

PITCHIT FINTECH STARTUPS PODCAST NO. 37-CHRISTINE KENNA

Welcome to PitchIt, the fintech startups podcast, one founder, one startup, one investor at a time. I'm your host, Todd Anderson, Chief Product Officer, LendIt Fintech.

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Todd Anderson: On Episode 37, I talk with Christine Kenna of IGNIA. IGNIA invests in world-class tech entrepreneurs, solving problems faced by the emerging middle class in Latin America. Just as a quick programming note, this special episode was recorded at our LendIt Fintech LatAm event which took place in Miami on December 7, 2021.

In this episode, Christine and I discuss investing in the emerging middle class, we covered IGNIA's investment thesis, what the middle class looks like today in LatAm and how the pandemic has helped to impact this growing segment of the population. We also touched on, you know, what's the best entry point into fintech, whether it's payments or lending, credit scoring, how much LatAm has changed in recent years, especially that shift in the size and scope of funding rounds and what's next for the hottest fintech market in the world. So, without further ado, Christine Kenna of IGNIA.

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Hi, Christine, how are you?

Christine Kenna: Hi, great.

Todd: So, let's start with tell the audience a little bit about yourself, your role at IGNIA.

Christine: Well, I've been at IGNIA investing in Latin America for the last ten years and a lot of people ask, you know, why Latin America when you grew up in Silicon Valley, sitting in Mexico City and investing in Latin America and, you know, it all goes down to the reason why we're all here is the opportunity. And what I think is particularly interesting about the topic today is we're talking about the end customer, we're talking about the reason why we're building all these fintechs, the reason why we have such an incredible market in this region.

And so, you know, my background was very much...I was forged in Silicon Valley working in tech companies, I run an education company for five years, but I think the most formative experience I had was 20 years ago when I run a foundation in Mexico City. This foundation was focused on working in the public school system, working with street children and it was the first time that I was exposed to what you would define today as really the emerging middle class which is the majority of the population that we're all trying to serve through a fintech, but to me, it was the stark reality where I actually got to go into the neighborhood, into Chimalhuacan.

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For those who are in Mexico City, many marginalized regions of Mexico, I don't think anyone in this room could even begin to understand what the life is like for those individuals and what I saw 20 years ago was the entire lack of access, lack of options, lack of choice and really the challenges of day to day living. So, fast forward 20 years, what changed is the world and the access that we can provide through technology.

And so, after having seen what is possible, after having emerging companies like Google and seen then grow and scale around the world, you can actually today really change those lives through all the companies that are being built here, right, and so that's the reason why I'm investing today and that's what's been so exciting about serving the emerging middle class, you're all the entrepreneurs that we got the chance to work with.

Todd: So, if you can tell us a little bit more about IGNIA's investor thesis and the types of companies you target and why.

Christine: So, we invest in global companies that are serving the end consumer in Latin America. So, we're also investing in companies that are based in Argentina and Brazil and Mexico, of course, but also, we've seen an incredible opportunity and a rapid change of pace of what is really fintech companies, crypto companies based in the Bay area that are all now serving the Latin American consumer so those are the companies that we look for.

We typically invest in seed or Series A, sometimes later and we always are focused on the company, the entrepreneur providing local access as much as we can to our own networks. You know, IGNIA was the first impact investing fund, we started with that impact thesis and the focus of IGNIA has been to create a more equitable world. That continues to be the focus today, but we are one of the top performing VC funds globally, thanks to that thesis, because now we invest in technology companies that are growing and scaling, typically sector agnostic although half of what we do is in the fintech sector.

Todd: So, you were mentioning 20 years ago and going into a lot of these areas. So, 20 years has passed, technology has obviously emerged on the scene, fintech has emerged on the scene, how much have their lives been changed and how much more is there still to do in a lot of these areas that you were mentioning in your opening.

Christine: Well, I would like to say that their lives have changed a lot, but the reality is they haven't. We are slowly making changes and so I think the important thing, especially for myself as an investor, the first thing I have to recognize is that I don't understand the end consumer and so what I have to do is look at data. I have to look at how the users are engaging with the products and with the different entrepreneurs. So, when I invest in entrepreneurs, the first thing that I really focus on is where is that customer insight coming from, what is that pain point that is being solved from that unique insight.

If you think about what the emerging middle class looks like today, just to put in perspective, we're talking about Latin America so the region represents about 8% of the world's population, right. So, we

were to assume, you know, all of these room with all the Latin American population, we can probably take about 20% of the room and say, all of you, guys, who bought your coffee this morning, that is all you have to spend for you and your family and everyone for that day so you have to really live off the cost of that coffee. You can take another 40% of the room and say, you could add your cup of coffee plus, possibly, a drink that you're going to have tonight out in a bar in Miami and that's what you have to spend. Take another 40% and maybe you can include your tank of gas.

