note: respondents were asked to rank these 8 reasons in terms of importance. The data above represents an average score of each alternative.

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More than half reported higher credit limits on neobanks in '23, which could explain the increase in principality on these institutions. Traditional banks, on the other hand, have been less aggressive. 31% of respondents mentioned higher credit limits with traditional banks.

Exhibit 13: Did your neobank credit card limit increase in '23?

53% of respondents reported higher credit card limits in neobanks in '23

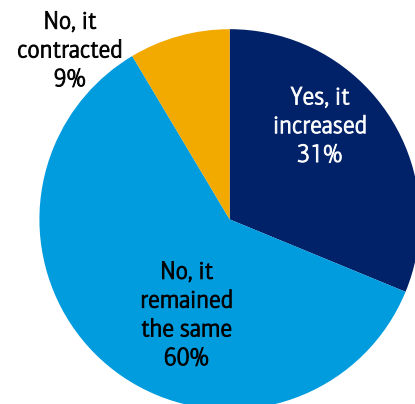


Source: BofA Global Research

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Exhibit 14: Did your traditional bank credit card limit increase in '23?

31% of respondents reported higher credit card limits in traditional banks in '23



Source: BofA Global Research

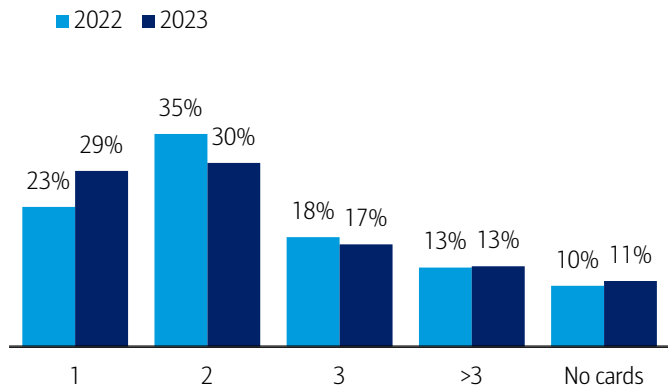
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Also, more than half of respondents mentioned that they didn't acquire a new credit card in '23 (43% in '22), reinforcing our thesis on consolidation and saturation in this market. In line with this data, 29% reported using only one credit card vs 23% in '22.

Almost 80% of respondents didn't have an overdue bill, and 9% had bills overdue for less than 15 days. Importantly, one-third of respondents prioritize the payment of their neobank credit card bill over utilities and traditional credit cards bill. We believe this is correlated by high principality levels, as clients need to preserve healthy relationships with their main institution (to maintain high credit limits).

Exhibit 15: How many credit cards do you use?

The percentage of respondents that used only one card reached 29% (vs 23% in '22)

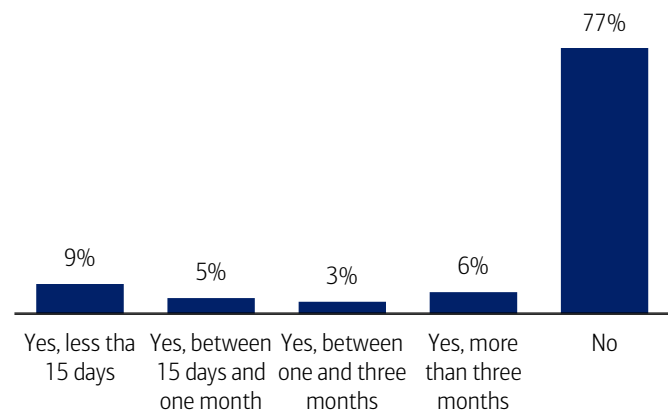


Source: BofA Global Research

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Exhibit 17: Are any of your credit cards bills overdue?

