



Fintechs: Introduction & Operational Models

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Introduction

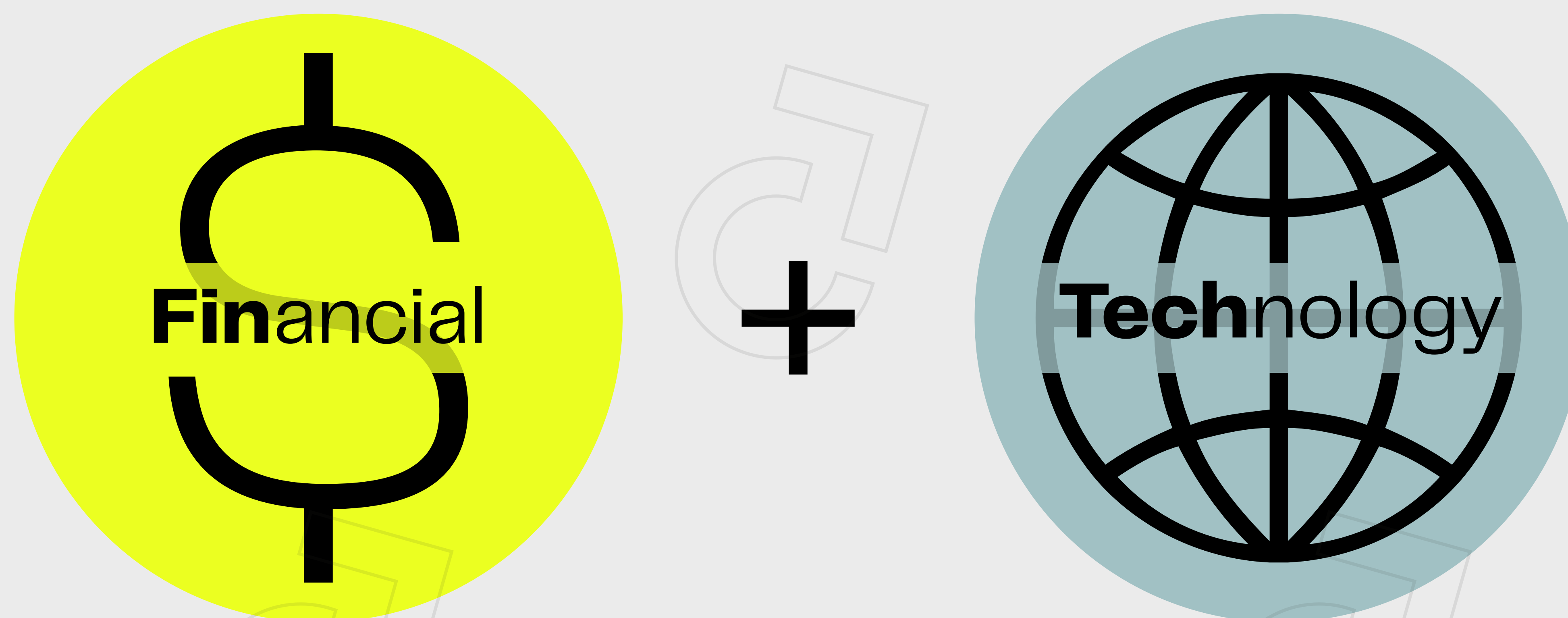
Fintechs have revolutionized – and continue to revolutionize – the financial market in Brazil and worldwide. These companies use technology to develop **innovative** and less bureaucratic solutions, **reinventing** financial products and services.

The innovation brought by Fintechs benefits customers, who now have access to more convenient solutions. In addition, it also dramatically expands the possibilities for new companies to operate in the financial market.



What are Fintechs?

Fintechs are startups or companies that use technology **to improve and automate the offering and use of financial products and services**. The term "Fintechs" is a combination of the words:



These companies stand out in the market for the convenience provided by technology and the internet. They develop fully digital financial products or products in which technology is the most identifiable feature, compared to the traditional companies in the financial sector.

By developing specialized software and algorithms used on computers and smartphones, Fintechs apply technology **to bring convenience through innovation**. They create new methods, processes, and tools that make accessing financial services easier.

The operation of Fintechs is growing with impressive speed, especially when combined with the revolution of smartphones. Fintechs allow customers to access and manage services entirely through from their cellphones, allowing them easier control over their financial life.

