

THE ALTERNATIVE PAYMENTS LANDSCAPE IN BRAZIL



by **docomo** digital



Brazil, Latin America's fintech heart, stays strong

Brazil has long been touted as the heart of Latin America's fintech aspirations. It is home to a blossoming digital economy that still has much space to grow, given a large growing ecosystem of digital wallets that are looking to challenge its highly centralised banking system. The vast majority of the nation's financial assets are concentrated in five large banks: Caixa Econômica Federal, Banco do Brasil, Itaú Unibanco, Bradesco and Santander.¹ Challenger banks, or neo banks, are growing in number and are looking to chip away at the incumbents by offering the same services at lower costs, and without the need for physical documentation or branch visits.²

The increased adoption of digital payments solutions by both merchants and consumers could herald a revolution in Brazil, where the unbanked still comprise around a third of the population.³ Part of this growth includes the increased growth of digital wallets, which according to a 2020 JP Morgan report, accounted for 11% of Brazil's 2019 e-commerce payment market, and are expected to outpace cash by 2023.⁴

¹ International Tax Review. Brazil: Redefining the banking landscape. Available online at: <https://www.internationaltaxreview.com/article/b1ky5qx37q9xpg/redefining-the-banking-landscape>

² Econ Americas. Neobanks a Game-Changer for Unbanked in Brazil. Available online at: <https://econamericas.com/wp-content/uploads/2020/09/BG-Neobanks-Brazil.pdf>

³ The World Bank. The Unbanked. Available online at: https://globalfindex.worldbank.org/sites/globalfindex/files/chapters/2017%20Findex%20full%20report_chapter2.pdf

⁴ J.P.Morgan. Brazil's appetite for online shopping increases, but supporting infrastructure must catch up. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/brazil-2020>

Digital wallets make a dent

There are an estimated 50 million digital wallet accounts offered by more than 100 companies in Brazil as of late 2019, according to Reuters, with more soon to come from firms of all sorts.⁵ There are wallets from neo banks, international giants, ride-hailing apps, retailers, and fintechs—everyone seems to want a piece of this market, estimated to see as much as \$91 million in total digital transactions in 2021 alone—a number set to bloat to \$156 million by 2025.⁶

The most popular wallets are by far PayPal and PagSeguro.⁷ As is the case in many Latin American countries, PayPal is especially prominent thanks to its roots in the US, but also its savvy go-to market strategy.

PagSeguro, a former subsidiary of e-commerce giant UOL, was designed to be a local version of PayPal that would enable consumers and merchants to store and transact through a free account. PagSeguro has made a conscious effort to market its near-field communications POS solutions to merchants, especially micro- to small-sized businesses, many of whom did not previously have access to digital transaction software.⁸

EBANX is a fintech bulwark in Brazil and the greater Latin American region, that found early success through its tie-up with AliExpress, and soon after it expanded its stable of partnerships to include big names such as Uber, Airbnb, Spotify, and PicPay.⁹ Most recently, in 2020, they

announced a number of initiatives to maximise on Brazil's potential: a partnership with PayPal,¹⁰ and the soft launch of its EBANX GO wallet that the company plans to launch in several other Latin American countries within the next year or so.¹¹

OEM-based wallets such as Samsung Pay, Google Pay, Apple Pay are all present in the market too, with the South Korean firm the first to enter the fray back in 2016.¹² These platforms are popular among Brazil's young, smartphone-savvy population for their convenient, instant payments function – eMarketer data suggests there will be as many as 21 million instant payment users in Brazil by 2023.¹³ However, these platforms rely heavily on partnerships with local banks to provide access to credit and debit services, which has likely hampered their growth. Google Pay has only recently in the last two years rolled out a debit card service in response to the population's poor access to credit cards.¹⁴

Although a relatively small number of major telcos dominate Brazil, the country has yet to see a carrier-based digital wallet emerge. Renato Ciuchini, the head of strategy and transformation at TIM, the Brazilian subsidiary of Telecom Italia, said during a May 2020 webinar that a number of operators are looking into possible collaborations to target Brazil's unbanked and prepaid customers,¹⁵ but nothing firm has been announced.

⁵ Reuters. As Brazilian payment apps multiply, some warn of a shakeout. Available online at: <https://www.reuters.com/article/us-brazil-banks-startups-analysis/as-brazilian-payment-apps-multiply-some-warn-of-a-shakeout-idUKKBN1YK231>

⁶ Statista. Digital Payments—Brazil. Available online at: <https://www.statista.com/outlook/296/115/digital-payments/brazil>

⁷ J.P.Morgan. Brazil's appetite for online shopping increases, but supporting infrastructure must catch up. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/brazil-2020>

⁸ Lear Investment Management. Pag Seguro and the Brazilian Mobile Payments Market. Available online at: <https://learim.com/research-notes/2019/06/pag-seguro-and-the-brazilian-mobile-payments-market/>

