**Mobile Money Ecosystem**

There is hope for the thousands of middle and low-income Brazilians who are currently demanding better services from their government. Last May, [just as the protest movement](http://www.economist.com/news/americas/21579857-bubbling-anger-about-high-prices-corruption-and-poor-public-services-boils-over) was getting started, the Central Bank of Brazil issued the much awaited [medida provisoria](http://presrepublica.jusbrasil.com.br/legislacao/1034911/medida-provisoria-615-13) (MP) for mobile payments.  The bill establishes the regulatory framework to allow non-bank eMoney issuance; and while at the moment it is only a general directive that defines what constitutes a payments scheme, which actors can be involved (MNOs, digital wallet providers, card companies and merchant acquirers), and the ability of the central bank to regulate such schemes, it is already paving the way for a number of commercial partnerships to go to the market.

 Photo Credit:Olivier Bouebls

In the eyes of the financial inclusion community, [Brazil](http://www.cgap.org/publications/technology-program-country-note-brazil) is seen as a [global leader](http://www.cgap.org/blog/meanwhile-brazilare-we-there-yet) in branchless banking, with one of the most extensive agent networks in the world.  However, 86% of its population is urban and some estimate that tens of millions of people live in urban areas with low-quality financial services, if any at all. In addition, when it comes to mobile payments,  it has been a sleeping giant, trailing behind countries like Colombia and Mexico which have seen already a number of  banks,  MNOs or joint-partnerships  launch innovative mobile financial services.

But what does this new bill really mean for Brazil’s [260 million connections](http://www.gsma.com/spectrum/wp-content/uploads/2012/10/gsma_brazil_obs_web_09_12-1.pdf): the fourth largest mobile market in the world and the largest in Latin America?

Partnerships and pilots are in place, the environment is generally positive (protest movement aside), and consumers appear willing to try mobile payments.  According to Mastercard’s [m-readiness index](http://mobilereadiness.mastercard.com/country/?br), 19% of Brazilians are willing to try mobile financial services. The mobile communications sector in Brazil is highly competitive:  The largest operator, Vivo, has a market share of 29%, followed by TIM (26%), Claro (24.5%) and Oi (18.5%). All four have officially developed some form of MFS solution.

* Vivo formed a [joint venture](http://blog.digital.telefonica.com/?press-release=mfs-launches-the-first-mobile-payment-service-in-brazil&repeat=w3tc) with MasterCard and went live right after the MP went into effect under the name of [Zuum,](http://blog.digital.telefonica.com/?press-release=mfs-launches-the-first-mobile-payment-service-in-brazil&repeat=w3tc) becoming the first MNO to go to market. Zuum is now available in five cities in the state of São Paulo (Osasco, Sorocaba, Mogi das Cruzes, Jundiaí and Guarulhos) and in Belo Horizonte, capital of the state of Minas Gerais.
* Claro and [Bradesco](http://blip.tv/cgap/microfinance-now-marcos-bader-5837524) formed a partnership in October 2012 and announced plans for a mobile wallet in Q3 2013 and transactions via NFC in Q4. CGAP was directly involved in this project through its API work. (Click  [here](http://cgap.org/blog/it%E2%80%99s-not-quantity-quality-consumer-research-brazil) and [here](http://www.cgap.org/blog/savings-conundrum-lessons-pack-cards) for more details)
* Oi, Brazil's fourth largest operator has furthered it partnership with [Banco do Brasil and Cielo](http://www.cgap.org/blog/will-brazil%E2%80%99s-banks-share-agents) to launch Oi Cartera, a wallet that allows users to make purchases in establishments that have teamed up with Cielo, one the largest acquiring networks in the country.
* TIM [announced](http://www.telesemana.com/blog/2013/01/08/tim-el-banco-caixa-y-mastercard-firmaron-un-acuerdo-para-ofrecer-servicios-de-pago-movil/) a similar service following an agreement with Caixa and MasterCard in January 2013 to be available by 2014.

From conversations at the Central Bank, we have learned that one of the objectives of the payments bill is to create the "lightest" possible mechanism in terms of regulatory burden for commercial players, hoping it will translate into cheaper products and payment instruments that will reach low-income customers.  What is becoming evident is that when it comes to regulation Brazil seems to be taking the same path as Peru, (as opposed to Colombia and Mexico) as my colleague Xavier Faz [blogged about recently](http://www.cgap.org/blog/new-wave-e-money-latin-america).

To the relief of some, interoperability will not be mandated, but it is signaled as a goal further down the road, and any new service which receives a license will be required to have a clear roadmap of how it will eventually interoperate with the wider financial ecosystem.  This bill is the result of a 7 year-discussion between market players, government ministries and international institutions such as CGAP.   It took effect immediately after publication, but to become law, it must be first approved by Congress. (Click [here](http://www12.senado.gov.br/noticias/entenda-o-assunto/medida-provisoria-1)for more information on the timeframe).

The question that remains is how much impact will this medida provisoria have on financial inclusion?  Perhaps the ones who will benefit the most will be online and mobile payment providers such as PayPal, [PagSeguro](https://pagseguro.uol.com.br/); and [startups](http://techcrunch.com/2012/09/12/startup-alley-brazilian-pavilion-at-disrupt-shows-an-exploding-startup-scene/) such as[Zoop](http://pagzoop.com/), [Akatus](https://site.akatus.com/akatus-mobile/), and [GoPay](https://www.gopayment.com.br/) that are enthusiastically looking into opportunities in this space.

Recent developments in the national regulation and partnerships between telecommunications companies and financial institutions are pointing to the large potential for the sector of mobile payments in Brazil. In this article we will present an overview of the current status of mobile payments in the country.

## Regulatory Background

A number of global analysts have reported on the potential of growth in the sector of mobile payments in Brazil, and to some extent these forecasts have been related to the introduction of regulatory measures by Banco Central, the Brazilian Central Bank, that took place during 2013. The Brazilian financial and payment systems are considered relatively modern and forward-thinking when compared to other territories, and the introduction of such measures was considered by many players as a solid base to the development and spread of mobile [payments](https://techinbrazil.com/regulatory-requirements-for-online-payments-in-brazil)in the country.

The most relevant regulatory measure introduced that year, Lei 12.865 establishes a number of important directives to these players. For example, the law presents a framework that allows for players other than banks to provide financial services, as soon as they are authorized by Banco Central. The payment institutions, as they are referred to, have the right to provide services such as management of a virtual wallet or account, enable withdrawal or deposits to these accounts and enable transfers between accounts.

As it stands, the law provides all the necessary legal basis for telecommunications service providers to start offering [mobile payment](https://techinbrazil.com/secure-mobile-payments-in-brazil) services with full compliance to the Brazilian payment systems and national regulation. Additionally, it enforces a number of principles that should become crucial to the development of mobile payments in Brazil, such as the interoperability between payment services. Considering the great number of mobile payment initiatives that have been created over the last few years, the inability to interchange between each service would have been a major hindrance to the growth of mobile payments in Brazil.

The law also grants Banco Central the right to regulate payment arrangements, authorize and supervise payment institutions. Currently, the interoperability between payment services is not mandated to providers, but is expected to be implemented as the national market develops and additionally, more incisive regulation is introduced. A number of players, market analysts and government institutions foresee that these solid measures, combined with the great potential of the Brazilian market, will see the adoption of mobile payments take off in the near future.

## Potential of Mobile Payments in Brazil

Mobile payment initiatives first saw exponential success in African territories, where large portions of each country’s population had no access to bank accounts and in most cases were users of a single dominant [mobile operator](https://techinbrazil.com/brazilian-mobile-operators-in-a-nutshell). Brazil currently presents a somewhat similar scenario, in which mobile payment services present an unmatched potential for growth due to the large portion of the population with no access to bank accounts and the incredibly high adoption of [mobile phones](https://techinbrazil.com/smartphone-usage-in-brazil) across all social classes and regions of the country.

Statistics from Ipea, the Brazilian Institute for Applied Economic Research indicate that there are 55 million adults in Brazil with no bank accounts. On the other hand, data from [Anatel](http://thebrazilbusiness.com/article/anatel-and-multimedia-licenses), the Brazilian Telecommunications Agency, from June 2015 state that there are over 282.4 million mobile phone activations in Brazil, with penetration of over 115% in all regions of the country.

