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Welcome to the Fintech One-on-One Podcast, Episode No. 322. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Today's episode is brought to you by LendIt Fintech LatAm, the region's leading fintech event. It's happening both online and in-person in Miami on Dec. 7th and 8th. Latin America is still the hottest region for fintech in the world and LendIt Fintech LatAm features the leading players in the region. So, join the LatAm fintech community this year where you will meet the people who matter, learn from the experts and get business done. In-person and virtual tickets are available at lendit.com/latam

Peter Renton: Today on the show, I'm delighted to welcome Wagner Ruiz, he is the Co-Founder and Chief Risk Officer of EBANX. Now, EBANX are a fascinating company, they're really a payments leader, they're another fintech unicorn, started in Brazil, now in 15 countries throughout the region. They started in cross border payments and now have sort of created their own payments ecosystem. We talk about what it's like to expand internationally within Latin America, we talk about the impact of Pix, that's Brazil's digital payments system that was created by the Central Bank, we talk about anti-fraud, about serving the underbanked, we talk about the impact of crypto, what that might mean for the future of payments and much more. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Wagner!

Wagner Ruiz: Thank you, Peter, it's a pleasure to be here. Thanks for the invitation.

Peter: My pleasure. So, let's get started by giving the listeners a little bit of background about yourself. I know you've been with EBANX now for many years, but can you just tell us what you did before then and just a little bit of some of the career highlights.

Wagner: Let me go back in the past. I studied Economics in college and I think at that time, mid-90s, was the dream for a boy in a big town to become like a trader, investment firm banking so that's why I went to Economics. It was very funny because when I was about to start college and get my first job, I was willing to work in a bank and I had a mentor at that time and he told me, okay, you can go to the bank, but you'll not be a trader right now, you need to go to the back office. I thought, oh, back office is not fun, there is no money and I learned one of the most important lessons in my life. You need to understand how things work behind the scenes.

Peter: Right, super interesting. So then, what was it that led you to start up EBANX with your.....

Wagner: I spent there four years, I think, then I decided to become an entrepreneur. I think, I always was, but I decided to build new things so in my life I think I built seven or eight

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companies in so different areas; import and export, head of trading and I did a construction business, infrastructure works, strollers for babies coming from the US, fitness equipment and then in 2007, I started my first payment company with one of my current partners, Alphonse, which later would be EBANX or start EBANX a couple of years later. I am at EBANX for almost ten years when we founded the company so we are here in payments. I don't believe payments was, at least at that time, the dream, I never heard, okay, I will go work at payments for fintech, now it's changing, but it's where we are. So, we started EBANX ten years ago in 2012.

Peter: Right, right. So, maybe tell us a little bit about that founding story. What was the problem that you saw that you felt like really needed to be solved?

Wagner: It's funny how everything started. At that time, we had a friend from outside Brazil willing to sell goods to Brazil, it had a website and he was trying to receive payments in Brazil. He followed us and said, okay guys, can you explain to me what is Boleto Bancario because I have my website, I can accept Visa and Master and all cards, but the approval rate is so low and everybody keeps asking me about Boleto Bancario.

We explained it, Boleto Bancario is alternative payment method in Brazil. The approval rates for credit cards and debit cards, at that time, was very low for international purchases so it was in average 20/22% of approval rates and then we saw the problem. We decided to fix or find a solution for the problem, how to offer local payment methods with the current or higher approval rates for international merchants. This was how everything begun at EBANX here so this was the problem that we decided to solve, make it possible for international merchants to have local payment methods in Brazil at that time.

Peter: Okay. So then, what was it technology-wise that you were able to introduce that really no one had done that really allowed this higher approval rate?

Wagner: To be very honest, it's not just a matter of technology, it's how we mix regulations, laws and technology. I think this is how...we cannot explain how can this be disruptive, right, so the main idea was on the behind-the-scenes not technology, how to make it possible to collect money locally to have the relationship with all the payment schemes and to settle abroad. This was the first step and then to put the technology on that.

