Latin America: Global Investors’ New Fintech Frontier

Insights from Leading Banks, Venture Capital and Private Equity Investors
EXECUTIVE OVERVIEW

Mega-deals and marquee global investors are making headlines in Latin American fintech. The region is digitally-connected and rife with underbanked populations and a burgeoning talent pool. Available early and later-stage growth capital from both local and global venture capital, private equity and corporate ventures, rounds out the situational factors essential for a thriving fintech hub - and accelerates opportunities for founders and funders.

This paper captures the global investor point-of-view, while exploring the trend of ecosystem improvements that have led to LatAm’s breakout, including the emergence of new talent, early startup successes and ambitious regulatory reform. The paper showcases how these sector changes have invited deeper investor participation - and examines the outside influence of global investors’ new practices and perspectives. It concludes with an exploration of the opportunities and challenges these marketplace shifts create.

The insights in this report are based on interviews with leading, active global investors as well as fintech sector trend research. The paper is intended for global investors pursuing or considering the Latin American fintech sector; fintechs in the region open to funding from investors based outside the region; and all others interested in trends and data behind the growth story that is LatAm fintech.

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A Market Inflection: Global Investment in Latin American Fintech

Latin America was home to 1,166 fintech startups that raised a cumulative $800 million in 2018. This represents a market-wide, year-over-year rise of 66% with Brazil (realizing 150% growth) and Mexico (93%) leading the way.

Latin American fintech has clearly become an attractive investment sector, driven by massive, underserved markets, deepening founder talent, promising startup models and an uptick in notable exits. Hotspots like Brazil and Mexico - rife with underbanked but digitally savvy consumers - have seen a flurry of competitive deal-making, unicorn valuations and $100 million-plus rounds. Headlines like Nubank’s $400 million Series F round and local VC firm Kaszek Ventures’ $600 million fundraise, are touchstones in a season of impressive momentum.

Inside LatAm, certain sub-industries are poised for exceptional growth. Promising opportunities within payments exist, evidenced by PayPal’s recent $750 million investment in MercadoLibre and its MercadoPago payment system. Other opportunities exist in digital challenger banking, alternative credit scoring, P2P lending, lending-as-a-service and e-wallet technology.

While the region’s rise is widely reported, less discussed is how the market has reached an inflection point with global investors. The appetite for Latin American fintechs from global VCs, PEs, banks and corporate investors has grown, as evidenced by the over 115 firms investing in regional fintechs deals, while being based in other parts of the world. The table on the subsequent page lists the top 25 of these firms, as ranked by number of investments in the region.

To those outside the region, LatAm is no longer just an attractive fringe market. Softbank’s $5 billion Innovation Fund dedicated to the region ends any debate: the market has arrived as a priority destination for global fintech investors.

This paper offers a unique view of how global investors are treating the market and how local fintechs are interacting with these new entrants. Insights on the market’s rise and examination of opportunities and challenges are based on interviews with partners at leading global investment firms, as well as data analysis of startups and investments in the region.

## Leading Global Investors in Latin American Fintechs by # of Deals

<table>
<thead>
<tr>
<th>Fund</th>
<th>Origin Country</th>
<th># Co’s Invested In</th>
<th>Countries Invested In</th>
<th>Example Investments</th>
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<td>8</td>
<td>Chile, Colombia, Mexico, Peru</td>
<td>Clip, Conekta, Konfio</td>
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<td>Finnovista/Startupbootcamp</td>
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<td>Flink, Prestanómico, Vexi</td>
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<td>Brazil, Chile, Colombia, Mexico, Peru, Peru, Venezuelan</td>
<td>Apurata, Covela, Tranqui</td>
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<td>Brazil, Chile, Colombia, Mexico, Mexico</td>
<td>Destácame, Konfio, Tienda Pago</td>
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<td>Brazil, Mexico, Uruguay</td>
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<td>Brazil, Chile, Mexico</td>
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<td>Auth10, Ualá</td>
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<td>Albo, Ualá</td>
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<td>IFC</td>
<td>US</td>
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<td>Brazil, Chile, Argentina</td>
<td>Creditas, Konfio, Recargapay</td>
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<td>Netherlands</td>
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<td>Credi Justo, Konfio, Kueski</td>
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<td><strong>Corporate VC</strong></td>
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<td>Chile</td>
<td>Ceptinel, Jooycar, RedCapital</td>
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<td>Latinia</td>
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<td>Dapp, Prestanómico, Facturedo</td>
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<td>Santander InnoVentures</td>
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<td>Tencent</td>
<td>China</td>
<td>2</td>
<td>Argentina, Brazil</td>
<td>Nubank, Ualá</td>
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</table>

