

# Interview with **David Arana**, CEO and founder of **Konfío**

**In this section of our Annual Report we sit down with David Arana, founder and CEO of Konfío, Mexico's leading digital-first SME lender, to give VEF shareholders a glimpse into our second-largest portfolio company holding. Having recently raised significant debt and equity capital, Konfío is one of the fastest-growing fintech companies in Mexico, focusing on the massive opportunity SME lending represents in a country of over seven million SMEs. David is a focused, thoughtful entrepreneur and represents precisely the type of founder we look to back at VEF.**

*As an introduction, can you share with our investors how it all began, the impetus for, and idea behind Konfío?*

**David:** I remember clearly the way I started to think about it. I was working at the derivatives structuring team for a large bank in New York, when two factors conspired to shape what became a persistent question in my mind. The first factor was my passion for data and mathematical models. A degree in Math from MIT had amplified my early attraction to the reality-modeling and prediction potential that mathematics offers. The second factor was my desire to return to Mexico and give something back. I was born in Sinaloa, one of Mexico's northern states, and although I had lived in the U.S. and Brazil, I always considered Mexico home. I then started wondering why in these times of abundance, rising entrepreneurs in Mexico were still being offered subpar financial services, and particularly, very poor and cumbersome access to credit. By abundance I was referring to the increasing amounts of data and

new data storing and processing technologies. With this question in mind, I decided to explore novel and faster ways to measure risk and grant loans to small and medium businesses ("SMEs") in Mexico.

*Who is David Arana, what makes you tick, drives you on?*

**David:** A strong analytical drive, the huge relevance of the SME problem in Mexico and the potential to make an impact were key in the decision to devote my energy to the original idea. On one hand, I sought to solve real world problems maximizing the power of data. On the other hand, early on I also understood the macroeconomic importance of the SMEs, and the extent to which they were lagging in Mexico relative to the contribution they normally represent in other major emerging and developed countries. Scarcity of an appropriate credit supply for SMEs was at the heart of this gap. Since then, the road has been rich in further motivating events. A first example was about validating the size of the opportunity. In 2016, three years after having founded Konfío, McKinsey Global Institute published an in-depth report on digital finance and emerging economies, discussing the potential that digital technologies have to solve the significant financial services gaps existing between emerging and developed economies. In this report, Mexico appeared as the second largest opportunity in terms of value, following India and ahead of Brazil. The second example I'd like to highlight is about the impact we are making: more recently, a research study we performed on our client base showed that SMEs were posting an average of 28% YoY increase in sales just six months after having received our loans.

*Can you share some of the unique features of both Konfio and the Mexican market that form the basis of your success to date.*

**David:** We believe that the special loan offer we created came to serve a strong latent need in the SME market. We had challenged ourselves with an ambitious product goal: uncollateralized loans for SMEs with fast fully digitalized risk-controlled models. With that ambition we were aiming to solve key pain points the SMEs normally face when trying to access a loan to grow: for example, the number of requirements asked by traditional banks, the multi-week and in some cases even months delay between the application moment and funds disbursement, and the cumbersome guarantee formalization processes. We believed that the combination of traditional and alternative data sources allowed to create new risk-pricing models, and we invested the time and resources to develop them. We didn't stop there. Today, we have created and refined alternative data-based models for each stage of the lending cycle.

*What opportunities and challenges are you presented with when operating a business like Konfio in a country like Mexico?*

**David:** I'd highlight two key opportunities and two challenges for what we want to accomplish in Mexico. The immense gap that Mexico shows in terms of credit and general financial services for the SMEs that we referred to before is no doubt a big opportunity. The other source of opportunity are the distinctive pools of alternative risk-relevant data that are available if properly tapped and statistically tested. In terms of challenges, I'd point to funding and talent. We have gone from being a micro, then to a small and recently to a medium-sized business and we have learned first-hand how



*David Arana. Photo: Konfio*

difficult it is to have access to credit and top-notch financial services in Mexico. Our first sources of funding for our loan book had all been foreign as the Mexican banking sector and capital markets are not prepared to assess early stages non-traditional models like the one Konfio represented. Finally, being a technology company already imposes the need to be competing for professionals in high demand, but proximity to the U.S. market makes attracting and retaining talent even more challenging.

