

Report

Fintech Deep.Dive.2020



Contens

This our third annual edition, the Fintech Deep Dive Survey, conducted in partnership with ABFintechs, provides a profile of the innovation and entrepreneurial ecosystem present in the financial services sector in Brazil based on data provided by 148 fintechs drawn from a broad range respondents.

+3
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A snapshot of companies and entrepreneurs

Our sample focused predominantly on the Southeast Region in Brazil, mainly São Paulo.

66%
of the 148 companies in the survey are headquartered in the city of São Paulo

17%
are headquartered abroad

+ Profile of founders

Age

Between 20 and 30 years



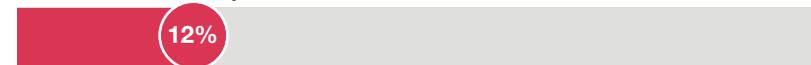
Between 30 and 40 years



Between 40 and 50 years



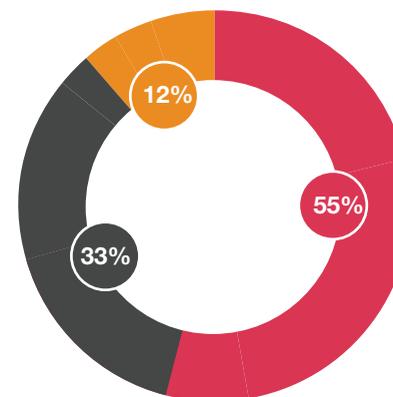
Between 50 and 60 years



Over 60 years



Experience



- Operate in the corporate sector in the same area as the fintech
- Operate in the corporate sector in another segment
- Do not operate in the corporate sector

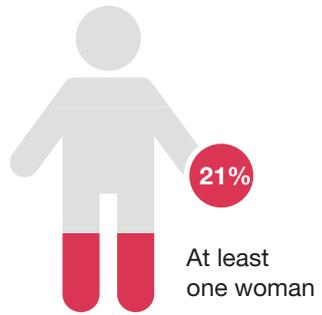
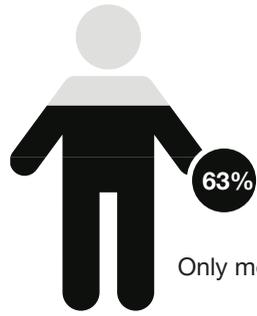


Founders

52%
graduated in Management or IT

60%
have postgraduate, masters degrees or doctorates

+ Gender



Almost half of fintechs founded over the last +5 years have, at least, one woman among the founders.

Annual revenue (R\$)

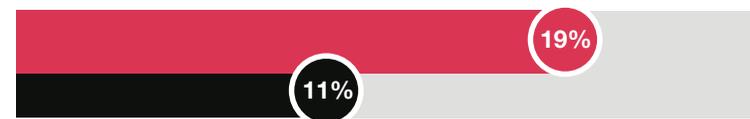
No billing revenue



Up to R\$ 350 thousand



Between R\$ 350 thousand and R\$ 1 million



Between R\$ 1 million and R\$ 5 million



Between R\$ 5 million and R\$ 10 million

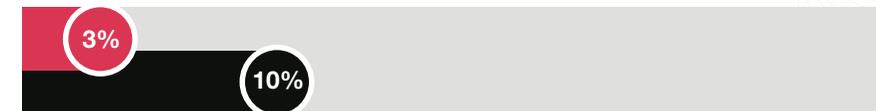


Over R\$ 10 million

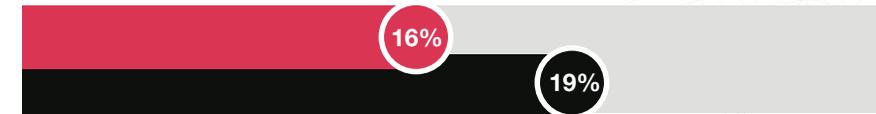


Company's age

Recently founded (2020)