Sources: Crunchbase and the Latin American Venture Capital Association
Insight into LatAm’s Fintech Arrival

LatAm’s arrival is the sum of incremental ecosystem improvements and timely, macroeconomic shifts. This section summarizes these factors for two reasons: first, to build perspective on the long-term viability of the region’s fintech opportunity and, second, to understand the responses from global investors going forward. The key factors are as follows:

- **Startup successes**
- **Underbanked but digitally savvy markets**
- **Improved talent pool**
- **Regulatory evolution**
- **Capital variety and accessibility**

### Startup successes

Enduring fintech hubs require inspiring success stories. These breakthroughs validate the market’s reputation to both outside investors and in-market talent.

One recent example is small business lender Creze’s acquisition by Polygon Fintech. Creze focuses on the $60 billion credit gap for Mexican companies (of which 99.8% are SMEs) and helps companies improve working capital management. According to Eduardo Clave, managing partner and early Creze investor with DILA Capital, Creze’s rise signals growing interest from acquirers, which bodes well for future investment rounds and exits in the market.³

Stone, a $6 billion Brazilian credit card processing company, also models the type of breakout the ecosystem needs long term. The company’s NASDAQ IPO raised $1.5 billion last year, luring Warren Buffett’s Berkshire Hathaway and Alibaba’s payment affiliate Ant Financial.⁴ In an interview, Stone’s president acknowledges early persistence in navigating domestic bureaucracy and focusing on hard-to-reach cities with merchant deals for card acceptance.⁵

Bill Cilluffo, Partner at venture capital firm QED Investors, asserts: “We’ve definitely seen the ambition level of CEOs go way up in the last five years.”⁶

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⁶ LendIt and Cilluffo - Interview October 2019

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There had been this mentality that no one shoots for the moon, just an exit. There also weren’t VCs that were pushing enough [...] It’s an awkward position until you have some good exits to show everyone. Then, the mentality changes.”

Jay Reinemann, Partner Propel Ventures, a San Francisco-based VC active in Latin America
Meanwhile, mobile usage in Latin America is increasing. The Association for Private Capital Investment in Latin America (LAVCA) predicts that 76% of the region’s population will be smartphone owners by 2025.\(^7\) Brazil and Mexico are Facebook’s third and fifth largest country markets, making up 6% and 4% of the entire network, respectively.\(^8\)

Others shared how institutional factors to support fintech innovation are in place, but the market hasn’t responded. Forbes cites big, failed, core banking transformation efforts from the past, as well as non-digital mindsets in bank staff, as hampering progress. Financial literacy and credit verification hurdles – plus distrust of banks in certain pockets – also creates friction when targeting the unbanked with traditional models.\(^9\)

The big change now, according to one LatAm fintech CMO, is that customers are demanding the disruption and “[... ] want the same experiences in banks as they have in services like Netflix, Uber, Amazon and Google.”\(^9\)” As the industry neglects engagement with the unbanked, others are stepping in. Amazon, for example, is reportedly in conversation with Mexico’s Central Bank to support mobile phone payments for retail shopping. The company recently introduced a debit card into Mexico to add financial product formality where informality and low credit or credit card access is had.\(^10\) The company has the strategic relevance and existing digital architecture to promote wider financial product access through expanding its fintech solutions.

LatAm has been undervalued historically. The situational factors needed for digital businesses to thrive are there, but conversely, financial services penetration is low.”

Manuel Silva, Head of Investments at Santander Innoventures, the corporate venture arm of Santander Bank

At the country level, leaders are recognizing the economic boost that better financial inclusion represents. Uruguay’s Financial Inclusion Act, enacted in 2014, helped establish over 500,000 new bank accounts and 800,000 money instruments. Also, IDB and Finnovista research shows that 38% of fintechs operating in the region explicitly focus on financial inclusion.\(^12\) Ultimately, the incongruity of banking tech and expanding customer desires suggests massive opportunity to reimagine consumers’ financial experiences.

