



FINTECH ONE-ON-ONE PODCAST 389-CHRISTINE KENNA

Welcome to the Fintech One-on-One Podcast, Episode No. 389. This is your host, Peter Renton, Chairman and Co-Founder of Fintech Nexus.

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Before we get started, I want to tell you about Fintech Nexus LatAm happening in Miami on December 13th and 14th. Latin America continues to be the hottest fintech region on the planet and our 2022 event will feature all the leading players. So, join the LatAm fintech community this year where you'll meet the people who matter, learn from the experts and get business done. Register at fintechnexus.com/latam and use the discount code "podcast" for 15% off.

Peter Renton: Today on the show, I'm delighted to welcome Christine Kenna, she is a Partner at IGNIA. Now, IGNIA are a really interesting company, they are a VC fund based out of Mexico City, they invest in early-stage tech startups with a heavy emphasis on fintech, startups that are looking to grow in Latin America. So, we talk all about the Latin American fintech scene in this episode, we go through some of the challenges in Mexico, how things have kind of evolved over the last few years.

She has been doing this since 2011 so has seen a lot of changes in Mexico and in Latin America when it comes to capital formation. Now, we talk about some of the companies in her portfolio, we talk about the most interesting areas in fintech today, we talk about cash, we talk about crypto and what she's most excited about for the future of Latin American fintech. It was a fascinating episode, hope you enjoy the show.

Welcome to the podcast, Christine!

Christine Kenna: Thank you, Peter, it's great to be with you.

Peter: Great to be with you. So, why don't you give the listeners a little bit of background about yourself and maybe in that you can sort of describe how you came to be living in Mexico.

Christine: You know, I think it's something that you can relate to very well, Peter. Despite the fact that I've been living in Mexico since 2006, I think I'm always very tied to my roots. I consider myself a Chilanga Gringa because I was born and raised in the United States and very much tied to Silicon Valley, I grew up around Palo Alto, and I built the first part of my career in tech companies surrounded by venture capital, working in these very fast paced, high growth industries and it wasn't really until I had my first exposure to Mexico that I realized the enormous potential that is in Latin America.

And so, in 2006 I took on a role leading an education company in Mexico City and I realized that there was an incredible amount of talent, an enormous opportunity here, but zero access to capital. So, I was able to bring my previous experience working in tech companies like Google, having had an MBA and really learning how to grow and scale businesses. And then in 2011, is when I first joined IGNIA which is where I continue to be today.



Peter: I presume you could speak Spanish by the time you got to Mexico in 2006?

Christine: (laughs) Yes. My mother is Cuban so I'm Cuban-American.

Peter: Okay.

Christine: But, you know, it wasn't until I was working, and living and breathing here and really not being able to speak English that I was actually able to pick it up fluently.

Peter: Right, right, okay. So then, you've been involved then in venture capital in Mexico for more than a decade so I'd love to get a sense of what the early days were like back in, you know, when you joined in 2011. What was the landscape like back then?

Christine: It's very hard to even call it venture capital because there wasn't an ecosystem back then. IGNIA's first fund was the first impact investing fund in Latin America and I think it's very important to emphasize that and actually get an idea of what it was like because the first investors in IGNIA were largely development banks. We had backers such as George Soros, JP Morgan, the Rockefeller Foundation and the Omidyar Network and that was incredibly instrumental to actually raise a fund which was \$100 Million and to actually deploy capital, but we were investing in largely brick & mortar companies.

When IGNIA was first started, you know, the iPhone was just coming out, it was so different what the consumer behavior was like then. The market was not ready I think to be able to grow and scale technology companies and there were really no other investors locally and very few investors internationally willing to even look at the region and really consider deploying capital in Latin America. In this first impact investing fund, I think what was great for us is that we were able to find incredible entrepreneurs who later then were able to grow and become repeat entrepreneurs. And today, the world is just so different because of every aspect and everything in that region now, but the opportunity in the market continues to be the same.