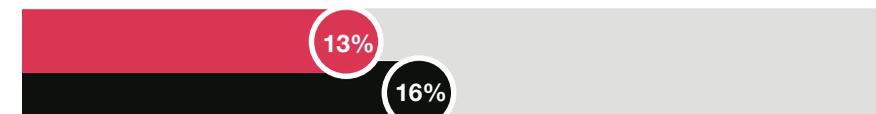
1 year



2 years



3 years



4 years



5 years or more



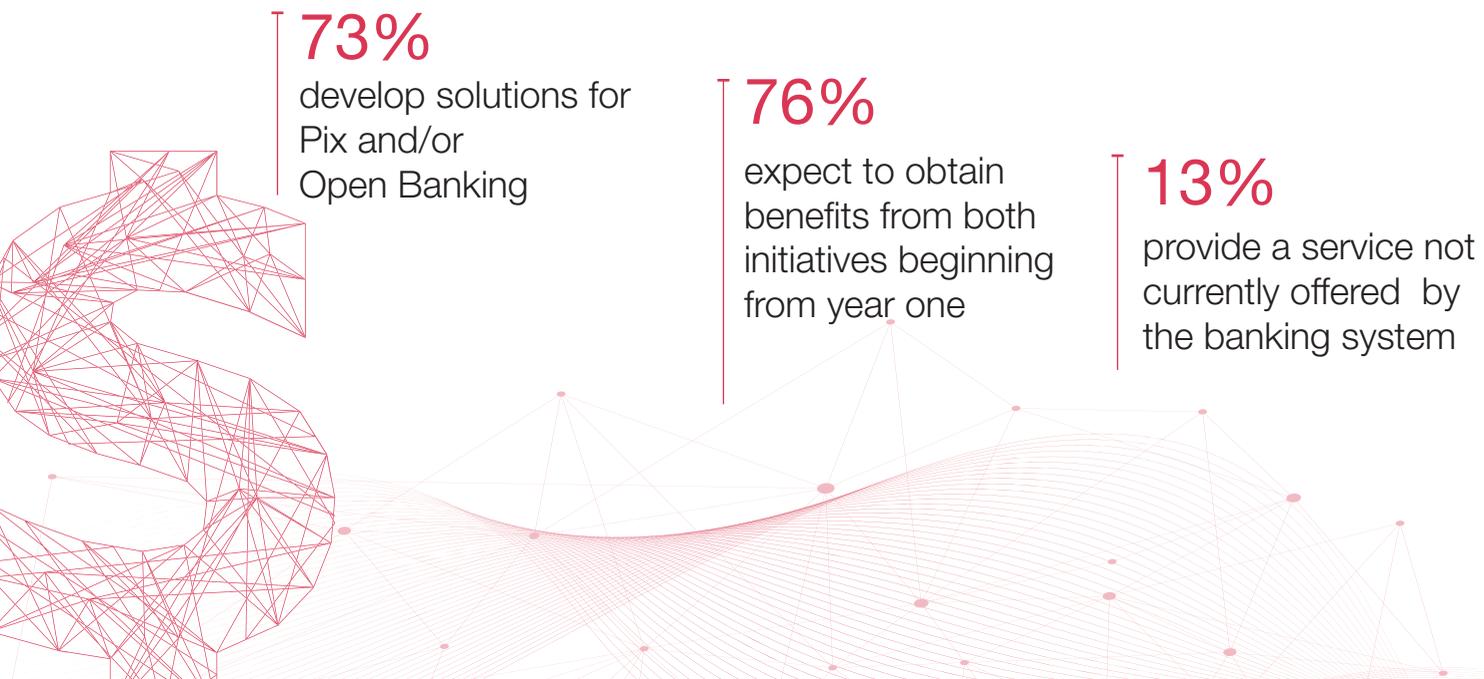
○ At least one woman
● Only men



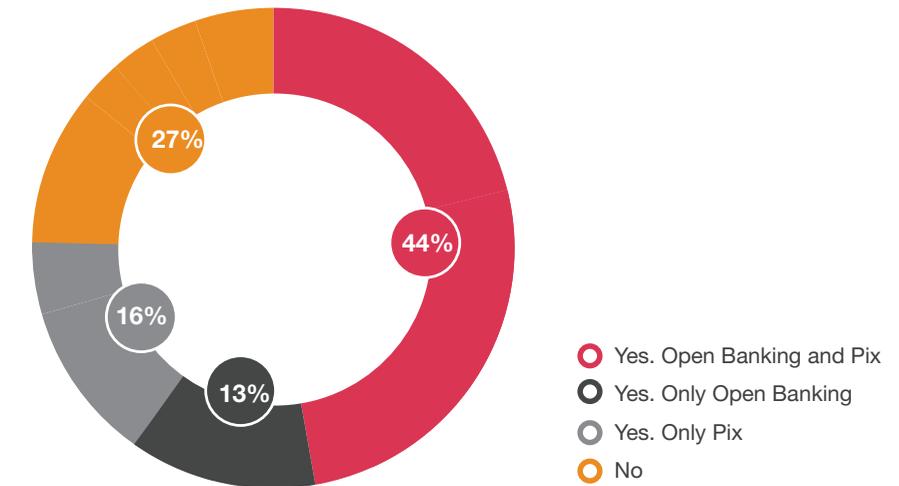
Investments in Pix and Open Banking

Most fintechs are developing solutions for Pix (the new instant payment system) and/or Open Banking and expect to reap the benefits from both initiatives in year one. This trend reflects investment in new products and services, which encourages innovation and competition in the financial system, ultimately benefiting end consumers – many of whom were not previously served by traditional financial institutions.

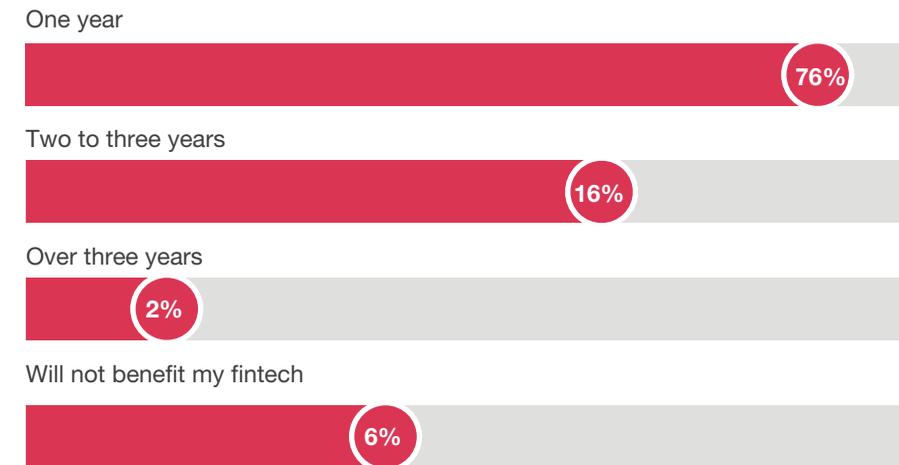
Data on the broad use of Application Programming Interfaces (API) show that the advanced technology should not be a challenge for fintechs to develop rapidly.



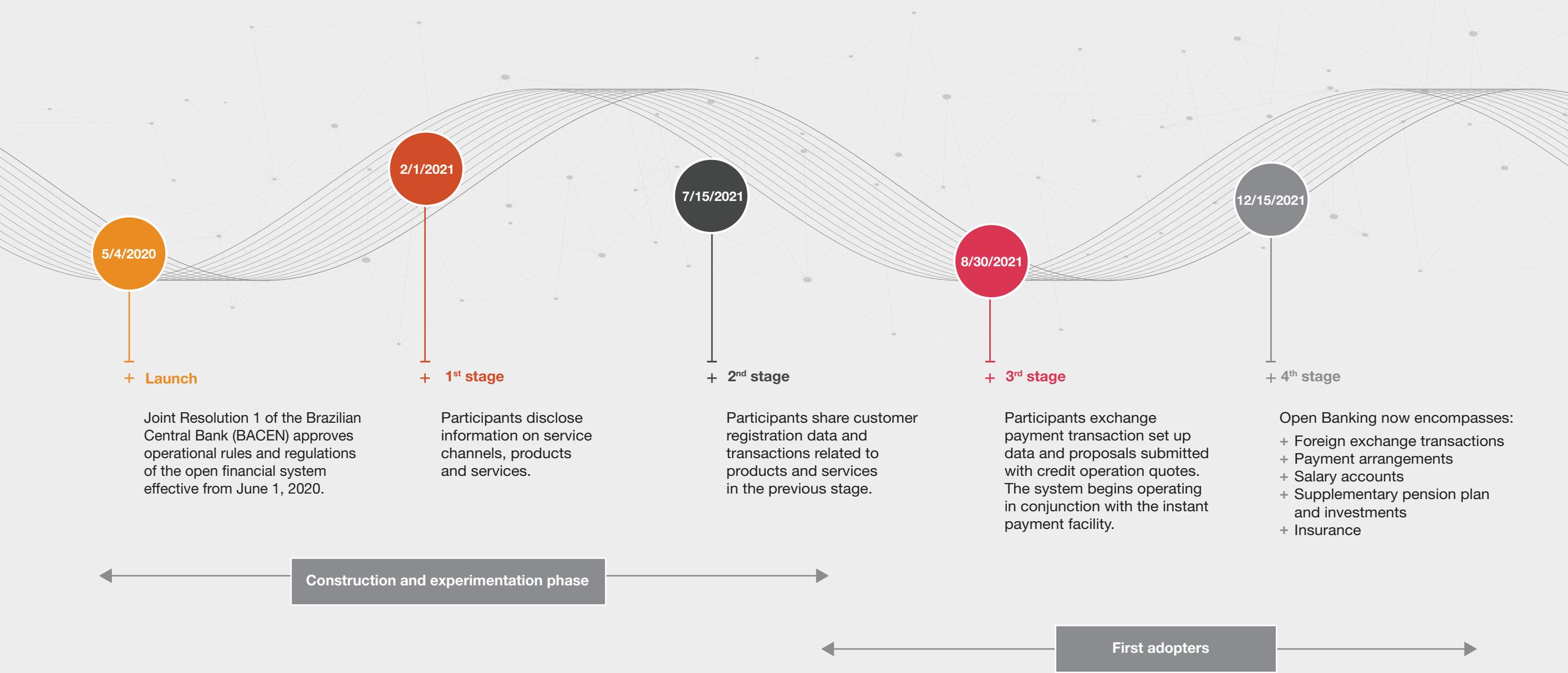
Developing solutions for Open Banking and Pix?