About 80% do not have overdue bills

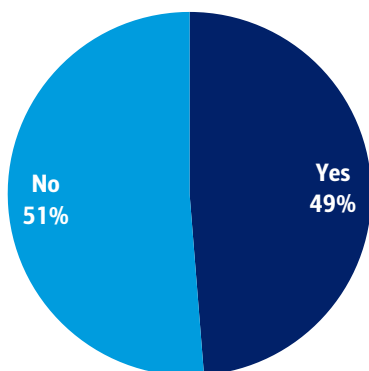


Source: BofA Global Research

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Exhibit 19: Do you intend to acquire a new credit card over the next 6 months?

Half of respondents should acquire a new credit card over the next months

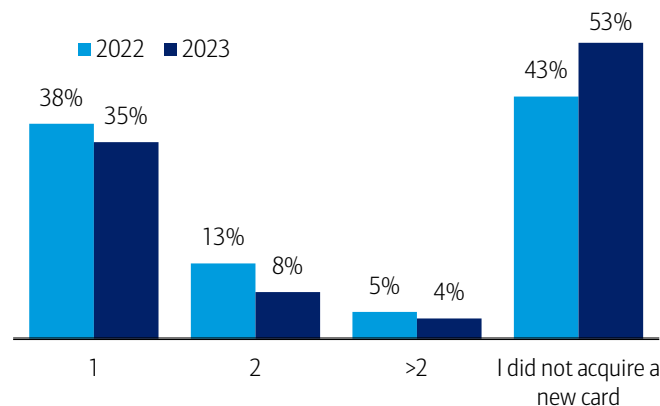


Source: BofA Global Research

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Exhibit 16: How many credit cards did you acquire in '22

The percentage of respondents that didn't acquire a new card reached 53% (vs 43% in '22)

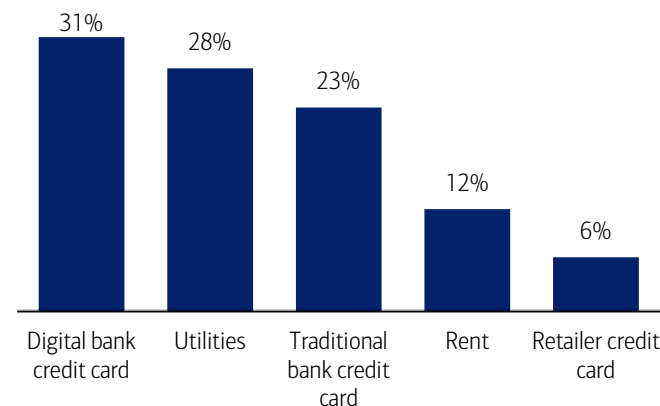


Source: BofA Global Research

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Exhibit 18: Which bill are you most concerned about paying?

Digital banks have the priority, as they concentrate most of expenses



Source: BofA Global Research

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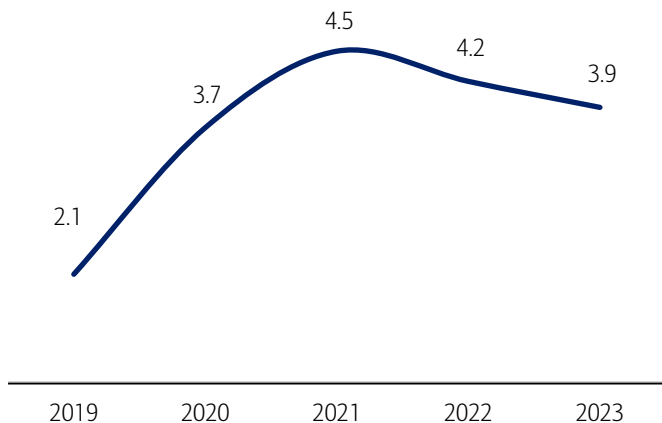
Only a few are thriving

The number of apps used on average by respondents contracted for the second consecutive year (3.9 apps/users from 4.5 in '21). The data is in line with monthly download data provided by Sensor Tower, which suggests that users are downloading fewer apps and that this industry is closer to maturation (especially considering that the active user base in Brazil is close to 80% of the population).

