

How LATAM financial markets are leveraging Low-Code / No-Code

In our third Expo broadcast of 2021 we talked to key players in Latin American markets who are adopting technology to leapfrog to the next stage of global maturity.



Introduction

Welcome to our Latin American edition of our Expo 2021 broadcasts. The LATAM theme is overdue, because Genesis has long been active in the region, and has deep roots in Brazilian financial markets. XP Wealth Management was one of our first clients, for whom we built one of our “signature apps”, the Trade Allocation Manager (TAM).



Felipe Oliveira
COO, Genesis

Technology and the emergence of an investing middle class are two of the factors driving the transformation of LATAM financial markets, and the speakers at one of our recent Expo’s have been — and still are — active participants in that change. Lourenço Tigre, special adviser to the CEO of the Brazilian National Development Bank (BNDES), helps us understand the background to the broadening and growing democratization of financial markets in Latin America.

One of the key players in LATAM financial markets is XP Wealth Management which has grown exponentially over the past few years. Our speakers, Rodolfo Bastos, Head of Wealth Management – XP Inc., and Caio Azevedo, Head of XP US – XP Inc., emphasize that while this growth seemed to have come out of the blue it was in reality the result of many years of painstaking preparation — and smart investment in technology.

Latin America is going through a challenging period and one of the roles of BNDES is to

support Brazilian business, and especially SMEs, to re-build momentum post-Covid. Capital markets are the lifeblood of modern business and wealth creation, and LATAM capital markets will need to continue to expand and internationalize to best serve their economies and people.

By leveraging its Low-Code technology, Genesis is positioned to continue to support the evolution and growth of LATAM financial markets.

Now I hand you over to our speakers: witnesses and contributors to the great changes and opportunities that lie ahead in Latin America.

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The Development of Capital Markets in Brazil

Latin American capital markets are at a pivotal point of development. Held back for decades by political and economic uncertainty, they began to take shape rapidly in the 1990s when the region's largest country, Brazil, was part of the booming quartet of emerging economies, better known as BRIC. The acronym is well past its sell-by-date because with the exception of Russia, the BRIC economies are done emerging, and are increasingly mature partners in global capital markets.

Technology is playing a huge part in this transition.

An institution that has guided and assisted Brazil's economic development is the Brazilian National Development Bank (BNDES). Founded in 1952 to provide capital for long-term infrastructure projects, a role it still fulfills today, BNDES has always both reflected and accelerated qualitative change in Latin America.

For our third Expo broadcast of 2021, our "Latin American special", we welcomed Lourenço Tigre, special adviser to the CEO of the BNDES. "The bank is very much faithful to its original purpose," Tigre begins. "For instance, it is the largest financier of renewable energy projects in the world. But right now, there is a significant shift in emphasis away from large ticket loans to funding SMEs with a much bigger focus on being more impactful at the last mile.

"As an institution we are trying to care less about our financial profits, and more about our social and environmental profits and how we measure the impact that we can make in the life of every Brazilian."

This has been quite a journey. In the 1950s, there was almost no such thing as a capital market in Latin America as we would recognize it today. "Inflation was always a challenge – hyper-inflation. When I was growing up in the 1980s, Brazil changed currency regularly, as many as five times until 1994, and every time you got to cut off yet another bunch of those inflationary zeros."

Capital markets did not – and could not – begin to develop properly until the currency stabilized in 1994. BNDES played a huge role in that development.

"In the 1990s, we financed a number of fund managers to help them develop an industry that is extremely relevant today in allowing companies to come to market," says Tigre. "We helped build the infrastructure of Brazil's capital market if you will."

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BNDES also invested in another **cornerstone** of modern capital markets: **private equity funds**.

