PODCAST TRANSCRIPTION SESSION NO. 191 / JOHNNY REINSCH

Welcome to the Lend Academy Podcast, Episode No. 191. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of the LendIt Fintech Conference.

(music)

Today's episode is sponsored by LendIt Fintech USA 2019, the world's leading event in financial services innovation. It's going to be happening April 8th through 9th, at Moscone West in San Francisco. We're going to be covering digital banking, blockchain, financial health and of course, online lending, as well as other areas of fintech. There will be over 5,000 attendees, over 250 sponsors and registration is now open. Just go to lendit.com to register.

Peter Renton: Today on the show, I am delighted to welcome Johnny Reinsch, he is the CEO and Co-Founder of Qwil. Now Qwil is a fascinating company, they haven't been around that long, but they're starting to get traction and their business is all around providing advances for gig economy workers, typically freelancers, small businesses.

They provide an advance so these people and companies can get paid immediately so we go into that process in some depth and we talk about how they underwrite, the kinds of markets they're in, we talk about the performance of the advances and we talk also about the challenges that gig economy workers face in today's economy, in today's financial system. It was a fascinating interview. I hope you enjoy the show.

Welcome to the podcast, Johnny!

Johnny Reinsch: Thanks, Peter, it's wonderful to be here. Thanks for having me.

Peter: My pleasure. So I like to get these things started by giving the listeners a little bit of background about yourself and what you've done in your career to date.

Johnny: Awesome, yeah, let's see, I grew up in a town called Fresno, in the middle of California. I went to UCLA for undergrad and then UC Davis for law school and took my first legal job in San Francisco. This was at a firm called Kirkland and Ellis in 2008 or so, 2008 was my summer associate job and 2009 was when I started, but got to see a lot of really interesting things happen at that time as you can imagine, especially centered around the financial markets. It was a really interesting way to get exposure to finance, in general.

We were sort of helping unwind a lot of some of the issues that had happened in the market around derivatives. I was an M&A lawyer, but there wasn't a lot of deal flow so I was helping out with a lot of bankruptcies and the like and really got to see, you know, what things about the market had precipitated the decline and ultimate crash and what factors kind of led to that.

So I did M&A for about five years and then I decided that my heart wasn't in it and part of this was from working on a deal where I really worked with and advised on some phenomenal founder teams, both sell-side and buy-side M&A. I always gravitated towards the mission of the companies and in one deal, in particular, you know, the founders were so passionate about what they were building that they walked away from a very significant amount of money to go with a lower bidder on the deal because they didn't agree with the deal terms, solely on the basis of a disagreement with the deal terms.

That was kind of a formative moment for me in realizing that I was looking for a similar path where I felt so strongly about something that I could sacrifice a pretty significant amount of personal wealth in furtherance of my ideal. I think I spent about another four months as an M&A attorney at that point before I landed a job at a client actually which was in the bitcoin space, a company called Xapo, run by a phenomenal fintech entrepreneur, Wences Casares, and that's where I really got my exposure to how the credit system works, aside from what happened in 2008/2009, but how the credit system works in markets where there aren't stable banking systems or stable payment rails and payroll departments and all the things that we kind of take for granted here in the US which worked pretty well.

I was fortunate for that experience because, you know, I'd found a founder that was very passionate about what he was doing because he was trying to solve his own problem. His problem was that while growing up in Argentina Wences had encountered numerous points in time where currency controls and the devaluation of the peso essentially meant that he and his family, friends, etc. lost all their wealth, all their money really because of the doings of a central government.

And so I got the bug on financial inclusion through Wences and Xapo and then ultimately helped build, you know, the early days of the bitcoin ecosystem with some strategic initiatives and some regulatory outreach before encountering the pain point that Qwil currency solves which was my own run in with our financial system in the US.

So I like to call myself a “recovering M&A attorney” that learned about the credit system by seeing it essentially at its worst and then coming in from the disruptor side with a bitcoin angle.