So, the technology for payments was advanced at that time already in Brazil for credit cards and even for Boleto or other payment methods and we had the regulation in place at that time. So, we had to talk to the regulator to understand how to view that, how to put everything together and then we added the technology. So, I think the technology on payments was good at that time, was improving every year, but it's a mix between regulation, framework, legal framework and technology. I think this was the big differential for EBANX.

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Peter: Right, right, okay. So, maybe if you could fast forward through to today, could you describe sort of the product lines, the different offerings that you have?

Wagner: So, it's funny because we started in Brazil and this was the problem in Brazil, initially. We call ourselves cross-border payments, right, so they are locally and settled globally and we started in Brazil because it was our country and then in 2014, we saw the same problem, not exactly the same problem, but similar problems in other countries in the region.

So, in 2014, we decided to expand our operations outside Brazil, we went to nine countries. Today, we have 15 countries in the region solving the same problem, cross-border payments. In each country, we have today more than 150 payment methods in the region and this is our core business, cross-border. Two to four years ago, we decided to look into other related business so we were not working into local payments. When I say local payments, just to be clear, I'm talking about local sellers and local buyers.

Peter: Right.

Wagner: So, we decided to invest in this segment and go to local as well, not in all countries, of course, but in the major countries that we have. So, we are doing that in Brazil, of course, in Mexico, Argentina and we will start in Colombia and Chile so cross-border is our payments core, local is our second business and they are very related because you have merchants like Uber, for instance.

It worked at first in some countries as cross-border, but they work as well with us as local in Brazil so we can mix and do a hybrid product in the same platform. One API, you can have many models and work in all the region and then, of course, we decided to invest a little bit on the consumer side because we have more than 70 million Latin Americans that already bought through EBANX, not using EBANX because EBANX is just a payment platform, but we know these users, we know what they want and we have some power to contact them.

Peter: Right.

Wagner: And then, we decided to offer new products for what we call "inside end-user," but it's a consumer business so we have three major pivots. The first one is our core, cross-border, local payments in few countries and also the consumer end-user business that we are developing also for the major countries where we are. We started in Brazil, but we are doing in Mexico, in Argentina as well. So, in regards to products or product lines, I think we have these three major pillars in our business and we are developing new things. In payment methods, we have opened up methods that you can find in the region that we can offer inside the same platform.

Peter: Right. So, you said in 2014, you started expanding into other countries and obviously there has been a lot of Latin American fintechs that are starting to do that now, you were pretty

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early on in the fintech space, anyway. What were some of the challenges you encountered back then and is it easier today or do you think it's about the same?

Wagner: I'm not sure if it's easier today or easier for us because now we have some experience, but I can name two major, not blocks, but hard things to solve. One is culture and another one is regulation, right, because, especially for those who are not from Latin America, they think Latin America is all the same and it's not all the same. Brazil, it's easy to understand because we speak Portuguese and the rest of LatAm speak Spanish so there is a natural difference in culture, but even on the Spanish language countries in LatAm it's very different. Mexico is very different from Colombia, it's very different from Chile or Argentina.

The first mistake is to think that we are talking about just one region and everything is the same, it's not the same, we had to learn that as well. I remember that the first time that we went was Mexico and I spent almost nine months going to Mexico every month and I remember my feeling was for the first time in my life I think I'm feeling as a gringo, as we say (Peter laughs) because the relationship is completely different from Brazil and other countries.

I was used to do business with Argentina, for instance, and we have a team in Uruguay, but for an Uruguayan it was hard to do business with Mexicans. I am not complaining about one or another, but it's different so you need to respect the culture and the way of them doing business so you need to learn with them. I think this is the first thing that is very hard and it's too hard for global merchants to go into the region and this is part of what we offer.

We have a slogan that I liked, "go global, but think local" so you need to have local experience and local knowledge, it is something that we developed for the past almost ten years. The second one, of course, and it's more my area is the regulatory environment because it's changing so much and so fast. Usually, I say in this region, in Latin America, you have Brazil which is very expensive in many things, in regulations, but I can see all the countries going to the same place where Brazil are today and I can almost think about years.