One aspect of the adoption of [mobile telephones](https://techinbrazil.com/mobile-telephone-expansion-in-brazil) in Brazil that differs from African countries is the level of competition in the market, where each of the four largest operators hold between 15% and 30% of the market share. Due to this level of fragmentation, the need for interoperability between the services of each operator becomes much more prevalent, enabling users to make financial operations between the numerous competitors without limitations.

Another factor that is capable of fostering the expansion of mobile payments in Brazil is the spread of Point of Sales machines able to capture payments from [mobile devices](http://thebrazilbusiness.com/article/getting-a-mobile-phone-in-brazil) through contactless technology. Most of the POS machines used actively by millions of Brazilian retailers are connected to an infrastructure able to capture payments through Near Field Communications technology, which adds security and convenience to [mobile](https://techinbrazil.com/m-commerce-in-brazil) payment users.

## Recent Developments and Partnerships

Mobile payment initiatives are no recent trend in Brazil, considering carrier Oi started offering the Oi Paggo solution to subscribers in 2006. After recent agreements and partnerships between the major mobile operators in Brazil and banks, all of the four main Brazilian carriers currently provide a mobile payment solution. The revenue adopted by the carriers is mostly similar, charging users per transaction and in some cases also charging a monthly fee.

### Zuum

As a partnership between carrier Vivo and card network Mastercard, Zuum was launched in 2013 as a mobile payment solution where users could establish accounts by registering only their name and CPF, make deposits from numerous registered POS machines in the country and transfers between accounts with a limit of BRL 5,000 per month.

Zuum’s systems make use of USSD technology for data interchange and can also be operated through a proprietary app. Users with accounts at affiliated banks, which include Itaú, Santander, Banco do Brasil and HSBC, are allowed to make deposits directly to their mobile accounts at Zuum’s [online](https://techinbrazil.com/chargeback-for-online-payment-in-brazil) environment. The service also allows for the issuance of a debit card and currently has 410 thousand users in Brazil.

### Meu Dinheiro Claro

The Meu Dinheiro Claro mobile payment solution was established in 2014 as a joint venture between carrier Claro and bank Bradesco, allowing users to set up accounts, make deposits at Bradesco agencies and ATMs and make transfers and payments at a vast number of retailers. Meu Dinheiro Claro’s systems also make use of USSD technology.

### Oi Carteira

Carrier Oi and Banco do Brasil established a partnership in 2013 to launch the Oi Carteira mobile wallet solution, which allows for users to set up accounts, make transfers and payments at a large number of retailers and also issues a debit card.

Deposits to the mobile account can be made at Banco do Brasil agencies and authorized correspondents or online, in case the user already has an account at the bank. The systems make use of SMS technology for data interchange and the service is charged a monthly fee of BRL 8,00.

### Multibank

In March 2015, carrier TIM, bank Caixa Econômica and network Mastercard launched the Multibank mobile payment solution in three Brazilian cities: Natal, Uberlândia and Curitiba. The service allows the carrier's subscribers to set up accounts, make deposits at Caixa Econômica agencies and correspondents, make transfers and issues a debit card. Multibank’s systems make use of USSD technology for data interchange.

## Payment Solution Partners

Partnership with companies like [Digital River](http://info.digitalriver.com/FY14Q3_Advertising_Brazil-Media_FY14Q3_Advertising_Brazil-Media_1.html?campaign_medium=Tech%20in%20Brazil) enable your store to integrate payment systems fully compatible with the expectations of Brazilian customers and ready for the imminent developments this market has large potential for.

Digital River’s solutions include mobile payment systems for mobile devices designed to aid retail businesses in capturing payment and virtual wallets that support multiple virtual currencies. The company is specialized in the offering integrated e-commerce platforms, able to accept all major payment methods in Brazil, while also enabling clients to track sales performance with in-depth analysis.

LINKS-

<https://www.ifc.org/wps/wcm/connect/aa4060eb-cc79-402e-ba9f-0b4472d0e4dc/Brazil+Market+Scoping+Report.pdf?MOD=AJPERES>

<https://blog.euromonitor.com/positive-regulation-driving-mobile-payments-in-brazil/>

### Electronic Money

M-commerce is expected to become more popular in Brazil predominantly due of e-wallets, according to Worldpay’s 2017 Global Payments Report. The report data presents a forecast of the eCommerce industry in 36 countries around the world.

According to Worldpay’s findings, the popularity of e-wallets is expected to double over the next five years, increasing from 15 per cent to 31 per cent by 2021. However, the popularity of credit cards will not diminish, with this payment method set to remain the most popular way to pay in Brazil (41 per cent) until 2021.

E-wallets are one the most relevant means of payment contributing towards the growth of eCommerce in Brazil, which is set to be worth US$ 23.7bn by 2021. Additionally, eCommerce is a phenomenon occurring not just in Brazil but right across Latin America. Whilst eCommerce in Brazil is gradually becoming more established, nations such as Mexico and Argentina also have a huge opportunity to grow rapidly in this sector – with eCommerce forecast to increase by 17 per cent and 24 per cent in the next five years respectively.

The eCommerce boost in Latin America is due in part to the size of the relatively well-banked population, with nearly one bank account per consumer. [1] In addition, consumers are already comfortable with the concept of shopping online, and many have been waiting for more access and options. In fact, according to a survey conducted by SPC (Credit Protection Service) and CNDL (National Confederation of Merchant Leaders), 89 per cent of connected consumers have already bought something online at least once in the period June/16 – June/17. M-commerce in Brazil is set to be worth US$10.1bn in 2021 due to high penetration in mobile use – with 1.3 mobile subscriptions per capita, Worldpay expects the number of connected adults to grow rapidly as well.

“This change of habits is a result of both consumer desire for easier and faster means of payment while shopping, and Brazil’s business entrepreneurs who are investing more in electronic commerce to increase their sales opportunities. At the same time, all this is being leveraged by a largely connected Brazilian population – 290.5m consumers in Brazil, (approximately 65 per cent of the population) currently have internet access”, said Juan D’Antiochia, General Manager for Latin America at Worldpay.

Currently, credit cards remain the most popular payment method in the market in 2017 with a huge margin of 61 per cent. The second most popular method is PostPay (15 per cent) such as boleto bancário, followed by e-wallets with 12 per cent of the market. Meanwhile, Worldpay’s data also reveals a projected 16.7 percentage point decline in credit card use by 2021 (41 per cent). Bank transfers are also set to increase by 6.9 percentage points (from 6 per cent to 13 per cent) in the same timeframe – likely due to the rise in use of banking apps, which is making it easier for consumers to transfer payments between different accounts.

 D’Antiochia added: “From the 2017 report findings, merchants are in a strong position to empower local consumers. If they want to succeed in Brazil, it is important to offer customers their preferred payment method and stay up to date on the latest trends in mCommerce. Additionally, given mCommerce is set to grow at an average of 18% per year for the next five years, merchants should decide how to optimise their website to deliver a compelling shopping experience for those shopping on a mobile device. Following these steps is fundamental to creating a successful online business.”

Worldpay has published a list of guidelines for merchants looking to capitalise on the global eCommerce and mCommerce opportunity:

1. Consider processing credit and debit cards locally rather than on a cross-border basis, as it could boost your payment success rate.
2. Offer your customers their preferred payment method, such as Boletos, and consider localising your online checkout for each market to include local currency pricing.
3. Omni-channel payments are important for capturing new audience share, especially with those who are new to e- and mCommerce. Try to offer a consistently positive customer experience, regardless of how they choose to shop with you.

**About the Global Payments Report**

This report has been compiled using a mixture of primary and secondary data sources. Primary refers to our own surveys and commissioned research; whereas secondary refers to authoritative third-party vendor data, and other publicly available data. The report also draws upon Worldpay’s decades of experience in providing global eCommerce solutions. The eCommerce projected growth figures contained in this report were sourced from GlobalData’s E-Commerce Analytics database and relate to the eCommerce industry as a whole, not Worldpay’s business. GlobalData collected this data using consumer surveys, B2B surveys and desk research. Any indicative predictions based on the data we have used should be treated as such.

