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Is Brazil's revolução financeira a good leading indicator for Mexico?

By Rafael Marinho

Viewpoint

- In parts of Latin America, consumer use of financial products has accelerated in recent years. The pace varies markedly between countries, with Brazilians being rapid adopters and Mexicans relative laggards.
- New instant payment ecosystems are central to consumer take-up, supported by central banks and in some cases legislated use.
- Many think the Brazilian experience will open Mexican industries to similar, substantial disruption. But are the precedents valid and the narratives as attractive as they seem?

One widely-understood case for investing in Latin America is the huge opportunity to serve a big 'unbanked' population. We also recognise this opportunity, however we appreciate each country is in a different stage of banking technology adoption, consumer attitudes vary and each country has its own peculiarities. An interesting comparative case study to highlight country-level idiosyncrasies is Brazil and Mexico, which together make up more than half of Latin America's GDP.

In the last five years Brazil has experienced a huge boom in new players disrupting market incumbents, including in banking. Brazil has seen double-digital bank account ownership growth since 2017, with the country experiencing the fastest bank account growth rate across both emerging and developed economies¹. Brazilian bank relationships have now reached an incredible level of one billion accounts (almost five times the population) and 200 million issued credit cards (almost double the employed population)².

On the flipside, Mexico is still in the earlier phases of relationships with financial institutions, with only 37% of Mexicans having a bank account³ and almost 90% of Mexicans having no access to a credit card⁴.

Pix versus CoDi: adoption variations

An important tool driving the increase in banking relationships in Brazil has been the rollout of Pix, the free instant payment ecosystem introduced by the Central Bank of Brazil at the end of 2020. Pix became a mandatory requirement for all banks and quickly and materially disrupted the costly and inefficient legacy payment options commonly available.

During our recent visit to Brazil we were impressed by how popular Pix has become for many use cases, including payments in the informal sector. Pix transactions have surpassed those of all other financial instruments – including debit and credit cards – with over 140 million individuals (or 80% of the Brazilian adult population) having either made or received a Pix transaction, being the steepest adoption curve of its kind⁵.

1 [The Brazilian Report](#), June 2022

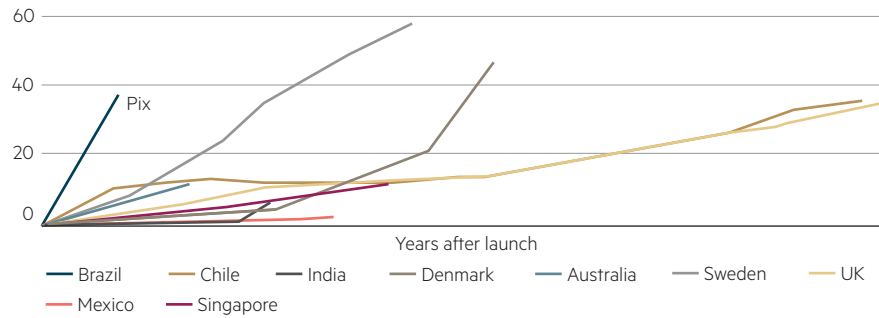
2 [Central Bank of Brazil](#)

3 [Expanding Access for Mexico's Poor](#), World Bank, April 2021

4 [Financial Inclusion Report 2020-21](#)

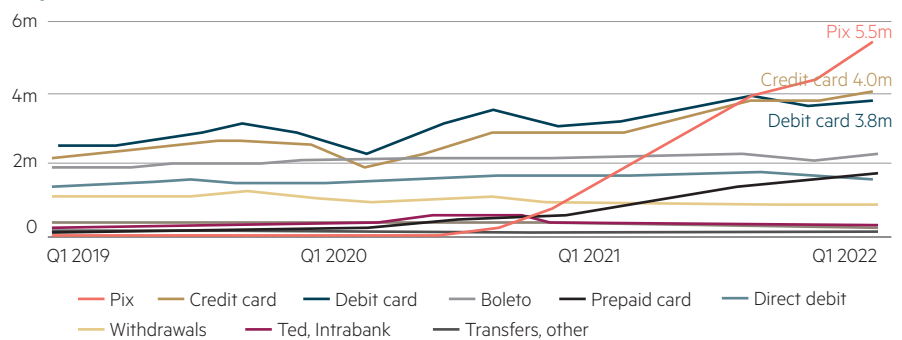
5 [BIS](#), March 2022

Transactions per capita



Source: Bank for International Settlements

Payment transactions (#)



