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Something Ventured, Something Gained —

Big Time

Full report

Venture capital is pouring into the Latin American fintech sector, and as a result, digital banking and new financial services business models are growing exponentially in terms of complexity and value — it's not just for greenfield startups anymore.

Capital is rushing into the Latin American and the Caribbean digital banking sector, as investors sprint to win a very profitable race to bank the unbanked.

In this region, about half of the population traditionally has lived life shut out of the financial system for decades, deemed too unprofitable by banks and left to get by on cash.

Sustainable development lagged as a result, but new technologies and rising smartphone penetration have disrupted that entire scenario.

This powerful combo has sparked an explosion of fintechs eager to provide digital wallets, bank cards, even loans and insurance these days to hundreds of millions told no by incumbent banks in the past.

As of July 2021, there were 2,301 fintechs in Latin America, according to Statista.com[1]. Brazil accounted for the lion's share:

Brazil	**689**
Mexico	**486**
Argentina	**273**
Colombia	**270**
Chile	**179**
Rest of Latin America	**404**

While it's hard to gauge the exact number of fintechs and startups in any region at a single point in time, the figure far surpasses the **1,166 fintech ventures** tallied by the Inter-American Development Bank for 2018, a number that itself was up **66%** from 2017.

The number of players is on the rise, and so are valuations.

Ualá, an Argentine fintech and Mambu client that has grown to be a multinational financial entity, is valued at **$2.45 billion**, a figure that is sure to skyrocket[2].

Some like Nubank, a card issuer, are seeing their valuations approaching $50 billion[3].

1. Number of fintech startups in Latin America in 2020, by country
2. Argentina's Uala Valued at $2.45 Billion After Financing Round
3. Nubank targets $50bn valuation in New York IPO

Growth is clearly there, and traditional institutions aren't sitting on the sidelines applauding the success of these digital challengers. Instead, they see early collaboration.

Some banks view digital wallets as partners who welcome new customers into the financial sector. As customer needs mature, incumbents see themselves as the institutions best suited to step in and provide more sophisticated products.

In fact, a survey of Latin American banking executives conducted by the Economist Intelligence Unit in conjunction with Mambu recently found that 52.9% of respondents saw e-money and digital wallet providers as partners compared to 22.5% who viewed them as competitors.

So to compete, a few big banks launched wholly-owned cloud-native spinoffs, known as speedboats, which offer digital banking services to both banked and unbanked segments of the population.

Still, banks know that customers like the speed and agility offered by newer challengers and that they are going to expect it wherever they go.

Another Mambu client, ank, an argentine speedboat and part of Grupo Itaú, went that route when launched in 2020, while in Chile Banco de Crédito e Inversiones (Bci) took it a step further and spun off a migration project MACH, a digital bank that provides easy-to-use financial tools such as digital wallets.

The offshoots compete well against other fintechs by being agile and speedy, wise traits to have in this time of earning money.

But markets seem to think the sector is far from cooling off.

In fact, they're doing the opposite, as digital banking, which is best supported on cloud-native platforms such as Mambu's, isn't just for greenfield projects anymore.

Let's follow the money

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Billions upon billions

According to S&P Global Market Intelligence, citing research from the Association for Private Capital Investment in Latin America (LAVCA), total venture capital flowing into the region should top $10 billion in 2021, more than double the roughly $4 billion pumped in during 2020[5].

In fact, as of June 30 of 2021, VC firms injected $6.45 billion into Latin American startups, up 57% from the $4.1 billion invested in all of 2020.

In particular, fintech companies that target the underbanked through smartphone technologies have flourished, with the industry accounting for roughly 42% of all private capital invested in 2021.

the S&P Global Market Intelligencereport read.

5. Latin America Unicorn Leaderboard

Other sources paint a similar hot-growth picture, with the Seattle-based PitchBook financial data and software company pegging the number of VC investments as high as $12 billion[4].

And according to LAVCA, there were 23 VC-backed tech private companies in the region that have reached[5] unicorn status (i.e., private companies valued at $1 billion or more).

Valuations have shot up as addressable markets grow on the coattails of rising demand fueled by rapidly shifting market conditions.

The pandemic, for example, increased the number of banked individuals, mainly as government stimulus payments involved debit cards, with many going to first-time cardholders, which essentially banked them.

4. Startups in Latin America grab record sums of venture capital
5 Latin America Unicorn Leaderboard

A Mastercard/Americas Market Intelligence study[6] found that the Coronavoucher program (Brazil), Ingreso Solidario (Colombia), and Ingreso Familiar de Emergencia (Argentina) nudged those users who previously used only cash to open bank accounts, many of which were digital.

Moreover, with nothing to do but sit at home, many who were previously unbanked sought new ways to buy goods and services digitally, turning on their phones and computers and jumping into the financial system in the process.

This surge in online demand for goods and services also buttressed the digital banking industry from a fundamental perspective.

In fact, the Americas Market Intelligence consultancy[7] estimates that thanks to efforts from both traditional banks and fintechs, Latin America's banked population grew by 24% in 2020.

Figures like that have caught the attention of global investors, heavy hitters at that.

SoftBank Group Corp. recently earmarked

$3.5 billion

to invest in the region on top of a previous fund of

$5 billion.

6. Accelerating Financial Inclusion During the COVID-19 Pandemic
7. Latin America Payments 2021: The good, the bad and the ugly

Even legendary stock picker Warren Buffet jumped into the arena by investing in Nubank.

Valuations continue to increase as fintechs look beyond early business models and seek to expand their product offerings and even the countries in which they operate.