**About Worldpay**

Worldpay is a leading payments company with global reach. We provide an extensive range of technology-led payment products and services to around 400,000 customers, enabling their businesses to grow and prosper. We manage the increasing complexity of the payments landscape for our customers, allowing them to accept the widest range of payment types around the world. Using our network and technology, we are able to process payments from geographies covering 99% of global GDP, across 146 countries and 126 currencies. We help our customers to accept more than 300 different payment types. For more information, visit <http://www.worldpay.com/global>

### LINKS-

<https://gamblingcompliance.com/sites/gamblingcompliance.com/files/attachments/page/PaymentsComplianceBrazil.pdf>

<https://www.bcb.gov.br/Pom/Spb/Ing/Brazilian%20Payments%20System%20Oversight%20Report%202014.pdf>

<https://www.bcb.gov.br/Pom/Spb/Ing/ReportontheBrazilianRetailPaymentSystem.pdf>

<https://paymentscompliance.com/premium-content/research_report/brazil-e-money-mobile-payments-report>

<http://www.bcrp.gob.pe/docs/Publicaciones/Seminarios/2016/seminar/RicardoMourao-Payments_and_Financial_Inclusion_in_Brazil.pdf>

### Mobile Wallets & Payment Systems

1. 1. Mobile Payment Services inMobile Payment Services in BrazilBrazil Exploring the path to financial inclusion and adoption of a nationalExploring the path to financial inclusion and adoption of a national modelmodel Carina Gonçalves, Research Analyst Information & CommunicationInformation & Communication Technologies 10/08/2013 © 2012 Frost & Sullivan. All rights reserved. This document contains highly confidential information and is the sole property of Frost & Sullivan. No part of it may be circulated, quoted, copied or otherwise reproduced without the written approval of Frost & Sullivan.
2. [2.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-2-638.jpg?cb=1381314159)Today’s Presenter Carina Gonçalves Research Analyst, Frost & Sullivan Peer Connect Frost & Sullivan http://www.frost.com/reg/people-finder-result.do?id=2927277 98459845--6363 2 Carina is a market analyst for the information and communication technologies (ICT) sector within Frost & Sullivan. Carina started her career in GMattos, a consulting firm specialized in e-commerce, and also worked in Axoon Telecom in the fields of strategic analysis, product development and marketing (her area of expertise). http://www.frost.com/reg/people-finder-result.do?id=2927277
3. [3.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-3-638.jpg?cb=1381314159)Focus Points 1. Current Scenario 2. Key Stakeholders 98459845--6363 3 3. Market Perspectives 4. Market Challenges and Opportunities
4. [4.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-4-638.jpg?cb=1381314159)Mobile Payment Services in Brazil - Current Scenario operators see mobile financial services as one of the most promising revenue streamsKey Takeway: Brazilian operators see mobile financial services as one of the most promising revenue streams in the future. Evidence of this is the creation of departments / business units for this service in Telcos. Healthcare Players 4 Source: Frost & Sullivan analysis. Information & Communication Technologies Players Energy & Power Systems Players Business & Financial Services Players Convergence
5. [5.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-5-638.jpg?cb=1381314159)Mobile Payment Services in Brazil - Current Scenario Key Takeway: So far only a few companies have commercial offerings of mobile payment services in Brazil, there is a high penetration of mobile phones and a low penetration of banking products. 120.0% 140.0% Penetration of products/services per 100 inhabitants Brazil, 2012 5 Sources: IBGE and Febraban 2012, Frost & Sullivan analysis. 0.0% 20.0% 40.0% 60.0% 80.0% 100.0% Mobile Payment 0.3% Mobile Banking 3.1% Smartphone 15.0% Credit Card 29.0% Bank Account 56.0% Cell Phone 134.0%
6. [6.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-6-638.jpg?cb=1381314159)Mobile Payment Services in Brazil - Current Scenario PREMIUM • Higher income, monthly salary • Formal workers MASSIVE CLIENT • Low income, sometimes floating • Informal workers, freelancers hand there is a growing middle class moving quickly to financial inclusion, and on theKey Takeaway: On one hand there is a growing middle class moving quickly to financial inclusion, and on the other hand there is a significant portion of the population without bank account. 6 Source: Frost & Sullivan analysis. • Formal workers • Financially included • Post paid account • Prefer credit card • High-end smartphone • Embraces new technology • Informal workers, freelancers • Unbanked • Prepaid account • Money is the only means of payment • Occasionally uses credit, but don´t like it • Feature phone or low-end smartphone • Low awareness and use of new technologies
7. [7.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-7-638.jpg?cb=1381314159)Mobile Payment Services in Brazil - Current Scenario Proximity payments Payments in distance Key Takeaway: Operators are valued in this scenario for their Short Message Service (SMS) platforms, considering that financial institutions depend on them to process the transactions. Premium Clients Massive Clients 7 Source: Frost & Sullivan analysis. NFC SMS USSD / WAP Direct Mobile Billing The trend is that in the future the financial institutions will have more relevance with the growth of Near Field Communications (NFC) technology, which allows payments from different participants.
8. [8.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-8-638.jpg?cb=1381314159)Mobile Payment Services in Brazil - Current Scenario Payments Use the phone to buy products in physical store or online and money transfers quickly Increased revenue based on costs and interests Give access to account information anywhere and anytime; saving round trips Reduce costs and increase Key Takeaway: Banks have a number of benefits in using the mobile device as a call channel and services, and must be associated with the Telcos to seize this opportunity. 8 Convenience anywhere and anytime; saving round trips to the ATM or branch and offer products accepted by most merchants Reduce costs and increase contact center productivity agencies Financial Management Make the mobile device the main channel for personal finance; remember about winning accounts; help lower default interests / overdraft Greater involvement of the portfolio; smaller collection costs and cost reduction of Contact Center Loyalty and Benefits Customize offers and information based on geo-location, offering deals and coupons via mobile device and act as single point to need for mobile financial services Higher return on marketing investment, increase revenue based on spending and greater cross-selling Source: Febraban Research 2012. Frost & Sullivan analysis.
9. [9.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-9-638.jpg?cb=1381314159)Focus Points 1. Current Scenario 2. Key Stakeholders 9 3. Market Perspectives 4. Market Challenges and Opportunities
10. [10.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-10-638.jpg?cb=1381314159)Telecom Operators Banks/ Issuers End Users Mobile Payment Services in Brazil - Key Stakeholders Key Takeaway: The four major Telcos, VIVO, Claro, Oi and TIM have initiatives in Brazil in partnership with banks (and other stakeholders) to provide mobile payment services. 10 Acquirers Flags Regulatory Agencies Merchants Source: Frost & Sullivan analysis.
11. [11.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-11-638.jpg?cb=1381314159)Mobile Payment Services in Brazil - Key Stakeholders Key Takeaway: Most services use SMS or USSD technologies, and have limited coverage in terms of cities. NFC is still on trials in Brazil. Player Mobile Payment Operator Partnership Vivo & MasterCard Oi & Banco do Brasil & Cielo Claro & Bradesco Main Cases 11 Source: Primary interviews and second sources, June, 2013. Frost & Sullivan analysis. Cielo Technology USSD/SMS SMS SMS Target Unbanked Banked Unbanked Service Account & pre paid card Account & pre paid card Credit pre paid card Coverage 5 cities 12 cities - Status Launch 1º Sem 2013 Launch 2007 Pre Launch
12. [12.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-12-638.jpg?cb=1381314159)Focus Points 1. Current Scenario 2. Key Stakeholders 12 3. Market Perspectives 4. Market Challenges and Opportunities
13. [13.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-13-638.jpg?cb=1381314159)Mobile Payment Services in Brazil - Market Perspectives Mobile Payment registered users – 2012A – 0,5 million Mobile Payment registered users – 2018E – 80.0 million further expansion, the mobile payment ecosystem demands the integration of the existingKey Takeaway: For further expansion, the mobile payment ecosystem demands the integration of the existing infrastructure of payment processing with mobile payment applications and also education of the end-user. 13 • Initiatives under test or initial fase • SMS in most recent offers and m- Wallet services • Small number of POS (Point-of- Sale) transactions accept m- Payment • Develop infrastructure • Ensure convenience • Different initiatives without interoperability • Mature and diverse offerings, combined with an increase of market intermediaries and partnerships between them • Significant revenue and dominance of NFC technology will contribute to the improvement of m-payment and consolidation • Consumer determines the payment method Source: Frost & Sullivan analysis.
14. [14.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-14-638.jpg?cb=1381314159)Focus Points 1. Current Scenario 2. Key Stakeholders 14 3. Market Perspectives 4. Market Challenges and Opportunities
15. [15.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-15-638.jpg?cb=1381314159)Consumer confidence on secure mobile applications should be established. Education levels areLack of NFC-enabled Mobile Payment Services in Brazil - Market Challenges Key Takeaway: Like any market in its nascent stage, there are many barriers to be overcome for the successful development of the sector. 15 Education levels are essential for the usage of electronic services. Low interoperability reduces the mass adoption of the service. Absence of regulations and guidelines on the "owner" of the client generates uncertainty. Lack of NFC-enabled Point-of-Sale (POS) terminals to complete transactions. Source: Frost & Sullivan analysis.
16. [16.](https://image.slidesharecdn.com/mobilepaymentservicesinbrazil10-8-13-131009102125-phpapp01/95/mobile-payment-services-in-brazil-16-638.jpg?cb=1381314159)Mobile Payment Services in Brazil - Opportunities Key takeaway: Despite the early stage of the mobile payments market in Brazil, there are opportunities with high impact in the short and medium term that can leverage the use of this payment model in the country. Provision of financial services to the unbanked population, including micro transactions peer-to- peer Provision of financial services to the unbanked population, including micro transactions peer-to- peer A large portion of the Brazil population is left outside of the financial system, receiving their incomes in cash and lacking bank affiliations, savings accounts, and credit or debit cards. Safety / Convenience for the population that uses cash frequently and/or pay bills in person 16 Source: Frost & Sullivan analysis. A big disadvantage of using cash is safety concerns. Criminality is a major concern in the everyday life in Brazil, and many have first-hand experience of robberies. Stimulus to the market with a considerable increase of mobile payment solutions and partnerships Stimulus to the market with a considerable increase of mobile payment solutions and partnerships Although the number of offers and participants are still limited, it is undeniable the recent engagements all stakeholders have made to enter in this market. M-payment by opening doors to a variety of other services that can be sold as a combo Banks and credit card issuers can utilize the platform as a direct contact to leverage other banking services and use the device as a direct means of communication.