Improving talent pool

The investors surveyed shared how the ecosystem’s advance is supported by the arrival of new, international talent, notably from the US and Europe. According to Santander Innoventures’ Silva, “LatAm is not on an island anymore. There is an influx of global talent headed to the region to innovate. The region is also inheriting talent and intelligence from other big innovation hubs.”\(^13\)” Nubank is embracing this global charter in its push to fill out a newly-announced Mexico office with international talent. The company is actively recruiting global candidates online and on-site at the world’s top universities and has at least 400 positions to staff. According to company co-founder Cristina Junqueira:

“[Nubank] seeks [international] professionals because we want the world’s best team, so we need to take a global approach to competing for talent, bringing the best people [...] regardless of where in the world they may be right now.”\(^14\)”

The ecosystem is reaching the stage where established companies like Nubank, Creditas and Konfio now seed departing talent into other companies.

Santander’s Silva also sees a spillover effect from US and EU-based companies outsourcing technical activities in the region. This has led to banking back-end expertise in Central America, and creative talent growth in Argentina due to the country’s popularity with European agencies and startups.

Regulatory evolution

Regulatory reform, notably in Mexico, Brazil and Colombia, points to fintech sector vitality going forward, although there is still variation at the
country level. In some markets, the establishment of fintech associations, controlled sandbox environments and advances in open-banking policies suggest government initiative to ease some of the regulatory burdens inhibiting fledgling fintechs.

Mexico leads with the establishment of a ground-up framework to balance innovation, security and stability. It is following a path forged previously by fintech hub leaders like England and Singapore. The recent legislation, known as the Financial Technology Institutions Law, proved that it’s possible to proportionally regulate the sector “... without imposing regulation as heavy as it is for banks.”

Mexico’s Financial Technology Institutions (Fintech) Law

- Focuses on fintechs in crowdfunding/online lending and e-money/digital payments
- Provides for a ‘sandbox’ to trial-offer innovative services prior to full authorization
- Requires traditional FIs to acquire regulator approval to own fintechs’ equity
- Believed to have spurred creation of 100+ startups in the past year

Sources: Baker McKenzie and White & Case law firms, S&P Global

Despite the design of regulation specific to fintechs, working toward compliance remains a challenge – even for companies in leading markets. One sector lawyer remarks that struggling through compliance, particularly with respect to consumer-protection related elements, like capital and liquidity levels, will slow companies’ paths to public exit. Alongside, CNBV, Mexico’s banking and securities regulator, estimates that only 85 of the 200 fintechs in the country that require an operating license have applied for one.

For much of the region, the regulatory dynamic remains in flux. Others note that although regulators seem to embrace financial technologies as means for inclusion, the experimentation may exacerbate market inequity by applying changes for a new crop of entrants while “grandfathering” incumbents. How balanced the requirements prove to be region-wide will determine whether regulation will accelerate fintechs or create more pronounced roadblocks.

Finnovista findings indicate growing diversity in global investor participation across growth stages, including at least twelve, active, early stage venture funds from Accion Venture Lab, Endeavor Catalyst, Kairos, Mexamerica Ventures, Point 72 Ventures, QED Investors, Quona Capital, Ribbit Capital and others. Notable later stage participants that have participated in at least two deals include Bessemer Venture Partners, Greyhound Capital, Riverwood Capital and the IFC. Gordon Watson, Partner at Victory Park Capital, views the capital mix as an essential part of LatAm’s emergence. “We’re building on what we started four to five years ago as it’s easier to participate in later stage investments if you first have the experience of smaller ones in the region.”

Propel’s Jay Reinemann suggests that the quality and variety of investors – both growth and follow-on funds – has played a role in substantiating the ecosystem. “It’s important to know that if we lead the Series A, there’s someone around for the Series B. Our Series A is even predicated on somebody else being a quality seed investor.” He notes that diverse capital providers make another important contribution: experience.

“There are now more people in the industry that have been in startups themselves, both good and bad. They’ve learned to how to help entrepreneurs build companies.”

Jay Reinemann, Partner Propel Ventures, a San Francisco-based VC active in Latin America

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18 LendIt and Watson - Interview October 2019
19 LendIt and Reinemann - Interview October 2019
Regional dynamics are influenced by fresh practices and perspectives from outside investors. These are important to understand as they affect deal making and ultimately impact how the ecosystem progresses. A selection of these, based on interview research for this paper, are considered below:

- Fundraising focus on Mexico and Brazil
- Emerging submarkets
- Introduction of debt financing
- Early stage capital outside of major markets
- Emphasis on partnerships
- Expanding avenues for exit

While LatAm at large shows promise, the bulk of global capital has targeted Brazil and Mexico. Investors interviewed for this paper cite a number of reasons for this, including market sizes, the availability of capital across all growth stages, co-investment partners, disruptive business models, regulation frameworks, and ecosystem maturity (which suggests talent and mentorship availability, for example). TechCrunch points out that Brazilian fintechs can reach mega-scale without ever expanding outside the country. Crunchbase also notes how a Colombian-based fintech would have to expand across Argentina, Peru, Chile and Ecuador – all countries with varying regulatory frameworks – to match Mexico’s addressable market.