Peter: Right, right. So then, I mean, obviously, fintech wasn't really a thing in 2011, certainly not in Latin America.

Christine: No.

Peter: When did you first started paying attention to fintech, you know, when did you make your first investment?

Christine: At IGNIA, we raised our first venture capital fund in 2016 and this fund is now....half of what we've invested is in fintech. And so, while with our first impact fund I think we always sought the need for financial solutions, you know, there was still hugely unbanked population, you know, all those problems still existed, there was no access to credit anywhere. Again, the infrastructure sort of all that infrastructure that's needed to be in place to make fintechs work was not there, right, so with our venture fund is when we first started investing, I think you talk about sort of the basic things beginning with payments.



And so, that was a huge area we first started investing in, companies like Sr. Pago and we've invested in other companies like Atticus that was later sold to Mastercard and then companies like UnDosTres that are focused on really serving or providing the onramp for the unbanked population and very basic transactions of everything from top-ups to cellphone minutes to buying movie tickets, for example. But what really makes them differentiated is the fact that they have built this robust platform and infrastructure that's focused on combating fraud which is something that is exceptionally important in the fintech sectors, particularly in Latin America and particularly in Mexico. And so, I think once the entrepreneurs were identifying what these opportunities were they've been able to then grow on those and grow in scale.

Peter: Right, right, okay. So then, 2016 there was plenty of fintech companies around, they probably weren't getting a whole lot of funding, but then we saw this build-up and by like 2020 there was a lot more attention. I mean, a lot of American, big-name American VCs coming into the region so, now we've seen a bit more of a pull-back, I mean, maybe you could just sort of talk about a little bit of the, how the times have changed, and how IGNIA has responded to the really huge ups and then a bit of a pull-back. How have you guys responded to that?

Christine: I think what is important on investing is being true to who you are as an investor, be true to yourselves and really focusing on business fundamentals. So I'd say, in that regard, at IGNIA we have not changed the way that we invest, you know, the amount of dollars coming into the region and to the co-investors that were looking to invest have changed substantially. But, you know, we always look first at the entrepreneur, we're looking at the business fundamentals and the market and to really see the solution we're serving through that, and the fact that we come in early, what we've seen is as the co-investors have become a lot more sophisticated and obviously with a lot deeper pockets which is great for the founders.

One great fund that we've seen come in is QED and I think the fact that QED has had such a strong focus on fintech and then been able to provide so much of those lessons learned, of their experiences and that network from some of the world's greatest fintech companies outside of Latin America, you know, that has been enormously beneficial for the Latin American fintechs growing here, right. So, while we can provide the local sort of boots on the ground knowledge and access, and most importantly access to helping our founders with the regulation that is constantly changing and moving, right, but also helping them not only try to influence some of the regulation, but also to help them understand and adapt to the regulation. Having investors like QED on these cap tables is an incredible compliment and we're so thankful that they're in the region.

Peter: Right, right. Are Mexican entrepreneurs, do they really want that sort of stamp of approval from a QED or an Andreessen? What's it mean to them?

Christine: I think it's, first and foremost, important because it's capital. So more so than any brand name it's because the local funds are still very young and relatively small in size except that I would say for a few funds like Monashees or Kaszek that have been able to raise a significant amount more capital, we can only go so far. And so, having those international funds come in has allowed the local fintech entrepreneurs to actually achieve their visions.

Peter: Right.



Christine: I think there's always been a debate about have Latin American entrepreneurs always just thought small or they just actually haven't been able to get funding to grow big, right, and I think they've always been much more cautious about where their cash is coming from then you can compare to some Silicon Valley entrepreneurs. So, the entrance of like Andreessens and QED absolutely won as bigger tickets, but I also think that they can provide that knowledge and network with other similar companies that perhaps have grown and they can provide that complimentary experience.