**This article is a collection of clipping related to mobile payments and NFC cards in Brazil**, as well as some information on the current state of payment card usage in the South American country. Most of the text is copy/paste (sources listed in-line or at the end of the article).

With a population of over 207 million ([2017](http://www.ibge.gov.br/apps/populacao/projecao/index.html)), the average Brazilian adult has 2.9 credit cards and 1.9 debit cards. This translates into 767 million payment cards. And while 59% of cards are credit, 2015 saw an expansion of 2% in the debit card sector while credit increased by less than 1% due to recent economic recession. The sheer numbers puts **Brazil in 3rd in total number of non-cash transactions** (2014), after the U.S. and Eurozone ([World Payments Report 2016](https://www.worldpaymentsreport.com/)) and **while 80% of the 4.5 million EFTPOS are NFC enabled, contactless technology hasn't taken off**.

### NFC cards in Brazil

Nearly 80 percent of the adult population has some kind of payment card, and cards are used to pay for 30 percent of all household expenditures, according to the Brazilian Association of Credit Card Companies (ABECS). And while Latin America’s biggest economy struggles with its deepest recession ever, spending on cards increased 9 percent last year to 1 trillion reais (some US$ 280 billion). Now, a small, but growing share of these expenses are made using contactless technologies, such as smartphones, SMS options and credit and debit card apps, leveraging on the nation’s state-of-the-art financial expertise.

*“NFC pilots in Brazil are in their infancy”*

The first contactless payment solutions for individuals debuted in the country in 2013. Now, almost two million point-of-sale (POS) terminals in Brazil are ready to handle contactless payments, according to state-owned Banco do Brasil, the biggest creditor in the country. Yet, **most banks don't offer NFC-enabled cards**. Banks are expected to start rolling out contactless cards on a large scale by mid-2017, encouraging the use of cards at POS in particular for low-ticket items.



With more than 60 million clients, Banco do Brasil last year became the first bank in the world to launch a smartphone application for multiple card brands that enables contactless payments using NFC technology. The all-in-one app, named [Ourocard-e](http://www.bb.com.br/pbb/s001t006p007,500962,501054,1,1,1,1.bb#/), “integrates traditional plastic cards with fully-digital cards… and a broad array of solutions for managing the cards,” stated Banco do Brasil Retail Business Vice-President Raul Moreira.

### Mobile Payments in Brazil

Brazil has 273 million active mobiles lines, according to industry estimates. Some 100 million (37 percent) of those lines are smartphones. Out of those 100 million, roughly 15 percent (15 million) are NFC-enabled smartphones.

But Brazil is not too concerned with how the affluent consumer is using mobile payments. **The government wants the 65 million unbanked adults in the country to have a place at the table as well**. That’s where the interoperability portion of the government’s efforts comes into play.

In 2016, Samsung Electronics announced that it would be rolling out Samsung Pay nationwide, making it the first market in South America to introduce the company's mobile payment service.



Secure and easy to use, Samsung Pay can be used to make purchases almost anywhere that debit cards or credit cards are accepted. Samsung Pay allows users to pay with their compatible Samsung smartphones at point of sale terminals, thanks to both MST (Magnetic Secure Transmission) and NFC technologies.

It is worth mentioning that, initially, not all cards or banners will be accepted by Samsung Pay. Here is the list that starts working with the service as of July 2016 ([source](https://www.tecmundo.com.br/samsung-pay/107438-samsung-pay-comeca-funcionar-brasil-terca-feira-19.htm)):

* **Santander:** Platinum MasterCard, Unlimited MasterCard Black, Platinum Visa, Platinum Style Visa, Platinum Visa Santander Unlimited Visa Infinite, Dufry Platinum Visa, Elite Visa Van Gogh, Platinum Visa, Elite Visa Select, Style Platinum Visa, Unlimited Visa Infinite, Unique Visa Infinite
* **Banco do Brasil:** Ourocard Visa Platinum Estilo, Ourocard Visa Infinite, Ourocard Visa Infinite Estilo
* **Caixa:** debit card Caixa MasterCard
* **Brasil Pré-Pagos:** Brasil Você Internacional
* **Porto Seguro:** Visa International, Visa Gold, Visa Platinum, Visa Infinite

According to Época Negócios, **Bradesco and Itaú are already in negotiations with Apple to implant in Brazil the Apple Pay**, the service of mobile payments of iPhones 6 and 6 Plus. This feature uses NFC technology to inform card data at the time of payment, and since about 80% of Cielo and Rede’s machines already have this feature, deployment in Brazil would be very simple and absolutely comprehensive ([source](https://www.tecmundo.com.br/apple-pay/75050-apple-pay-chegando-brasil-bradesco-do-itau.htm)).

**Android Pay, unfortunately, seems to be the furthest from the Brazillian reality at the moment**. (Google) said it has no definite plan to bring it to Brazil.

**On mobiles, transactions up to R$50 (US$14.50) don't require a PIN**.

### Cash payments in Brazil

Still, accepting cash only is no longer an option for even the smallest vendors. **Consumers are weary of carrying too much cash and getting robbed, while merchants prefer not having a cash register full of bills and becoming targets of crime**. Withdrawing cash has also become trickier. Owners of gas stations and supermarkets often decide against installing ATMs on the premises because these are regularly exploded with dynamite, particularly in smaller cities, where police forces are less prepared and take longer to reach the scene.

On the other hand, regular POS machines are often unaffordable to many small businesses. This has led to the availability of many options of card readers that work in combination with Bluetooth-equipped smartphones and high-speed internet connections (3G/4G or Wi-Fi service) for a fraction of the cost.



### Wearable Payment Methods

Visa and Brazilian bank Bradesco will trial wearables including a bracelet equipped with Near Field Communications (NFC) technology for payments at the Olympic Games in Rio de Janeiro.

A user base of 3,000 people including athletes, artists and journalists taking part in the sporting events will be using the rubber waterproof bracelet to pay for goods and services inside the Olympic venues at more then 4,000 payment terminals.

The bracelet will operate through a prepaid system and can be used without the need to enter a PIN for transactions under R$50 ($14.50) The devices distributed for the trial can be used until June 2017.

Despite the fact that 80 percent of card payment terminals in the country are equipped with the [contactless] technology (about 1,5 million devices) since its launch in 2008, the payment method is still very incipient in Brazil in terms of user and vendor awareness.

The token technology, unseen in wearables so far, replaces sensitive payment data such as the 16-digit account number, with a unique digital identifier that can be used to process payments without revealing specific account information.