These markets will continue to attract bigger checks, and as new capital creates additional avenues for exit, the trend of private capital steered to Brazil and Mexico will continue, for now.

**Brazilian Fintechs are Dominating Investments by Global Funds...**

<table>
<thead>
<tr>
<th>Country</th>
<th>Startup</th>
<th>Deal size (USD mil.)</th>
<th>Sub-Sector</th>
<th>Date</th>
<th>Funds</th>
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<tbody>
<tr>
<td>Brazil</td>
<td>Nubank</td>
<td>400</td>
<td>Digital Bank</td>
<td>Jul 2019</td>
<td>Dragoneer, DST Global, Ribbit, Sequoia, TCV, Tencent, Thrive</td>
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<td>332</td>
<td>Digital Bank</td>
<td>Jul 2019</td>
<td>Softbank</td>
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<td>Quintoandar</td>
<td>250</td>
<td>Proptech</td>
<td>Sep 2019</td>
<td>Dragoneer, General Atlantic, Kaszek, Softbank</td>
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<td></td>
<td>Creditas</td>
<td>231</td>
<td>Lending</td>
<td>Jun 2019</td>
<td>Softbank</td>
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<td></td>
<td>Loft</td>
<td>70</td>
<td>Proptech</td>
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<td>Fifth Wall, QED</td>
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<td>Insurtech</td>
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<td>Receivables Financing</td>
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<td></td>
<td>Xerpa</td>
<td>13</td>
<td>HR/Payroll Lending</td>
<td>Sep 2019</td>
<td>Pathfinder, Vostok Emerging Finance</td>
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</table>

Source: Crunchbase

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21 [https://about.crunchbase.com/blog/latin-americas-fintech-surge-4-lessons-for-silicon-valley/](https://about.crunchbase.com/blog/latin-americas-fintech-surge-4-lessons-for-silicon-valley/)
...Mexican Fintechs are a Close Second in Investments by Global Funds...

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<thead>
<tr>
<th>Country</th>
<th>Startup</th>
<th>Deal size (USD mil.)</th>
<th>Sub-Sector</th>
<th>Date</th>
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<tr>
<td>Mexico</td>
<td>Konfio</td>
<td>250 debt</td>
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<td>Sep 2019</td>
<td>Goldman Sachs, Victory Park Capital</td>
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<td>Clip</td>
<td>100</td>
<td>Payments</td>
<td>May 2019</td>
<td>General Atlantic, Softbank</td>
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<td></td>
<td>Klar</td>
<td>7 equity, 50 debt</td>
<td>Consumer Banking/Lending</td>
<td>Sep 2019</td>
<td>Arclabs, Quona, Santander Innoveutres</td>
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<td>Credijusto</td>
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<td>Payroll Lending</td>
<td>Sep 2019</td>
<td>QED investors</td>
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</table>

Source: Crunchbase

Global investors, however, don’t take an absolute view when it comes to writing big checks to regional submarket companies – assuming the right combination of innovation, expansion potential and follow-on investment interest exist. Argentina’s Technisys, which helps established banks digitally transform their systems through software and SaaS offerings, recently closed a $50 million Series C round from Riverwood Capital.\(^{22}\)

Marquee investors like Goldman Sachs show willingness to participate too. The firm led a $34 million Series B round for neobank Ualá (also based in Argentina) last year, while Tencent invested this year.\(^{23}\) Two Colombia fintechs, Sempli (SME lending) and ADDI (consumer lending), closed $8 million and $12.5 million rounds, respectively, this year, suggesting global investors are keen on the country which is reportedly the world’s third largest small business lending market.\(^{24}\)

...while these Global Funds are Making Initial Investments in Other Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Startup</th>
<th>Deal size (USD mil.)</th>
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<td>Colombia</td>
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<td>Sep 2019</td>
<td>Credicorp</td>
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Source: Crunchbase

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\(^{23}\) [https://lavca.org/2018/10/03/goldman-sachs-leads-us34m-round-in-argentine-mobile-banking-app-uala/](https://lavca.org/2018/10/03/goldman-sachs-leads-us34m-round-in-argentine-mobile-banking-app-uala/)

\(^{24}\) [https://latamlist.com/2019/10/05/colombias-sempli-raises-8m-in-series-a/](https://latamlist.com/2019/10/05/colombias-sempli-raises-8m-in-series-a/)
Later stage investor presence, most notably from Softbank, has further unlocked early stage capital in some submarkets. Incubator and seed investment firms Finnovista/Startupbootcamp, 500 Startups and Y Combinator have together invested in over 70 fintechs, often at a sub $100,000 level per deal. Other angel investors and family offices (e.g., Soros) are also ramping up activity given new opportunities for exit. The symbiotic nature of early and late stage participants is essential – and the degree to which it persists suggests whether submarkets can thrive.