Downloads averaged 13mn/month in '23 vs 18mn/month in '22 and 21mn/month in '21 (the peak in the historical series). As observed in previous surveys, the overlap between apps is lower with older and less wealthy groups.

Exhibit 20: Evolution of the average number of apps by respondent

Average number of apps per user fell to 3.9, from peak of 4.5 in '21...

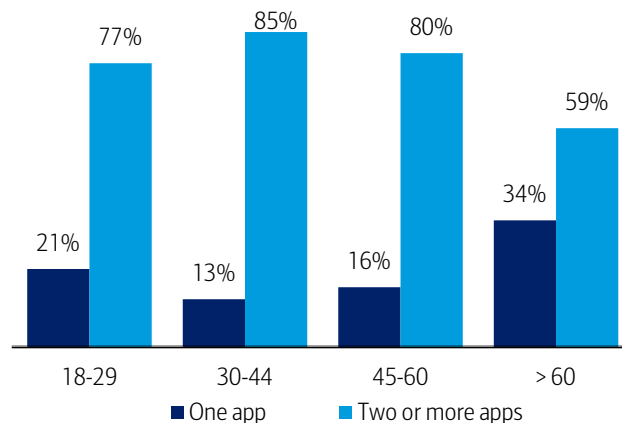


Source: BofA Global Research

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Exhibit 21: Apps overlap by age group (years)

...with lower overlap among older groups....

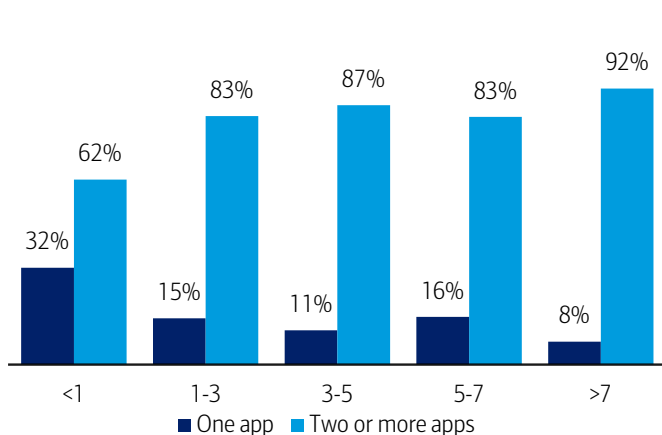


Source: BofA Global Research

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Exhibit 22: Apps overlap by income band (# of minimum wages)

...and higher overlap among wealthier groups

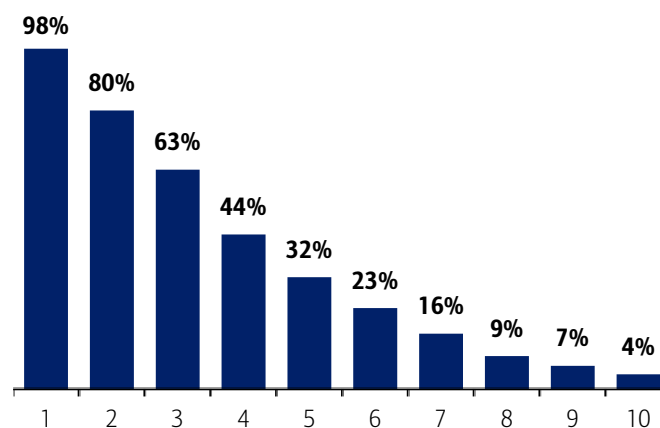


Source: BofA Global Research

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Exhibit 23: Apps overlap - % of respondents with # apps

