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Welcome to the Fintech One-on-One Podcast, Episode No. 331. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

(music)

Before we start today's episode, I want to tell you about a new event from LendIt Fintech. Nexus, the Dealmaker Summit is all about making deals, we'll be bringing together a select group of venture capitalists, bankers, fintechs and debt investors for two days of face-to-face meetings in Miami on February 7th and 8th. Also at Nexus will be LendIt's famous Industry Award Show back in person for the first time since 2019. You can find out more about all our upcoming events at lendit.com

Peter Renton: Today's interview was recorded at LendIt Fintech LatAm 2021. It is my interview with Pierpaolo Barbieri, he is the CEO and Founder of Ualá. The title of this talk was moving from a payments app to a full payments ecosystem. Now, even if you're not that interested in Latin American fintech, I highly recommend you listen to this episode. Pierpaolo is one of the leaders in Latin America and his company has just done some amazing things, they've had the largest funding round in the history of Argentina, they're a unicorn and they have 3.5 million users, 25% of the Argentinian population of 18 to 25 year olds are using Ualá today. Keep in mind they didn't exist five years ago, it's really impressive growth that they've had.

We talk about how they started and how they've really moved from just a debit card into a really full suite of payment products, we talk about the challenges of moving beyond their home country, they're now in Mexico as well and we talk about the big challenge of cash that still, as Pierpaolo says, is the biggest competitor of Uala not the other fintechs or banks, he says, it is cash. Everyone's trying to move customers beyond cash and he talks about how they're trying to do that. It really was a fascinating interview, hope you enjoy the show.

Thanks for joining us at LendIt Fintech LatAm, Pierpaolo!

Pierpaolo Barbieri: A pleasure to be here, thank you so much for having me, Peter.

Peter: Of course. So, let's get right to it. I want to go back to sort of the founding story of Uala and why you decided to start with payments and the prepaid debit card.

Pierpaolo: We live in a continent where over 50% of adults have never had a payment mechanism except cash so when we doomed people to operating only in cash, we don't

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give them the chance to build a credit history so that they can make progress in life or to save or to access insurance and let alone access payments. So, what we thought is giving accounts to everyone, give them a global payment mechanism which in our case is a global Mastercard and then with that information we are better able to offer investments, offer savings products, offer credit, offer installments, offer insurance now and since the last time we talked, we've expanded all those verticals as well as launching merchant acquiring which....when there are more cards in the market, there's more need for card acceptance. And so, you know, we are closing that loop and boosting the whole financial ecosystem.

Peter: Right, right. You obviously made a name for yourself where you've got a pretty large customer base with the debit card, but you mentioned a whole bunch of other products there. What's the key to expanding into other products successfully?

Pierpaolo: At the core, what we want to do at Uala is to do exactly what our clients want. So, when we started back in the end of 2017 and early 2018, what we built were the basic things that people needed for their day-to-day transactions; bills payment, cellphone top-ups, mobile top-ups for your urban mobility and only then when we had that basic product, transactional product finished...you know, global card could pay anywhere and bill payment and all those things did we build and launch the two main pillars of banking which are investments, you know, how do you save money and get a return on that money and then credit, you know, the ability to borrow money.

We started with personal loans then we added installment which is our own version of "buy now pay later" 18 months ago and very recently, we also launched credit lines so we're able to give people the ability without a balance in their accounts to get a small loan to pay a specific service or something else. More recently, we launched the other things that people asked us about which are one, insurance, where we believe our accounts are a better delivery mechanism for insurance products all across Latin America.

There are many countries where only 2,3,5% of people have access to insurance and obviously merchant acquiring because now, in Argentina, we have millions of wallets around, millions of new cards, but businesses, especially small businesses, pay outrageous fees to take cards so we created a product that is able to deliver to them a better acceptance experience just like Square did in the United States or Pagos Seguros did in Brazil. And so, we're able to give them the ability to take those payments and that access to cash into our ecosystem. With Uala Biz, when you sell something

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then that money is immediately and live credited to your account and then you can use all the plethora of our services that we built around that.

Peter: Is your vision then to really keep your customer base really offering them a whole range of financial services and keep them within the app so they don't have to go elsewhere for anything?

Pierpaolo: That's exactly right. So, our idea was always to build a financial marketplace, but that marketplace doesn't mean to verticalize every product. So, we're not an insurance company and we don't believe that we're going to get the best expertise at doing insurance, there are other people that are better at that and so we cut a deal with Willis Towers Watson to be able to deliver insurance products to our customer base.