- **What do all these fintechs and digital banks have in common?**
- **They're on the cloud.**

Let's take a closer look at some of Mambu's client success stories.

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Up, Up and Away

Ualá in Argentina, for example, recently secured $350 million in investment capital from Tencent Holdings and SoftBank to help expand into new countries like Mexico.

The deal thrust the prepaid card and financial services app's valuation to its impressive $2.45 billion level, and new markets on the fintech's radar now include Peru, Paraguay, Colombia, Chile and eventually the United States and Europe[8].

Ualá is not alone in this trend of digital banking evolving into something more complex than a startup.

8. Tencent, SoftBank-led funding pushes Argentina's Uala to $2.45 bln valuation

In Colombia alone, for example, Lulo Bank, IRIS and BTG Pactual have altered the landscape forever by offering sophisticated banking products on Mambu's SaaS digital core.

IRIS, powered by Financiera Regional Dann, recently became Colombia's first neobank, to exclusively service small and medium-sized enterprises.

Its corporate customers can now open online savings accounts from anywhere in the country.

They can also transfer funds between IRIS and other bank accounts, make vendor and payroll payments, schedule automatic transactions and receive digital statements.

Mambu is currently helping IRIS finalize additional capabilities to provide its clients a full stack financial product suite.

Lulo Bank, meanwhile, recently became the country's first 100% digital institution to carry a banking license, and it has little to no physical presence -- it's fully hosted on the cloud.

Brazil-based investment bank BTG Pactual's Colombian unit has chosen Mambu to facilitate the migration of its processes to a digital core with the aim of boosting agility and flexibility while maintaining utmost customer security.

With its roots in Brazil and more than 35 years in business, BTG Pactual manages USD$62 billion in assets as well as another USD$3 billion in real estate in Brazil, Chile and Colombia.

The institution also manages medium and long-term portfolios and arranges mergers and acquisitions, project financing and capital-market debt and equity issuances, among others.

Meanwhile in Argentina, Naranja X, one of the country's most vibrant fintechs that began as a retail store card, is now moving into digital banking operations.

The firm is accepting deposits and offering services like savings accounts, all while slashing times to market thanks to SaaS technology.

Bigger banks are recognizing Mambu's value as well.

Founded in 1855, Chile's state-owned bank BancoEstado in 2021 selected Mambu to improve customer access to digital services.

The agreement will facilitate the design and launch of new products to meet the ever-changing demands for the institution's 13 million customers.
Digital banking on a cloud core -- it's no longer reserved for startup success stories.

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Costs fall

While revenue and growth may grab headlines, there's an equally compelling story on the other side of the ledger: cost savings.

Mambu analyzed data of Latin America's leading banks and found that annual IT budgets account for an average of 0.31% of assets, more or less in line with Europe's 0.28% figure, though Europe is home to much lower costs.

From that total, 16-30% is spent on developing and maintaining core-banking platforms.

Technology can improve that area of the business.

From that total,

16%

30%

is spent on developing and maintaining core-banking platforms.

Replacing an outdated and very cumbersome legacy system with a latest-generation Mambu Software-as-a-Service digital core can slash IT and related costs by as high as

$30 million a year

for a medium- to larger-sized bank (i.e., think a Top 50 institution), and up to

$95 million a year

a year for a very large, Top-10 bank[9].

These noteworthy savings stem from a variety of sources, including an elimination of protracted upgrade cycles

E.g., 35% reduction in IT headcount or professional services, faster and more economical product launches, 85% reduction in time to market and simplifications of application landscapes through modern architectures.

Payback[10] times speed up to around 12 months compared with "legacy" platforms, where payback times can exceed four years.

9. Mambu internal Research
10. Core Banking Transformation: Capgemini: Measuring the Value

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Regulators! Mount Up!

Markets change, products change, customers change

— even countries of operation change.

Rolling out new services, buying competitors and setting up shop in new countries normally requires a regulatory green light or two.

Fortunately, regulators appear to support digital banking efforts.

Crises after crises in past decades have shown that governments and regulatory bodies worldwide will do whatever it takes to keep banks alive and well, so why shouldn't a golden opportunity do like banking the unbanked do likewise?

Everyone wants banks to thrive in this new digital age.

Regulators seem to want just that.

Mexico passed a new Fintech Law in 2018 that established a framework to facilitate the offer of digital lending services, crowdfunding and payments via digital channels, among others.

The 2018 Fintech Law's secondary regulations applicable to open banking rolled out in 2020 in Mexico.

Similar efforts are underway in Brazil and Chile.

Both Mexico and Brazil are witnessing regulatory-driven efforts to increase financial inclusion via fintech products and services, basically by working to improve and regulate the availability of more digital payment services by lowering barriers to entry for new tech entrants to apply for and receive regulatory approval for lending licenses and bank charters, among others.

Colombia and Argentina are witnessing more market-driven pushes to increase financial inclusion via digital banking, with new financial services being born on their own via open banking, though regulations facilitating this trend should follow suit.

To conclude, startups and early-stage fintechs are fueling the drive to bank portions of the Latin American and Caribbean in the formal financial sector.

Demand for financial services may start off at an introductory level like payments, but they grow. Sooner or later, the need for payments grows into loans and insurance, while businesses will seek agile ways to finance themselves and their growth plans in ways that legacy systems could never dream of supporting.

> **Mambu's cloud-native digital banking core serves as the logical platform to position financial institutions of all sizes to remain flexible and agile to meet the changing — and growing — demands of their customers of today, tomorrow and beyond.**

We make financial change happen.

mambu.com