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# Latin American FinTech Markets Growth and Its Impact on Traditional Financial Players

*Many people in Latin America do not have bank accounts or credit histories, leaving them with little reason to work with banks. Consumer banking services are currently only offered by a handful of large traditional banks, making room for new players in the marketplace—more specifically, the growing FinTech sector and its low-cost offerings. Emerging FinTech firms provide opportunities for this underserved population due, in part, to their lower or non-existent fees compared to large banks that charge for almost every service. As more FinTech firms emerge, local people can now easily open online bank accounts, get loans to start a business, renovate their homes, pay back debts, and invest money with more confidence and less bureaucracy.*

According International Monetary Fund (IMF), 30% of the population in Brazil does not have a bank account. This is for 2 main reasons: 1) high fees charged for transactions and account maintenance; and 2) lack of credit history or previous banking relationship. The difficulties that the poorest people face to maintain, or even open a bank account, often lead to closures, thus adding to what we call the *unbanked* population—those without bank accounts or credit backgrounds. Approximately 50% of Latin Americans in all countries are considered to be *unbanked*.

To provide more background, the retail banking sector in Latin America consists of a mix of local players and big multinational banks, including, but not limited to, Santander, HSBC, Scotiabank, and BBVA. While the market is dominated by these big players, not every large multinational bank operates in each country. For example, in Brazil, Santander shares the market with local players Itau Unibanco and Bradesco, while in Argentina, Banco de La Nación Argentina competes with Santander Río and BBVA. Even local players have started to operate beyond their home country, like the Brazilian bank Itaú Unibanco, which has expanded significantly in Argentina and Chile over the past few years. Although consumer banking services in Latin America are highly concentrated among just a few large banks, the surge of FinTech and its abundance of low-cost offerings has begun to shift this trend.

Given these regional challenges, it is easy to see why FinTech firms have experienced so much opportunity in Latin America. The local banking system's high transaction costs and fees make it simple for entrepreneurs to think outside of the box for solutions to offer to this underserved population.

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# The Rise of FinTech in Latin America

Besides lower costs and non-existing fees, the rise of FinTech in the Latin American market is also driven by the following factors:

1. **Development of digital technology.** As the digital world continues to evolve, financial services firms are all connected by advances in technology like mobile, open banking, and blockchain. These digital advances enable firms to decrease back office costs, as more processes become automated. New technologies also provide the opportunity to start a business with lower capital investments.

2. **The rise of the millennial generation.** This generation is highly connected to the internet and fully accustomed to doing business online—which means that the need for human interaction to make a transaction almost doesn't exist. Young generations care less about traditional brands and more about receiving high levels of service through innovative, forward-looking companies.

3. **New regulations**. Many countries have been working to approve new rules to regulate FinTech services, enabling small companies to have fewer regulatory costs compared to banks or larger institutions.

The overall mission of many regional FinTech firms is to make their clients' lives easier—specifically, to allow any individual to open a bank account with no fees, renegotiate high debts at reduced transaction costs, and receive a loan provided by someone else (peer to peer lending) in order to avoid the higher fees often charged by banks that demand collateral commitment. FinTech firms can achieve these goals due to their lower operational costs and higher levels of service and productivity, which enable them to work with smaller spreads.

To further grow their business, foster a stronger regulatory environment, and share best practices, FinTech firms are on a mission to increase organization through the creation of both national and local groups and associations, such as the alliance of local associations, Aliança Sudamericana de FinTechs (South American FinTech Alliance). Country-specific associations look to add value to their local firms by either supporting their needs and helping them develop their infrastructure, or by providing benefits, such as life or health insurance at lower costs.

Below, we explain specific trends and the resulting impact of FinTech in the markets of Argentina, Brazil, Columbia, and Mexico.