So, we have mobility insurance, we have health insurance, we have purchase protection insurance, we have cellphone insurance which is amazingly popular, we have pet insurance which is unbelievably popular. Those are the things that we built with a partner because they need a better delivery mechanism and we need to be able to offer our clients the ability to get insurance, but it doesn't mean that Uala has to be the deliverer of that insurance.

We are the ones that deliver credit, we are the ones that deliver savings, we have 1.5 million savings accounts or investment accounts, we built our own asset manager on the back of that so that we are able to offer a better fee product to everyone in the country. But, at the same time, that doesn't mean we need to verticalize everything so insurance and there are other verticals that have remained unlaunched so I cannot discuss them when we go out in the market, get a partner and integrate that into the financial marketplace that we offer to all of our clients.

Peter: Interesting, interesting. So, sounds like you're trying to build a super app for Latin America.

Pierpaolo: Not outside of the financial sector. You know, we're not going to do food delivery, we're not going to be the one that delivers an iPad to you necessarily, we're not going to, you know, cook your food, we're not going to send you a car, but we are going to offer all those financial products and I think that is where, you know, trust comes in. When you build a financial company where people trust their savings to you, get credit from you, trust their money to you and you go to sleep with it, you have to be able to build that trust.

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So, we wanted to create a brand that fit that and that's also why we went and got the licenses that were needed to be able to provide all those services that we wanted to create at drastically lower costs than previously existed in our market. That's why we acquired a bank license in Argentina and we're in the process of acquiring a bank license in Mexico and that helps boost the ability to provide products that people need that they're now not currently getting.

Peter: Right, right. I do want to talk about that in a second, but before we go there...like you've been famously successful inside Argentina in a very short amount of time and now, you're moving beyond your home country. What are the biggest challenges that you found, so far, in moving to other places where you say you built a brand. I mean, every young person in Argentina seems to know Uala now, what's the biggest challenge moving, you know, into a new country?

Pierpaolo: Just to be clear, we have a long way to go. You know, we have almost 4 million customers at Uala, you know, 11% of the country, 25% of the young, but there's another 75 that we don't have, you know. So, there's a lot to grow there and we're very eager to do that and that's why we boost the ecosystem because the cross selling works when you offer a variety of products and you give people the chance to do whatever they want to do. That said, I would say that going international, the biggest challenge is obviously licenses.

Peter: Right.

Pierpaolo: Financial services is heavily regulated for good reason and obviously there's this question about the ability to get the licenses when you're a fintech and we're very proud of having a world-class compliance team, a world-class legal team that was able to go to a place like Mexico, operate in Mexico. We have over 400,000 customers in Mexico and we're now in the process of acquiring a bank, you know, there's only 50 financial licenses in Mexico for banks and we are in the process of acquiring one. We're very proud of our partners at ABC that are apparently integrating into Uala and pending regulatory approval, we'll be able to close that transaction and offer services to more than 130 million people in Mexico.

And so, we're very proud of that, but obviously that's the biggest challenge and as we look into other geographies we don't see many examples outside of Europe. Remember, in Europe there is a banking union so with one license in Lithuania or Spain, you offer services across the Union, but that doesn't exist in Latin America. So,

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financial services is not just highly regulated, it's also very, very local and so the biggest challenge is to acquire the licenses that are able to deliver the products to people that you want to deliver the products to.

Peter: Is the brand going to be really consistent in the multiple geographies?

Pierpaolo: The brand is consistent, but the experience is different. Once again, finance is very local and so when we got to Mexico we started from scratch, we didn't want to work from first principles. We had a lot of learnings from Argentina, but what we brought into Mexico is the ability to service Mexican clients and so, you know, we did things that didn't exist in Argentina. So, you know, the places where you do cash-in you can also do cash-out because that built trust in the brand, according to our local research.

You know, we launched day one with things that took us 18 months to develop in Argentina so, you know, just live cash-in, connection with the inter-banks system which took us nine months in Argentina, like bills payment which we didn't have at launch in Argentina, like cellphone top-ups with any phone provider in Mexico which we did not have in Argentina with over 18,000 locations across Mexico, we could top-up your Uala which we didn't have in Argentina. And so, there's the economies of scale of the learning, but also needing to understand what the local product needs to be and that's necessarily different than your home market so that you service the clients of the new geography .