63% of respondents used 3 apps or more



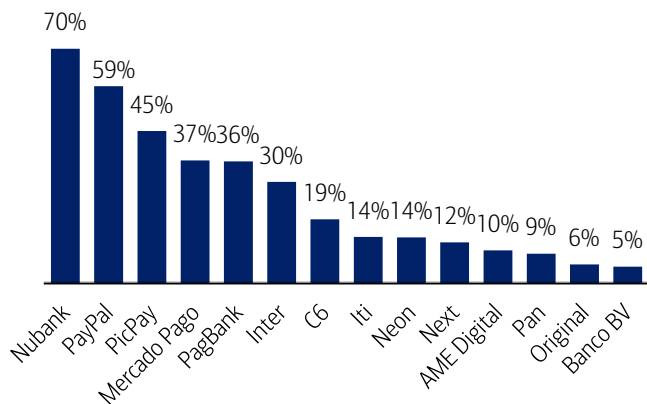
Source: BofA Global Research

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Close to 60% of respondents used three or more apps. Nubank was the most used neobank, as expected (70% of respondents used the app), followed by PayPal (59%), PicPay (45%), Mercado Pago (37%), PagBank (36%) and Inter (30%). Nubank and PagBank were the only names to gain traction vs our '22 survey.

Exhibit 24: Apps penetration among the digital population (% of respondents)

70% of respondents used Nubank



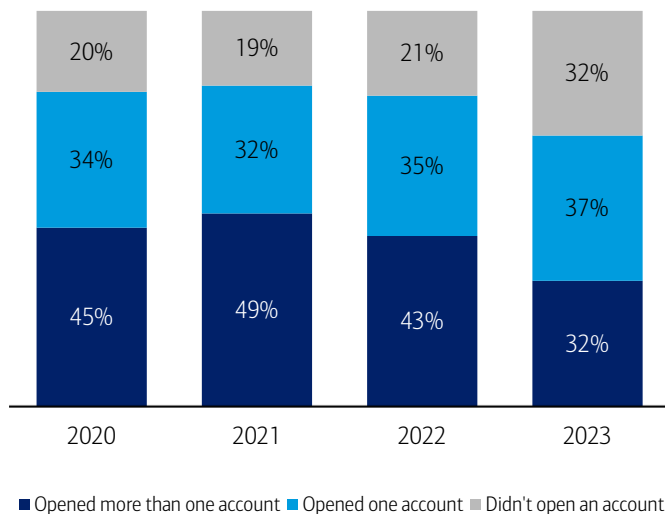
Source: BofA Global Research

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Close to 30% of respondents didn't open a digital account in '23 (higher than c.20% in previous years) and 35% do not intend to open another account – in line with previous evidence of saturation and lower willingness to test new apps.

Exhibit 26: Digital account openings in '23

32% didn't open a new account in '23, well above previous years' levels



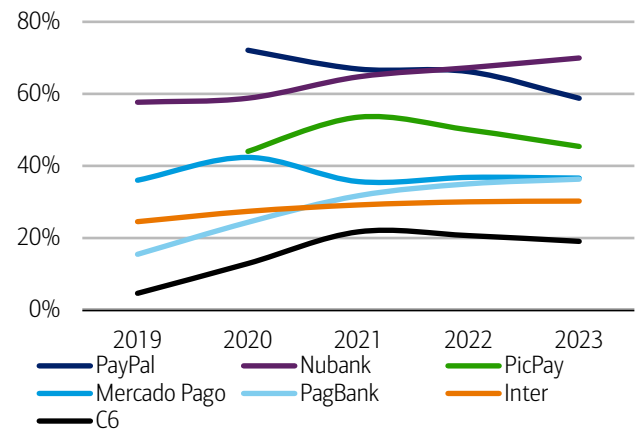
Source: BofA Global Research

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Finally, our consolidation thesis is confirmed by churn data. Our survey suggests churn close to 35% among smaller apps.