So, really it's important to understand the dimension of the income and the lack of disposable income that these families have taking into account about 40% of their income is being spent on just basic housing, food and everything. There's really not a lot of options for these individuals. Then I think it's important to think about what kind of jobs this emerging middle class really have. You could say they're everything from school teachers, to the accountants, they all have solid jobs yet 55% of the emerging middle class is working in the informal economy.

So, what does that mean? They don't have access to government services, they don't have access to healthcare. Maybe another 55% probably have a bank account, you know, this is a huge opportunity everyone talks about, the unbanked population, but those people who have a bank account are not necessarily using it for savings, they don't have access to insurance. All of these, again, lack of access and choice is a reality they face today.

The one thing that has changed dramatically is that 100% of this population has access to a cellphone, probably they're paying high prices, but because of this access to the cellphone....what's unique about Latin America is they spend more time connected to the Internet than any other population around the world and so they're spending, on average, nine hours a day connected to the Internet.

So, that means that this is the access that we all have to everyone's phone that they have in their hand and so they're spending a lot of time online, right. So, you know, that's just an idea to understand who they are, but they still suffer the same pain point of high insecurity, high friction in their everyday lives with transportation and lack of access to all the financial services that we're trying to provide to them today.

Todd: And we just had a two-year global pandemic on top of all that that probably impacted this group more than any other.

Christine: Yeah, absolutely. You know, I think there are sort of two ways to look at the pandemic. Everyone's talking about it, right, you know, it's phenomenal to be in-person, isn't this great, but we are incredibly fortunate. You know, I think that we cannot begin to think about our experience with the pandemic relate to how the middle class in Latin America has lived the pandemic and I just think about the numbers again. If you talk about 8% of the population is based in Latin America, 20% of the infection rate came from Latin America and almost 35% of the COVID deaths came from Latin America so that is incredibly tragic.

There's sort of no way to talk about the impact of COVID about realizing through that human cost, but at the same time, we're here celebrating all of these success stories of all of these incredible companies, of Neubank that's about to go public. You know, everything we've been talking about today is accelerated because of the pandemic. You know, I can just look in our own portfolio of companies, they are doing exceptionally well because all of the changes and habits and consumer behavior we expected would happen in five years, happened in five months. And so, I think there are those two side of the pandemic where now, you know, this middle class has access to goods & services, transactions in a way they never had before, thanks to the pandemic.

Todd: So, in terms of increasing that access on financial services, is there a best pathway for someone to enter the financial system. You mentioned, I forgot the exact number you said, have a bank account, but they're not necessarily using that bank account beyond probably just getting their paycheck in there and then maybe taking out the cash for it. So, is there an entry point that is best suited for these emerging classes, is it payments, is it lending, is there kind of a top one or is it kind of a mix of various things?

Christine: Well, first, I think it's important to recognize that fintech touches sort of every digital service that people are transacting with today. I mean, to the fact that, you know, I've invested in Nuvem Shop/Tienda Nube, it's a company that's focused on digitizing small commerce, but they are essentially a fintech company as well. So, what is the best way to onboard?

I think, again, if we focus on the consumer what our lives are, we have to focus on the most simple, easy to use application that is directly going after one of their largest pain points, right, because change in consumer behavior is extremely hard, right, and this is also society that has been steeped in a lack of trust so you have to focus on a product that can generate that trust from the very first transaction. What I think has been a successful way to onboard the emerging middle class into fintech is looking at a case study.

One of the companies we've invested in is called UnDosTres, right, this was three entrepreneurs from India that had their background in PayTM, no one was doing this in Latin America so they came to Mexico and they built this phenomenal platform that focused on building those three things. First, trust, ease of use and solving one of the greatest pain points which for the emerging middle class is paying for their top-up minutes on their cellphone, right, because most of the cellphone users, I imagine everyone has a cellphone, but they're doing the most expensive plans, paying per minute, right, and so they started onboarding customers and it was just as simple as it possibly could be in an application, you can just start doing this digitally.

Ninety percent if their users had never done a digital transaction before and then today, there are over a million transactions they're doing per month, 90% are recurring customers. And once they tried it, they were hooked and then this company is able to build out the rest of the financial services because the customer built trust that they realized they could get their minute in a much easier, more efficient way to transact.