Return on investments expected within:



+ Open Banking in Brazil



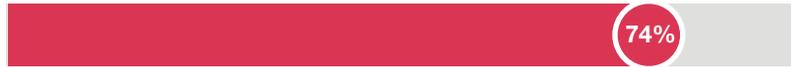
+ Use of Application Programming Interfaces (APIs)

Disseminated use

Use services via API



Expose services via API



Half of the fintechs surveyed use APIs to process payments, whereas over a third use these to maintain virtual customer accounts and validate users.

Top 10 APIs*

Payments (invoices, recharges, etc.)



Virtual account set up



Creation and validation of users



Multiple payments



Credit score



Fund transfer



Use of e-KYC



Eligibility and application for loans



Recording beneficiaries



Single lump sum payment to beneficiary



*Percentage of API mentions / total companies that offer services via APIs.

Credit score APIs rank fifth among the most popular APIs. APIs for eligibility and loan application are in eighth place which reflects the increasing trend the role fintechs has in the intermediation of credit services and loans. This is based on an analysis of a large volume of non-traditional data (such as behavioral traits of consumers on the internet) in assessing transaction operational risk. This trend is expected to become more robust as Open Banking expands and lines of credit are sought in 2021.

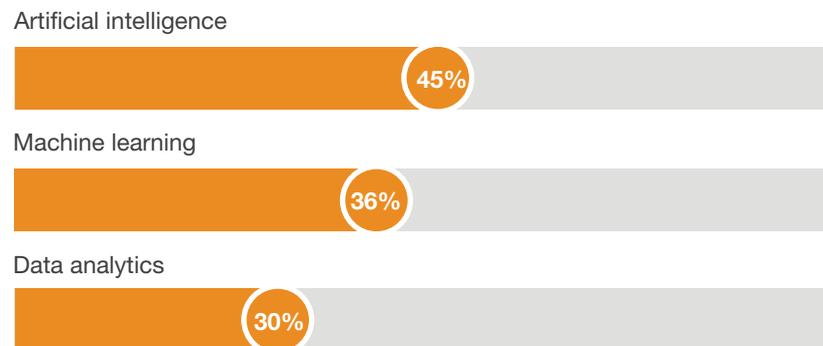
+ Top technological bets

Provision of differentiated services to consumers explains fintechs' bets on technology. Artificial intelligence, machine learning and data analytics will be crucial technologies to better understand user behavior and provide bespoke products and services adjusted to specific needs, well before customer demand becomes evident.

3 main technologies that drive fintechs

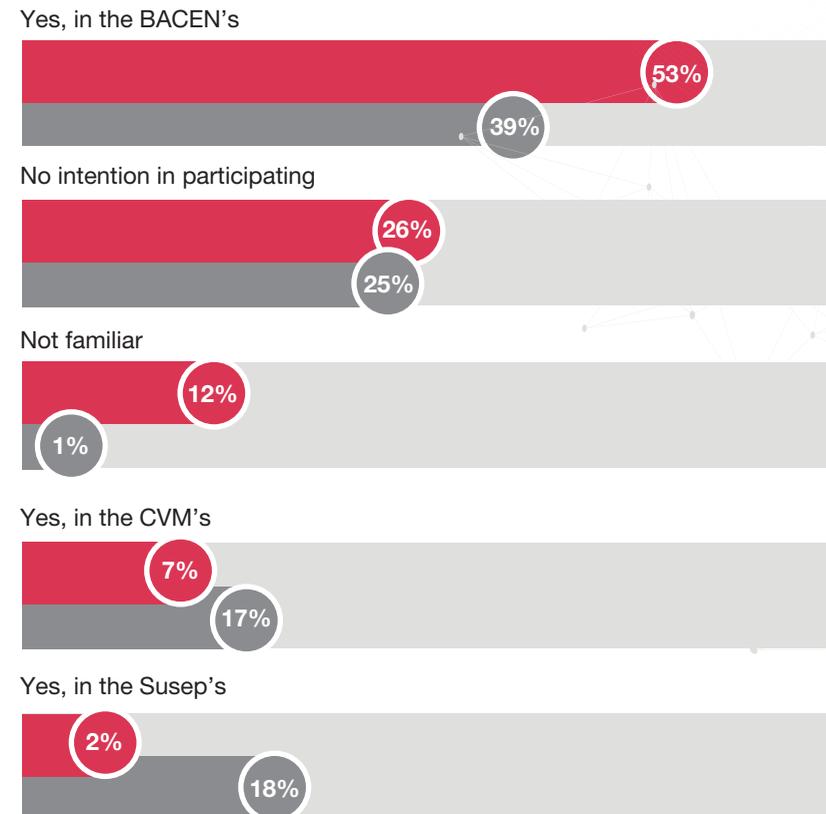


3 main technologies fintechs seek to dominate



Almost two thirds of the fintechs interviewed state that they intend to participate in some of the currently available sandbox initiatives. Although lower than last year, it is still high reflecting the interest in the BACEN sandbox programs. These entities are characterized by their high-level of innovation, in addition to their willingness to meet the regulator's compliance demands, open to transparency and pressure to generate returns.