Peter: Right, so let's go back then and talk...I've read about this before, tell us a little bit about the moment that led to the idea for Qwil.

Johnny: Absolutely. This is, you know, really it’s fear, I felt visceral, palpable fear and I'll talk about what I mean by that in a second.

Going through my professional career as an M&A attorney, growing up...my parents were not wealthy, but we never had concerns about, you know, could we afford our house payment and the like. I was very insulated, frankly, but when I left M&A and when I was making far less money, I ended freelancing quite a bit to help supplement my income.

There was one month where a client of mine didn't pay on time and as a result I was going to be...you know, I had a mortgage payment due and not enough cash in my bank account so I had five days or so before I was basically going to default on my mortgage and I didn't really know what that meant. I never had anything like that happen, I just knew it was really bad and as sort of the days go by and no payments coming in, this level of fear and anxiety continues to rise. It's a very physical sensation that you get when you're nervous, anxious, whether, you know, you're about to jump out of the plane skydiving or you're walking in a bad neighborhood late at night. We all know what that feeling feels like and this feeling that I have as I got closer and closer to that date where my mortgage was about to be...you know, the payment was going to be auto debited from my account, I was just living with that feeling constantly.

And so I finally went to my bank and I go to speak with the....you know, I have relationships with these people, they've known me and helped me with financial products for, you know, basically from when I graduated law school and I go to speak to my team over there, told them the situation, great client, you know, they're going to pay, I don't know why they haven't paid, but they always pay, they are very high credit and walk through all the different products they have with me so my car loan at that time, my mortgage at that time, they see every student loan payment I've ever made, that I've made, you know, they have all of my financial info and I ask, hey what can we do about this, I'm really scared.

The response I got was that I should go look into payday loans or borrow money from friends and unfortunately Johnny, we're not your friends in this case. I can't tell you how disappointed, scared, frustrated, I mean, it was such a big mix of feelings in that moment and I just felt very much left out in the cold. What was confounding to me, ultimately, when I got over my emotional response to this, was they were in the best position to give me some kind of financial product.

They knew everything about me and something wasn't matching up with that narrative in my head of great FICO score, great credit history, tons of financial products with this institution, you know, real problem, but they can’t do anything about it. Like they had a real opportunity to make some very low risk cash in that situation and they didn't take it.

So I started to really think about that and realized that as a freelancer, as a small business owner, as you're sitting in our credit system, in a bucket that's very difficult for our credit system to underwrite, or there is no underwriting guidance for it, or it doesn't make economic sense because, you know, the dollar amount is so low. The credit system we live in that provides mortgages and car loans and what not really, really nicely for M&A lawyers doesn't really do anything for freelancers and small business owners.

So I started diving into why that is just from that one innocent little question of why did this happen to me, me and my co-founders realized that one, I wasn't the only one, but also there are, you know, there's a massive need and opportunity to really provide a lot of value and help to these populations of folks that are similarly situated as I was at that moment.

Peter: Right, so let's just move on then to explaining what actually Qwil does, what is your offering?

Johnny: Qwil helps freelancers and SMB's get a payment that would be otherwise paid, let's say, in 30 days, we give it to them today. We do this by selling into the places that freelancers and SMB's are working for. So if you work for a large Fortune 500 company and that Fortune 500 company has Qwil available when there's a payment that that Fortune 500 company is going to pay you in 30 days, Qwil finds the data around that payment being at that time.

Sends the individual that's going to get paid in 30 days an email saying congrats, you're going to get paid in 30 days and if you'd like to get paid today, we'll give it to you for...on average it's about a 3% fee that's just taken off so if it's $100, we would say you can get paid $97 today. It's really that simple, no fee if they don't do anything and if they don't want to take the funds early and that small fee doesn't bear any interest if they want to take the funds today.

Peter: Okay, so then let's maybe give some examples of some of the places that offer Qwil, maybe some of the different verticals that you're in. Why don't you give us some examples.