Now, I think one of the other challenges that we all face in investing in fintech and building fintech companies is the issue of fraud. In every speaker who you'll see today, they have to be addressing what are the realities of fraud and how that impacts the fintech solutions that they're building. And so, I think from the very beginning another one of the incredible things that this team did in UnDosTres is they built the infrastructure to deal with fraud.

It does not happen overnight, you can't just throw money at that problem, you actually need to have data, it has to be built, it has to be built slowly and with the user that you're actually serving, right. And so, I think that's one of the incredible things to think about, when you're onboarding a product, you have to make sure that you're not letting your customer have these bad experiences from the beginning, you need to think about your end product from the beginning.

Todd: Then they're the ones that are no longer coming back and then you have to go acquire new customers the hope that they come back.....

Christine: Absolutely. In the case of UnDosTres, they serve 2% of Mexico's population, right, so you could say, wow, that's nothing, like, yes, but that's an enormous amount of people that if they had started from the beginning with the product that was not actually providing that incredible service and trustworthy service, they would have lost those customers.

Todd: So, you mentioned that you've been at IGNIA for ten years now, going to the investing side, you know, how much has changed the last few years? You know, Peter and Bo, earlier, were showing the slide where it's kind of the investments \$1 Billion, \$3 Billion and jumped up to almost like \$10 Billion this year so how much has evolved in the ecosystem in LatAm today?

Christine: I mean, tremendously, there's sort of like no way to compare what it was like. So, when IGNIA first started, as I mentioned, IGNIA was the first VC fund in the region, but it was an impact one, you know, the other factors were international development-based, George Soros, JP Morgan, the Rockefeller Foundation, I mean, all these international investors that really believed in that they could create change, sustainable change, by investing in the region, right. At that time, there was no money, right, so if an entrepreneur took money from a fund, you couldn't even call it VCs is one way to say it, right.

Through that process, I think we had a number of lessons and what has been so exciting to see is that in 2016, we were actually able to get the Mexican pension funds to invest in the region and generate those outsized returns that they're receiving through investments like IGNIA right now. And so, that then starting off the snowball effect of bringing in more institutional investors into the region. So, one of the major trends that we've all talked about is the fact that they're just not local funds like IGNIA, like Monashees and Kaszek that have been built up throughout the years, but now the international funds are coming and that is so exciting.

I mean, that is one of the pieces of the puzzle that is essential I think to create this incredible companies that we're all seeing because not only do they have deep pockets, but they've very

complimentary skill sets. I mean, what we can offer at IGNIA is we know the ropes, we have boots on the ground, we've helped all of our entrepreneurs to deal with the fintech regulation, etc., but when you bring in some of these larger international investors, and not only bring in the best practices and service, but it can be very complimentary because then they can pass on the investment into this series beyond the B which is where I go up to the C and the D and the E and now to the funding point all the way so this is huge.

Something that was shocking to me is that looking at the numbers just a few years ago, they said there were only about a hundred international investors investing in the region, now they're close to 600 and 40% of all the deals done in Latin America today has international investors co-investing with local investors, but 80% of the capital is coming from these international investors, right. And so, that's just explaining how is that graph to show exponentially now up into the right is because the deals are actually being made with the money that is being made.

I think a lot of people have always said, you know, what is the greatest limitation for growth in Latin America, is it the talent and the opportunity or the capital? For me, it's always been the capital because I've seen the talent, I've seen the entrepreneurs, but they've been building their companies sort of in survival mode because they haven't been able to make those hard bets to really increase and scale their companies because they just didn't have access to that kind of capital, but now, I see it's finally happening.

Todd: Was that capital needed, like would LatAm have just taken longer to get to where it is today without that capital? Do you think it was essential for the ecosystem?

Christine: A hundred percent essential. I know there have been lots of debates, I mean, this was dinner conversation last night. Is capital a moat or not, right, is SoftBank, are they just throwing crazy money and crazy valuations. You know, I think that, absolutely, we will see some fallout, I think especially with these crazy valuations are happening in seed, right, because I'm a firm believer that scarcity also creates entrepreneurs in a better way. They're creating a lot better products, you know, all of these and so crazy money with crazy valuations is setting up that pre-seed seed founder for failure or greater challenges in the future, however, without that capital there's no way that we could be where we are today.

Todd: We've had a question come in here, what are some of the signals we should look for when it comes to really making a positive impact on the emerging middle class?

Christine: My gosh. You know, it's funny, I get asked a lot of, you know, because IGNIA was first an impact fund and we continue to do the same thing today that we did then, but we never called ourselves an impact fund because everything that we're investing in has an enormous, direct, tangible impact in radically changing peoples' lives.