⁹ PaymentsSource. Ebanx, PicPay expand global reach for digital wallet users. Available online at: <https://www.paymentsource.com/news/ebanx-picpay-expand-global-reach-for-digital-wallet-users>

¹⁰ FinTech Magazine. EBANX and PayPal expand digital wallet potential in Brazil. Available online at: <https://www.fintechmagazine.com/digital-payments/ebanx-and-paypal-expand-digital-wallet-potential-brazil>

¹¹ Finextra. Ebanx trials digital account in Brazil. Available online at: <https://www.finextra.com/pressarticle/81150/ebanx-trials-digital-account-in-brazil>

¹² NFCW. OEM Payments Availability by Country. Available online at: <https://www.nfcw.com/oem-pay-availability/>

¹³ ILM Group. Why Brazilians are getting increasingly enthusiastic about mobile payments. Available online at: <https://www.ilmgroup.com.br/en/why-brazilians-are-getting-increasingly-enthusiastic-about-mobile-payments/>

¹⁴ Reuters. Google enables debit card payments in Brazil. Available online at: <https://www.reuters.com/article/us-google-payments-brazil/google-enables-debit-card-payments-in-brazil-idUSKBN1WT209>

¹⁵ LABS. Brazilian mobile operators could join forces to build a digital wallet service for prepaid customers. Available online at: <https://labsnews.com/en/news/technology/brazilian-mobile-operators-could-join-forces-to-build-a-digital-wallet-service-for-prepaid-customers/>

A sampling of popular e-wallets across markets and their fees

PayPal in Brazil does not charge any fee for purchases made within Brazil. Meanwhile, fees for selling and receiving payments are 4.79% + \$0.12 per transaction. An additional fee of 1.92% is charged per instalment if the buyer chooses to pay in monthly instalments. For international sales, 6.4% is charged in addition to a fixed fee. This is charged based on the transaction currency used.¹⁶

Mercado Pago has a range of digital payment services available to merchants in Brazil. Merchants can either choose to accept payments in-store using POS machines, QR code or receive payments using chat or social networks. Mercado Pago charges anywhere between 0.99% to 4.99% per transaction.¹⁷

In 2018, the Brazil government capped the interchange (debit card) fees payable by businesses to card issuers to 0.8% of transaction values and can average no more than 0.5%.¹⁸

Top e-wallets: Mercado Pago, Google Pay and Samsung Pay.¹⁹

Brazil's government takes a swing

Brazil's central bank is also moving into the digital payments space with its "PIX" instant payments system, launched in November 2020. PIX is designed to enable fast, convenient and accessible 24-hours money transfers to consumers all over the country, and undo the impact of the highly centralised banking system. The service could account for as much as 22% of all electronic payments in Brazil, according to Reuters. When it launched, PIX was announced to have had 72 million registrations and 750 sign-ups by companies.²⁰

It stands to reason that inasmuch as traditional banks will feel the impact of the PIX system, so too will neo banks and digital wallets who will lose out on consumers drawn to the system. Another source of competition will likely come from the super popular messaging service, WhatsApp. The Facebook owned company rolled out its P2P payments system around the same time to leverage on its massive network of users.²¹ Given it has more than 100 million users in the country, it is likely to create more than just a flutter in the wallets space, impacting OEM wallets, pure play wallets and superapps alike.

Digital wallets aside, there is some evidence to suggest that another payment solution, direct carrier billing (DCB), could have significant potential for success in Brazil. A report by Super Data, noted that 16% of Brazilian digital gaming transactions were fulfilled through carrier billing solutions, the second highest in Latin America.²² Brazil's telcos are beginning to show signs of responding to the opportunities. Telefónica's Vivo brand—the dominant carrier in Brazil with 30% of market share²³—has introduced a handful of DCB products such as its Vivo Money credit service;²⁴ insurance coverage from Zurich Insurance charged directly to customers' phone bills; and access to streaming platforms Globoplay²⁵ and Netflix.²⁶ Last October, TIM Brazil, started an instant money transfer service, which could potentially lay the groundwork for a future digital wallet.



Infrastructure problems persist

The adoption of digital wallets appears to be driven by a number of factors, such as Brazil's fairly large population of 211.4 million people,²⁷ most of whom are young and extremely online, urban and smartphone-savvy. These consumers in dense cities are highly reliant on ride hailing and food delivery apps. It is also a population that is already highly accustomed to mobile shopping. One report found 85% of internet users are shopping through devices, while another 37% cited simplified payment options such as one-click purchase and biometric authentication as mobile commerce prerequisites.²⁸

Despite these favourable demographics, digital wallets will still have to contend with the central role cash plays in the economy. The Boleto Bancario system—where users print out barcodes to pay off online purchases at ATMs, banks or convenience stores—is still hugely popular in Brazil and wider Latin America, posing a significant cultural hurdle for digital wallets, especially among older generations.²⁹

Brazilian telcos will have their own challenges as they consider what their future looks like in the fintech space. Despite the smartphone-forward demographics on their side, large swathes of the country still lack reliable access to mobile broadband technology. Telcos will also have to contend with the country's high 18% consumption tax and the reality that most of Brazil's 209 million smartphone users prefer prepaid over postpaid.³⁰

This makes introducing more DCB solutions difficult and expensive to maintain, even if potential gains are to be had.

