

PITCHIT FINTECH STARTUPS PODCAST NO. 30-LORENZO GARAVITO

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 30, I talk with Lorenzo Garavito of Iris. Iris is the first neobank focused on the corporate and business sector in Colombia. You know, with more and more entrepreneurs needing to operate and interact digitally, their needs have evolved and they now need digital solutions to help them move in this new world. When Iris first launched, they started with a digital business savings account that included free transactions, it was interest-bearing and has no maintenance fee which is light years different than what traditional lenders and banks would offer these either small or entrepreneurial-type businesses, you know, with one or two people that might be operating at these companies.

Lorenzo and I discussed what the current state of small and medium enterprise banking or SME banking in Colombia, why they've decided to launch a new digital brand which is under the same umbrella as Dann Financials which is a more traditional looking financial services firm, how much small business commerce has changed and so, so much more. I hope you all enjoy the show.

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Welcome to the podcast, Lorenzo, how are you?

Lorenzo Garavito: Fine, fine, thanks a lot, Todd, thanks for having me here. Definitely, great to be here after several years of listening to your podcast and attending your event, it's exciting to be part of the podcast.

Todd: Well, I appreciate that and thank you for joining me. If you can just go and tell the audience a little bit about yourself, you know, what brought you to where you're currently working and why did you guys, in terms of your firm, launch the Iris brand.

Lorenzo: So, I have a long career in investment banking, started in Colombia doing some of the first US listing for Colombian companies then I moved to the US. I did my MBA at MIT, at Sloan and for 13 years I worked in New York in a large and small investment banking, including Merrill Lynch and Salomon, where I actually joined in 2000. I joined the Telecom Group in the middle of the dot com blast so that was a very interesting experience.

Ten years ago, I decided to come back to Colombia, I worked for a local investment bank then with Scotiabank. Why I decided to join Iris, actually, back in 1996 when I was working here in Colombia, I worked with my boss then to launch a challenger bank in Colombia and we actually met almost every

weekend for over six months and at the end, it was very difficult to get the business done because it was very, very capital intensive, right. So, at that time, you had to have scale, you have to have a lot of branches all over the country, it was very difficult. So, today, technology actually makes it more manageable to create a real challenger bank with a manageable investment check so this wasn't the right time.

During my time in New York, I actually worked with a lot of entrepreneurs raising private equity as well. I think the best experience was working with Brightstar. I worked with Marcelo Claure for six/seven years doing several deals and it's very inspiring and I really wanted to do it. Well, two years ago, I met with a group of investors and we decided that it was the right time to launch a challenger bank in Colombia.

Todd: Tell the audience a little bit about what Iris offers and kind of who the ultimate target customer is, at least today.

Lorenzo: Iris is a bank focused on the SME market in Colombia. So, it came together as we got together with a group of investors in 2019 just because we all had different experiences in having difficulties raising money for a small business, myself, at the advising side, but the other two groups really on the principal side and they had a very hard time raising money for the small business. So, we decided to launch a challenger bank focused on the mid-market and we really saw an opportunity because as I think it happens in most part of the world, the SME market falls into either the small size of a corporate banking or the office and the personal banking and none of the two are really equipped to deal with the specific issues of the small bank.

So, if you're in personal banking, they don't know all the products, if you're in the corporate side, they're focusing on larger transactions and the SME market, which is key in every economy, is really last in most of the financial institutions.

Todd: Was there a typical SME that kind of falls within the Iris kind of offering, at least today? Is it a certain sized company or at least certain maybe revenue numbers that says alright, this is kind of who we're looking at, at least, targeting today?

Lorenzo: Our goal is to be a universal bank for SMEs so really serve the whole market, right. We started with a savings account, we're starting with creating just wealth so right now, our ideal client is SMEs with less than 40 Million in annual revenues, clients that are usually unhappy with their banking relationships or are even new to the banking system.

Today, we're mostly focused on services and B2B companies just because we haven't finished our payment offering and we don't have a way to collect money, for example, from credit cards so today, we're not fully serving the B2C clients, but we expect by the beginning of next year to have a payment solution for B2C as well.