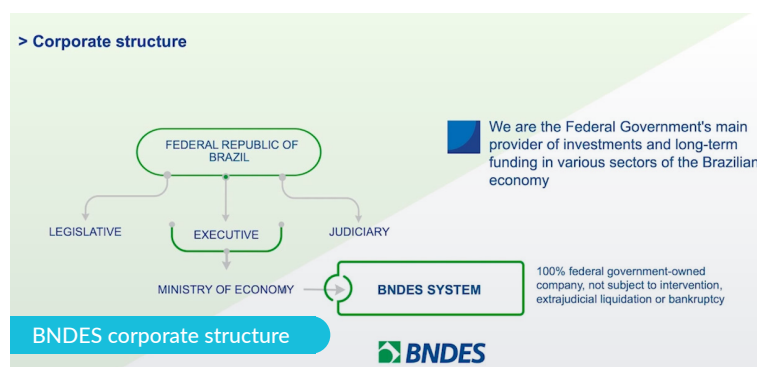
In the BRIC years of the 1990s and early 2000s, the Brazilian economy grew rapidly yet was still mostly dependent on foreign capital. “We needed foreign capital to come into Brazil to finance companies to allow them to go public,” says Tigre. “BNDES played an important role in allowing these companies to have access to capital not dependent exclusively on foreign funds.”

BNDES also invested in another cornerstone of modern capital markets: private equity funds. Because BNDES is a limited partner in the fund, managers can raise four to seven times more than would have been viable without its backing.

BNDES played an **important role** in allowing Brazilian companies to have access to capital **not dependent exclusively** on foreign funds.

- Lourenço Tigre, special adviser to the CEO of BNDES

This deepening of capital markets has also trickled down to the retail investment sector. “We went from roughly 600,000 to 700,000 individuals that own stock for the majority of the 2010s to a number that is now in excess of 3 million people,” says Tigre.



This broadening of the shareholder base allowed BNDES to de-risk and divest a significant share of its equity portfolio as it repositions itself towards something closer to its original purpose of being a social bank and an impact bank.

“We are making sure that we focus on what we call our national heroes,” Tigre concludes, “the small companies that generate growth and generate development and jobs for Brazil.”

While its role in capital markets is far from over, BNDES has passed on the baton for its growth and significance to the private sector, and to wealth managers such as XP, who also took part in our Latin American Expo.

XP is a passionate believer in technology — and that means a commitment to the best technology with a completely pragmatic attitude to the Build vs Buy paradigm that many financial institutions have imposed on themselves.

We turn to their story next.

The Story of XP

This is the first time we welcome XP to our Expo broadcasts, but the Brazilian fund manager was an early adopter of the Genesis Low-Code Application Platform (LCAP). It has implemented many of the Genesis capital markets “native” applications built and maintained on its platform: the Trade Allocation Manager; FX Prime, our trade capture application for FX trading desks; the Genesis Automated Quoting System (AQS) and our Portfolio Proposal Tool (PPT) for retail investors. At the end of this report, we shall analyse how some of these industry apps are helping XP improve their customer experience and financial performance.



“We have been making investments into our business since the early 2000s,” says Rodolfo Bastos, Head of Wealth Management at XP, “firmly believing that technology would work in our favor. We already tested the water in the United States, which has been maybe five, six or even 10 years ahead of Latin America in terms of knowledge and acceptance of technology. Many people in Brazil still wanted to look into the financial advisor’s eye and not just use an app, yet it was very clear to us that using technology would be a distinguishing

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- Rodolfo Bastos, Head of Wealth Management – XP Inc.

factor over time. So we have always invested not just time but money in this belief.”

Caio Azevedo, Head of XP US, goes even further. “We like to say that we are a technology company that happens to sell financial products. We are traded on Nasdaq, and out of the 4,000 people working at XP, almost half are in IT. They are our developers.”

The digital transformation at XP, and for the Brazilian asset management sector in general, was challenging. “Back in 2008, everything in Brazil was done manually with paper records and filings,” says Azevedo. “So one of our big initiatives was in the funds distribution business area, where we couldn’t achieve automation of the workflows when we were investing in a fund through an independent asset manager. You would need to do all the paperwork manually with the custodian, or with the fund administrator. And our first challenge was to achieve automation of that process, to make it digital, to put it ‘online’. That was a tough project which took some six months to complete. But it paved the way for what we are doing now.”