*What have been the key milestones for Konfio so far, moments that made the difference?*

**David:** The difference is made every time we hear about an entrepreneur that is able to grow profitably with the use of one of our loans, and every time we see one “graduating” from its first one and going for successive ones at the same time their business grows. Nearly half of our loan origination is from existing customers who have had an excellent loan-repayment record. Every one of those is a “Wow” moment for us. From a different perspective, our Series A was a clear milestone. I am sure we share this with many entrepreneurs: more than the excitement about the expanded horizon a Series A provides, it was the sense of validation that our efforts got. It provided a boost in confidence, an enriched strategic forum, and the ability to invest in R&D.

*How do you feel about 2020 (and beyond) for the business?*

**David:** We are now past our Series D and the excitement continues intact. Carefully expanding our product pipeline, continuing to lower our cost of funds, and strengthening the team for a long-lasting and sustainable business are

at the center of our priorities. Focus is important. We realize that for a company at the stage at which Konfio is, there are always options to be explored that can move the needle and some of them may even be transformative. I have a dual responsibility of addressing those options consciously while at the same time keeping the company focused on our value-creating priorities.

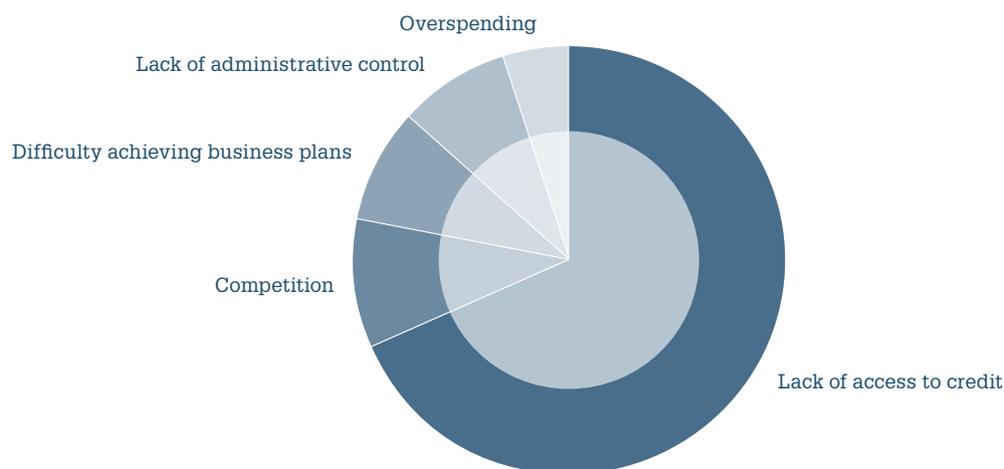
*How would you describe your relationship with VEF and your investors in general?*

**David:** VEF was part of our Series C, and since then has been an invaluable thought partner at our Board level and more. David and Alexis have been close to the company since then, providing sound advice. VEF’s focus and experience on early and growth stage fintech investments across emerging markets allows them to offer a distinctive angle in our strategic discussions. We are glad to have VEF with us, and we look forward to continuing the journey with them on board.

*To close off, what would you say to investors in Vostok Emerging Finance, who indirectly are shareholders in your company?*

**David:** The objective and focus VEF presents toward their investors is clear and gives us comfort that VEF investors understand very well the nature of the opportunity Konfio is pursuing. While it is clear it will be on us to deliver, we are reassured that we can expect strategic contributions from VEF that are fully in sync with VEF’s shareholders. This bodes well for what is likely going to be a long-standing and rewarding relationship. Finally, we also appreciate the opportunity David gave us to meet in person VEF’s board members and other VEF team members in Mexico City last year.

## Challenges for the Mexican SME – The Opportunity for Konfío



	Micro	Small	Median
<b>Lack of access to credit</b>	<b>70.7%</b>	<b>68.6%</b>	<b>57.1%</b>
Competition	8.94%	9.73%	22.9%
Difficulty achieving business plans	8.54%	8.41%	11.4%
Lack of administrative control	6.91%	8.41%	5.71%
Overspending	4.88%	4.87%	2.86%

- > For 7 out of 10 entrepreneurs in Mexico, lack of access to credit is the main limiting factor in the growth of their businesses.
- > Companies that do have access to credit do not use it to achieve their strategic objectives, and is instead used to cover a lack of liquidity and short-term needs.
- > The main attributes that an entrepreneur looks for when choosing credit are speed in the application process, few requirements and an accessible interest rate.

Source: Konfío, survey of over 500 entrepreneurs and experts in finance and SMEs in Mexico.  
<https://konfio.mx/reporte-credito-pyme>