Todd: So, if I'm one of these companies in Colombia today, what does the financial services landscape kind of look like for me? You mentioned when you were talking about why you launched, this type of company has fallen in-between, there's the banker who doesn't give it enough attention because it's not a big company and so the bank can always make so much of it and then you have the personal side which many small businesses start with because they usually do personal credit, either card or personal credit loan to kind of get the business off the ground.

But, is there an ecosystem for small businesses, you know, like accounting platforms, things like that that make it a little bit easier for small businesses or is there a pretty big vacuum for small businesses in Colombia today?

Lorenzo: Fintech has brought a lot of companies trying to fill the space and I think it's a very interesting change now that we have several companies that are focusing on lending to small businesses, some companies focusing on credit cards, some companies focusing on factoring, for example. So, there is an ecosystem that actually help companies to understand that being a fintech is actually a good value proposition for the company. We believe we are the only one who is trying to be a universal bank for small businesses and, I mean, out of the regulated companies in Colombia the only one that's focusing exclusively on the SME part.

Todd: Yeah. Obviously, there's been a lot of talk on the pandemic and its impact on small businesses, especially this segment of SMEs all over the world. Prior to the pandemic, were a lot of these companies taking cash, taking offline payments, serving maybe two, three, four communities and has that now changed where they can put a shop online, people can find them all over Colombia and has there been this big shift that we've seen in some other markets in Colombia that now these small businesses to kind of interacting digitally not only with financial services, but with their customers for the first time.

Lorenzo: To some extent, yes. I mean, Colombia is still a very decentralized economy, you have a lot of regional markets as opposed to a lot of other countries in Latin America that is very centralized and very focused on one single city. So, the pandemic definitely helped build this ecosystem of companies that are serving all over Colombia with an online presence.

One of the big issues in Colombia is the high use of cash. The pandemic has helped that both on the business side and on the personal side so there are good success stories of digital wallets in Colombia taking a lot of market share and that helps definitely formalize a lot of these small businesses. I think that's key because the government offers significant help to companies, but they have to be formalized and I would say still 40% of the economy is informal, but you have that push to being formalized and having the advantage of having a banking relationship, being able to receive government subsidies and help with employee costs. The pandemic accelerated that process here in Colombia.

Todd: Now, what about like accepting digital payments, you mentioned potential factoring companies that are out there, how economical is it for small businesses? You mentioned 40% are still informal, is part of that because the economics of taking whether it be digital payments or accepting payments in a

digital wallet is just not there. Are there high fees that come associated with them, you know how does that landscape look like small businesses saying alright, I might accept digital payments, but losing 8/9/10% on the accepting a payment, does it make more sense to me to remain as part of the informal economy?

Lorenzo: The biggest issue on why companies decide to or small or personal companies decide to stay informal, I think it's more regarding taxes and labor costs which is really heavy in Colombia in different aspects, not only income tax, but you have city taxes and all that that makes it difficult. So, I think that's a big issue and the government is trying to address that by helping small companies pay a fairer amount of taxes instead of high taxes that they have today. But, in terms of financial cost, I think companies are realizing the advantages of having... especially digital wallets and during the pandemic were very, very useful.

Everybody was getting delivery and you don't have a formal system, people were getting from their personal accounts and through digital wallets were getting all the payments in place. So, people are understanding that having a banking presence is important to build the credit culture and their credit score to be able to grow them in the future. So, it's expensive and yes, especially for SMEs in Colombia, banks tend to charge for everything, right, so you get a fee for having an account and then if you want to access the premium portal you get another fee and every transfer is another fee. We're changing that and I think together with other fintechs who are bringing the cost to the right level.

Todd: Does it make small businesses I guess nervous or scared of potentially going with the digital platform or a digital bank like Iris that they will end up kind of in the government's line of sight in terms of taxes or are the two not related? So, from a small business alright, I'm staying informal because of the tax situation, I know the government's trying to help, but, you know, if I access the digital economy with an Iris or another platform, will I then be in front of the government and I'll hit that issue like is it stopping your guys from growing and getting your services to the small businesses that you're hoping to get to?

Lorenzo: In some sense, yes. Here, all transactions have to be reported to the tax authorities, right, so at the end of the year, we have to send the report on all the ID numbers that have done business with us and what's the movement, right. So, those clients have to decide if they only will transact in cash or if they will accept transfers of even credit cards or other forms of payment they're going to have to be formalized.

