



# Digital banking is booming across Latin America, disrupting the sector and enhancing service delivery

## PANORAMA

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The importance of fintechs – neobanks and digital wallets – across Latin America is rising. Recent research by Bank of America demonstrates that, in Brazil alone, in 2021 fintechs such as Nubank, PagBank, Mercado Pago, Ame Digital and Banco Pan had more than 95 million monthly active users, surpassing traditional Brazilian banks, such as Caixa, Itaú, Bradesco and Santander, by more than 15 million active users a month.

In Brazil, fintechs, such as the companies mentioned above as well as PicPay, C6 and Inter, reached over 21 million downloads per month in 2021 – a growth of around 33 percent over 2020.

Notably, however, traditional banks are also engaging in this new digital approach to banking and finance. The digital divisions of traditional banks, which normally operate as a subsidiary or joint venture– among them Bitz and Next from Bradesco, iti from Itau and Superdigital from Santander – were responsible for at least 19 percent of visits to bank websites in 2021.

## Defining the terminology

Fintechs can be regarded as companies that use technology (software, algorithms, and applications for mobile or computer structures) to support banking and financial services, such as online banking or payment apps.

In this sense, **neobanks**, sometimes referred as “challenger banks,” may be defined as fintechs that offer a platform, application, software, algorithm, or technological process to enable online banking for their users without having a single physical branch. Neobanks do not have a bank charter. They may operate only within the restrictions and limits of their legal structure, depending on their jurisdiction.

**Digital wallets**, in contrast, are online services that enable transactions electronically for individuals or businesses by storing their payment information in order to connect with the payment scheme and conclude a purchase or transfer. Thus, the expression “digital bank” embraces all the definitions above and will be used as a general definition for the purpose of this article.

Overall, such digital banks (neobanks, digital wallets and fintechs in general) focus on innovating banking and financial services by improving user experience (UX) and banking as a service (BaaS) solutions, in which technology allows a bank to offer its clients an integrated range of banking services under the umbrella of a single brand.

## The most valuable bank in Latin America

Nubank’s initial public offer on NASDAQ in December 2021 demonstrated that digital banks can be, and are, disruptive on their own. In the aftermath of the IPO, Nubank was valued at US\$41.5 billion – that is, it was regarded as the most valuable bank in Latin America, overtaking even Banco Itaú, with its vast market share and massive annual profit.

Nubank is only one example of how digital banks are changing the banking industry. In Argentina, Brubank – a 100 percent digital bank already authorized to operate by Argentina’s Central Bank – had already reached over 1.5 million users in 2021. It is currently planning expansion into Colombia and Peru. In August 2021, Ualá became one of the first unicorns in Argentina, valued at US\$2.45 billion. Argentina, Colombia and Peru also have digital banks, such as Ligo, a Peruvian digital wallet; B89, one of the first Peruvian fintechs; Rappi, a Colombian superapp with several services, including banking; and Nequi, the first digital-only bank in Colombia.

Other Latin America countries, as among them Uruguay and Chile, are following the same path, and certain companies, as expected, are seeking to innovate in this market. Mach in Chile and Prex in Uruguay are two examples.

Among Latin America countries, Brazil and Mexico are considered the countries with the largest number of fintechs, digital banks and similar institutions, and with the most competitive digital banking markets. Cuenca, Albo, Klar, Fondeadora and several other Mexican fintechs are particularly relevant in the Mexican banking market as they strive to continuously innovate in the Mexican banking space.

## Potential risks

Even though these innovations are overall regarded as positive, there are associated risks. Among these are the potential for fraud and even Ponzi schemes taking advantage of consumers; bankruptcy is another risk.

Countries are striving to regulate and define limits and restrictions for fintechs and digital banks, to protect clients’ money, data and, consequently, their national economies. However, as so often happens in a time of rapid change, companies are also constantly innovating, and regulations may not keep pace.

Learn more about the implications of this rapidly growing financial services sector by contacting the authors or your usual DLA Piper relationship attorney.

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