Peter: Right, right, okay So, let's talk a little bit about...you already mentioned a couple of times, ABC Capital, which is a bank in Mexico and I think you announced that you're intending to acquire this bank. Can you talk a little bit about sort of the...you've already said like you need to get the licensing in place, is that for sort of trust with consumers, is that for more certainty with regulators or is it a combination?

Pierpaolo: Sometimes, licenses are a part of the moat by the established players, right, and so there is a question in fintech that I think is applicable around the world. There is a race between the incumbents that want to digitalize and the challengers, like us, that want to be able to grow to challenge the incumbents so the question is who gets there first? Our thesis and the reason we built Uala. and you know we're just one of the many amazing options across the continent and the world, is that building infrastructure from scratch allows you to service clients at a radically lower cost that the incumbents just won't be able to match. Why? Because they have legacy systems that are inefficient, because they have legacy costs like real estate and because they have legacy

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structures that are not compatible with the way that we now can deliver financial services to people faster, cheaper and 100% digital.

And so that's the question, what you believe is going to happen first. We believe in what we are doing, but that requires accessing the licenses. Some places are more open with licenses, Latin America seems to be very, very difficult with licenses, especially for financial intermediation, but, eventually, what we believe is that we have enough of a use case with over 10% of Argentina and almost half a million customers in Mexico to prove that if we are able to acquire those licenses then we can roll out more because the demand is there.

You know, more people are going to be paying with a card three years from now than they are today, five years from now than they are then and so we need more credit, we need more insurance, we need more savings tools, we need more investment tools. People are there, but you need the licenses to be able to service them.

Peter: Right. So, people there...obviously, cash is still a very big part of Latin America, I mean, are you looking to displace cash or what are you looking to displace?

Pierpaolo: Well, when people ask us what our biggest competitor is, I always say...people tend to think it's Nubank or Mercado Pago, I wish. You know, we like those companies, we like to compete with those companies, they're amazing companies, but our biggest enemy is cash. Cash is inefficient, it's expensive for the state, it's very difficult to save on and it's impossible to build credit on and so we end up with situations across Latin America where, as I'm sure we're going to hear in other sessions, you know, you charge the highest fees to the poorest people and we're not allowing them to build a credit history that allows them to progress in life so that hinders growth in our economies and that's what we're going to change.

So, with a digital product not only do we offer services at 90% lower fixed cost, you also are able to offer more services and create a history that allows people to have a credit history. Just in the last month, we've issued over 100,000 loans in one month. It's very difficult to do that with the existing infrastructure that a bank would have.

Peter: Right.

Pierpaolo: And not only that, we do it in a way that builds a credit history that they only share with the Central Bank which is not obligatory for us to do, but we do anyway because we want people to have the ability to have access to that. That's why we also

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push for open banking which is very much lagging behind in our region and where we all need to push forward because more data means more opportunities and, ultimately, the information is not the company's, it's the users'.

Peter: Right, right. So then, are you seeing any traditional banks in the region, particularly in Argentina or in Mexico, that are lifting their game as a result? Obviously, you're not growing in a vacuum here.....

Pierpaolo: Of course.

Peter:and banks don't want to lose market share so how are you seeing the response from traditional banks?

Pierpaolo: There's plenty of response, they're all moving very fast and they're all digitizing. You know, only a couple of weeks ago, Santander launched their digital bank in Argentina, Openbank, they're working on it in Mexico, Mexico's incredible banks. The product suite at Bancomer is very good, obviously at Banorte is very good, you know, we have great partners and competitors in Mexico and we also have digital competitors like Mercado Pago or Nubank. But, ultimately, 80% of transactions in Mexico are cash, 75% in Argentina, almost 80% in Colombia, 90% in Paraguay or Peru like the chances for all of us to work together and provide financial services in a cheaper and more accessible way and beat cash like there's so much room for everybody to grow.

Where we see things are going is like, you know, in China, 70% of all transactions are digital today, in Europe, over 50% after the pandemic, there's so much room to grow in Latin America and that's why we need more people providing more services and, frankly, something that Latin Americans are not used to, we need more competition (Peter laughs), we don't need monopolies. We need more competition between different products so as I always say to my friends at the banks, come, come for me, get me, beat me, make a better product and that means we all win because that means there are more options for more people.

Peter: You mentioned China and they famously went from pretty much all cash to all digital within about a decade, is there a similar timeline that you have in mind for Latin America when it comes to moving from cash to a more digital transaction?