Participation in regulatory sandboxes

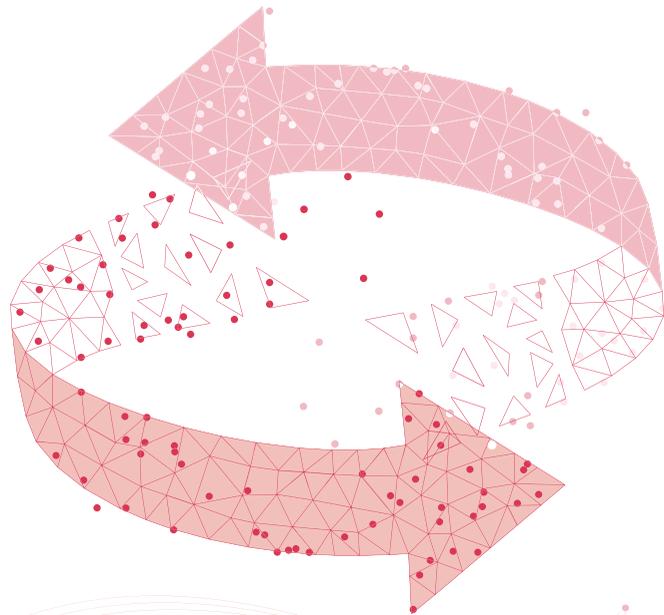


○ 2020
○ 2019



Increasingly diversified operations and greater focus on B2B

The Credit segment has surpassed the Optional means of payment as the segment that most attracts fintechs. The sum of both represented 36% of entities participating in the survey, lower than last year's 43%, which indicates a broader offering.



We included in this year's questionnaire the vertical of technologies of Open Banking and Banking as a Service, which already appear in fifth in the ranking of the main segment operations, and in second in the list of segments into which companies are expanding.

Five top operational segments

Credit, financing and debt negotiation



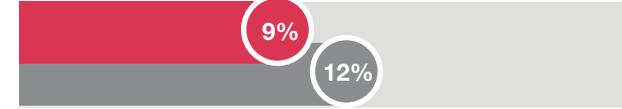
Optional means of payment



Financial management



Digital banks



Technologies such as Open Banking and Banking as a Service



● 2020
● 2019

Areas of expansion

Digital banks



Technologies such as Open Banking and Banking as a Service



Optional means of payment



Credit, financing and debt negotiation

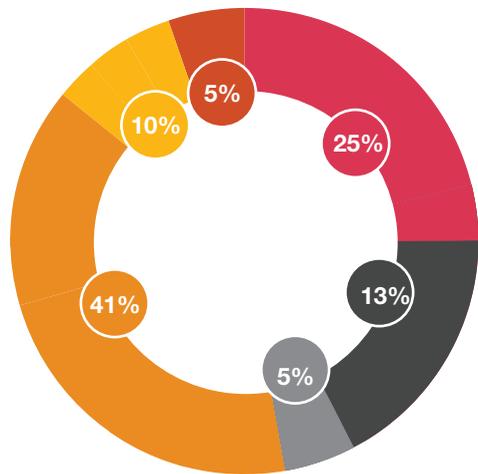


Financial management



Over half of fintechs provide services to businesses, especially small and medium-sized entities (annual billings up to R\$ 90 million), whereas 43% serve individuals.

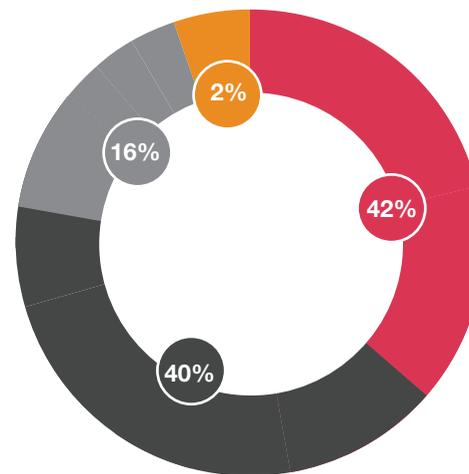
Customer profile



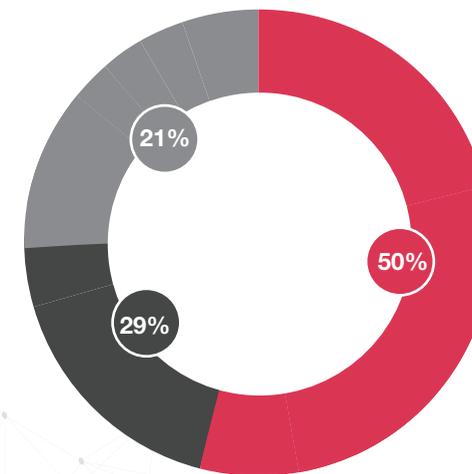
- Wage-earning individual
- Informal or autonomous worker
- Individual micro entrepreneur (MEI)
- Small and medium-sized companies (billings from R\$ 2.4 million to R\$ 90 thousand)
- Large companies (billings over R\$ 90 million)
- Unknown

Those with exclusive focus on servicing corporate clients increased from 29% to 40%. The change reflects greater confidence of corporates in these service entities and increasing willingness of fintechs to take on corporate risks. Having enhanced their service platforms for the individual, they are now developing more complex services for companies, which require, for example, more comprehensive record keeping, without the benefit of standardized or digitalized documents.