So, I think technology is moving towards having all the economy formalized and right now, for example, the digital invoices is public authority for most of the companies in Colombia so they're starting to get that process by the government that everybody needs to be formalized, as I said, some with the government helping on some of the issues there. So, it's getting there and I think companies are realizing there's a big advantage of being formal, I mean, you have a cost, yes, but there's also big advantages.

Todd: How encouraging or accepting is the government generally with fintech? Are they supportive of the idea of fintech and bringing more people not only that taxes you, but just bringing more people into a digital economy especially as we begin to come out of COVID. What's kind of their general stance on fintech, not only for small businesses, but just the general atmosphere there.

Lorenzo: The government is very open. Actually, we had to have a full process with the regulators in order to have a digital only account. They understood exactly what we were doing, why we wanted to do it and they were very helpful in walking us through the process, still a long process. So, getting a banking license in Colombia takes about two years, it took us almost nine months to be able to offer a fully digital savings account, but I understand.

I mean, they need to be very careful, we are dealing with savings from the public so they need to be very careful. In general, the government is very receptive to fintech and introducing technology to all aspects of the economy. So, they have several programs to help technology companies get funding, go to market and expand their product and the government even sponsors teaching technology to high school students. So, the government is looking forward to that change in the economy.

Todd: What's the best piece of advice that you've received, so far, in building the Iris offering?

Lorenzo: I think the best piece of advice is somebody who said look, I know you have 20 years of experience in the financial sector, but you have to forget everything you know in order to create new products for your clients. I think it was very good advice because what we have done here at Iris is to start from the clients, right, so understanding the client needs, what they want and then create a financial product for them.

I think a lot of the experience I had in the previous financial institutions where I worked is technology was used to help banking problems or to automate banking processes, but not really to solve client issues. What we're doing is really focus on the client and then build whatever operation we need to build to accomplish those goals.

Todd: So, I wanted to shift our conversation a little bit. So, how big is the overall team at Iris today, is everyone same location office, distributed, working from home still? Tell us a little bit more about the team that you're growing over there.

Lorenzo: At Iris, when I joined a couple of years ago, there was a team of about 150 people. Today, we're going to finish the year around 240, hopefully, by the end of next year, we're going to be around 300. It's a good team and we're mostly working from home, we have a few offices that are open to the public under the Dann name or original name and they have to be, of course, in the office, but most of the team is working online. We had a long history because our headquarters are in Medellin, but some of the key people are in Bogota as well. So, we're used to working with video conferencing and remote and people really did very well, we had basically a weekend to get everybody home, everybody's computer at home and everybody set up working from home.

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I think our productivity has remained basically the same and today, what we want to do is give people that flexibility. In cities like Bogota and Medellin where you can take anywhere from 45 minutes to an hour and a half to go from home to the office, it really doesn't make sense to go to the office everyday, it's too big of a cost for the employees. So, we're giving every team the flexibility to do what's best for them so some are choosing to go once a week, once every two weeks, we're adapting. We're training our office space to accommodate the flexibility of having teams there in and out.

Todd: Culture-wise, you know, how is it different from building a "digital only" brand from say what you've previously worked at not only in banking, but you mentioned, when you were thinking of the idea many, many years ago about that branch network, how different is the culture from that more traditional financial services-type company to an all digital company? Do you have former bankers that might be working with you, how big of a culture shock is it for them to come into an all digital type company versus where they may be coming from which is traditional banking?

Lorenzo: We are once single company with two branches, right now. So, we have Financiera Dann which is a traditional brand that has offices and works physically with and has been working with customers for 25 years and now we have Iris as a neobank. So, I think the first thing is a little bit to explain why we chose to have those two brands and then how they're interactive.

The decision was relatively simple, we wanted to have a fresh start in the banking world here in Colombia. When I was working in the Telecom Group, we saw the launch of Orange in the UK and as a naming it was a big trap because several companies were called telecom or sales something and we wanted to have that same impact in the banking sector so that's why we chose a name that doesn't have bank in its name and doesn't have a location which is the common thing in almost all financial institutions.

So, we chose Iris and we like to say it in Spanish first because if you say it in English I think people think we're coming from Ireland. (both laugh) We want to say it in Spanish and Iris in Spanish is a female name, it reflects the warm and friendly culture we're bringing to the banking industry. But also, same as in English, iris is part of the eye so we also want to be the eyes of the SMEs with respect to the financial situation.