Pierpaolo: It's difficult to put a number on it, I just think that the pandemic has accelerated the changes and obviously, there are many, many needed regulatory changes as well, especially on the tax side in Latin America, but Brazil's moving in that

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direction. I think systems like Pix and open banking pushed that agenda that's why I'm very happy to see Transfers 3.0 that was just launched in Argentina which makes instant transfers much more widely available, the same with Codi in Mexico which radically improves the infrastructure so the faster the transfers exist, the less rejections there will be to the elimination of cash.

But, ultimately, then it's up to people to make that transition, I don't think cash will ever stop being legal tender because you cannot force people to operate in certain systems, but I think it's going to be so much more convenient to build a credit history. When I go to the US right now, I pay everything with my NFC-enabled phone and so the question about QR, NFC doesn't really matter as much as beat cash together with different options, with more competition and with better rails for payments and I think Latin America is developing those.

Peter: Right. So, last question then, you have not mentioned the word crypto at all yet, I'd love to get some sense of how you view it as an offering for your customers and maybe even using some of the technology yourself, I mean, where do you stand on crypto today?

Pierpaolo: It's a good question and we get asked this all the time. The situation is that as you scale these products and you stop being a solution for 20,000 people and adding more than 20,000 people on customers every week then you lose the ability to do just whatever you want without any consequence. And so, I think what we need in Latin America is a clear regulatory stance and we don't have it and so I cannot really answer positively or negatively whether I can offer crypto services in Mexico, in Brazil, in Argentina, in Peru, it's very unclear. Under some regulatory sandboxes there are some regulators that want to crack it down, others that want to allow it in some limited fashion, it's just not clear and that's what happens when there are financial innovations.

But, when you deal with regulated entities, be them a bank or an asset manager, both of which we have now in Argentina or a bank in Mexico, very difficult for us to judge. And so, what we need is a clear regulatory stance because I believe there's a lot of innovation in crypto, there's a lot of interest and very fast growing adoption which is something that I personally was wrong about two years ago. As we see very fast adoption, we need to know if they can touch the bank rails or they will never be allowed to touch the bank rails and so I think it's up to the regulators to tell us what we can and cannot do because the innovation there is plentiful.

Peter: So, you're hearing demand from your customers specifically?

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Pierpaolo: Yes, 100%, but right now, they're operating in wallets that are offshore that sometimes have very feeble connections with the local payment system. If I was running 20,000 accounts, we want it, but I'm running almost 4 million and we have regulated entity so really need a clarity from the Central Bank or from the banking authority, depending on the market to say well, this you can do, this you cannot do.

I will certainly need to understand how that will interact with compliance because obviously if a regulator, as it has happened in other countries in Latin America, claims every crypto transaction as suspicious from an AML and KYC perspective then it's impractical for any institution to offer those services because if you have to audit every single transaction, even a \$2 transaction just like you audit, you know, when somebody cashes in a million dollars then your compliance team needs to be as large as your company and this doesn't work. That's why I think, ultimately, in order for us to profit from the great innovation that we're seeing in crypto and Web 3.0 more generally, we need regulatory clarity.

Peter: Right. We need that in the US too, I think in most places around the world.

Pierpaolo: But, I think a lot of countries are waiting for the US and specifically for the SEC to say, okay, this is the way.

Peter: Hopefully, that will happen soon. Pierpaolo, it's always great to chat with you, thanks again for coming on today.

Pierpaolo: A great pleasure to be here.

Peter: Okay, see you.

Pierpaolo: Bye.

Peter: Hope you can appreciate now why I really wanted to make my interview into a podcast and share it out to a broader audience because Pierpaolo really is a force of nature. He has done an incredible job and I think they're a company that we all should be paying attention to. Everyone's paying attention to Nubank right now as they're going through their IPO, but Uala I think is just as impressive, but they're a little bit behind, as far as how long they've been in business compared to Nubank, but I think they're going to be the next really powerhouse company in Latin America. I wanted to make sure you all knew about them.

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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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Before we go, I want to remind you about a new event from LendIt Fintech. Nexus, the Dealmaker Summit is all about making deals, we'll be bringing together a select group of venture capitalists, bankers, fintechs and debt investors for two days of face-to-face meetings in Miami on February 7th and 8th. Also at Nexus will be LendIt's famous Industry Award Show back in person for the first time since 2019. You can find out more about all our upcoming events at lendit.com