I can say, okay, Brazil is here, this country is five years behind, three years behind, but we know where they are going so because there is something that is specifically for payments end up with monopolies, instant payments so you can see that, but still, it's very hard to deal with that. So, it's a huge expertise that you need to have and it's connected as well with culture and with local knowledge. I think these are the two major hard things to deal with the expansion.

Peter: Right, right. I want to talk about Brazil, specifically, and the payments landscape there and the fact that Pix, the digital payments system that was started, I think it's almost a year ago now, and you talked about how you integrate with all payments so Pix has had, from what I can tell, a pretty successful rollout, pretty good adoption, how has that impacted your business and how has it been integrating with that?

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Wagner: Pix was a phenomenon in Brazil, it's one of the things that we need to say about our regulator. This was a great idea, well designed, very open to everybody so, of course, you know, credit cards will have always Mastercard and Visa, but in this case, as the Central Bank was the one dealing with instant payments. They did a very open platform for everybody so this was the first thing that we saw. Of course, for business, everybody was a little bit afraid because the cost and the margin is very low because the intent of the regulators is to give something low cost to all the users, to all the population, but the usage of Pix now is amazing.

I've heard one of your podcasts with Augusto Lins and he was saying about the war on cash which was in the beginning for the credit cards, but at the end of the day, this was exactly what the Central Bank did and very successfully. Everybody is using Pix here, the funds is growing like 60% a month. Just EBANX, I think we are doing 3.5 million transactions. In 2021, the total transaction is like 4.8 billion transactions. We are not proud of that, but we have people selling things on the streets, right, every kind of things so if you don't want money to pay, the first thing they say now is, okay, you can pay me with Pix, everybody so the access, digitalization and the lower classes using Pix is a phenomenon. For us, it's very interesting because as all new payment methods you keep thinking, okay, what will be the future, but at the end of the day, this saw a growth on the market so people coming from cash to Pix increasing the total addressable market for payments so increasing volumes.

Even the average ticket is higher than Boleto today so it was a phenomenon, a huge success in Brazil, a very open platform, everybody's working with Pix. All of our merchants are always willing to work and to be the first one with Pix. Uber is a very good example here in Brazil because they are working with us using Pix things that they want off Pix. So, international merchants now, they are looking into Pix and in Brazil was an evolution, was very, very good and we can see that in other countries as I told you about regulation. You can see other countries trying to do that as well so Argentina as well, Mexico as well so it was a huge phenomenon.

Peter: Yeah. It seems like it's really going to be a model for the world in many ways. As you say, it's brought in so many of these unbanked/underbanked people and that kind of leads to my next question here which is, you know, for EBANX when it comes to helping the unbanked and underbanked, what are you doing? Obviously, you've got a digital payment system, is it through Pix or are there other ways that you are really helping to bring in those that have been excluded from the financial system?

Wagner: I think our goal always was to give access not only to merchants, but also to the Brazilians and Latin Americans now. So, the idea, everything started with one alternative payment method, Boleto, and the main goal of Boleto was okay, you don't need to have a bank account, you can just pay even in cash, the Boleto Bancario. So, we started helping unbanked people and with the development of the regulation here, now you'll have payment accounts, you have payment accounts since 2012/2011 so this is very new and Pix is covering that.

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So, we still have a part of our business coming from Boletos because also it's almost cultural in Brazil to pay Boletos, but we are helping a lot. I think we are talking about underbanked people more because now to use Pix they need to have at least a payment account and that's why the end-user or the consumer business is helping as well because we can provide the payment account, with access to Pix and then you can pay with Pix everything that you want so I think part of our mission, our goal which is give access. We started with Boletos and even with credit card later, but now, it's a whole new scenario with Pix because we can help them with the payment accounts, we can help them receiving Pix and everybody has Pix here. Now, the Central Bank effort is 45% of the adult population in Brazil is using Pix, this is a huge number for one year of Pix.