Source: Central Bank of Brazil

Reflecting the extent of change, Pix has facilitated more Brazilians entering the digital payment system, with almost one in two Pix users making no peer-to-peer digital transfer in 12 months prior to the Pix rollout. Similar to the US – where Venmo has become a verb – Pix has become the payment partner of choice for all Brazilians and this has had direct and indirect implication in many sectors of the Brazilian economy.

In 2019, only one year prior to Brazil, Mexico introduced a similar payment system called CoDi. Compared to Brazil the adoption level of CoDi has been much lower and the impact very limited. Among the many reasons for the relatively slow take-up, the most influential has been the crucial role of the Central Bank of Brazil in being both a cheap infrastructure provider for fintechs at the same time as being the enforcement agent driving mandatory bank adoption.

Should Brazil's disruption experience be expected in Mexico?

In our view, Brazil is fertile territory for disruption. On top of being a big market with high consumption levels, Brazil has a number of inefficient incumbents and regulators pushing for innovation. Brazilians typically are early adopters in tech and mobile first, with Brazilians:

- spending roughly 10 hours per day on the phone⁶
- ranked the second highest country for time spent per day using the internet⁶
- ranked the third highest time spent per day using social media.⁷

Mexico shares similar digital consumption patterns to Brazil, albeit at lower levels^{6,7}.

6 Statista, June 2023

7 Insider Intelligence, April 2021

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Through our company visits there was a notable view in Brazil that the current Mexican market is very similar to Brazil five or six years ago, being a huge market with inefficient players, prone to substantial disruption.

Not surprisingly, we learnt of a number of well-known companies thriving in Brazil that have aggressively entered various Mexican markets over the last two years. Industry disruption by successful Brazilian firms stretch from more obvious and large players such as Mercado Libre (ecommerce) and Nubank (digital bank) to Localiza (rental car operator) and Smartfit (gym chain operator).

Tempting narratives, but as always in emerging markets, caution is required

Despite a number of opportunities presenting as constructive, we maintain a cautious view on some narratives and analyse each stock on a bottom-up basis. As we noted, with each Brazilian now having five bank accounts on average, the growth in account openings becomes meaningless and principality (or the source of the primary account balance) is paramount, meaning many fintechs still materially lag incumbents. For example, Nubank, arguably the biggest fintech disruptor in Latin America, has only a US\$8⁸ ARPAC (average revenue per active client) – which is roughly one fifth of Brazilian incumbent banks⁹.

Ultimately, Brazil's banking relationship pile-on is coming at a cost: revolving credit card portfolios have surged, growing 40% in the last twelve months¹⁰ with a record delinquency of 50%¹¹ – the highest ever registered. Additionally, the rapidly increase in loans to individuals has made family indebtedness to GDP in Brazil grow from 23% to 30% in ten years – a record high¹².

Parting thought

With Brazil's equity market valuations at record lows and Mexico gaining relevance within global emerging market portfolios due to its 'Nearshoring' thematic, we see many exciting investments opportunities across different sectors of traditional and new economies. However, as the above case studies highlight, tasty macro-level narratives require careful assessment at the industry and company level. We continue to believe that experience, active management and bottom-up research counts when seeking out contrarian opportunities – but also to avoid investment pitfalls.

8 [Nu Q1 2023 earnings presentation](#), May 2023

9 Nubank management comments during the IPO process

10 [Central Bank of Brazil](#), June 2023

11 [Central Bank of Brazil](#), June 2023

12 [Globo.com](#), January 2023