Exhibit 25: Evolution of the top 7 fintechs (% of respondents)

Nubank and PagBank gained traction, while others stalled

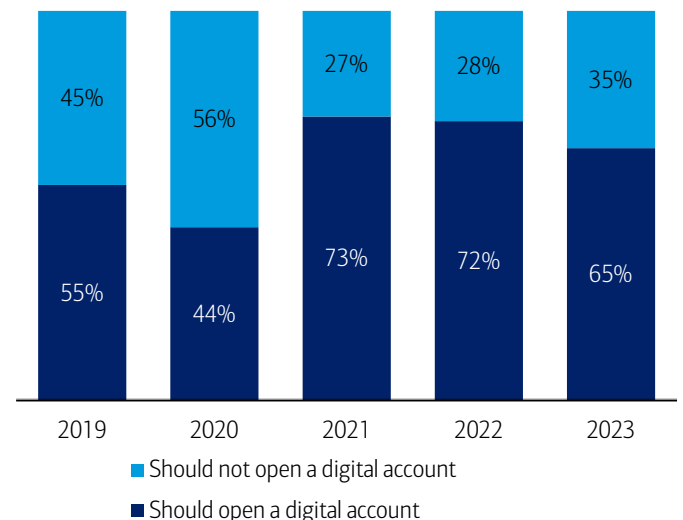


Source: BofA Global Research

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Exhibit 27: Intention to open a digital account over the next months

35% of respondents should not open a digital account over the next months

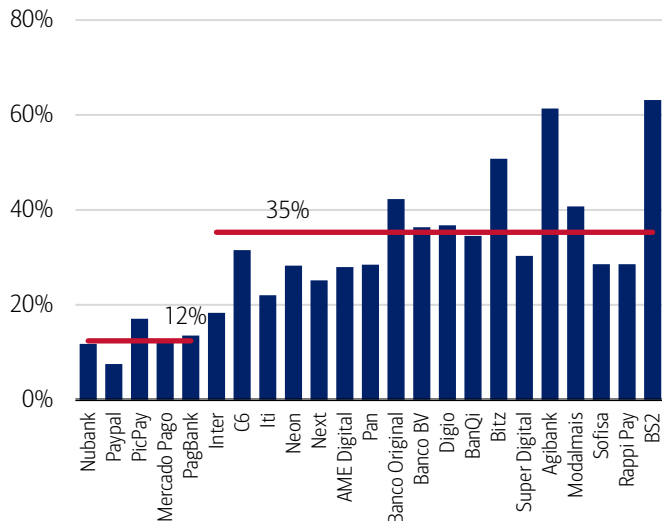


Source: BofA Global Research

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Exhibit 28: Churn by neobank (sorted by penetration in our surveyed base)

Churn of 35% among less penetrated players, vs 12% among more penetrated players

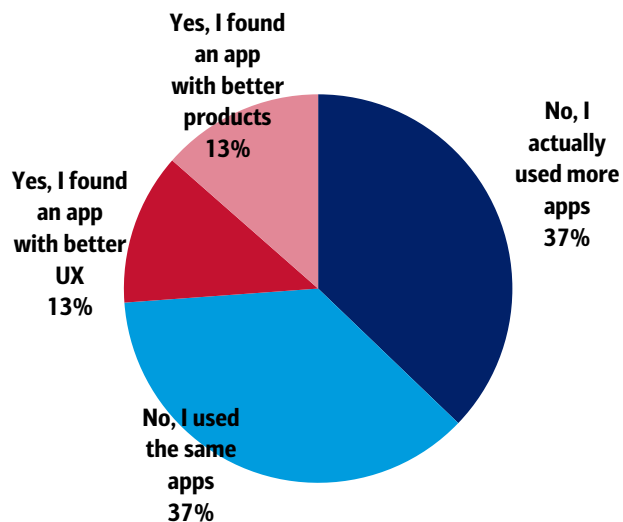


Source: BofA Global Research

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Exhibit 29: Did you stop using any accounts in '23?