# Argentina

The Argentinian population has been facing difficult times for years. With high debts and a rapidly declining economy leading to recession, the local market is ripe for growth in the FinTech sector. To capture this underserved market, FinTech firms have employed digital banking, new payment solutions, peer to peer lending, and debts renegotiation. To avoid high costs of large banks, more people are moving to FinTech firms and some traditional firms are establishing their own digital bank to recover back the clients that they´ve lost.

In Argentina, the FinTech sector is largely supported by Cámara Argentina de Fintechs (Fintech Chamber), the country's FinTech association, as well as Mercado Pago, the payment solution arm of the multinational marketplace Mercado Libre. This important Argentinian firm is personally dedicated to developing the FinTech market in the

country. Although Brazil and Columbia show significant market development in this area, the Argentinian market benefits from the direct support of this multinational Argentinian firm.

## Brazil

Brazil has seen growth in the FinTech market for similar reasons as Argentina. However, given the significantly smaller population, the number of *unbanked* people is higher in this country, permitting even more opportunity for FinTech firms. As these firms emerge, their focus remains on providing necessary services to the community, such as lending with low rates (Creditas, Noverde, Bankfácil), peer to peer lending either for firms or people (Mutual, Nexoos, Biva), digital banks (Nubank, Next, Neon, C6 Bank), finance management (Agilize, Conta Azul, Nibo), and payment solutions (Pagar.me, PicPay, Stone, Ebanx). On a smaller scale, we are also seeing a heightened focus on payments and remittances, payments crypto, personal financial management, enterprise financial management, wealth management (robo-advisors), and financial education and savings.

Besides providing solutions to the *unbanked* population, Brazil´s FinTech market is also finding ways to grow its payment solutions, especially for traditional credit card machines used when making a purchase. Where there used to be only two or three options, there are now many—GetNet, Safra Pay, Stone, Sumup, Cielo, among others—all of them competing to be the chosen firm that will have their machines used at the cashier's desk. In the past, it was common in Latin America for payment solutions firms to charge a monthly rental fee for merchants to use their credit card machines. However, due to increased competition, charging rent is no longer a common practice.

## Columbia

Even though in terms of growth, Columbia is recognized as the Latin American country of the year, the region still faces the same difficulties as Argentina and Brazil—high poverty, vast differences among social classes, and an *unbanked* population—thus, offering the same chance for FinTech firms to expand their presence.

Surprisingly, Columbia has some traditional firms that are focused on change and embracing new methods. For example, Banco Davivienda, one of the biggest Columbian banks, recently hired FinTech firm, PayKey, to implement a tool that allows Davivienda's clients to share money and split bills evenly by selecting each other´s contacts on social media. The success of this endeavor proves that it´s not just about the firm´s size, but rather its willingness to change in today's digital world. When traditional firms embrace new practices and partner with emerging startups, staying ahead of the curve becomes that much easier.

## Mexico

Like the countries mentioned above, Mexico has high unemployment rates, inflation, and many *unbanked* people, providing opportunity for FinTech disruption.

Much of the Mexican FinTech sector is focused on payment solutions and digital banking, which includes firms like Cuenca, PagaYa, Conekta, and ePesos. Some of these firms provide the same solution as Banco Davivienda in Columbia, allowing their clients to pay or transfer amounts of money through social media. In a region dominated by big banks that typically charge clients for money transfers, this is considered revolutionary.

Banks operating in Mexico have historically had solid amounts of revenue coming from money remittances—mostly to the United States due to its proximity to Mexico—yet another opportunity for FinTech firms to offer affordable and easily accessible services that compete with traditional banks.

The growth of FinTech firms in Latin America is just one example of how digitization is accelerating industry convergence. As FinTech gains momentum, competition for key roles in product development, software development, technology architecture, and information security, has increased. The employee value proposition to attract and retain the talent necessary for building the workforce of the future varies across industries. To compete for skill-specific talent, traditional job architecture and rewards programs that historically worked for bankers will need to be reconsidered.

To learn more about growing FinTech markets in Latin America and how this may affect traditional financial services firms, please contact our team.

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