Quona Capital’s Jonathan Whittle acknowledges the strides in smaller markets like Colombia, Peru and Chile, but recognizes the size and scalability concerns of global investors. “We need to feel comfortable that fintechs in these markets can attract sufficient funding over the long term and that, at the end of the day, there can be an attractive exit with a high return.”

Boosted equity investments from global investors like Softbank, Andressen Horowitz and Sequoia Capital have opened the door for debt investors. In interviews for this paper, investors also acknowledged growing interest from prominent firms like Credit Suisse and Morgan Stanley.

In early 2019, Goldman Sachs’ special situations group made headlines with the announcement of a $100 million facility to Credijusto to support lending to small and midsize enterprises. This is an early sign in a growing trend of debt financing driven by global investors who recognize fintech lenders’ difficulties in accessing a lower cost of capital for operations. Today, bank loans represent just 16% of GDP in Argentina, 36% in Mexico and 60% in Brazil. This compares with 191% in the U.S.

The larger equity rounds protect debt investors from first-dollar losses and drive a point of scale where these investors can put large amounts of undrawn capital to work. For fintechs, Victory

Park’s Gordon Watson sees the debt financing as focused on online lenders. Because “double digit returns are still possible” – as in the earlier days of US online fintech lending – debt financing has become a more practical growth lever. He notes the number of growing companies that would benefit from debt financing, but cautions that the legal framework within a country is key to attracting more global debt investors and getting deals done.

In Mexico, firms may utilize ‘fideicomiso’; a trust structure that establishes foreign investors as fiduciaries and lets them to hold equitable interest in local assets. One investor shares that in Brazil, ‘Fundo de Investimento em Direitos Creditórios’ or “FIDCs”, which are investment funds that acquire receivables and securities representing credit rights, are well-understood and useful for carrying out securitizations.

Investors caution that startups should apply prudence as debt availability improves. QED’s Bill Cilluffo warns that “companies can get into trouble when they want to avoid the dilution of an equity round, take debt thinking it’s a bridge to profitability and then have trouble servicing their debt.” Others find that USD-denominated debt, while generally available, may make certain business models less profitable or uneconomical given that a startup is supporting currency risk, or the cost of hedging it.

On-the-ground partnerships between global and local VCs, regulators, the business community, founders and incubators are essential for deal-making and company growth. One investor in particular noted the unique role of limited partners like the International Finance Corporation (IFC) and the IDB in sourcing deals.

QED’s Cilluffo acknowledges both formal and informal partnerships as core to the firm’s operating success. In QED’s formal partnership with Scotiabank, the bank is a major LP in two investment funds and also collaborates on digital innovations with portfolio companies. Cilluffo notes how the bank’s presence throughout Chile, Colombia, Mexico and Peru is useful to guide efforts on entering new markets.

The synergistic effects of informal partnerships

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28 LendIt and Watson - Interview October 2019
29 LendIt and Cilluffo - Interview October 2019
between global and local investors are pronounced too. Another investor shared how once firms do deals together, their complementary skill sets become clear. These can be leveraged in subsequent deal making and deal sourcing.

While the benefits of investor partnerships are clear, other relationships also are useful in expanding fintech development in the region. For example, the U.K. Government’s Prosperity Fund Mexico program, a £60 million initiative which includes digital financial services innovation, is part of a broader partner effort to expand trade and investment opportunities between the Mexico and the U.K.30

There is considerable appetite in Mexico to modernize the country’s financial sector and develop its economic potential [leveraging partnerships].31, 32

DAI, Economic Development Partner to U.K and Mexico

More recently, Mastercard launched Accelerate, a global initiative to boost fintech success in Latin America. The program is built around four pillars bringing digital tools and services (like payment, security and analytics documentation, SDKs and sample code), access to licensing specialists, connection to customers and partners and cybersecurity support to fintech startups. The program highlights Nubank (Brazil), C6 Bank (Brazil), BanQi from Via Varejo (Brazil), Ualá (Argentina) and albo (Mexico) as key partners.32