37% used the same apps, 37% used additional apps, and 26% substituted apps for new ones



Source: BofA Global Research

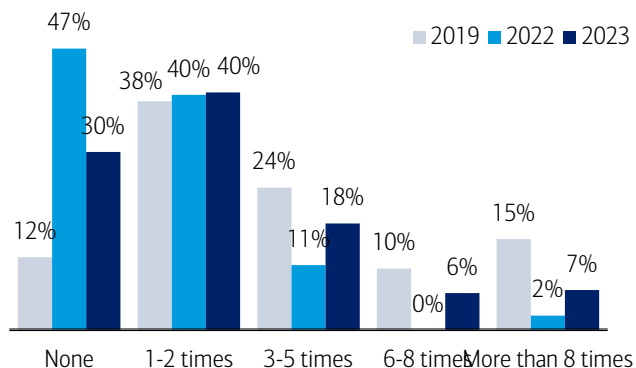
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Branches are unexpectedly back

We perceive some pre-pandemic banking habits regaining traction in '23. While almost half of respondents didn't visit a bank branch in '22, only 30% didn't visit one in '23 (still well above pre-pandemic levels, when only 10% of respondents didn't visit branches). Importantly, closer examination of branch usage suggests challenges to both neo and traditional banks. Close to 80% of high-income clients frequently use branches, a challenge to neobanks that expect to serve this group exclusively digitally. Meanwhile, 50% of low-income customers use branches, illustrating banks' concerns about the economics of this group, as their revenues hardly compensate for the cost to serve them. Interestingly, the number of respondents who intend to keep their traditional bank account has been increasing over the last years, from c.80% to c.90%.

Exhibit 30: Visits to bank branches per month

Only 30% didn't visit bank branches in '23, vs c.50% in '22

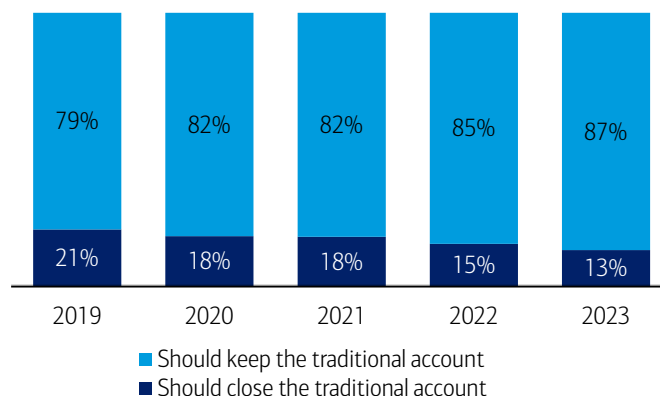


Source: BofA Global Research

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Exhibit 31: Intention to close a traditional bank account

87% want to keep their traditional bank account



Source: BofA Global Research

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Exhibit 32: Monthly visits to bank branches (per income band)

Half of clients with less than one minimum wage visit bank branches, and close to 80% of high-income clients use them

Minimum wages	< 1	1 - 3	3 - 5	5 - 7	> 7
Don't use	50%	27%	23%	19%	18%
Use branches	50%	73%	77%	81%	83%
1-2 times	32%	41%	42%	40%	45%
3-5 times	10%	19%	22%	15%	28%
6-8 times	2%	8%	4%	11%	3%
More than 8 times	5%	5%	9%	15%	8%

Source: BofA Global Research

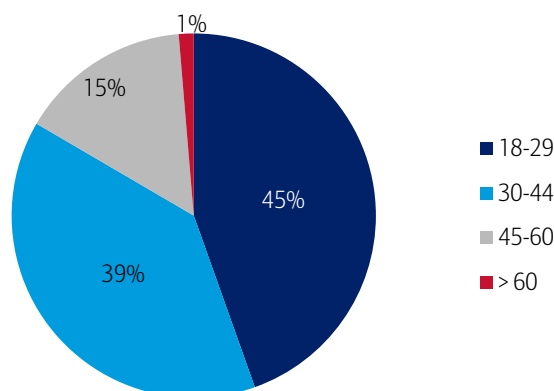
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Demographics of our survey