* 767 mi payment cards in Brazil (increase of <1% from 2015 due to recession)
* Mastercard has the greater number of pay-later cards than Visa in three of the regions most expansive and developed networks: Brazil, Chile and Mexico
* 59% of cards are credit, but due to weakening economy consumers are flocking to debit. In 2015, debit card sector expanded by 2%, while credit card sector increased by less than 1%
* 63% of market comprises bank cards, 37% are private label (favoured by low-income individuals, due to low fees). Due to economy, criteria for holding credit cards has worsened, resulting in declining approval rates
* Growth in the number of POS terminals fell from 14% to 2% in 2015 due to economy
* Resolution passed in 2016 by central bank requires that all acquirers (top are Cielo and Rede) accept all cart types (interoperability)
* **Domestic and Preferred Card Schemes**  
  • Online payments in Brazil are dominated by Credit Cards and Boleto Bancário, accounting for more than 93% of all online purchases in Brazil.  
  • Credit cards are used in 69% of all online payment transactions. However, it is important to differentiate between national and international credit cards. National cards can only process in Brazilian Reais (BRL), whereas international credit cards can process in both foreign and local currencies. But, as only 20% of Brazilian buyers have access to international credit cards, it is key for merchants to have access to local credit cards.
* **Alternative Payment Methods**  
  • The most important Brazilian payment method is the Boleto Bancário. This is a payment slip issued through banks with all the relevant information for purchasing a product. Boleto enables both payments through the customer’s bank account and cash payments.  
  • This payment method accounts, for around 24% of the market and within industries with higher ticket sizes, its relevance can reach up to 40% of all online purchases.  
     
  • There are also a variety of smaller, but still active payment methods:  
  • **Co-branded Cards** are used at select retailer while some can be used anywhere depending on the brand. They are issued by department stores (C&A, Renner, Marisa, Pernambucanas, etc.), grocery stores (Carrefour, Pão de Açúcar, Extra), drugstores and others.  
  • **Débito Automático** is Portuguese for Direct Debit, are only used for utilities payments (such as water, electricity, and telephone) because Brazilian banks generally only allow these companies to directly charge the bank accounts. Different payment providers have tried without success to offer it in ecommerce.  
  • **E-financing** is available at some banks, like Itaú, Bradesco, and Banco do Brasil. It is not as commonly used, since the bank requires the customer to have a pre-approved credit with the bank before the transaction.  
  • **E-wallet** service in Brazil is similar to what it provides in other countries. Both PayPal and MercadoPago allow users to store, or add money to their ‘virtual wallet’.  
  • **Prepaid Cards** are cards with limit normally used for payment of specific services (telephone and public means of transportation issued by public service concessionaires and meal cards which are authorized commercial establishments).

LINKS-

<https://www.bcb.gov.br/Pom/Spb/Ing/ReportontheBrazilianRetailPaymentSystem-StatisticalUpdate2008.pdf>

<https://www.bis.org/publ/plcy04n.pdf>

<https://www.researchgate.net/publication/281639678_Mobile_money_regulation_Kenya_Ecuador_and_Brazil_compared>]

### FinTech

**There’s a financial revolution underway in Brazil. Rapid growth in the financial technology (fintech) sector means that Brazil now has the world’s highest number of fintech companies outside the U.S.**

But the pace of expansion is creating risks as well as opportunity, and many start-ups are seeking outside professional expertise to help them navigate the complexities of the regulatory environment.

**Fintech** – a new technology and innovation that aims to compete with traditional methods in the delivery of financial services – is being encouraged by Brazil’s Central Bank, which wants to reduce fees of financial services and expand access to accounts and credit to reach a larger part of the Brazilian population. A large proportion of the country’s inhabitants – 35% of Brazilian adults - has never had a bank account, particularly if they are poor. Yet Brazil has the highest number of smartphones in the world, so there is huge potential for new ways of delivering financial services.

The financial technology industry itself is revolutionising the way we do business. For over 30 years, the established way to transfer money between financial institutions has been via a Society of Worldwide Interbank Financial Telecommunication or SWIFT; now, alternative innovations such as the Ripple can make a safe transfer in seconds.

**Growth**

The number of fintechs mapped in Brazil increased from 244 to 332 in 2017, with companies acting in lending, investment, financial management, payments, insurance, cryptocurrencies, debt renegotiation and other services – more than the rest of Latin American countries combined. A Goldman Sachs report of the same year estimated that Brazilian fintech companies would generate revenues of around $24 billion during the next decade. The number of fintechs and financial efficiency startups grew during 2017 from 264 to 369, with insurance and loans the most popular niches, showing a 92% and 75% in the number of initiatives respectively.

Fintechs still represent a tiny minority in Brazil’s 1.5 trillion Reais credit market, but their significance lies in their impact on traditional banks, which could be driven to adjust and lower their prices. The current average interest rate used by the traditional banks is 5.67% per month, compared with 1.90% interest rates used by the fintechs.

**Risks**

Start-up fintech businesses run risks. Typically launched by young entrepreneurs with a technological idea, these business owners can be naïve in their understanding of running a company, or how to meet financial and regulatory compliance. An innovative product offering isn’t enough to ensure business success. Partnering with a professional business services provider will ensure the underlying requirements of managing a company are met, leaving the technological entrepreneurs to focus on creative product development and meeting customer demand. Robust data management and security of clients’ personal information is another area that a reputable business services provider can help with.

The fast pace of the developing fintech industry means that start-ups can be vulnerable to regulatory clampdowns if there’s a compliance breach.

There has been an explosion of new products and there’s a risk that some of these young companies will fall by the wayside. To survive, a young company may be purchased by a competitor; get a loan or investment from a private equity company, or grow organically with debt transactions. TMF Group services can help navigate any option, plus also assist if you’re an overseas investor looking at fintech opportunities.

**Potential**

Overseas investors are recognising the parental of Brazil’s fintech industry. Financial planning app GuiaBolso and credit card provider Nubank have recently secured significant backing. Nubank is offering digital bank accounts to people beyond its existing client base of credit card holders, having already signed up 1.5 million customers in a pilot scheme. This means that Nubank is already bigger than Brazil’s largest purely digital banks, but it is still a long way off the size of Brazil’s top two lenders, Banco Bradesco SA, and Itaú Unibanco Holding SA, which each have 20 million customers.

Brazilian fintech start-up Creditas Soluções Financeiras Ltda has received $50 million investment via Swedish fund Vostok Emerging Finance. Creditas, founded in 2012 and specialising in providing loans with real estate or vehicles as collateral, had a 135 million loan book last year, which it now aims to grow 30-fold in three years.

**Regulations**

To stimulate fintech growth, Brazil’s Central Bank has enacted its first regulations for fintechs, authorizing two types of fintechs -  Peer-to-Peer Lending (SEP) and Direct Credit to Borrowers (SCD). It aims to increase competition in loans, in a country with notoriously high interest rates for consumers.

As the fintech industry grows, so too does competition for customers, who will be keen for reassurance that their money is safe with a start-up business. Fintech start-ups will be competing against a long-established Brazilian banking industry which has won the trust of its customers over decades. But if a new entity has a reputable business services provider alongside, it enhances credibility and fast-tracks the reputation of a young business.

Fintech is a rapidly growing sector in Brazil, drawing the attention of global investors and analysts; consequently, the country is becoming one of the world’s main fintech hubs. Goldman Sachs estimates that Brazilian fintech companies should generate revenues of around $24 billion in the next 10 years.

As a result of major bank crashes in the 1980s and 1990s, local banking regulations and controls have evolved to become among the most stringent in the world, with some regulatory requirements surpassing those set out in the Basel regulatory framework. While these rules provide much stability, they also create serious hurdles for setting up and maintaining financial institutions in the country. The financial sector is thus heavily concentrated, and the five major banks hold around 84% of total loans and 90% of retail branches. However, nearly 35% of Brazilians above the age of 18 do not have a bank account. The market for payments is one on the largest in the world: there are over 100 million valid cards in circulation in the country, with over $300 billion worth of transactions in 2016.

After he shockwaves of the 2007/08 financial crisis and the global trends of unbundling of financial services, disintermediation and customer-centric products, Brazil has experienced a boom in fintech companies in the past five years, with over 300 companies acting in payments, financial management, lending, investment, funding, insurance, debt renegotiation, cryptocurrencies, distributed ledger technology (DLT) or blockchain, foreign exchange and other services – more than the rest of Latin American countries combined. Nearly three-quarters of such companies have already received funding from third-party investors (including major foreign venture capital funds) and some are often listed among the most disruptive in the world.

Incumbent banks have taken on different initiatives to preserve their market share: open innovation programmes, corporate venture capital funds, co-working spaces and accelerators, purchases of innovative companies and the creation of new, exclusively digital subsidiaries. Competition and collaboration have been marching hand in hand.