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- Caio Azevedo, Head of XP US – XP Inc.

Technology is not solely a matter of process and automation; it is also proving essential in leveraging the opportunities of globalization, and extending those opportunities to XP's Brazilian customer base, as Bastos explains. "Today, Brazilian equities income accounts for a little less than 1.5% of global equities income. Brazilian fixed income accounts for just under 0.8% of global fixed income. So if I don't take a look at what the world has to offer to my clients, I'd only be offering 1% of what is 'possible' to our private clients. That would obviously be doing them a disservice."

For decades, Brazilian retail investors acquiesced in this worldview because they had difficulty – "and perhaps still do have difficulty," says Bastos – imagining their wealth outside Brazil. "They were – and are – not well-served by some major institutions," he adds, "and there are also blockages in regulation. You still have some restrictions that stop banks developing platforms to allow customers to take a global view of their wealth."

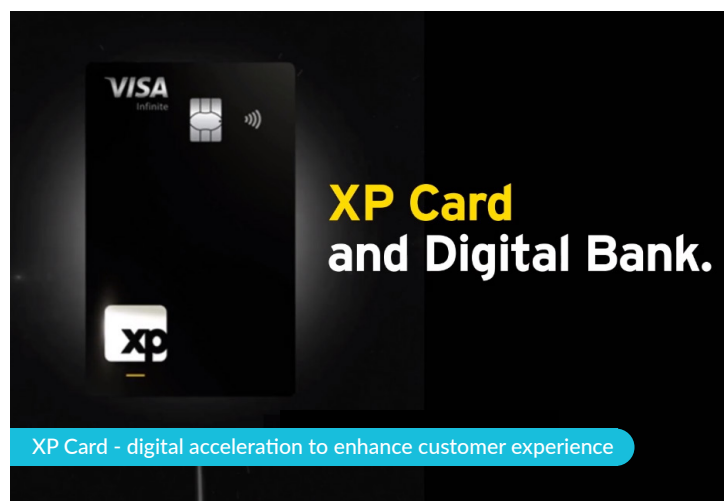
The economic uncertainty that stymied the development of capital markets also cemented regulations that held back wealth managers and created a bunker mentality among LATAM investors.

From their base in the US, and using technologies such as the apps built on the Genesis platform, XP is desegregating client portfolios, and providing clients with a

transparent, single view of their investment positions in and outside Brazil.

Bastos: "We are convinced that customers should not see their wealth in the way many did until a short while ago. They'd say: 'I have my Brazilian wealth and my international wealth. People understood this to mean: my Brazilian wealth is where I will take risk; my international wealth is my strong currency, my foreign exchange hedge. I'm going to leave my money in dollars for succession purposes, in case something happens in Brazil.' Not that the thought isn't and wasn't valid, but foreign exchange hedging and currency protection do come into it. For investments today, they certainly provide a very strong incentive.

"Genesis is helping us give a global view to our customers. For example, if you have a Petrobras debenture in Brazil, you don't need to have a Petrobras bond in your international



portfolio. And even if you do, it is important to realize that you are taking overlapping positions. And this global vision, without a doubt, is a trend and a path of no return.”

The technologies that are enabling this global view also benefit XP in-house to ensure quality in management.

“I have geographical coverage of emerging countries, Europe and the United States,” says Bastos, “I can cover the equities and fixed-income markets globally. Using apps developed on the Genesis Low-Code platform, I make it possible for a client, a dealer, or a banker to put an order on the system and go quickly to the execution desk, fast enough for me to get the best price, with the best rates.

“This process of optimal execution and allocation is working well here in New York but also in Brazil and across Latin America. And the technology developed by Genesis has been instrumental. It’s working super well,” concludes Bastos, “we’re very grateful for this and for the proof that this partnership is bringing better profitability.”

In our final section we shall take a high-level look at some of the apps that are helping XP in its mission to give its clients an optimal portfolio for their investment objectives as well as total transparency of those portfolios, and their fee structure.