Johnny: Absolutely, and I'm glad you asked. You know, in my situation at that moment, I self identified myself as a freelancer and so one of our earliest set of partnerships was with freelancer marketplaces. I don't know if I'm allowed to name anyone, but we work with all across the realm of skill sets so we have folks that are drone pilots and work for drone marketplaces, we have folks that are delivery drivers and work for driver marketplaces, software engineers that are freelancing and, you know, those types of freelancer marketplaces and design, etc. so we really cover a range of skill sets.

Anyone that's a freelancer in one of those marketplaces that we cover, every single time they have any payment that's been approved, it's going to come to them in the form of hey, you can get paid today, if you want, or we'll just push funds through to you on day 60 as well and incur no fee.

We started to apply that model, we found a lot of...one, we had a lot of success with that and we realized that actually, a lot of the volume that we have isn't from people like me that are looking to avoid a bad situation, it's freelancers and agencies, SMB's, etc. that they're using the capital to grow their business.

So we started to identify the verticals that would similarly sort of follow that narrative because we really like the story of, if you take a dollar from Qwil that's, you know, going to be 30 days earlier than when you otherwise would get paid you'll actually make more money, that's a wonderful story.

Peter: Right.

Johnny: So we started to go into digital media marketplaces so app developers and really anyone operating in these sort of publisher networks like the Apple App Store, Google Play are very well known examples and realized that, you know, these small businesses are so sophisticated from a marketing perspective that the same kind of rules apply if we advance them a dollar that they would otherwise get paid in 60 days by Apple, they're going to make much more than the fee that they paid on that dollar by deploying that dollar today.

Peter: Right.

Johnny: So that's another area where we've been quite successful.

Peter: Right.

Johnny: Then we have a final vertical that we just broadly refer to as "liquidity as a service" because we've been able to drop it into a bunch of different contexts, but really where you have any B2B payments ecosystem or, you know, an ecosystem where there's a technology solution that's facilitating either the exchange between a business and another business or freelancer, the payment flow between a business and another business or freelancer, we can, you know, basically let that ecosystem leverage our tech.

They can continue to do what they're doing well and we offer liquidity to that ecosystem broadly as just a part of their baked in offering and so that's our "liquidity as a service" thing and we've done that with ERP's, payment networks, invoicing networks, big vendor and supplier networks, those are sort of examples of things we've done that in.

Peter: Okay, so really it's still all of those things that all boil down it sounds like...it's one product that's providing an advance on an invoice or future earnings. So just so I'm clear though, say you're an independent contractor like you described in your situation with your mortgage payment, you're an independent contractor and you've got some kind of random company that you may have never heard of, can you still get financing there or do you really need to be hooked into the corporation providing the invoices?

Johnny: We have to be hooked in for now and we do have plans to expand that, especially with...we get a ton of recurring use, in fact it's staggeringly high. You know, we've built up relationships with a lot of the folks that are using this as a new source of working capital and in the future we'll definitely have options for going outside of our immediate ecosystem, but for now, yeah you do have to be working with a company or a platform that Qwil is embedded into.

Peter: Right, right. Okay, so then what are the dollar amounts that you're typically doing and what's sort of the range and the average of the dollar amounts you're advancing?

Johnny: About $1,000 and the beauty of the technology is that by essentially going from the top down, we've cut out a lot of the costs that are associated with underwriting or acquiring, you know, a given customer and so that means that we can do a $10 advance or we can do a million dollar advance. Ultimately, our machine and the way that we underwrite and manage risk and match the advance with the lender that's actually providing the funding, that can be hyper efficient so that we can do tiny, tiny advances, or very large ones.

Peter: Right, right. So you've got someone like you're embedded with a company, there's someone who comes on and says, right, whatever it is, let's use an example, I don't know whether it's actually your client, whether let's say a Lyft or Uber driver comes in and says, right, I want to get my pay now and you're hooked into them, what actual underwriting do you do? Do you just...because if you're hooked into that company , wouldn't you...maybe you just tell me what kind of underwriting you do.