*Key technologies*

**Have there been any particular developments – regulatory or commercial – in any of the following fintech sectors? Distributed ledger technology and digital currencies (eg, blockchain, smart contracts and Bitcoin)?**

As in most countries, the regulation of cryptocurrencies in Brazil is still in its infancy, with the regulators watching closely the development of the market in Brazil and abroad, but bewildered by a cloud of uncertainty on some issues.

As is also the case in other jurisdictions, while cryptocurrencies are feared or misunderstood, blockchain/DLT is lauded as the future and welcomed with open arms in Brazil. The Central Bank of Brazil has been developing different studies in DLT and its application in the issuance of currency, identity verification and transaction settlement.

As of the beginning of 2018, no rules or official guidance have been issued with respect to DLT. However, both the Central Bank of Brazil and the Brazilian Securities Commission (CVM) have formally positioned themselves with respect to initial coin offerings (ICOs) and cryptocurrencies.

*CVM*

On October 11 2017 the CVM issued an official note regarding its position on the issue, which is somewhat similar to the one taken so far by the US Securities and Exchange Commission. The CVM’s view is that ICOs are public offers for raising funds that have, as counterpart, the issue of virtual assets – tokens or coins. Such assets may, depending on the economic context of their issue and the rights conferred on the investors, represent securities under Article 2 of Law 6385/76 and, therefore, be subject to the supervision of the CVM.

The CVM’s note also stated that where the assets have the characteristics of securities, both the offers and the issuers are subject to specific regulations and penalties in the event of non-compliance with the existing rules. The CVM also acknowledged that certain ICOs fall outside its remit as they do not constitute public offerings of securities.

The note also clarified that securities offered through ICOs cannot be legally traded on specific virtual currency trading platforms (virtual currency exchanges), as such platforms are not authorised by the CVM to facilitate trading environments of securities in Brazil. This position limits these exchanges’ ability to trade in Brazil virtual assets issued abroad that could be included in the definition of ‘securities’ for the purposes of Brazilian law. The note also contains warnings to potential investors in ICOs about the risks inherent to such investments.

In November 2017 the CVM published online frequently asked questions (FAQs) on the subject. The FAQs clarify others issues:

* tokens or coins that grant the investor rights to participate in capital or in pre-fixed remuneration agreements on capital invested or voting in assemblies that determine the direction of the business of the issuer will likely be treated as securities;
* utility tokens that give access to a platform or service (as if they were a licence to use or credits for services) may not, in principle, be treated as securities, provided that they do not have other characteristics of securities;
* if a token or coin is classified as a security, its issue or negotiation will be subject to the normal rules applicable to other securities;
* cryptocurrency exchanges will be subject to licensing with the regulators if they trade coins or tokens that are considered securities; and
* white papers on the crytpoasset being offered are generally deficient and do not provide the level of disclosure or guarantees given in a regulated prospectus – and, as such, confer very little safety to investors.

In January 2018 the CVM issued a directive forbidding most investment funds from having direct exposure to cryptocurrencies, and asking market agents to avoid indirect exposure until new rules are issued. A regulatory framework for investment vehicles in cryptoassets should be issued later in 2018.

*Central Bank*

Similarly to the CVM, the Central Bank issued a statement and launched a FAQ webpage in November 2017, with warnings on the risks involved in dealing with such assets, stressing that:

* the companies that negotiate or keep cryptocurrencies on behalf of users are not regulated, authorised or supervised by the Central Bank of Brazil; and
* transactions with cryptocurrencies involving international transfers referenced in foreign currencies do not exclude the obligation to observe foreign exchange regulations, in particular the execution of transactions exclusively through institutions authorised by the Central Bank of Brazil to operate in the foreign exchange market.

This note conveys a clear message that the Central Bank considers the cryptocurrencies market as falling under the remit of the regulatory authorities, and that the Central Bank will exert its powers whenever it sees risks to the financial system. However, the second point above creates uncertainty as it implies that payments made with Bitcoin or other cryptocurrencies to international counterparties could, in theory, be considered international transfers. The practical application of such guideline remains to be seen.

**Alternative lending platforms?**

Fintech companies dedicated to offer credit solutions are thriving in Brazil. Many of them concentrate on segments largely left aside by regular banks, offering loans at lower costs to specific niches, microcredit, etc. Others offer loans to customers that can provide some form of collateral, with rates 20% or less than those charged by banks.

Most of such companies, however, have a legal structure that involves some form of collaboration with traditional banks, which are the institutions formally authorised by law to grant credit to the public. Normally, the bank is the actual issuer of the note, while the fintech company manages the other aspects of the loan and its collection. Companies focused on peer-to-peer (P2P) lending also adopt a similar structure, for the same regulatory reason.

Many credit fintech companies use structures of securitisation of receivables as a way to develop their operations. Credit rights investment funds (FIDC) raise resources in the capital markets that the fintechs then use to acquire their loan portfolios. The sale of the portfolio thus funds the expansion of these companies.

Given the growth of the market and the inadequacy of the existing rules, the Central Bank proposed in the end of 2017 a draft rule specifically directed at lending and P2P fintechs to establish a clear regulatory framework for the sector. The new rule should come into force in the first half of 2018, setting the guidelines for two new types of financial institution: the direct credit company (SCD) and the P2P loan company (SEP).

*SCD*

The SCD will be allowed to grant credit directly to its final users. Its activities should be developed exclusively through an electronic platform, and the loans should use only funds originated from the SCD’s own capital. In other words, the company may not collect funds from third parties for further transfer to its clients.

The SCD shall have a minimum capital stock of R1 million, and its net worth cannot fall below such threshold. The company will also be obliged to maintain certain controls and policies applicable to other financial institutions. The licensing procedure is thorough – the company must identify its control group, provide proof of financial and economic capability, present the summary of its business plan, etc. The rule expressly allows the corporate control of the SCD to be exercised by national or foreign investment funds.

*SEP*

The SEP shares some of the requirements and characteristics of the SCD. Capital requirements and licensing procedure are essentially the same, and the company will also be obliged to maintain certain controls and policies applicable to other financial institutions.

The operational activities of the SEP are more regulated than those of the SCD. The SEP is forbidden to use its own financial resources in offering or paying the loans between its clients, or otherwise expose itself directly or indirectly to the risk of credit operations implemented through the platform. Funds related to the loans shall be segregated from the SEP’s own resources, and the SEP may not use for its own benefit the fund related to the loans.

Creditors under the loan may be individuals, legal entities or investment funds. Debtors may be individuals or legal entities domiciled in Brazil. In principle, creditors will not be protected by the Brazilian Credit Guarantee Fund, and their exposure will be limited to R50,000, except for qualified investors.

Several other operational rules apply, but numerous important aspects still require clarification. Although the new rule may require some adjustments from existing P2P companies, it also provides important guidelines for the sector and should foster the emergence of new competitors.

**Digital payments, remittances and foreign exchange?**

*Payments*

A great number of the new fintech companies in Brazil are dedicated to providing payment solutions. This is also the sector in which the entrants deal with a regulatory framework that is relatively modern and that has been tested, providing a clearer playing field for those wishing to set up their new ventures.

A set of rules issued in 2013 by the Central Bank established the norms applicable to different payment methods, putting forth clear procedures and guidelines for payment arrangements and payments institutions, which may be licensed in one or more of the following activities:

|  |
| --- |
| ***Types of payment institutions*** |
| ***Issuer of electronic currency*** | Manages a prepaid payment account, in which resources must be deposited in advance. | Example: Issuers of meal vouchers and prepaid cards in national currency. |
| ***Issuer of post-paid payment instrument*** | Manages a post-paid payment account in which funds are deposited to pay debits already incurred. | Example: non-financial institutions issuing credit cards (credit card is the payment instrument). |
| ***Acquirers*** | Does not manage a payment account, but enables merchants to accept payment instrument. | Example: institutions that sign a contract with the merchant for the acceptance of a payment card. |

The company’s capital stock should be, as a general rule, at least R2 million per licensed activity. Licensing of payment institutions requires the presentation of several documents and credentials, with a thorough description of policies, structure and business plan of the proponent company.

Law 12865/2013 explicitly prohibits payment institutions from carrying out activities that are exclusive of financial institutions, such as the granting of credit and the management of a bank checking account. Financial institutions, however, may also render the services provided by payment institutions.