BNAmericas also recognizes how progress in partnerships between fintechs and banks points to a more mature ecosystem.33 Riverwood Capital’s Alex Porto sees this with respect to portfolio company Conductor, a digital payments processing platform in Brazil. He finds the commercial partnerships with Visa, Fico and others, as well a connections-centered business model including open APIs and integrations with popular solutions and modules that aggregate to the platform, as critical to Conductor’s goal to increase payment acceptance among SMBs.34

Fintech exits are still rare given the market’s youthfulness. BBVA’s acquisition of OpenPay and PagSeguro’s IPO last year are among the notable exceptions. However, global investors are convinced that there will be liquid markets for emerging fintechs and they can achieve exit outcomes akin to peer companies in more developed contexts. Riverwood’s Porto believes in promising exits eventually for today’s maturing cohort of fintechs, but sees the next few years as a capital building and investing cycle. He concludes that because this crop of growth companies are “building real and enduring value,” and, in the case of the software companies, “are capital efficient and have enterprise software scale of potential,” there will be a wide range of exit outcomes.35

Interviewees agreed that the “picks and shovels” application companies will become likely targets of local or international buyers looking for best-in-class products or to modernize their tech stacks. For these companies, the path to acquisition may begin with partnership. Novopayment, a banking-as-a-service fintech and Visa Direct partner, for example, works with FIs to generate new deposits and transaction streams, migrating these institutions to digital payments.36 Visa’s involvement is part of its broader ambition to nurture digital payments in Latin America and the Carribbean – and traction could point to further integration or an acquisition. Other fintechs will need to look toward an international IPO if they have ambitions of building a full scale bank or financial institution, which later stage investors expect.

In the nearer term, Quona Capital’s Whittle senses that the “preponderance of exits will be through trade sales or with financial buyers allowing earlier investors to exit through a secondary.” One recent trade sale example is Brazil’s Creditas, flush with $200 million from Softbank’s Series D investment, acquiring local payroll lender Creditoo.37

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34, 35 LendIt and Porto - Interview October 2019
Factors for Long Term Success

**Opportunities**

The following are opportunity areas for the fintech companies. Many of these relate to the investor dynamics discussed above, as fresh capital, outside partners and ideas, international talent and business model innovations surface.

- **Attack incumbents’ profit pools**
- **Maximize return on human capital**
- **Capitalize on corporate/bank VC**
- **Find untraditional consumer engagement routes**

**Attack incumbents’ profit pools**

Investors suggest that because a few, top tier banks own most of the financial services market, there has been little competitive motivation to innovate. As well, the region has some of the highest branch concentrations in the world, leading to higher operating expenses and the need to maintain high fee, high margin, traditional retail offerings.

Today, Brazil has the world’s second highest interest rate spread (i.e., the lending rate minus deposit rate) at 32.3%, after Madagascar. The country’s central bank has also shown hyper-prudence given financial system issues in the past. In Brazil, a required reserve ratio of 21% is statutorily enforced. In Colombia and Mexico, the reserve requirements are 11% and 10.5%, respectively. By comparison, regulators in the Eurozone mandate a 1% reserve requirement, emphasizing the restrictiveness of credit access from traditional banks in LatAm.

**Lending/Deposit Interest Rate Spread by Country**

![Lending/Deposit Interest Rate Spread by Country](chart)

Source: World Bank (country data is 2018, world avg. is 2017). Countries are Brazil, Peru, Argentina, Guatemala, Colombia, Bolivia, Mexico, Chile.

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38 [https://www.bcb.gov.br/content/estabilidadefinanceira/Documents/sistema_pagamentos_brasileiro/Resumo_aliquotas_compuls%C3%B3rios.pdf](https://www.bcb.gov.br/content/estabilidadefinanceira/Documents/sistema_pagamentos_brasileiro/Resumo_aliquotas_compuls%C3%B3rios.pdf)

Propel’s Jay Reinemann sees the above dysfunctions and market constraints as fintechs’ window to success. “Fintechs have had to figure out how to succeed digitally first and foremost, not to rely on branches and customer service networks to figure things out. Big banks are still limited in the sheer number of products or experiences that can be fully bought or experienced online or through an app.”

“...The region has customer experience issues screaming to be improved. There are big enough margins for fintech challengers to undercut pricing and still drive profit.”