Johnny: Yeah, it depends, we could be underwriting a bunch of people, we could be underwriting a bunch of companies. So in the Uber scenario, we would probably be underwriting Uber and the driver on, you know, do they have a high dispute rate, is the rider likely to ultimately come back and say that the driver was driving like a maniac and they want their money back.

Let's take another example where let's say we have a designer that's going to be doing some work on behalf of a staffing firm, that has a client that's a Fortune 500 company. The Fortune 500 company is ultimately the one that's paying for the invoice, the designer is the one providing the services, the staffing firm is kind of making the market; we might underwrite everybody to get to the ultimate decision and it happens very quickly obviously. But to make the ultimate decision about price and try and get the best price to the freelancer in that scenario. We'll go to as many counterparties as we possibly can to get comfortable there.

Peter: And then once the company then pays you, instead of paying the person who earned the money...is that how it works?

Johnny: That's right, we are typically in the funds flow and we'll get paid back first and then if there's...let's say our designer, they're going to get $100 in 30 days, may decide, okay, I want to take an advance inclusive of the fee on half of the amount so they take $50, we would get the $100 payment from whoever the staffing firm client is or the staffing firm directly and then we would just pass through whatever the remainder is, to the designer.

Peter: Okay, I'm curious because one of the great things about this business…I know you haven't been in business that long, but these are really short term duration types of advances so you can get a pretty good idea how you're doing, I mean, you've had many, many turns on your book, even if you have only been doing it a couple of years so tell us a bit about the performance of your portfolio.

Johnny: Yeah, I'll talk about the turn first. Initially, it was average 7 days or something and as we've worked with more sort of high end freelance and SMB's, the counterparty risk gets better, but the payment terms get worse. So it's sort of counter intuitive, but you've made it as a designer, you just landed that contract to do design work with Apple but then you find out that Apple pays you 90 plus days in the future. So as we've worked with more counterparties like that, what initially started out as a week has trended to more like 30/35 days and we assume that it may land somewhere more like 45 or 60, ultimately.

But the risk model and how we underwrite has performed very, very well and we've had nominal defaults across the entire book and have been able to provide very competitive pricing for the freelancers and SMB's that are taking our offering such that we ultimately end up being usually less than what a freelancer or SMB would have to pay to accept a credit card payment or use a payment processing platform. That's been great and the fact that we do have fast turning stuff and we are leveraging sophisticated underwriting to minimize risk on defaults, it just ultimately means that we can push the best pricing back to our SMB's and freelancers.

Peter: Right, right, got it. So then can you give us some sense of the scale that you're at today?

Johnny: Totally, so from a headcount perspective, I think this is really interesting, we started last year with about seven people so 2018, and last year alone we advanced $70 million to freelancers all over the world and we're now about 25 and growing quickly from a headcount perspective and on pace to do a very large multiple of what we did last year.

So we're still lean and mean, we’re still leveraging tech in all the right ways to grow as quickly as possible and retain as low a headcount as possible, but also in the process of expanding headcount and make sure that we can deliver the best product to our global SMB's and freelancers.

Peter: Right, so then I read somewhere that when you were starting Qwil, you were turned down by investors more than a hundred times when you were initially raising money. I know we got introduced through Ron Suber who pretty much every listener here would know and I know he's involved in your business. But, maybe you could tell us how you got over that hump and who are your investors.

Johnny: Absolutely, you know, it's funny when you're first starting, everything takes longer. I woke up last week and we were featured in Fast Company's Most Innovative Companies and everything moves way, way faster now, but going back to that initial seed round that we raised, man, that was brutal. I knew that we were on to something big, I knew that our ability to make an impact in a way that would keep me excited and interested...you know, effectively, I'm trying to selfishly solve the problem and the fear that I felt when I couldn't get help, right.