*Payment arrangements*

A ‘payment institution’ is a company that enables purchases and sales in the context of a payment arrangement. Not all arrangements are subject to the supervision of the Central Bank:

* payment arrangements involving private labels cards are not regulated; and
* arrangements that serve only to pay for public services, such as water, electricity and transportation, will not be subject to the regulation and supervision of the Central Bank.

Furthermore, the Central Bank supervises only those arrangements with numbers greater than:

* R500 million of total transactions, accumulated in the preceding 12 months;
* 25 million transactions accumulated in the preceding 12 months;
* R50 million in funds deposited in a payment account in at least 30 days in the preceding 12 months; or
* 2.5 million active end users in at least 30 days in the preceding 12 months.

Closed payment arrangements are also not subject to the Central Bank’s authorisation if the creator of the arrangement is a commercial bank or similar entity. A payment arrangement is considered closed when the issuing and accreditation activities are performed by the same company that established the arrangement (or by companies of the same control group). In the case of payment arrangements that work the debit and credit card arrangements, the arrangement may be closed only if it processes less than R20 billion in a year.

**Foreign exchange and remittances**

Brazil exercises certain controls on cross-border currency transactions, including payment for imports and exports, transfers of capital, repatriation of capital and payments of dividends, interest, and royalties, among others. All foreign exchange transactions must be made through an authorised bank with the participation of a registered broker.

Several fintech companies involved with foreign exchange solutions are operational and growing. Given the regulatory limitation, they are usually structured through a partnership with an existing exchange broker licensed to operate foreign currencies.

**Alternative financing (including crowdfunding)?**

Rule 588/17 of the Brazilian Securities Commission (CVM) sets forth the contours and limits for equity crowdfunding exempted public offerings. Any company bearing annual gross revenue up to R10 million in the fiscal year immediately preceding the offering may enroll with an online investment platform and raise up to R5 million per year through the offering of equity interest securities. Each investor, in turn, may invest up to R10,000, or up to 10% of its investment portfolio (whichever is the greatest), exception made for qualified and professional investors, which are not subject to any limitations.

The emerging company may offer any securities available to it under the applicable law. Holders of securities that grant them equity interests in the emerging company and that have been acquired through an equity crowdfunding offering will have the right to sell their stake alongside the company’s founders in the event of a future sale of the emerging company.

There are many established investment platforms in the Brazilian crowdfunding market. The CVM now requires that each platform register its activities, which is conditional on the platform showing a minimum corporate capital of R100,000, in addition to IT systems and procedures adequate for the undertaking of the activities. The platform bears a series of duties within equity crowdfunding offerings, such as insuring that the issuer conforms to the standards of legality, and that information thereby provided is truthful and reliable. To this end, the CVM has opted to hold the platform’s liability for information provided by the issuing company to a very high level, and in materially similar terms to a lead underwriter’s liability in traditional public offerings.

The platform must also host a webpage containing information on the offering, much to the effect of the prospectus in traditional public offerings, and a discussion board for investors to debate on the ongoing performance of their investment.

The CVM has also permitted investors to group their interests around a lead investor, established as an equity crowdfunding syndicate. The ‘following’ investors will hold interest in this syndicate, whose lead investor will be responsible for mitigating the information asymmetries between issuers and investors by directing syndicate resources and to act much as the manager of an investment fund, receiving a performance fee for their services.

**Investment, asset and wealth management?**

Several Brazilian fintech companies offer services related to assets management and investments. There are no specific rules directed at fintechs, although there is a solid regulatory framework covering both areas in general. Fintech companies may be subject to licensing according to the actual services rendered – for instance, by obtaining an asset manager licence or associating with a company that has such licence.

**Robo-advice and artificial intelligence?**

Several Brazilian fintech companies are focused on the use of robo-advice or artificial intelligence/deep learning solutions. CVM Rule 592/17 regulates investment consultants in general and provides some guidance on robo-advice, stating that the same responsibilities attributed to the consultancy given out of electronic platforms also apply. Furthermore, the software code used for the advice should be available for the CVM’s inspection.

In any case, companies may be subject to licensing according to the actual services rendered – for instance, a company involved in recommending investment portfolios may be required to obtain the licence to act as an investment consultant or to associate with a company that has such licence.

**Any other technologies?**

Many new fintech companies are operational in other areas, such as financial efficiency, debt renegotiation, e-banking, etc. In 2018 the market should see new rules issued in connection with digital wallets, the exchange market, cryptocurrencies, etc. Regtech and insurtech companies have not yet seen the growth experienced by fintech ventures, although some insurtech players should expand exponentially in the coming years.

**Regulatory issues**

*Regulatory approach*

**How would you describe the regulatory policy for fintech products and services in your jurisdiction?**

As with most countries, regulation of fintech companies is still an evolving matter. The Central Bank of Brazil and the Brazilian Securities Commission (CVM), which regulates several aspects of the financial and securities markets, have been showing a modern and collaborative approach towards the new possibilities – with a few glitches along the way. Overall, however, the regulatory framework has allowed different businesses to flourish. Rules have been issued to govern companies offering payment services, and there are discussions on legislation to deal with different aspects of cryptocurrencies, blockchain, digital wallets, peer-to-peer (P2P) lending, robo-advisers, and the exchange market – possibly with a regulatory sandbox in the pipeline to encourage growth.

**Have any fintech-specific laws or regulations been enacted in your jurisdiction? Are any envisaged?**

Yes. Please see the chapters on each specific technology for a discussion of the relevant regulation applicable to each.

*Regulatory authorities*

**Which government authorities regulate the provision of fintech products and services?**

There are three main regulators involved with the fintech market, with jurisdictions defined by subject area:

* Central Bank of Brazil – banking, loans, payments, deposits, credit card networks, foreign exchange, certain aspects of cryptocurrencies, etc;
* CVM – securities, crowdfunding, certain aspects of cryptocurrencies, investment funds, investments and trading in general; and
* Brazilian insurance regulator SUSEP – insurance services.

*Financial regulatory framework*

**Which laws and regulations governing the provision of financial services apply to fintech businesses?**

Law 4595/64 regulates the financial market and the activities of the Central Bank. The Central Bank rules cover a wide array of subjects related to the financial sector, including foreign exchange, licensing of institutions and the Brazilian payments system. Many fintech companies will be subject to some of those rules.

Fintech companies that wish to enter into the payments sector should take into account:

* Law 12865/13, which sets rules on payment arrangements and institutions;
* Resolutions 4282/13 and 4283/13 of the National Monetary Council; and
* some Central Bank rules.

Law 6385/76 governs the securities markets and the CVM. In turn, the CVM has dozens of rules applicable to securities, public offer, investment funds, investments and trading in general and other areas that may encompass activities developed by fintech companies. In the past year, the CVM has been active in issuing new rules and guidance that touch on specific fintech issues, including crowdfunding, cryptocurrencies and robo-advisers.

**Under what conditions are fintech businesses subject to licensing requirements? Are there any exemptions?**

Licensing may be required according to the services rendered and the particularities of the chosen structure. Please refer to our comments on each specific technology for a discussion of the regulation applicable to the different activities.

**Are any fintech products or services prohibited in your jurisdiction?**

Some services involving capital markets or financial activities are subject to prior approval and may be performed only by authorised entities. Deposits and loans can be offered only by financial institutions, for instance; accordingly, most Brazilian fintech companies involved in the offer of credit are doing so via a partnership with a commercial bank. That said, new regulations to be issued by the Central Bank in 2018 will create a regulatory framework for P2P and direct credit fintech companies in which they will be allowed to operate loans under certain conditions. Likewise, foreign exchange operations require a partnership with an authorised exchange broker or bank. Details regulations also apply to payments arrangements and institutions.

Cryptocurrencies and related issues are subject to heated debates. A regulation, when finally put in place, should restrict certain activities.

*Data protection and cybersecurity*

**What rules and regulations govern the processing and transfer (domestic and cross-border) of data relating to fintech products and services?**

Law 12,965/2014 (the Internet Act) sets forth a legal framework for regulating the Internet in Brazil and thus applies to fintech companies. Internet users shall be guaranteed the secrecy of their online communications. Whenever customers’ personal information or data is collected, used, transferred to or from, or stored within the Brazilian territory, the Internet Act determines that Brazilian laws shall apply. In the event that data protection provisions are breached, services providers are subject to different penalties:

* warning;
* fines up to 10% of the revenues of the company in Brazil;
* suspension of data collection, use and storage activities; or
* prohibition to carry out the activities.