Bill Ciliuffo, Partner, QED Investors

Nubank offers the clearest example of competitive encroachment as it made a free credit card available digitally and expanded its mobile banking and credit solutions to those outside of the incumbents’ target retail or credit profile. Early on, the company recognized that the industry’s high lending rates were in part due to inefficiencies and banks’ negative economic outlooks. With a leaner cost structure and an emphasis on mobile (“bank branches in everyone’s pockets,” according to the company’s CEO), they could rationalize lending rates 30-40% below market.

As neobanks feast where incumbents lag, other fintechs recognize that big banks are being disrupted, but aren’t disappearing. Though challenged, legacy banks remain well capitalized and resilient from years of political and economic upheaval. These particular upstarts don’t try to replace banks, but provide services to help their modernization efforts. The goal: profit from the banking dogfight.

One example is Pismo, the Brazilian fintech that offers end-to-end solutions for card issuance, a transaction banking core and e-wallet functionality. The company explicitly markets to legacy banks with a message: your current products can coexist with innovation.

Maximize return on human capital

IT and BPO industry site Nearshore Americas notes how an increasing number of US companies are outsourcing machine learning, data science and UX/UI design roles to Latin America. The article cites the quality, accessibility and affordability of talent across local markets including Colombia and Uruguay. According to a partner at one global alternative investment manager, readily available local talent presents an opportunity for in-region fintechs to compete on an international level. “There are programmers in educated LatAm markets that are just as good and significantly cheaper than in the EU and the US.” This investor believes regional fintechs can apply more horsepower in growth phases without being burdened by major expenses; “Our companies will have 100 employees at the same cost basis as a company with 25 in San Francisco.”

40 Lendit and Reinemann - Interview October 2019
41 Lendit and Ciliuffo - Interview October 2019
44 https://pismo.io/en/for-you/banks
45 Lendit and Reinemann - Interview October 2019
Find untraditional consumer engagement routes

Fintechs can scale rapidly by targeting consumers that have relationships with other businesses in complementary industries, or by extending their breadth of offerings to include more financial services. Drawing on partners’ customer intelligence and relationship management may also create workarounds to establish baselines like creditworthiness, if consumers lack a formal financial history, for example.

Amadeus Capital notes how some fintechs partner with ERP or cloud accounting companies, accessing merchant or consumer cash flows, invoice histories and financial statements to understand credit worthiness and cross-sell. Quona’s Jonathan Whittle shares how fintechs can partner with mobility platforms that may have millions of drivers that need to get paid, need financial services or need capital to buy and maintain their vehicles.

Grow Mobility, recently formed in the merger between Brazilian dockless bike and scooter service, Yellow, and Mexican electric scooter startup Grin, cites a similar expansion play. The company shared a plan to expand its proprietary digital payments platform to support unbanked populations, but expects financial services engagement even beyond this. “There are many possibilities that we can offer to unbanked users with our digital payment platform, such as buying items at commercial partners who will then become bike and scooter stations.”

It may be that we need to offer the services of a fintech first without labeling ourselves as such.

Mercelo Loureiro, Co-Director, Grow Mobility

Challenges

The following are notable ecosystem challenges to fintechs’ success.

- Low regard for startup employment
- Oversimplified view on expansion
- Inefficient targeting of the unbanked
- Imbalance of global and local investors

Low regard for startup employment

Although the research acknowledged an improving talent pool, an employment perception gap still exists for startups. Investors noted that sustained success in developed ecosystems, like Silicon Valley, have shifted the workforce’s view of startup employment – talent is simply more oriented to high-growth job opportunities.

Another investor suggested there remains a legacy bias around the prestige of working in an established corporate bank. This is challenging for fintechs working to poach top financial talent. In addition, startups looking to add senior talent may find these individuals unaccustomed to working in an integrated way given more siloed role dynamics in corporate banks. But others noted that early venture and startup ecosystem momentum is establishing fintech as a credible career alternative.

One investor finds that because the workforce isn’t accustomed to seeing big fintech exits, workers inherently value equity less. This can make incentive alignment a challenge. Another admits that the region needs more “Hey, I joined this company when I was 24 and worked there for four years and, wow, this equity thing worked out!” stories to breed acceptance of the startup vehicle.”

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Global investors may be overly ambitious with respect to fintech expansion planning, according to a number of surveyed investors. Santander Innoventures’ Silva guides that “because markets are next to each other and seem to have similar demographics, investors and entrepreneurs think they can conquer five markets at a time.”

One global private capital investor cautions against a compulsion to chase regional TAM (total addressable market), due to local political cycles, innovation and regulation peculiarities. It cautions that because finance is such a heavily regulated segment, “a company that starts in Mexico and tries to expand to Colombia is no better off financially than a company that just starts in Colombia in the first place.”