But I knew that this was something I wanted to do and devote a lot of my life to so that the 300 million or so freelancers like myself at that time and countless SMB's don’t have to have that problem. We were going to need venture funding to do this in the right way. Fintech companies are hard, you know, we're sending payments all over the place, we're advancing money out that is from the capital markets and from our lending partners and doing that as a small business or something less than a technology company is very tough and so it was very obvious that we were going to go for VC dollars.

That said, I'm a first time founder, I previously was a lawyer and had worked in bitcoin, like there were always these reasons why… I didn't know anyone in Silicon Valley that was really going to back us at that time so I had to do say a hundred, but it has to be more, frankly, and just to get the word out about what we were doing...

Peter: Right.

Johnny: ...and then all the reasons why you wouldn't back a first time founder come in. So ultimately, we had to do tons and tons of meetings just to bring in the first $500K or so that came in through Plug and Play and 500 Startups and then it gets incrementally easier after that and then it starts to move much faster, but it was a slog, it was really tough until we got the anchors from Plug and Play and 500 I was basically just doing meetings as my full-time job and getting told no a lot.

Peter: Right, you've got to have the vision there because that can be very demoralizing.

Johnny: Man, even...I had full conviction that I was seeing something, me and my co-founders were seeing something that the market had just not yet seen and was not capable of seeing because not everybody has felt this fear in the pit of their stomach about how am I going to make my mortgage payment, but it was tough, it was really hard.

But then as we ended up finding...I'm glad I did that because it introduced me to a ton of really helpful people, you know, Alireza Masrour and his team at Plug and Play Ventures and Sheel Mohnot and his team over at 500 which I think is how we initially got connected, have been incredibly helpful throughout the lifecycle of the company and have became personal friends of mine. So ultimately, we got a Series A done about a year and a half or so after we did that first seed round and have done a bunch of debt deals and have brought in amazing investors like Ron Suber and Sam Hodges from Funding Circle so I'm very thankful, but yeah, it definitely was hard at the beginning.

Peter: Okay, so then when you sort of look at what you're doing, I mean, it seems to me that there's a lot of people doing obviously factoring or invoice finance, some are doing it online and some are doing it in like for app developers in different niches, but when you look at your business who do you see as your main competitors?

Johnny: Yeah, I get that question a lot and as you mentioned, there are a lot of folks that do something similar and I don't view us as competitive with a traditional invoice factoring company. I would actually view us as a complimentary offering where you know if you get the email from us that says hey get paid now or get paid 60 days later when the company finally pays you.

The small business that might use BlueVine or FundBox or someone else to factor their invoice, they can also use us. We've applied an approach to customer acquisition where we can really leverage technology to embed in an ecosystem and be alongside all of these other offerings.

So there really aren't a lot of folks that I view as just like us though there are good examples of folks that offer sort of parallel services and Clearbanc does advances to Airbnb hosts and DailyPay does advances to freelancers and employees and Earnin does advances for employees before the payroll runs. Yeah, those are kind of the folks that I would put in the same bucket as us, but our approach is novel and our use of technology and how we leverage technology is novel.

Peter: Right, right. So it sounds like you've really focused on the I guess...it seems like the gig economy workers seems to me like where you have really focused your energy and that's sort of your primary market. It's interesting because it seems like when I look around, I see it's massive and getting bigger and people now talk about the fact that this is a whole shift in the way people earn a living.

Some people are going to be earning a living as gig economy workers for their entire career and they may have two or three jobs, but it just doesn't seem like...there's not someone helping them along the way like I hear things like Uber are providing quicker advances, these companies are providing quicker advances, but you know, it seems that the gig economy worker has kind of...from a financial services perspective, they are now underserved, it feels like, and they are becoming the largest segment. Why do you think that...is it just because companies move too slowly, why do you think these gig economy workers are underserved?