We surveyed 1,000 respondents, equally distributed in terms of gender, and well diversified in terms of age and income. 65% of the respondents earn less than three minimum wages monthly, equivalent to R\$4,236, and 81% of the respondents earned less than five minimum wages, equivalent to R\$7,060. According to IBGE data, 64% of the Brazilian population earns less than four minimum wages, which is congruent with our survey statistics. Our respondent base is also concentrated among individuals between 18 and 29 years old (45% of the respondents), and almost all respondents were between 18 and 60 years. According to IBGE data, more than 80% of the Brazilian population is old enough to be formally employed.

Exhibit 33: Distribution by age (years)

Age groups distributed in line with the Brazilian demography

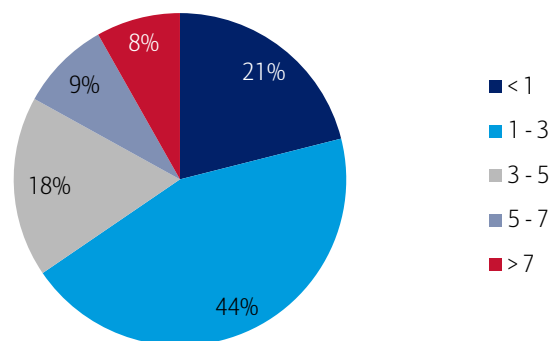


Source: BofA Global Research

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Exhibit 34: Distribution by monthly income (# of minimum wages)

Income band distributed according to the Brazilian demography



Source: BofA Global Research

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Our questions

- Do you hold an account with a digital bank / e-wallet? They include Nubank, Banco Inter, C6, Mercado Pago, Banco Original, Neon, PagBank, Rappi Pay, AME Digital etc.
 - Yes
 - No
- Which ones?
 - I do not hold an account with a digital bank
 - Agibank
 - AME Digital
 - Banco Original
 - BanQi
 - Bitz

- BS2
 - C6
 - Digio
 - Inter
 - Iti Itau
 - Mercado Pago
 - Modalmais
 - Nubank
 - PagBank
 - Pan
 - PayPal
 - PicPay
 - Neon
 - Next
 - N26
 - Rappi Pay
 - Sofisa
 - Other digital bank. Which one?
3. Why do you have an account in a digital bank?
- Zero fees on account and credit card
 - Higher credit card limit
 - Cheaper access to credit
 - The app is simpler to use
 - Access to cashback or loyalty programs
 - I think it is safer than traditional banks
 - I needed easy access to make Pix transactions
 - A friend suggested this app, I tried and liked it.
4. Do you hold an account with a traditional bank? They include Itau, Santander, Banco do Brasil, Caixa, Bradesco, etc.
- Yes
 - No
5. Which ones?
- I do not have an account with a traditional bank
 - Banco do Brasil
 - Itau
 - Bradesco
 - Santander
 - Caixa
 - Other traditional bank. Which one?
6. How many times per month would visit a bank branch in '23?
- Zero times
 - One to two times
 - Three to five times
 - Six to eight times
 - More than eight times
7. Why do you have an account in a traditional account?
- Zero fees on account and credit card
 - Higher credit card limit
 - Cheaper access to credit
 - The app is simpler to use
 - Access to cashback or loyalty programs
 - I think it is safer than traditional banks