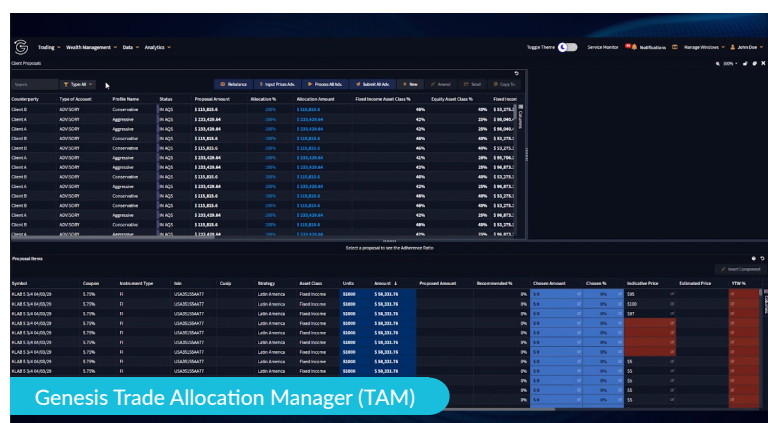
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The Genesis App Library for Financial Markets

The Genesis Low-Code Application Platform was built from the ground up for financial markets use cases, and speeds up app development by 80%. This path to agility and speed-to-market would be obstructed by a rigid business model, so Genesis makes delivery as flexible as possible. Financial firms purchase the platform directly to create applications on their own; they can partner with Genesis to build these applications; or buy them “ready-made” from the Genesis library of industry applications. This library is growing rapidly thanks to the modular, “Lego-like” approach to development, enabling code written for one app to be used as building blocks for another, sometimes very different tool.

XP is an early adopter of our technology, and this has helped it to position itself as Latin America’s most forward-looking wealth manager. We should add that conversely XP has also richly contributed to the progress of



Genesis Trade Allocation Manager (TAM)

Genesis, because one of the most complex and transformative apps on our platform was developed for XP.

This tool is the Genesis Trade Allocation Manager (TAM), which acts as an independent middle office application providing the client with the freedom to integrate with different front and back-office applications as required.

An important part of the middle-office workflow is notifying your client or custodian of trades and allocations, and this turned out to be the most challenging part of building TAM.

XP needed the app to support the very systemized confirmation processes for its various Latin American clients: institutional clients and brokers in Mexico, Chile, Peru and Colombia as well as Brazil. Marina Matos, Senior Project Manager at Genesis, was closely involved in the development and implementation of TAM. “These clients all trade with XP US, giving them the entrance

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- Marina Matos, Senior Project Manager - Genesis

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to the US market. For TAM to be effective, it had to provide clients all over Latin America with confirmation for every deal they do. But each one of these houses has its own particularities, its own way of doing things, and of course they all have to abide by local regulations. So we built TAM to be extremely customizable and to include arbitrage which is a very common strategy in Latin American markets.”

TAM has been a transformational platform for XP; the wealth manager uses it for the majority of its institutional clients, and is now migrating its retail portfolio to this platform.

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This collaborative nature of Genesis LCAP is very important; by working closely with clients Genesis comes up with solutions that resonate for all financial markets firms. Thanks to the block-like, modular architecture of the apps, code can be re-deployed quickly to help generate solutions to very different problems.

XP uses many of the other apps in the Genesis library. One is the Automated Quoting System (AQS) Application, a comprehensive multi-asset class solution supporting RFQ (Request for Quote) and RFS (Request for Stream) business

flows, from initial quote capture through to pricing, execution and trade booking.

Embedded in AQS is the Portfolio Proposal Tool (PPT), a productivity solution for wealth managers or private bankers to generate new investment business.

Genesis technology has made it possible to give Latin American clients access to global investment opportunities in larger and more mature capital markets. PPT leverages that access by tailoring portfolios for retail clients as part of a seamless end-to-end workflow. And so Genesis becomes embedded in a virtuous cycle of wealth creation for XP clients, and XP itself.

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