A bright spot for digital wallet operators in Brazil will be the active steps the government and financial regulators are taking to address long-standing issues of poor competition and high credit cost endemic to the economy. From a regulatory standpoint, Brazil's financial regulators have implemented a number of policies including open banking regulations that will force banks to share client data with third parties such as fintechs, and the easing of regulations around foreign money exchanges³¹—two key developments that will enable digital wallets to begin unbundling the grip of Brazil's major banks.

These planned regulatory changes will impose regulatory and capital requirements on firms offering payments and financial services in Brazil that could negatively impact the agility and growth of those fintechs,³² but they will also introduce more certainty into the system, for both firms and consumers, marking the next evolutionary stage for Brazil's fintech ecosystem. In November 2020, the central bank began the process of setting up a regulatory sandbox for fintechs to test innovative new products, with the goal of admitting up to seven applicants within its first cycle.³³

¹⁶ PayPal. How much does it cost to use PayPal? Available online at: https://www.paypal.com/br/webapps/mpp/merchant-fees?locale.x=en_BR

¹⁷ Mercado Pago. MY PAID MARKET, MY WAY OF CHARGING. Available online at: https://www.mercadopago.com.br/ferramentas-para-vender#from=home_landing

¹⁸ J.P. Morgan. E-commerce Payments Trends: Brazil. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/brazil>

¹⁹ Comscore. Mobile Contactless Payments Rise to the Centre as Mobile Device Focus Grows. Available online at: <https://www.comscore.com/Insights/Blog/Mobile-Contactless-Payments-Rise-to-the-Centre-as-Mobile-Device-Focus-Grows>

²⁰ Reuters. Brazil launches 'Pix' instant payments system, Whatsapp to enter 'soon'. Available online at: <https://uk.reuters.com/article/us-brazil-banks-payment-platform/brazil-launches-pix-instant-payments-system-whatsapp-to-enter-soon-idUSKBN27W25C>

²¹ PYMNTS.com. Facebook's WhatsApp Gets Another Shot at P2P in Brazil As Google Shows Interest. Available online at: <https://www.pymnts.com/news/mobile-payments/2020/facebook-whatsapp-gets-another-shot-at-p2p-brazil-google-shows-interest/>

²² Fortumo. Carrier Billing market report: Latin American and Iberia. Available online at: <https://fortumo.com/blog/carrier-billing-in-latin-america-market-report-by-fortumo/>

²³ Telco Titans. Vivo brings carrier billing to Brazil. Available online at: <https://www.telcotitans.com/telefonica-watch/vivo-brings-carrier-billing-to-brazil/938.article>

²⁴ GSM Association. The Mobile Economy: Latin America 2020. Available online at: https://www.gsma.com/mobileeconomy/wp-content/uploads/2020/12/GSMA_MobileEconomy2020_LATAM_Eng.pdf

²⁵ Telco Titans. Vivo brings carrier billing to Brazil. Available online at: <https://www.telcotitans.com/telefonica-watch/vivo-brings-carrier-billing-to-brazil/938.article>

²⁶ Reuters. Telefonica Brazil rolls out Netflix partnership in paid TV push. Available online at: <https://www.reuters.com/article/us-telef-brasil-netflix-idUSKCN1MQ287>

²⁷ J.P.Morgan. E-commerce Payments Trends: Brazil. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/brazil>

²⁸ PagBrasil. Digital wallet usage grows in Brazil. Available online at: <https://www.pagbrasil.com/news/digital-wallets-grow-in-brazil/>

²⁹ UOL BoaCompra. Here's the top four local payment methods in Brazil. Available online at: <https://blog.boacompra.com/heres-the-top-four-local-payment-methods-in-brazil/>

³⁰ Telefonica & Fortumo white paper. Maximizing carrier billing revenue with prepaid subscribers. Available online at: <https://fortumo.com/blog/uploads/2019-09-11-telefonica-fortumo-white-paper-unlocking-the-prepaid-subscriber-base-potential.pdf>

³¹ Latin America Business Stories. Brazil will start implementing open banking system in November. Available online at: <https://labsnews.com/en/news/economy/brazil-will-start-implementing-open-banking-system-in-november/>

³² Latin America Business Stories. Brazilian Central Bank raises the bar for payment services. Available online at: <https://labsnews.com/en/articles/business/brazilian-central-bank-raises-the-bar-for-payment-services/>

³³ Latin America Business Stories. Brazilian Securities and Exchange Commission begins admission process of regulatory sandbox participants. Available online at: <https://labsnews.com/en/news/economy/brazilian-securities-and-exchange-comission-begins-admission-process-of-regulatory-sandbox-participants/>

ABOUT US

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