Johnny: Well, you know, this is a massive paradigm shift and by 2027, we'll have over half the workforce that's working freelance and that doesn't even account for the SMB population of newly minted small businesses that in my mind serve as the backbone of the business economy. Everybody has to start somewhere and so, yeah, it's a big problem.

I think on the pure freelancer or contractor or however you define that term because, you know, everybody self identifies a little bit differently, but we're talking about revamping a payroll process that has been embedded deeply since before the 50's when folks stayed at their same job…if you're really, really lucky, you know, GE or something similar for your entire career and then you retire rich with a pension.

That paradigm is shifting and the infrastructure around it is not and these are deeply embedded companies that have long standing histories and not a lot of incentive to switch and accommodate a small dollar, much higher frequency type of existence in the form of your gig economy, your freelance contractor, etc. worker. So I think that's one reason and there's also just a lag in the awareness from the financial services standpoint.

Companies know this, companies understand that to be strategic, to be competitive in the marketplace right now, you have to have, and it's called contingent workforce strategy, and that means you have to be able to supplement your existing workforce with the entire range of the talent spectrum in the form of folks that are willing to freelance basically at a moments notice, or that you're able to actually acquire and get the right freelancer to work on, whatever your discreet sort of security job might be or something like that where like the best folks in the industry actually will never work for you full-time, they're going to be freelance. So companies get this, but financial services...I think there's always a lag on innovation on these fronts. I give financial services a pass there because there should be....

Peter: Right.

Johnny: …moving, you know, large amounts of money into like new novel stuff might be bad, you know, macro-economically or systemically, and so I think that's one of the reasons. But I'm sure there are a host of others that I'm missing, but either way there's definitely a massive opportunity for startups and founders especially if you've had the pain point and you can weather the storm of getting rejected a hundred times. (laughs) It may ultimately be very much worth it.

Peter: Right, right. Well we're out of time, but before I let you go I'd like to get some insight into what this year holds, what are some of your goals for 2019?

Johnny: Absolutely, I mean, my high level goal is to continue to solve this problem and to expand our impact in just the number of people that we can help. We're not quite at a 100,000 of SMB's and freelancers that we've made an advance to, but getting there pretty quickly and I'd like to get that number as high as possible in addition to just sheer dollar volume of folks that we can help.

And then, obviously, sort of the final bit of that is to make sure that we're embedding ourselves into new platforms and channels that are springing up all over the place, whether it's, you know, a gig platform or a freelancer workforce platform or an invoicing platform. You know, the more of these things that we can embed ourselves in, the more people that get to benefit from our service.

Peter: Right. Okay, Johnny, we'll have to leave it there. It's a fascinating story and I wish you all the very best. Thanks for coming on the show today.

Johnny: Yeah, thank you Peter so much for having me and looking forward to seeing you at LendIt.

Peter: Yeah, likewise. Okay, thanks, Johnny, see you.

You know, companies like Qwil are taking an age old problem and bringing it into the new world and the reality is gig economy workers...they want to be paid immediately, they don't have to wait 30, 45, 60 days to be paid. And when you're looking at just a 3% average fee, for them that's not going to be too high price to pay, I don't think in many cases, where they can get their money, they can either put it to work in their business again or they can make their mortgage payment or whatever it means because we're living now on this on-demand world and this sort of 30, 45, 60-day payment cycle, it just doesn't gel with the modern world which is why I think companies like Qwil have a lot of runway to go because they are providing this on-demand payment in an on-demand world. It really feels like that is what consumers want, that's what these freelancers want and, you know, I see a lot of room for a company like Qwil to grow.

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

Today's episode was sponsored by LendIt Fintech USA 2019, the world's leading event in financial services innovation. It's happening April 8th through 9th, at Moscone West in San Francisco. It’s going to be the largest fintech event held in the Bay Area in 2019. We'll be covering online lending, blockchain, digital banking and much more. You can find out all about it and register at lendit.com.

(closing music)