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Q&A: Parallel18 executive director on LATAM's fintech boom

Article

Sebastián Vidal,
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LATAM consumers are rapidly shifting to fintech solutions, with lockdown measures encouraging millions to download apps like neobank **Nubank** for easier access to financial services.

Yet large swaths of the population remain underserved, meaning there are huge user acquisition opportunities in the region: **75% of transactions in Argentina and 80% in Mexico** are still conducted in cash due to lack of card acceptance.

Investors are eagerly pouring money into startups that can alleviate these pain points and become big local winners. **Private fintech funding in LATAM reached $4.25 billion** in H1 this year, up from $2.80 billion for all of 2020.

Insider Intelligence spoke with the executive director at the Puerto Rico-based startup accelerator **Parallel18**, Sebastián Vidal, about what's behind the recent fintech adoption boom and the challenges unique to the region over the long term.

The following has been edited for brevity and clarity.

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Insider Intelligence (II): What are the factors behind the recent fintech boom?

Sebastián Vidal (SV):

- **Changing entrepreneurial mindset.** Fintech is so popular today in Latin America because the opportunity is so huge—the mindset of the Latin American entrepreneur has shifted to trying to solve their own problems rather than reiterate successes from Silicon Valley and other more developed tech ecosystems. Right around the time Nubank was born, local founders started understanding that we have a huge underserved community for many services, most notoriously fintech.
- **Government support.** There's a lot to say about governments in Latin America, and most of the things are not positive. But there is a percentage of lawmakers who have been working in the last 10 years to make regulations more friendly to entrepreneurs in general, like the fintech law in Mexico and upcoming open banking standards in Brazil.
- **Small-business demand.** The unofficial small-business economy in the region is huge: **probably 80% of the economy of Mexico is cash**, for example. Here, fintech can provide a huge flywheel—it can help these informal small businesses access more financial opportunities like credit, which leads to further growth and greater need for more fintech services, and so on.

II: Where do you see LATAM fintech disruption focusing the most?

SV:

- **Financial inclusion.** Most startups today talk about financial inclusion. But to be honest, that's not necessarily the outcome. **Most of the innovation has actually improved products for people already in the financial system**. So there are significant opportunities for fintechs that make solutions super friendly and easy to understand for people who haven't had access to those types of services before.

- **Neobanks.** When we talk about neobanks, it's all about Nubank, which has a market cap half the size of the biggest Brazilian traditional bank, Itaú. But if you look at the market, you have in Brazil about 40 traditional banks; in Mexico you have 30. While if you look at neobanks, you only have two or three. So I think you'll see an explosion of neobanks.
- **Digital brokers.** There are only a couple of fintechs in the regions doing this at the moment. As seen with Robinhood in the US, apps that offer easier access to global markets will grow massively here.
- **Cryptos.** There's a huge remittance market in the region, a multibillion-dollar industry waiting to be disrupted—and we've yet to see a big startup player here. I think cryptocurrencies will be the key.

II: What are the challenges fintechs face in LATAM compared with in the US and elsewhere?

SV:

- **Political instability.** Until this changes, startups here are going to have this added risk that both investors and founders have to find a way to mitigate. One way to do this is for fintechs not to focus on one market for too long.
- **Pressure to expand across borders immediately.** In the US and Europe, you have some regulatory elements that unify the market—not so in Latin America. Each country has its own political and economic issues. So that's something to take into consideration. If I build my company in Columbia, I would suggest to expand as soon as possible to neighboring markets.
- **Unequal access to capital.** We're seeing record funding rounds, but who is getting those investments? It tends to be founders who studied at an Ivy League and have strong connections to US investors. **So we need to democratize access to capital for underrepresented founders**. Parallel18, for example, acts as an engine for supporting them by offering $40,000 equity-free grants.

II: What do you think needs to happen to support the region's startup boom?

SV:

- **Government should introduce regulation and infrastructure.** I think governments should create friendlier regulations for entrepreneurs. They need to focus on education and invest heavily in broadband access by subsidizing infrastructure projects in rural areas. That would transform Latin America: More connectivity means greater opportunities to tap into digital innovations like Bitcoin.

- **Startups should take a bilingual approach.** I am from Chile, and I moved to Puerto Rico. And the biggest difference between the two is that Puerto Rico, for the most part, is a bilingual country with Spanish and English. In the rest of Latin America, a very small percentage of the population speaks English. This is a big barrier to growth—**the hard truth is that if you want to launch a tech startup, you might need to include resources, people, and investors that do not necessarily speak Spanish**.
- **And take advantage of remote work.** Since the pandemic, tech companies have been much more open to hiring people outside their geographic limitations. Puerto Rico, for example, is the third-largest source of Hispanic engineers in the United States. So the region needs to plug itself into the remote workforce explosion happening today.