QED’s Cilluffo agrees, noting that companies have “different data, different consumers, different performance, different competitors and different pricing” across each country. He ventures that there are even early signs of city to city nuance within a single country that companies must contend with.

% of LatAm-based Fintechs by Presence in # of Countries

- 1 country: 68%
- 2 countries: 12%
- 3 countries: 6%
- 4 countries: 4%
- 5 countries: 2%
- 6 countries: 2%
- 7 countries: 1%
- 8 countries: 1%
- > 8 countries: 5%

Source: IDB/Finnovista survey of 397 Fintechs, 2018

While there are large population segments underserved by incumbent banks, acquiring these customers is not as simple as just creating useful financial products. Fintech accelerator Axios clearly articulates a few of the acquisition, marketing and services challenges. They note the requirement for fintechs to build credit profiles from non-traditional data; navigate cultural requirements, idioms and simplify onboarding logistics for customers without experience in formal banking systems.

While navigating these issues is a challenge, Propel’s Reinemann sees local fintechs becoming more effective at reaching the unbanked. This success, however, breeds a new problem. The cycle of fresh investor capital, intensifying outreach from fintechs and improved productivity makes it more competitive and expensive to reach these groups. “Fintechs need to figure out how to methodically grow with a business model that’s actually going to eventually make money versus just acquiring customers at any cost,” he warns.

Although improved, there is still an imbalance in the participation of global and local investors in some countries. This creates gaps at various stages along the growth financing spectrum. Startups may not achieve the scale they envision (and investors, the buyers or premiums they expect), if next-stage capital is absent.

One investor attributes this to the lingering unease of global investors around the economic or political crises that are common in the region. They pull back when things go bad, making local investors hesitant to provide early stage capital. In other areas, local capital markets have not shown interest in funding some asset classes. If international investors are not confident in the presence of local, growth capital, they are less likely to open up significant credit lines or write follow-on checks. This inconsistency may stunt some businesses operating exclusively in smaller countries and markets.
Key Questions for the Future

Deloitte asserts that a true fintech hub boasts four fundamentals: talent availability, access to capital, unmet demand for financial services and supportive regulations. Latin America has registered progress within each of these over the last decade and global investors have responded in kind.

So while there is little debate around LatAm’s emergence as a destination for global investors, a new market paradigm – shaped by the influx of outside capital and perspective – means new challenges and opportunities to contend with.

**Will investors and founders effectively capitalize on the market’s potential for the long term?**

**Or, will the rush of capital outpace maturation in the talent pool, regulatory dynamics, business models, exit avenues, and partnership climate?**

Today, amidst an interdependent mix of sector, technological, marketplace, financial and political factors, LatAm fintech shines. And global investors are betting billions that tomorrow is no different.
Appendix: Research Sources

- Association for Private Capital Investment in Latin America: https://lavca.org/2019/05/10/dila-capital-and-mountain-nazca-exits-creze-en-espanol/
- Axios Holdings: https://axiosholding.com/banking-the-unbanked-the-challenges
- Banco Central do Brazil: https://www.bcb.gov.br/content/estabilidadefinanceira/Documents/sistema_pagamentos_brasileiro/Resumo_aliquotas_compuls%C3%B3rios.pdf
- Crunchbase: https://about.crunchbase.com/blog/latin-americas-fintech-surge-4-lessons-for-silicon-valley/
- LatAm List: https://latamlist.com/2019/03/07/nubank-is-recruiting-talent-for-mexico-expansion/
About Lendit Fintech
Lendit is the world’s largest event series dedicated to connecting the financial services innovation community. Our conferences bring together the leading fintech platforms, investors, banks, innovators and service providers in our industry for unparalleled educational, networking, and business development opportunities.

Lendit hosts four conferences annually: our flagship conference Lendit Fintech USA in San Francisco or New York; Lendit Fintech Europe in London; Lendit Fintech China in Shanghai; and FINNOSUMMIT Miami by Lendit Fintech for Latin America.

For further information, please visit our website
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FINNOSUMMIT MIAMI
by LENDIT FINTECH

About the Event
FINNOSUMMIT is an industry-leading annual event where LatAm fintechs, banks and investors unite to explore the region’s most disruptive financial services. The next occurrence is December 3-4, 2019, featuring scores of industry-leading speakers and sessions. It is co-organized by Lendit Fintech and Finnovista.

Learn more at www.lendit.com/latam