2020



2019



- B2B and B2C
- B2B
- B2C
- Other



43% identify the web as the main channel of contact with customers

5% of fintech customers have not had access to formal financial products

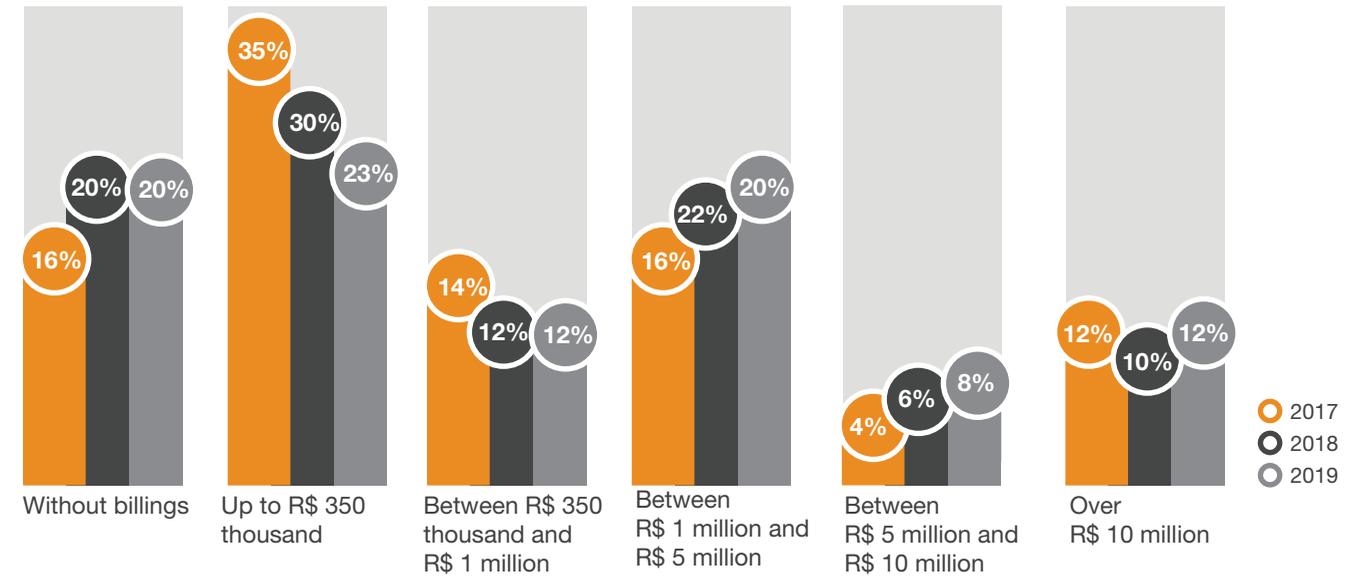


A maturing market

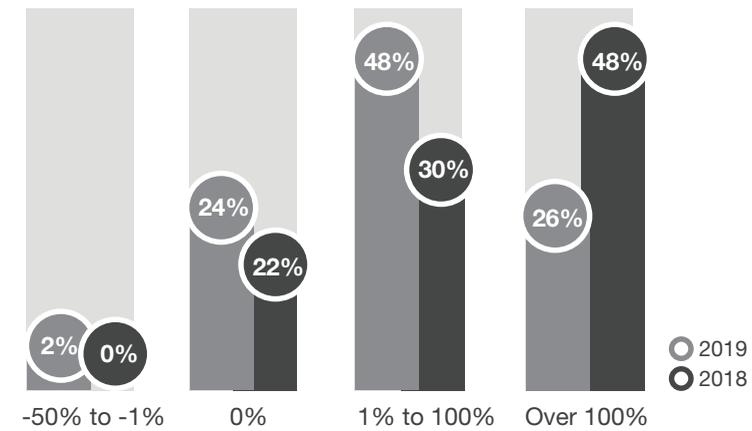
Since the first edition of our survey, we have noted fewer companies with annual billings less than R\$ 350 thousand. These comprised 51% of the sample in the first year and now total 42%. These two charts illustrate a disproportionality between billing ranges and rates of growth.



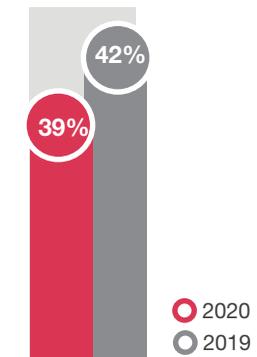
Gross revenue



Changes in revenue in relation to the prior year



% of companies that have achieved break-even



The number of companies achieving break-even changed slightly, though the number surviving the first five years of operations or which have consolidating has increased. Most companies surveyed indicated that they have increased staff levels.



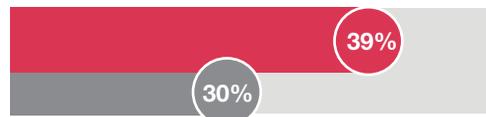
+ Signs of evolution

Signs of evolution

Founded, at least, five years ago



Under expansion or consolidation



Number of employees

Up to 10

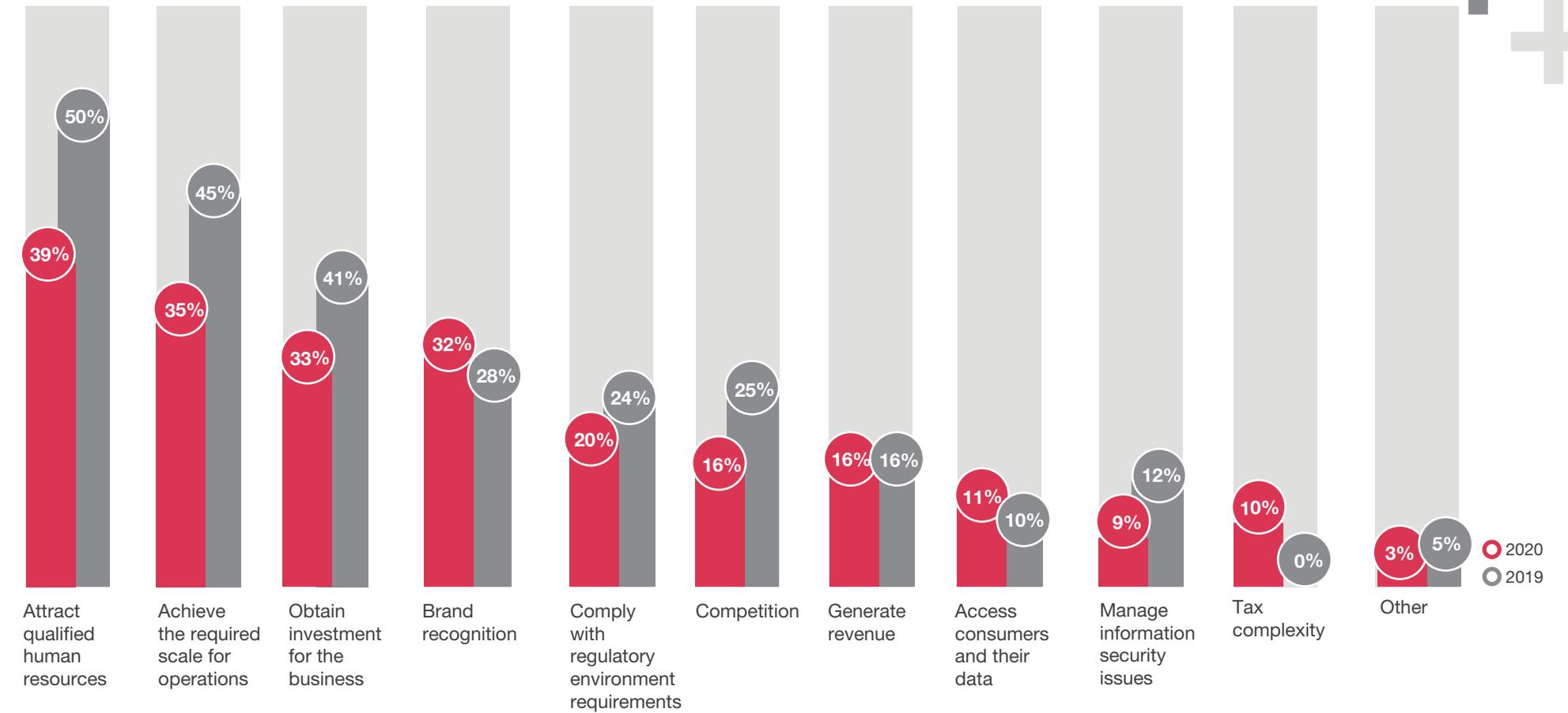


Over 100



● 2020
● 2019

Main barriers to management





24%

operate abroad. Primarily, by order of significance, Mexico, Colombia, Argentina, United States, Chile and Peru