Another distinctive feature of the operation of Fintechs is that, in addition to innovating and broadening the reach of existing financial services offered by banks and other traditional companies, Fintechs develop **disruptive** and **innovative** products and services that did not previously exist.

Fintechs also aim to offer their services with lower fees or free of charge, with less bureaucracy, and greater accessibility, benefiting customers and promoting competition between Fintechs and traditional financial institutions to offer the best product/service.

Fintechs are not only regulated financial institutions. Companies from various industries are integrating technology to finance-related services and processes: from payment methods to cryptocurrencies and insurance.



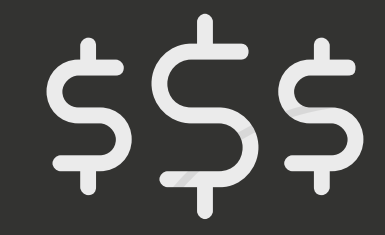
Operational Models

Approximately 1200 Fintechs are currently operating in Brazil in 2022¹. In this regard, the Brazilian regulatory scenario is being updated to regulate and encourage the operation of Fintechs.

There are many possibilities and areas of operation for these companies in Brazil. The regulatory options include the following:

1

CREDIT OR LOANS



Credit Fintechs represent the largest volume of Fintech activity in Brazil. These companies focus on offering **credit solutions** and loans digitally. They **simplify credit assessment** by expediting the approval processes and making access and control of loans and payments easier and more convenient.

The **automated** processes ensure speed and precision in assessing applications and granting credit, offering lower rates to clients, who can be either companies or individuals.

Regarding the regulatory models of credit Fintechs, in addition to the regulation traditionally applied to financial institutions, two types were recently regulated by the Central Bank of Brazil ("Bacon"), through the National Monetary Council ("CMN"), by its Resolutions no. 4,656 e 4,657 of 2018:



Direct Credit Companies (SCD)

SCD's carry out credit operations such as loans and financing through an **electronic platform** using **equity** resources. Credit rights might be assigned and transferred to financial institutions, Credit Rights Investment Funds (FIDC), and securitization companies. The SCD may also offer credit assessment services to third parties, the collection of credit from third parties, the distribution of insurance related to operations they have provided, and the issuance of electronic currency.



Peer-to-Peer Lending Companies (SEP)

SEP's carry out credit operations such as loans and financing through an **electronic platform**, but only peer-to-peer. That means that SEP's act as **intermediary of resources from creditors** registered in its platform. SEP's can also provide credit assessment services, collect credit for their clients and third parties, and issue electronic currency.

2

PAYMENT AND PAYMENT SYSTEMS



Payment Fintechs use technology to develop **electronic payment solutions**. Technology simplifies payment processes by enabling the **electronic transfer** of money between people or businesses and is critical in e-commerce transaction processes.

¹ According to Distrito Dataminer in article published by Valor. Available at: <https://valor.globo.com/patrocinado/mercado-bitcoin/noticia/2021/05/21/fintechs-descolam-da-crise-e-crescem.ghtml>. Access in: March 8, 2022.



These companies also innovate by offering credit cards or prepaid cards without fees and annuity, credit card swipers, all while charging interest at rates below the traditional market average.

The innovation in electronic payments benefits customers and businesses by providing more versatility and greater control over payment processes. In addition, payment Fintechs enable multi-channel payments, remote and contactless payments, and digital wallets, for example.

In Brazil, the regulation on the operation of payment institutions was established by Law No. 12,865/2013, which is considered the regulatory framework for payment Fintechs.

3 Blockchain and Cryptocurrency



Blockchain technology is a system that allows the tracking and recording of the transfer of information over the internet. This technology enables **financial transactions** involving digital assets to be tracked, which ensures **security** and **transparency**. Blockchain technology eliminates the need for central servers or databases, therefore allowing the tracking of information transfers without interference from banks and financial institutions.

In other words, Blockchain makes it possible to register the ownership and other events related to a given financial asset. In this way, Fintechs use Blockchain technology to offer decentralized payment solutions, performing transactions quickly and with **no intervention from banks**.