And I think the other choice we made at the beginning was we wanted to have a single team working on old brands as opposed to a lot of challenger banks that created separate teams for the challenger bank and they keep the old team in the old bank. We decided that we wanted to have a single team and we wanted to be a single company.

The issue of culture has been very relevant because a lot of the new employees are coming from non-banking sectors, they're mostly technology or developers and they come with a very different speed of working, right. Of course, we have to adopt that to a regulated environment, but that has given us or the Dann team let's say the first road view on how different it is to launch digital products and how fast they can move. So, the teams that have been with us for a long time is learning bit by bit on how to speed up the processes, how to put the client focus at the center of everything that they do and that's

why we wanted to have a single team because we wanted also the clients of Financiera Dann to feel that this is a different company, that this is a different focus and everybody's changing for the benefit of our clients.

Todd: This is just more of a thinking question I guess for you and the others in leadership positions, how do you help ensure that you don't fall behind? It feels like fintech is moving so fast, especially today, and it's hard to keep up, I find myself falling behind pretty quickly at times. But, as someone who's building a company and helping to build a company, how much do you have to do to ensure alright, we have what we need to and we're keeping an eye on maybe what's coming.

Lorenzo: It's hard, I agree with you because things are changing very quickly and new products are coming out all the time. So, we need to focus on what's important for our clients, but we have to remain flexible. I mean, I think the pandemic actually increased that a lot, but information is out there, there's a lot of information about what's going on in other parts of the world and what other firms and successful firms are doing in other parts of the world. So, you have to spend time reading, listening to podcasts, attending events like yours and Twitter, for me, is a good tool, I follow a lot of the fintech people there in order to learn what's going on.

But, on the second choice, what do we bring to our clients and there you have to be very strategic, but also very flexible. So, we have our plan very well established for the next six/nine months, we have a very good idea of what we want in the next 18 months, but we're flexible. So, the next nine months are very set in terms of what we're doing because those things we have to start right now in order to have them accomplished in that timeframe, but on the rest, we continuously evaluate what we're thinking and bringing ideas from different places so we can be flexible and bring whatever is best for our client.

Todd: We have just a few minutes left, I'd like to end a little lighter with some fun. Do you have a favorite book and the last book that you read.

Lorenzo: I actually like a lot this book called "Nudge" on behavioral and I like it because I really think behavioral economics is changing every industry and it's even changing our society. I think one of the big discoveries of the last 23 years is understanding that most of our decisions are not rational decisions and not only that, but people can influence the way we make decisions and we don't even notice how they are influencing that. So, there's a lot of risks there, but are also a lot to learn.

In terms of the latest books, I read a lot of fiction, I've been focusing on a lot of some female Latin American authors that are doing great things recently especially in a genre that is not common in Latin America which is gothic or horror literature. So, I can recommend Mariana Enriquez and Samanta Schweblin from Argentina and Silvia Moreno in Mexico, they're doing great things in a style that is not very common in Spanish.

Todd: I assume your favorite sport is probably soccer, but I never like to assume because I've heard some strange sports in talking to founders and those working in companies. So, is soccer your favorite sport, if not, what is your favorite sport.

Lorenzo: Well, I actually like squash a lot and recently, Colombia had a player that went to the top four in the global rankings and now there's a Peruvian player as well in the top ten and I think it's a very exciting place in squash right now in Latin America. In soccer, yeah, I do follow soccer. Right now, we're in the qualifying matches for the World Cup and Colombia is on the verge of making it or not so we're all nervous about the next few matches.

Todd: And then, final question, what's your biggest inspiration in life?

Lorenzo: The most important influences in your life come when you're starting to be an adult and in my case, I had two big influences at that age. One is a writer, Borges, from Argentina and the other one was my French teacher. Both were really universal people, that's I think what I admire the most about them is that they have a very diverse set of interests and they were able to combine them to have a complete view of society and that's my goal.

Todd: Well, Lorenzo, I greatly appreciate your giving me a few minutes. I really had fun talking with you, I wish you and the team at Iris continued success. Hopefully, at some point in the future, we can get you back, but thank you very much for joining me.

Lorenzo: Todd, thanks so much and great opportunity to talk to your listeners.

Todd: Alright, thank you.

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