You know, I would like to think that the local entrepreneurs are much less focused on that brand name in terms of are those funds necessarily going to make a big difference on their board room? Perhaps not, but when they're looking for the later stage and the more international investors, I think that is extremely important because, you know, they might not know the local investors, but they certainly would know those more international institutions.

Peter: Right, right. And so, you know, we've seen this year, I mentioned a couple of times already, but there's certainly in the US massive pull-back. I remember looking at the different funding rounds last year and if you didn't have, you know, have a \$100 Million round, you didn't make it in the top ten biggest rounds of the week, usually, whereas now, a \$100 Million round is pretty rare. Has that same thing happened in Latin America and what's the, has this been a positive or a negative?

Christine: Well, I think what we've seen globally is happening in Latin America, it's just somewhat delayed and it's also, it's primarily focused on later stage checks, so the growth investors. I mean, we see the entire pull-out of Soft Bank, and Tiger has just entirely disappeared from the region, but those later stage funds, that I think were highly insensitive to valuations, we've seen that disappear. Now, what are we seeing in the earlier stages is that we still have an incredible pipeline of companies and opportunities and I don't think that has changed. I think what the investors are looking for, you know, the important questions is different because we cannot expect those big checks to come along.

Peter: Right.

Christine: So, for the first time I would say..... the opening line of those founders is, you know, we have a great business model and a path to break even, right. That wasn't even anything that was discussed before, right, so that's really interesting. I actually think it's extremely healthy of what we're seeing, right, because I've never been a fan of throwing money at an entrepreneur before they're ready. Right, I think having to raise subsequent rounds, it brings an enormous amount of discipline not only for the founder but for the entire team where you really need to iterate and, you know, keep iterating until you find that right product market fit. Until you get just enough cash to get to your next stage, right, and I think it's healthy to also have...every hire is really firing on all cylinders. When you get a windfall of cash, I think that becomes a lot less disciplined. I think, overall, it will be positive for our ecosystem.

Peter: Right. So then, when you can look across the fintech landscape today, what are the most interesting areas from your perspective?



Christine: Well, I think on one hand, that fintech is so vast and so broad, right, and so I think some of them are obvious areas where it's dealing with what was really trendy for a while, the neobanks. Those chips have been played, I think we have some of the larger players, I think there's going to be a lot of consolidation and so when I look to see is what are the underlying pains that are just going to be snowballing on top in the midst of all of these fintechs.

One of those areas is say cyber-security, while this not, you could say, it's not necessarily fintech per se, but there are so many layers within this that need to be addressed. We're seeing a lot of really interesting companies that are now coming out of Latin America, not just Israeli companies or what not, but they are coming out of the region because they're focused on addressing, you know, the idiosyncratic behaviors of the SMEs in Latin America that cannot just take their one-size-fits-all solution from other regions and so I think that's an interesting space that we've been looking at.

I also think, what's interesting to say, like what about broader fintechs, everything in e-commerce and sort of the digital commerce space, everything now has a component of fintech in it. It's sort of become.....you've seen so many of our portfolio companies perhaps that started in very niche solutions, but then they've all added on fintech components as they've grown in scale because I really don't think you can transact in today's world without having multiple, strong fintech solutions embedded into those other platforms.

Peter: Right, right. But let's talk about cash for a second because, you know, you live in Mexico, I was just there fairly recently and there was a lot of talk about cash is still so important. Yet, on the last day of the month, people are lining up at the ATMs to withdraw their pay that they've just gotten so tell me a little bit about like what's it going to do to have cash be less kind of central in the economy there.

Christine: It is crazy how prevalent cash continues to be, and particularly in Mexico. What I think we just need to recognize is the fact that this is the way the majority of the population still transacts. And so, for example, we've invested in a company called Rapyd that's based in Israel recognizing the fact that we need to have a way to have cash in and cash out and still facilitate those transactions, and not just imagine it's going to go away. We would like to see a leapfrog, like we've seen in some other geographies, but that's just not happening in Mexico today and so we're trying to understand this reality.