30%

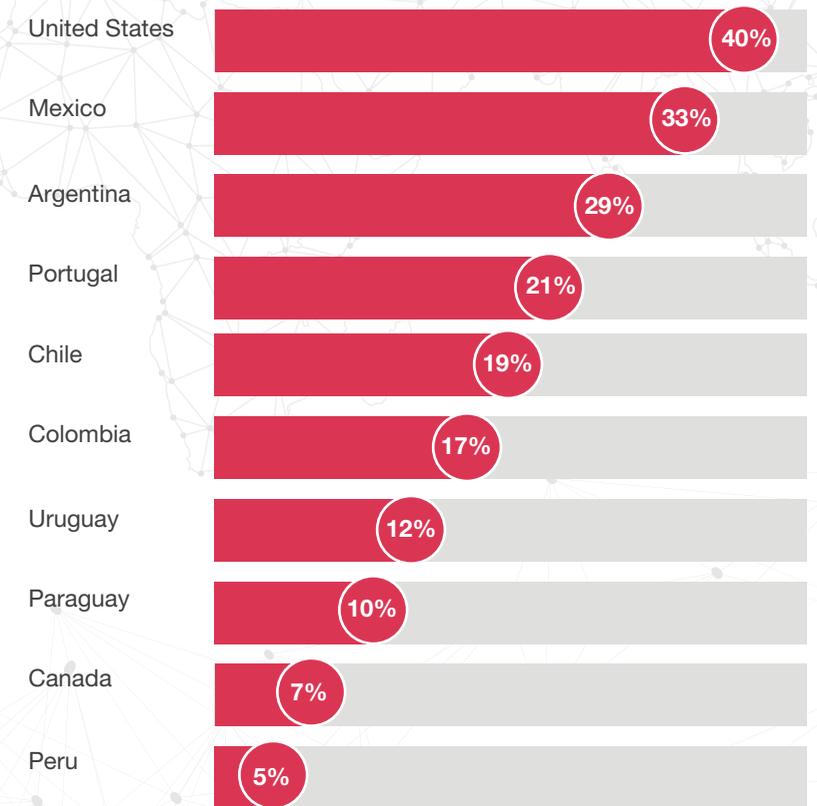
have plan to expand internationally, mainly focusing the US

+ Globalization

Number of fintechs mentioning other countries



Countries most mentioned by fintechs with international plans





Source of investments

Approximately two thirds of companies surveyed were financed by startup capital and received no new investments in 2019. Among those that raised funds in 2019, the proportion of international investors decreased in relation to the prior year. Half of the fintechs surveyed have never benefitted from funding rounds.

60%
of the companies have equity



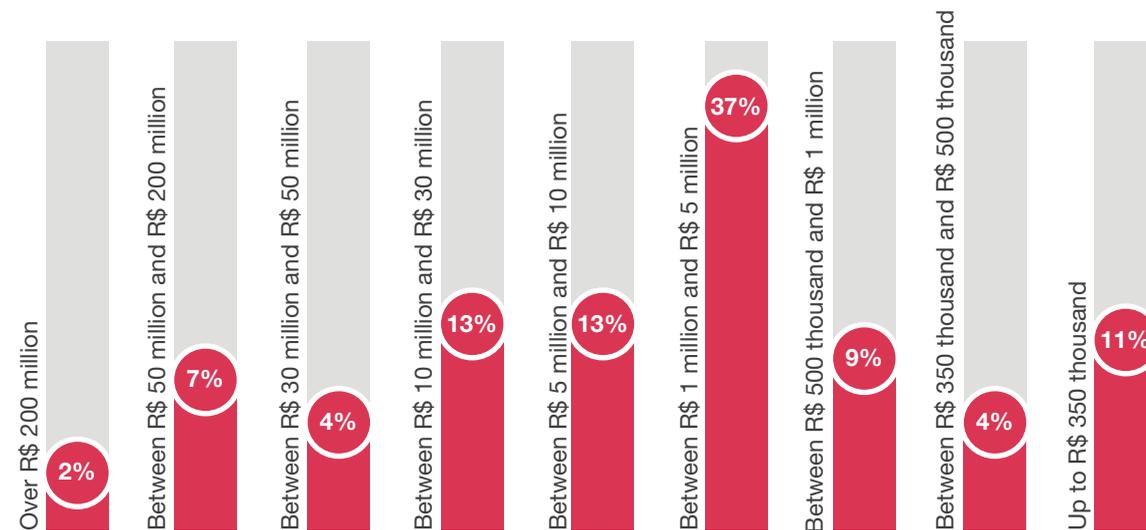
Received investments in the prior year



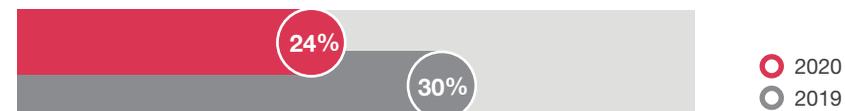
+ Amount raised

Among those that did receive funds, 50% raised between R\$ 1 million and R\$ 10 million. In last year's survey, this was 53%.

Amount raised



Received investment from abroad

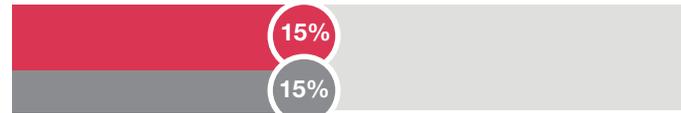


Seeking funds



Future funds needed

Up to R\$ 1 million



Between R\$ 1 million and R\$ 5 million



Between R\$ 5 million and R\$ 10 million



Between R\$ 10 million and R\$ 50 million



Between R\$ 50 million and R\$ 200 million



Over R\$ 200 million



● 2020
● 2019

● 2020
● 2019

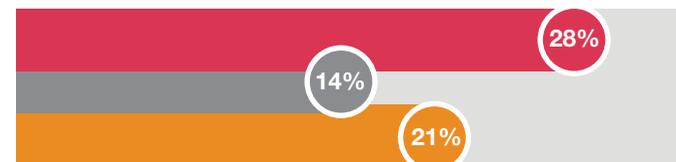
The lack of brand recognition and the current economic/political environment are the most challenging factors for fintechs seeking new capital. The former factor was cited most frequently by companies that had not participated in a funding round, whereas the latter for companies that had already raised funds in the past to finance growth.