Blockchain technology, such as Bitcoin, ensures transparency, security, and credibility to the cryptocurrency-based financial system. The role of Fintechs in this scenario includes the **development and use of crypto** assets, offering new investment and payment options. There are Bills of Laws in the National Congress that aim to regulate operations with crypto assets, including asset management activities focusing on this type of investment.

4 Investments



Fintechs use technology to provide **more profitable** and less bureaucratic investments, offering a better **digital experience** for investors.

These Fintechs develop investment and saving applications, which use **automated investment methods**, using search engines and algorithms to analyze options and propose unconventional investments.

Additionally, most of these applications can be **accessed from smartphones**, which brings even more convenience.

4.1 Robo-Advisors



Robo-Advisors are machines (or robots) that offer financial advice and automated portfolio management. They use algorithms based on risk optimization and create portfolios for clients according to their specific needs.



Robots work with virtually no human intervention and have mathematical algorithms based on complex models implemented in *software*. These machines automatically rebalance investor portfolios to maintain allocations of target assets.

Currently, this technology is used by investment Fintechs that offer different and personalized financial planning and investment services to their clients.

5 Bank-Fintechs



Given the current scenario, many traditional banks have developed financial products and services based on technology, aiming to keep up with the **technological revolution** in their industry. As a result, banks have entered into several partnerships with Fintechs, acquired investment platforms, and have increasingly invested in technology to diversify their services and enhance data security.

Therefore, banks increasingly **operate as Fintechs**, aggregating technology to their services and products. This phenomenon should further intensify with the development of *Open Banking*.

6 Corporation-Fintechs



The development of technology and innovation and a more flexible regulation from the Brazilian Central Bank in the financial market has allowed companies that would not usually operate in this sector to create their **financial solutions** through partnerships with Fintechs or acting as Fintechs.

In this context, companies of different sizes and industries, especially technology companies, **have turned into banks** by developing their financial structures. These companies enabled themselves to offer their customers financial products and services such as prepaid and credit cards, digital wallets, loans, and financing operations.

By acting as Fintechs, traditional corporations can **expand their operations**, generate new sources of revenue, and offer efficient solutions to their customers.

7 Banking Correspondents



Fintechs may also operate as bank correspondents ("Corban"), which are representatives contracted by financial institutions and other institutions authorized by Bacen to provide services to clients and users of these institutions on their behalf.

The operation of banking correspondents is regulated by CMN resolution no. 4,935/2021 ("Corban Resolution"). As the Corban Resolution allows, Corbans may provide credit operations and various other financial services. In this regard, Fintechs use this opportunity to act as **intermediaries** between financial institutions and customers, bringing new solutions and simplifying processes by leveraging technology.



8 Financial Management



Financial management Fintechs enable their clients greater **control** and **organization** of their finances by providing an interface between bank accounts and expenses. These companies develop applications, most of which are accessible from smartphones, that allow the creation of spending categories and setting goals.

Furthermore, these platforms offer services that help to control expenses and manage personal budgets, and even to increase efficiency when using credit cards.

Fintechs can help with the management, tax, accounting, payroll, and invoicing functions for business clients.

9 Crowdfunding



Fintechs can also operate directly with customers by launching crowdfunding platforms. These companies develop online platforms that enable individuals and businesses to fund their projects by raising money from many individuals.

These platforms are typically used to raise funds for social and philanthropic causes, new projects from small businesses, and cultural projects. Investors can be individuals interested in making charitable donations or investors interested in rewards, equity, or loans.

10 Debt Negotiation



Debt Fintechs develop and provide systems that assist in negotiating and paying **debts** through online platforms. To this extent, the operation of this type of Fintechs promotes favorable conditions for both creditors and debtors.

11 Insurance (Insurtechs)



Insurance Fintechs innovate **insurance offerings** by reducing bureaucracy and enabling customers to select more affordable products. These companies work in insurance policy management, individualized insurance, and data protection.

Insurance Fintechs are quickly becoming a stand-alone industry – the **Insurtechs** – but can still be considered Fintechs. This area of operation promotes the automation of insurance contracting processes and the expansion of its coverage. This type of automation represents a significant advantage over traditional insurance companies



Our recognitions



Análise
Advocacia (2021)



Chambers & Partners
Brazil (2021 & 2022)



Leaders League
(2021 & 2022)



Transactional
Track Record
(2021 & 2022)



The Legal
500 (2022)

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