There are also specific privacy and data protection rules applicable to banks, brokerage firms, credit card companies and other institutions involved in financial services under Complementary Law 105/2001, which provides for the confidentiality of financial transactions and strictly limits information that may be shared. Companies dealing with such information shall implement robust structures to ensure that data confidentiality is respected.

The Central Bank is expected to put in place a new financial data protection framework during the first semester of 2018, setting standards on data processing and storage, cloud computing, corporate governance, risk management and other issues, in accordance with the institution’s activities. Furthermore, backup data related to such activities should be kept in Brazil.

**What cybersecurity regulations or standards apply to fintech businesses?**

Financial institutions and other regulated entities are subject to different cybersecurity regulations and standards, according to their activities. The Central Bank is expected to put in place a new cybersecurity framework in the first semester of 2018, setting standards according to institution’s size, risk profile, business model, type of operations, complexity of products, sensitivity of data and other variants.

*Financial crime*

**What anti-fraud, anti-money laundering or other financial crime regulations govern the provision of fintech products and services?**

Anti-money laundering rules apply to all companies somehow involved in the provision of financial or capital markets services, including know-your-customer controls, the duty to report suspicious activities and the obligation to maintain internal anti-money laundering procedures and controls. The extension and scope of such obligations will depend on the actual activities developed by the company.

**What precautions should fintech businesses take to ensure compliance with these provisions?**

Fintech companies should take into account such obligations when preparing their business plans in Brazil. As a rule of thumb, the more regulated the area, the stricter the obligations will be. The extension and scope of such obligations will depend on the actual activities developed by the company. Companies involved in cryptocurrencies are currently facing even greater uncertainty, given that the subject has drawn attention from the Brazilian Congress and new rules could be issued directed at them.

*Consumer protection*

**What consumer protection laws and regulations apply to the provision of fintech products and services?**

Brazil has strong consumer protection legislation under the Consumer Protection Code. Consumers are considered the weakest party in the supply chain, compared to suppliers. The Consumer Protection Code establishes a number of consumer protection rules that also apply to fintech companies, and include:

* protection against services deemed to be hazardous;
* protection against misleading/abusive advertising;
* possible nullification of abusive contractual provisions;
* indemnification for patrimonial and moral damages;
* requirements to be properly informed about potential risks and essential characteristics of products or services; and
* protection by administrative bodies created to settle consumer disputes or impose sanctions for consumer law violations.

*Competition*

**Does the provision of fintech products or services in your jurisdiction raise any particular competition regulatory concerns?**

No. Given the high concentration of banking activities with legacy banks, entrants in the fintech market will generally be seen as increasing the competition in a sector in which it is welcome.

*Cross-border regulation*

**Are there any particular regulatory issues concerning the cross-border provision of fintech products and services (eg, operating jurisdiction rules and currency controls)?**

Brazil exercises certain controls on cross-border currency transactions, including payment for imports and exports, transfers of capital, repatriation of capital and payments of dividends, interest, and royalties. All foreign exchange transactions must be made through an authorised bank with the participation of a registered broker. Several fintech companies involved with foreign exchange solutions are operational and growing. Given the regulatory limitation, they are usually structured through a partnership with an existing exchange broker licensed to operate foreign currencies.

In addition, fintech companies providing services in Brazil may be required to set up in the country if their activities are subject to licensing. Even if they are not subject to licensing, many foreign companies that try to enter the market without a clear foothold in the country face operational difficulties.

**Financing, investment and government support**

*Government support*

**Does the government provide any incentives or support programmes to promote fintech innovation in your jurisdiction (eg, tax incentives, grants and regulatory sandboxes)?**

There are no specific fintech programmes, although there have been speculations about a possible regulatory sandbox from the Central Bank to be implemented in 2018.

The government provides support for small and medium enterprise development through subsidised loans and simplified tax procedures. The Brazilian Development Bank funds locally established venture capital firms, as well as programmes supporting entrepreneurs.

There are also tax incentives for companies involved in the research and development of technological innovation.

**Has the government concluded any international cooperation agreements to promote and facilitate the cross-border expansion of fintech businesses?**

No.

*Financing and investment*

**What private financing and investment schemes are available and commonly used for fintech start-ups in your jurisdiction?**

In addition to companies bootstrapped by their own founders, venture capital is the most used form of financing for fintech companies. It is usually done through a direct investment in the target company’s capital, through convertible debt or through the underwriting of shares. Under this model, the investor becomes a direct shareholder of the operating company if it opts to make an equity investment, or a direct creditor of the operating company, with an option to convert principal and interest into shares in the future, if it makes a convertible debt investment.

Instead of proceeding with direct investments in Brazilian companies, some foreign investors opt to first establish Brazil-based investment funds as an intermediary equity. Rule 578 issued by the Brazilian Securities Commission (CVM) re-categorised venture capital funds under the overarching framework applicable to private equity funds. The new regulation segregates these funds into the following categories:

* seed capital;
* emerging companies;
* infrastructure and intensive economic production in research, development and innovation; and
* multi-strategy.

The Brazilian venture capital market is currently shifting towards a new form of investment structure, where money is not directly cashed into the Brazilian operating company. Entrepreneurs are now opting to incorporate either Delaware or Cayman parent companies to receive these funds.

Some companies are funded by corporate venture capital funds led by established banks and other market players with the objective to identify emerging companies with products and services able to create synergies with such established players’ pre-existing activities. Commonly, the fund undertakes an equity investment in the target, acquiring a minority equity holding in its capital. At the same time, the corporate venture executes a commercial agreement with the target, whereby it will use its products and services in strategic, internal processes. Only later, when the startup is more mature, will the corporate venture’s focus turn to profitability or liquidity events.

**Ancillary issues**

*IP rights*

**What forms of IP protection are available for fintech innovations?**

Patents may protect inventions under the Brazilian Industrial Property Law (Law 9279/96). Software is not subject to patents, but is protected under copyright laws and may be registered with the Brazilian Industrial Property Office (INPI).

IP ownership is in principle granted to those who first file for their protection with INPI. Software codes do not necessarily require prior filing for their protection, although such filing would serve as an element of proof that the filing party had ownership at the filing date.

Well-known trademarks are also subject to special protection irrespective of filing in Brazil, as set forth by the Brazilian Industrial Property Law and under the Paris Convention for the Protection of Industrial Property.

**What rules govern the ownership of IP rights to fintech innovations?**

The Brazilian Industrial Property Law provides for crimes against industrial property, unfair competition and the protection of inventions, utility models, industrial designs and trademarks. Internationally, Brazil is a signatory of the Stockholm Convention (1967), which established the goals of the World Intellectual Property Organisation. It is also a signatory of the Paris Convention, including The Hague and Stockholm revisions. Brazil is also a signatory of the Strasbourg Agreement on International Patent Classification. Brazil is a member country of the Patent Cooperation Treaty and the Agreement on Trade-related Aspects of Intellectual Property Rights.

*Immigration*

**What immigration schemes are available for fintech businesses to recruit skilled staff from abroad? Are there any special regimes specific to the tech or financial sector?**

There are no special immigration regimes directed at fintech professionals.

**What immigration schemes are available for foreign investors and entrepreneurs wishing to invest in or establish a fintech business in your jurisdiction?**

On November 21 2017 both the Migration Law 13445/17 and Decree 9199/2017 entered into effect. The new law provides for the rights and duties of migrants and visitors, and regulates their entry and stay in Brazil. To date, only some of the new normative resolutions that will regulate temporary work visas and authorisation of residence have been published. Additional normative resolutions are expected to be approved and published in the first semester of 2018. At the moment, it is possible to apply for prior authorisation for some types of temporary work visa and authorisation to reside.

The new normative resolutions will regulate the requirements for a visitor to apply for a residence permit to work in Brazil without having to go to a consulate abroad to apply for a work visa, as was the case in the past. In addition, under the terms of the new law, regardless of the foreigner’s immigration status, the migrant may apply for a residence permit in case he or she fulfils the requirements to obtain it (including having a work offer), thereby regularising his or her migratory condition. Statutory managers will be subject to different procedures and requirements than regular employees.

LINKS-

<http://fintechlab.com.br/wp-content/uploads/2017/09/Report_Fintechlab_2017_ENG.pdf>

<http://www.levysalomao.com.br/files/publicacao/anexo/20180507164934_fintech-in-brazil-overview---lra.pdf>

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