Biggest challenges to raising capital

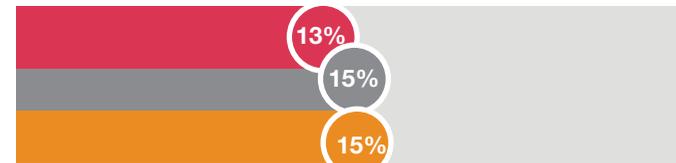
Lack of brand recognition



Economic/political crisis



Lack or shortage of investors



● Participated in, at least, a funding round
● Did not participated in funding rounds
● All fintechs

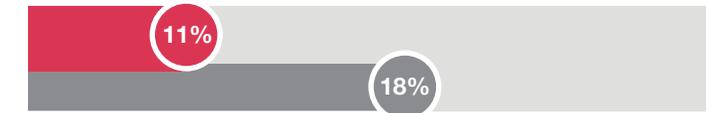
Possibly due to the uncertainties caused by the Covid-19 pandemic, there has been a decrease in the number of entrepreneurs who are thinking of selling their fintech to a strategic investor, and an increase in the percentage that intends to maintain the company under the control of the founders or are undecided.

Fintech capital strategy

IPO in Brazil



IPO abroad



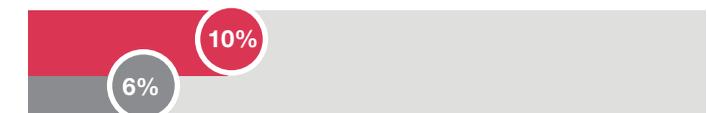
Sale to strategic investor



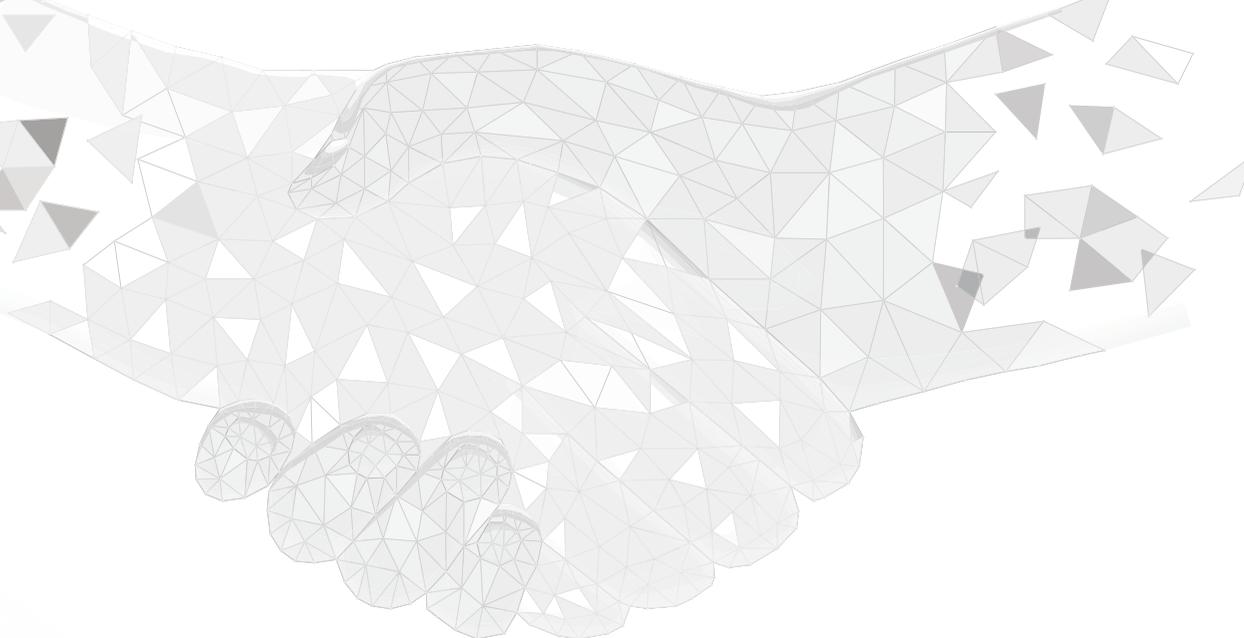
Maintain the company private



Did not answer



● 2020
● 2019



The bank is considered a partner by 75% of fintechs

Competitor



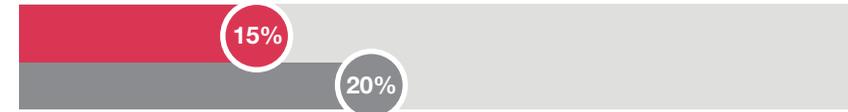
Current partner



Possible future partner



Possible strategic buyer



● 2020
● 2019

Search for tax incentives – Law 11,196/05 (Lei do Bem)

Although only a small advance, there was a growth in the portion of companies that benefit from the Law 11,196/05 (Lei do Bem) tax incentives, directed to promoting investments in research, development and technological innovation.

Search for tax incentives – Law 11,196/05 (Lei do Bem)



● 2020
● 2019



Methodology

The Fintech Deep Dive 2020 Survey was conducted by the Associação Brasileira de Fintechs (Brazilian Association of Fintechs) (ABFintechs) and PwC based on responses received to an online questionnaire sent to representatives of technology companies specialized in financial services in Brazil.

From September 21 to October 30, 2020, we received answers from 148 fintechs. Our sample covered different sized companies and sectors. Data analysis was carried out by ABFintechs experts and PwC. The responses were treated under strict confidentiality and analyzed collectively. No reference is made to individual companies in the results presented or in the analysis of the data.

We wish to thank all companies responding to our survey and the entrepreneurs and investors who participated in the interviews assisting us to comprehend the operating environment for Brazilian fintechs.