One of the most important factors is understanding the way people live and I think it fundamentally comes down to the fact that the majority of the population, they live paycheck-to-paycheck on many times and we are seeing some incredible opportunities that are advancing the pay, what is earned on that same day, right, so you can cash out your daily wage, right, so you're not waiting every 15 days, right. What's happening and the issue was to me the bank accounts, is that even if the paycheck is deposited to a bank account, immediately that individual will take out the cash because what is he or she do with that the second he gets it. He turns around and he divides up that cash and pays every other person that he has to pay, you know, it's his family, or, you know, his kids and so they're not in that behavior yet of savings. And so, I think as long as the majority of the population does not have access to that digital wallet to easily make those transfers amongst each other, cash is going to continue to be the currency of the everyday worker in Mexico.



Peter: Like there is a pretty large penetration of smart phones, right, in Mexico so they do have access, right. It seems like to me they're still choosing to be in this cash society so the benefits of the fintech kind of innovations aren't strong enough for them to move, is that fair to say?

Christine: I think that's fair to say and the fact that there is not a universal platform that has been adopted successfully, like what we've seen is like the overnight radical success of Pix that has been largely driven by the actual users recommending it and making sure everyone else has that. That did not happen with CoDi in Mexico, you could sort of dig into why this happened, but, you know, CoDi was an initiative from the Central Bank. You know, it was not inclusive with all the major commercial banks, right, and has not become universal. I still think the majority of the entire population, even those who are investing in the space, never uses CoDi so it was more of a push product than the consumer loving it and pulling it to get to that mainstream access in transaction.

Peter: Right, right, okay. So, let's talk about crypto, you know, Latin America had pretty decent crypto take up, would love to get your sense on that whole space, whether you are, are you bullish or bearish on the crypto space?

Christine: I am incredibly bullish long term.

Peter: Right, okay.

Christine: That's the important caveat here, right, because I think, you know, we all have our eyes open to what's been happening in the market. It's extended beyond what people would just say is just a little blip, you know, I think it's actually become a very serious...field for those, I even want to still call them early adopters, those individuals that were putting their money into crypto because there's been such a enormous loss of value.

That being said, Latin America is such a unique geography for the success of crypto and blockchain for solving such unique problems like Venezuela, like Argentina where everyday individuals are trying to get their money outside of local currency as quickly as possible. All of, I think, the solutions that we're seeing that are being built up right now in many instances like crypto wallets that you can have, provide an incredible resource for these individuals and that's not going to go away. I mean, I do think long term it's going to change the way that Latin Americans interact and transact and save and invest their money.

Peter: So, I want to talk about sort of geographic expansion because obviously you've got Mexico and Brazil, the two largest economies in Latin America, and is a typical entrepreneur in Mexico, are they building their company always with the idea of expanding? I mean, obviously Brazil you've got the bit of a language barrier, but you've got obviously the whole rest of Latin America pretty much that speaks Spanish, are you investing in entrepreneurs that are always looking beyond Mexico?

Christine: Absolutely. So, I think something that's unique about the way IGNIA invests is that we invest in global companies and global entrepreneurs that are looking to expand into the Latin American market, we're not just limited to Mexican entrepreneurs or to Argentines. Our focus is definitely in Spanish-speaking Latin America, but we'll go where the talent is, and where those companies are



going to address the largest opportunities. Now, with Spanish-speaking Latin America I think we will have an enormous amount of talent coming out of countries like Argentina, Chile and Colombia.

Now, the natural step for those companies is that once they sort of have a proof of concept or where they've sort of gotten started then they will come into Mexico because of just the size of the opportunity and in some cases, you know, I would say, proximity to the United States if they plan to expand. It's important to say that there are a number of opportunities, unique opportunities, for companies to become enormous just serving the Mexican market, right. Now as an investor, I'm building a portfolio, you know, as I manage a fund, I manage a portfolio, and I think one of our greatest risks is to have just exposure in one country and one currency.

Peter: Right.