- I needed easy access to make Pix transactions
 - A friend suggested this app, I tried and liked it.
 - I need access to physical branches
8. If you do not hold an account with a digital bank, do you intend to open one in the next six months?
- Yes
 - No
9. If you already hold an account with a digital bank, do you intend to close your traditional bank account?
- Yes
 - No
 - I do not have a digital account
10. Have you opened one or more fintech accounts in 2023?
- Yes
 - No
11. Did you stop using any fintech in 2023? Why?
- No, I only added new apps.
 - No, I am using the same apps.
 - Yes, I found a new app with better products.
 - Yes, I found a new app with better experience.
 - Yes, I stopped using due to other reason.
 - Insert reason
12. Which apps did you stop using?
- Agibank
 - AME Digital
 - Banco Original
 - BanQi
 - Bitz
 - BS2
 - C6
 - Digio
 - Inter
 - Iti Itau
 - Mercado Pago
 - Modalmais
 - Nubank
 - PagBank
 - Pan
 - PayPal
 - PicPay
 - Neon
 - Next
 - N26
 - Rappi Pay
 - Sofisa
 - Other digital bank. Which one?
13. Have you used Pix (instant payments)?
- Yes
 - No
 - No, but I intend to use

- I do not know what Pix is
14. Do you have an insurance product in your digital bank?
 - Yes, it had better prices than my traditional bank/broker.
 - Yes, it was more convenient than my traditional bank/broker.
 - No, but I would buy if it was more convenient/cheaper than my broker.
 - No, I prefer to acquire in a bank branch or broker.
 15. Do you buy physical goods through your banking app?
 - Yes, due to cashback offers.
 - Yes, as it is more convenient.
 - No, but I would by with cashback offers.
 - No, I prefer to buy in physical stores.
 16. Where do you concentrate most of you deposits/ reserves?
 - In my digital bank account, as it offers higher returns on my deposits.
 - In my digital account, as it is my payroll account.
 - In my traditional bank, as it is my payroll account.
 - In my traditional bank, as I trust more in it.
 - I prefer to save money in cash, at home.
 17. Do you have a credit product in your digital bank?
 - Yes, it has lower interest rates.
 - Yes, it was more convenient than my traditional bank.
 - No, but I would hire if interest rates were lower than in my traditional bank.
 - No, and I would hire credit only in a traditional bank.
 18. Which institution issued your main credit card?
 - My digital bank, since I have a higher credit limit.
 - My digital bank, since it is easier to use.
 - My digital bank, since it has lower interest rates.
 - My traditional bank, since I have a higher credit limit.
 - My traditional bank, since it is easier to use.
 - My traditional bank, since it has lower interest rates.
 - I do not use a credit card.
 19. Is any of your credit cards bills overdue?
 - Yes, less than 15 days.
 - Yes, between 15 days and one month.
 - Yes, between one month and three months.
 - Yes, more than three months.
 - No.
 20. Which bill are you most concerned about paying?
 - Traditional bank credit card bill.
 - Neobank credit card bill.
 - Retailer credit card bill.
 - Utilities bills.
 - Rent.
 21. How many credit cards do you have?
 - One.
 - Two.
 - Three.
 - More than three.
 - I don't have one.

22. Have you acquired a new credit card in 2022?
- Yes, one.
 - Yes, two.
 - Yes, more than two.
 - No.
23. Do you intend to acquire a new credit card in the next 6 months?
- Yes
 - No
24. Did your neobank credit card limit increased over the six months?
- Yes, it increased.
 - No, it contracted.
 - No, it is unchanged
25. Did your traditional bank credit card limit increase over the six months?
- Yes, it increased.
 - No, it contracted.
 - No, it is unchanged
26. Do you use your revolving credit card line?
- Yes, I know how much it costs
 - Yes, but I am not sure how much it costs
 - No, I don't use
27. Do you use NFC payment?
- Yes, I and like the experience
 - Yes, but I don't like the experience (I use only when I don't have my wallet)
 - No, I don't like the experience
28. What is your monthly income range?
- Less than 1 minimum wage (1,412 reais)
 - Between 1 and 3 minimum wages (1,412 – 4,236 reais)
 - Between 3 and 5 minimum wages (4,236 – 7,060 reais)
 - Between 5 and 7 minimum wages (7,060 – 9,884 reais)
 - More than 7 minimum wages

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