Peter: Right, right. I'd love to get your sense about fraud and the security systems you've put in place because we've seen, obviously, in the last 18 months, even before Pix, a huge upsurge in people moving online for the first time and doing their first digital e-commerce transaction. How are you approaching fraud prevention and identity verification and has that really changed much over the last 18 months?

Wagner: For us, I think it's a very interesting thing because as we are dealing in payments, doing payments for a while now, we had fraud problems in the beginning with credit cards because, of course, credit cards we have lots of frauds. So, we have our own system of monitoring and fraud prevention that is learning things since the beginning with credit cards. In credit cards today, our rate for fraud is very, very low like 0.2%, but what was good with Pix and other payment methods, since we developed it, our technology for any kind of payment method in all countries, we are able to apply the same system to do the monitoring and to do the prevention that we were using with credit cards in the beginning for Pix.

So, in our case the fraud for Pix is very, very low, but because we use the technology that we developed for ten years in credit cards in monitoring also for Pix. If you see the news in Brazil about Pix more in a physical world, of course, because we have violence, it's a little bit tough, it's not exactly fraud, but you had a few cases of violence in Brazil using Pix so the guy takes your mobile and asks you to do a Pix, forces you to do a Pix. So, the Central Bank and, of course, the law enforcement, they are trying to put new rules to prevent that, but the underlying I think specifically for us, we are somehow happy because we have all the backend and the history of fraud prevention for credit cards and other payment methods.

So, for us it's good and we hope to see this other problem with the violence in Brazil, solve it as well. So now, you have, for instance, limits, you cannot pay more than a thousand reals which is about \$150/200 during the night, this kind of things, but this is something that happened as well with credit cards in the past. Every time that you have a new thing, a new payment method, the fraudsters, they try to go after that, but I think we are doing well in the whole scenario.

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Peter: I want to get your thoughts on crypto because it feels like...obviously, there's El Salvador in Central America that is really embracing Bitcoin wholeheartedly, some of the crypto companies have operations in South America as well and there's movement on some of the cross-border payments-type products, you know, crypto is making inroads there, but what is the impact that you think that crypto will have in the long term on payments in Latin America?

Wagner: This is not our turf, but this is a delicate subject because when you talk about crypto, and everything started with Bitcoin probably, you need to face the reaction and the thoughts from each regulator in each country.

Peter: Right.

Wagner: In the beginning, it was very tough and they were right somehow because when you have some way to send money from one point to another without any registration or information, it is somehow a freedom, but it is also a liability, in many cases. So, I think for the regulators it was very hard to understand and to accept, but my feeling today is different, not talking about cryptocurrency, but blockchain technology and how this will move everything. I think all the regulators now, they understand this is important, this will change the market and they need to be ahead of the game so something that I see in Brazil, but also in other countries, is they are looking at how to put the crypto inside the AML policies and the security policies, but use that.

So, you have El Salvador, but you have a huge conversation in Brazil about the possibility to use our real, real is our currency, they are thinking about okay, how we can do that and be related to the regulator and you can see that in other countries, also on the cross-border because if you can have that and somehow an agreement between the regulators, you can start doing these transactions, international transactions much more easily. But, I think the main difference was, in the beginning, a huge problem with trust.

We have the Bitcoin, now I can see all the regulators thinking okay, we need to see that to put on the frameworks somehow and to try to be ahead of the game, I think they are doing that. Of course, as regulators they have their own speed and the market probably is going in another speed that's why even El Salvador being a small country, it's at least something to consider, but I think all the countries now, they are thinking how to put blockchain or crypto or make them their own digital currency from the original currency and I think everything can change in the near future in cross-border, but also in payments, in general.

Peter: Right, okay. So, I want to move back to EBANX specifically here and talk about the scale you guys are at. Can you share some of the metrics about, you know, in Brazil or in total what...as far as like number of transactions that sort of thing?

Wagner: Our major metric is the TPV, the Total Process Volume, I can say about the last year. Last year, I think we processed around US\$ 3.7 Billion in all countries, we grew a lot the past

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years because also the TAM, it's growing, it's not just ourself. We have now 1,200 employees operating in more than 15 countries, we have people everywhere. This is funny, we have 48 nationalities here at EBANX, we call ourselves EBANXers, this is another metric we are trying to keep growing and I think we still have a huge future ahead of us.