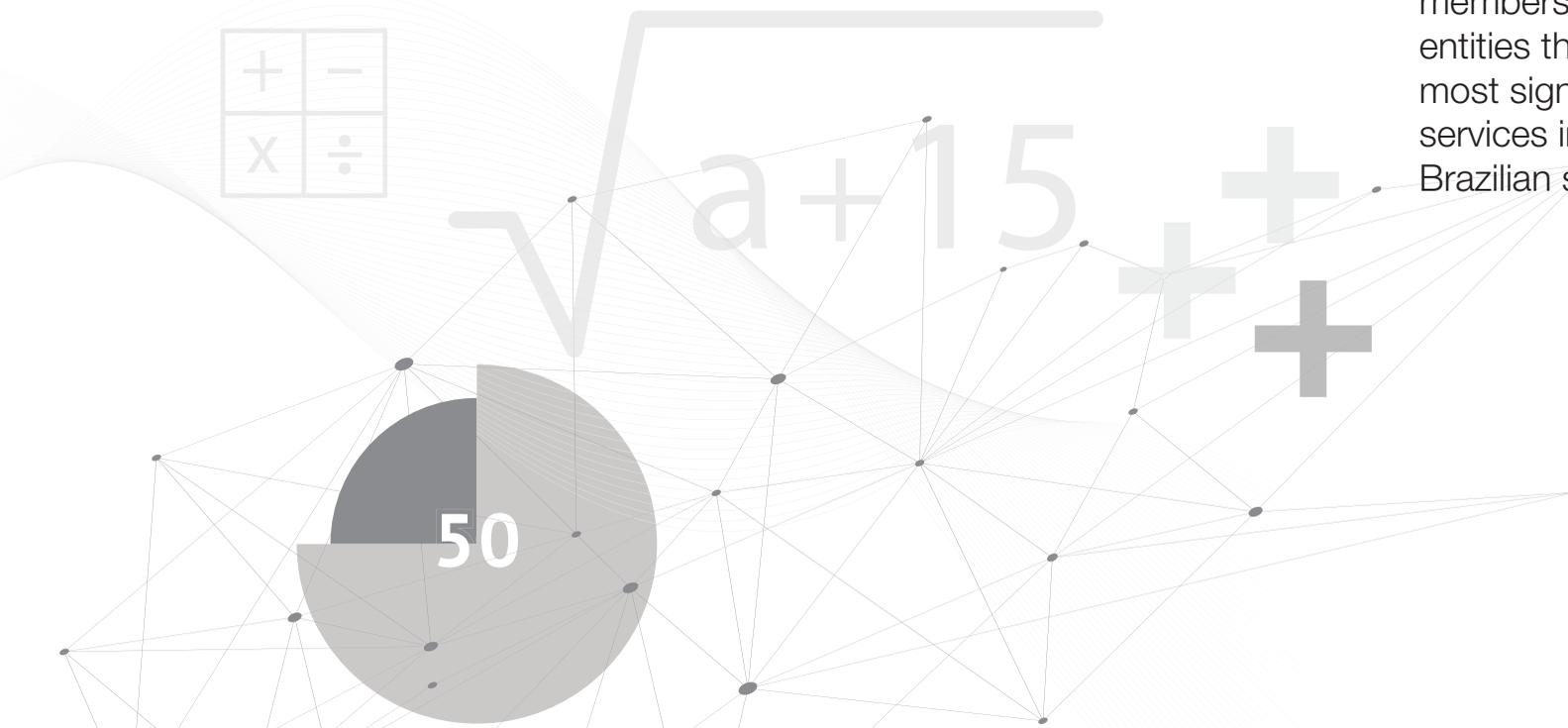


ABFintechs

Founded in October 2016, ABFintechs has 417 members and represents entities that promote the most significant financial services innovations for Brazilian society as a whole.

PwC

We are a network of firms with offices in 155 countries and with over 284 thousand people focused on providing quality in audit and assurance, tax, corporate and business consulting, and transaction advisory services.



Contacts



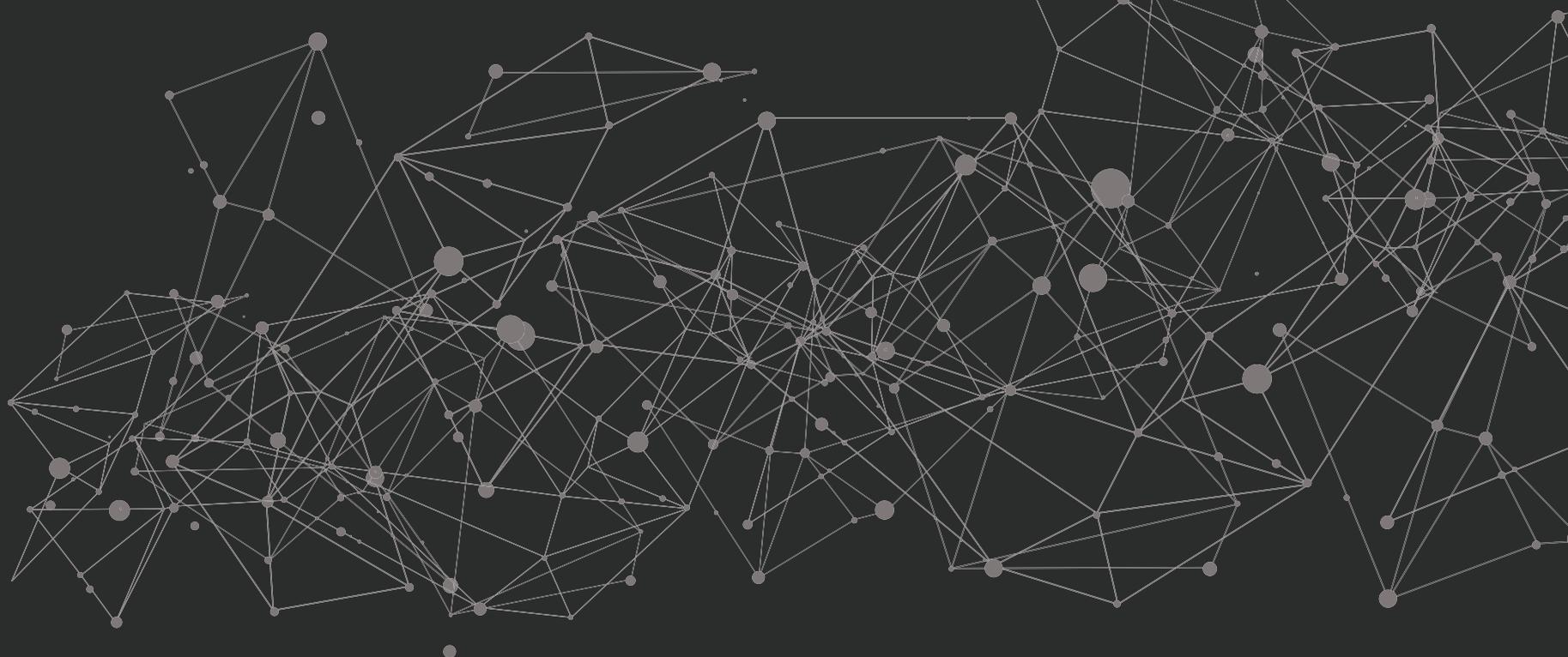
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