Christine: So, that is why I would say as an investor I'm always looking for opportunities that will compliment that so I will not just invest in Mexican companies, but you will find them sort of across the region. We've looked at a number of startups that are coming out of Central America which is not the most, I would say, obvious place because, again, you could find great talent. Many of these entrepreneurs who perhaps have been educated in the United States, who have worked in other companies, but the size of those markets still is not large enough so they will eventually end up in Mexico or the rest of Spanish-speaking LatAm.

Peter: Right, right, got it. So then, are you primarily an early-stage investor, are you also looking to invest in later stages, what stage are you operating in for the most part?

Christine: So absolutely early-stage. You know, we are not pre-seed in the sense that we will need to see some of the product already launched and built, and we have come into some Series B companies on and off, but very opportunistically. And I think this is the situation you say when an entrepreneur has an incredible product and they need access, they need a local partner and oftentimes, and in IGNIA's case, we're the only Latin American fund on the cap table for those type of companies, right. And so, we will look at that, we're not strictly tied just to the early stage.

Peter: Right, got you, okay. So then, would you say, when it comes to fintech, are the quality of entrepreneurs and the ideas that are coming across your desk today, is that still as strong as it ever has been?

Christine: As strong or even stronger, and the reason I say this is because the entrepreneurs that are building their businesses in Latin America today, their backgrounds have changed. So, one, we're seeing a lot more international entrepreneurs that are coming into the region because they've seen it happening, they've seen the market and so they're coming which is the case, as I mentioned, the company UnDosTres. These were three Indian entrepreneurs who had experience with Paytm and they realized that nothing similar was being done in Mexico. And so, they decided to move here, you know, and really build this company based in Mexico before the opportunity hit that market, you know, something that was just...I was looking at LAFCA published information in the first half of this year, it was over 42% of the founders that we've seen VC funding were repeat founders in the region and so that is also unique.



And so, that makes a better founder, you know, it doesn't matter I think if your previous company was wildly successful or you failed. But you've tried it, you know what to do right and what not to do and what you want to improve for your next startup and so that's incredible. You know, when IGNIA got started there was no one who had started a company before, right, it was sort of repeat founders, it was sort of unheard of entirely. The other aspect is that these founders are bringing now their best talent with them from other startups, you know, we've had some great successes which we call the "Rapyd-mafias", you know, many different types of mafias that have come out of the region, the talent is just getting better and better.

Peter: Right, right, okay. So then, final question then for you, as you sort of look to the future and you look at Latin American fintech, what are you most excited about?

Christine: There are so many aspects of fintech that are going to be entirely revolutionized, and change the way that the everyday consumer interacts. So, what's most exciting about this future is that you see it's taking out an enormous amount of friction in the lives of everyday Latin Americans. You know, our thesis at IGNIA has always been focused on serving the emerging middle class and why is that the case is that because this is the segment of the population that we see has the worst services for the highest prices.

Fintech immediately addresses that and gives them much better services with much less friction and much better prices so that's something that's very exciting to think about and it's what gets me thrilled to be doing this job everyday thinking about the future that we're building for Mexico and across Latin America as a better place to live and transact.

Peter: Okay. We'll have to leave it there, Christine, it is an exciting place, I love going to visit and learning more about it and talking to people who are passionate about it was well. So, thank you so much for coming on the show.

Christine: Thank you, Peter.

Peter: You know, part of the reason I am so bullish myself about Latin America is because there are still so many people using cash, so many people not taking advantage of the technology and the more efficient way to run a financial life and so there is so much room for improvement. And even if, I mean, cash is probably not going to go away in this region anytime soon, but even if we just get a third of the population moving away from cash into more fintech products, it's going to have a massive impact on GDP, it's going to have massive impact on jobs and we're going to see some really big companies get developed and make a real impact in the world. I will continue to be excited and obviously we have a presence here with our Latin American event, but it is something that I think the more I learn about Latin America, the more excited I become for its future.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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