Peter: Right, right, for sure. Speaking of that, you know, I read your CEO quoted recently saying that you're going to be open to doing some acquisitions in the near future, although he didn't give a timeline, but I'd love to get a sense of what is your approach here. Are you looking to grow and expand to new areas for acquisition or acquiring new markets, what is your approach to acquisitions?

Wagner: Yes. Probably as you saw as well, we had a round, investment round, a few months ago with Advent and we're not.... the idea of Advent was to invest more in M&A. The clear idea here for M&A is as we have our strategy defined in our region, we need to speed up some operational gaps that we have. Let me explain how we do an expansion. We go to the country, we start our business there so we need to build everything, of course, the technologies in Brazil is the same technology, but we need to be integrated with all the payment methods so there is a time to do that.

Usually, it took us nine months, now, it's almost three to four months to start the first payment, but we see on the M&A a possibility of speeding that up. So, if we go after companies in these countries where we are, we can buy technology and people to speed up the expansion speed. And also, we are looking to other correlated areas so as I told you, we deal with local payments, we deal with cross-border and consumer so if we see some opportunity in acquisition to increase or speed up consumer or local, we will go after that as well. So, I think it's a way to speed up our own strategy.

Peter: Right, right. And then, I also want to ask you about the leadership changes that happened. Your CEO became Chairman, I think you moved from the CFO to the Chief Risk Officer, can you just explain what was behind those changes?

Wagner: So, since the beginning we were three founders, we were acting as CEO, CFO and COO and then because of the size after the investment of Advent and we acted somehow as Co-CEOs in the past so we decided to split a little bit strategy, operations and the background for myself which is regulation because we understand that with our size, so many countries, we need to have the specialization for each one.

So, that's why João became the CEO to handle all operations, I am the CRO, the Risk Officer, looking after regulatory and compliance and also legal and Alphonse is on the Board as Executive Chairman looking at our strategy as a whole for the future. We believe that gave us more speed to deal with the things from the day so I might be thinking at that time, okay, we rest

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a little bit more, but it's not the case (Peter laughs), everybody's working more in a broader sort of way for our goals in the future.

Peter: Right, right. No rest for those in fintech right now, things are heating up. Okay, so last question before we close. I know you can't talk about the IPO that's being talked about in the press, but I'd love to get a sense of what's next for you guys as look out over the next 12 months.

Wagner: I think our plan or our plans are very clear so we have a few things in our DNA. One of them is, of course, to give access to merchants, customers and users and to grow so we are always thinking about how to grow the business and I think the next 12 months will be very important for us. As you said, the market, the landscape for fintech is very hot nowadays, everybody's talking about that, this brings lots of opportunities, lots of problems as well that we need to solve and we are pretty much engaged in growing the company a lot for the next 12 months.

So, when you asked me about the future, about M&A, we are working on all our fronts to be there so I think that the future is great. Of course, we have economical problems in Brazil, in the region, political problems, everything that we need to handle with, but I see a huge next 12 months for us and the change in the management was just a sign for this preparation so we have lots to do in 12 months.

Peter: Okay. Well, Wagner, it's great to chat with you, best of luck. I can see how it's so exciting, what you guys are building. Thanks for coming on the show today.

Wagner: Thank you very much for having me.

Peter: Okay, see you.

Now, EBANX is yet another example of how vibrant the Latin American fintech market is, another fintech unicorn that is growing rapidly and really just doing great work for the consumers in the region. You know, obviously, they've got an IPO coming up, as I said, and they are really going to be a force I think to be reckoned with in years to come. They've done a great job in bringing more people into the financial system and I think it points to really the growth of fintech in Latin America and how it is. In some ways, we're just getting started as more and more payments volume, more lending and more banking is done really through fintech companies.

Anyway, on that note, I will sign off. I very much appreciate your listening and I'll catch you next time. Bye.

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