If you're focused on making a positive impact into these lives, we'll get user engagement, I mean, we've sort of very much whittled down all of our metrics. You know, I think that you can think of a

thousand ways to measure impact, but we whittled it down to just one or two KPIs that has to do with engagement and number of lives impacted so like number of users, if it's about transactions or taking out loans or, you know, whatever it may be because that if you look at how their lives were before and after, it is totally game changing for many of these families.

Todd: The question I always wonder is you mentioned the informal economy. There's many small businesses that take cash to avoid tax and for other reasons. How do you, over time, change the behavior that is so ingrained where it's like 80/90% of transactions are cash. We've had the pandemic where nobody could conceivably use cash, you know, yet some of those numbers are staying steady.

Christine: Yeah. So, I'm not one to say that cash is gone, I think it's still ...cash society is going to be around for a long time. We've invested in a company based in Israel called Rapyd which is one of the most successful fintechs globally and I think because of that because it's allowing still the transactionality of even the formal/informal company to continue transacting cash.

That said, I think that there are companies like Sr. Pago which is a company that we recently sold to Konfio, but Sr. Pago was focused on serving the unbanked, informal shop owner so it was really the micro businessman or woman, right, and allowed them to have their POS system that they could buy in the market or wherever it was and for the first time they would have access to a debit card, right, and so, they can actually sell their products easily.

And so, those are the ways of still getting this informal economy to take a step more into, you know, the financially connected world and start using these financial products that are being built today for them and, again, I think the transition will happen, but, you know, cash isn't going anywhere anytime soon.

Todd: Any comments around fintechs, VCs and incumbents and kind of that corporate for startup interaction in LatAm.

Christine: This is such an interesting issue, I think, and the world that fintechs play. I think people ask, you know, are fintechs disrupting the traditional banks or are they partnering and working together, right, and I think the answer is both. What I love about investing in the fintech space is that if you just spend any time in Latin America, you will suffer the pain of the incumbent banks. They are awful, every possible service that you could possibly imagine, right, and the fintechs are focusing starting off with one particular service that they can change and disrupt and making that change.

And so, the banks have woken up, you know, and so they're doing everything they can to protect their territory, sort of like make sure that the regulation...you know, we've had great initiatives to make new fintech regulations, but the banks have also been protecting their territory and making it very hard for a lot of these fintechs if you look at the details of how the implementation is taking place. But, we are seeing that these large banks and the large financial institutions, they're beginning to not only partner with, but purchase, you know, a lot of these fintechs.

We just sold one of our companies, Arcus, to Mastercard, you know, this is great news for the industry, right, because they're realizing that they have to engage, they can lick fraud changes by doing these M&A transactions so I think that's great. But then, as we see into a David (inaudible) when they come up on stage now and talk about the reverse where actually the fintechs are buying the banks so I think that's going to be very interesting to see what comes next.

Todd: One final question here is, what fintech protocols provide the most opportunity today, particularly given the rush of capital into the region?

Christine: Oh, my gosh, it's like asking you to pick a child, like a favorite child (Todd laughs). I really don't have any answer to say that because so much of what I do is opportunistic investing because as a first, I invest in entrepreneurs, that is the first and most important I've been looking so really it's about the talent and where they're spending their time and then it's the business model, but all of our companies have pivoted or changed or evolved in some way.

And so, we look at the sort of waves of trends, like all the neobanks, they sort of were all born on the same day and there's something else and there's something else, right and so my job is just really to be looking at, you know, what are those trends and then pick sort of the jockey within that trend that has really the most probability and potential for success.

Todd: Well, there's one more. Many Mexican VCs and family offices are prioritizing investing abroad versus Mexico while international funds are more and more investing in Mexico, is that temporary or structural?

Christine: One, I just want to say that is totally true, I mean, we work with all the Mexican family offices and Latin American family offices and the word that we often hear from them is that we made our fortunes here, we want to invest abroad, right. And so, they are much less risk averse in their own countries and then the irony is we get international funds or like IGNIA's backers were first all-American investors believing in local Mexican funds and in what we could invest in the local VCs so I think that's going to be evolving.

What's interesting is that now that we've shown the returns and we've shown these great exits and the more success stories we have, I think the more local investors will be able to draw into this ecosystem as well. So, I do think one of the trends that I'm most excited about is the fact that the local investors, call it family offices or funds like IGNIA, are very welcome to and open to investing with the international investors. And so, you can really sort of have the best of both worlds where we can step the entrepreneurs up for success by providing the local access, but then also the deeper pocket.

Todd: Alright, we'll have to leave it there, Christine, thank you very much.

Christine: Thank you, Todd.

Todd: Audience, thank you.

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