LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 203 - VIOLA LLEWELLYN

Welcome to the Lend Academy Podcast, Episode No. 203. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of the LendIt Fintech Conference.

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Today's show is sponsored by LendIt Fintech Europe 2019, Europe's leading event for innovation and financial services. It's coming up on the 26th and 27th of September in London at the Business Design Centre. We've recently opened registration as well as speaker applications. You can find out more by going to lendit.com/europe

Peter Renton: Today on the show, I am delighted to welcome Viola Llewellyn, she is the Co-Founder and President of Ovamba. Now Ovamba have been around for several years and they've had a couple of pivots and now they've focused in on the African market, in particular Cameroon and now the Ivory Coast or Côte d'Ivoire, and they are really focusing on trade finance.

We talk about that in some detail, we talk about why they decided to pivot into that area, how their solution works, who's investing with them, how they're underwriting these transactions and they also give us a sense of the scale they're at and what's in store for the future. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Viola!

Viola Llewellyn: Thank you, Peter, it's so good to be chatting with you.

Peter: Likewise, likewise. So I like to get these things started by giving the listeners a little bit of a background about yourself so why don't you tell us what you've done in your career. You've have had quite an interesting journey, it seems, but what you have done in your career before Ovamba.

Viola: Before Ovamba became what is, I actually had been in the alternative finance sector working for something that had a hideous name of the Death Bond (Peter laughs). I used to work in life settlements back in the, I would say the mid-naughties, I was headhunted by an individual who asked me to help set up a company that would buy and sell life insurance policies of individuals that wanted to liquidate them and we would securitize them and sell them.

It was an exciting time until we ran into the most frightening relationship and that was when we partnered with Lehman Brothers and Bear Stearns at the same time, which literally wiped out all the value of our investment in one fell swoop and that was of course, 2008.

Peter: Right, right. Okay, so then tell us about the germination or how did Ovamba kind of get going. What were the ideas that were running through your head when you started?

Viola: Well, I actually can blame you for that, Peter (Peter laughs).

Peter: Really, okay.

Viola: Yes, I could partially blame you...do you remember way back when you launched the first LendIt Conference in New York.

Peter: I do.

Viola: Yeah, we were one of the 230 companies in the room that day and we had only just formed the company a couple of months before because we had seen a lot of the information that was coming out and seen the response to the JOBS Act and crowdfunding and peer-to-peer lending and what went on to become marketplace lending.

We found out there was an association, the LendIt association. We were looking at all the businesses that were performing there and decided wow, if they can do this knowing full well that the African history of capital and money lending is very ancient, we saw a natural synergy between what we saw in some of the platforms that you guys were connecting and the African tradition of informal lending using social credit based on ethnic, tribal and other social elements. We felt we would be the first people to digitize this and we'll go off to market and that's how that came to be.

Peter: Interesting, so maybe we should talk a bit...because obviously you have a British accent, you live in America, I believe you're in Maryland today, right?

Viola: I'm in Maryland today.

Peter: Okay, so then tell us a little bit about your connection with Africa and how you ended up here in the US.

Viola: My parents were originally from Cameroon and I was born and raised in the UK until I took a very long vacation in 1992 to America, to Maryland, and I never left.

Peter: Huh.

Viola: So I'm still on the 27th year…for the last 27 years I've lived here. When my business partner, Marvin Cole, who is of Jamaican ancestry but raised in Detroit, we had been doing a number of I would say strange business structures, they're not really strange. We did a lot of consulting, advisory work, we kept thinking something's going to happen on the African continent and we want to be part of that.

Peter: Right.

Viola: What we did not realize at the time was if you really want to shift markets, build economies, you have to be able to solve the problems of business. It's not enough to keep doing the age-old I'm doing business with a business, with a government, or I'm just trying to help connect people on a consultancy level; that actually doesn't move the needle.

When Marvin said to me, let's see, what year was this, around about 2010. Hey I'm trying to build an investment platform for Africa, I told him he was an idiot, (Peter laughs) there's no way he should do this. I've lived there, I lived there from the age of 12 to 16, I said the place is a dusty mismanaged place and there's just no way and he said but that is exactly why we should.

Anybody who can solve the problem will build a legacy business, develop and deliver investor returns and will just do so well and they'll solve a problem. I said, okay, let me go see my mom and dad who I never visit, I always pay for them to come and see me, and this is important to understand Peter for people listening to this podcast.

The diaspora of Africa falls into two categories; those that want to do something and go home and those that stay in the Western world and forget where they came from because it's just too overwhelming. I belong to the overwhelming category and it took a foreigner, an outsider, to tell me your continent is worth saving and if we don't have more people who think this way then we stay in a very post colonial silo where business never takes off the ground.

So went to Cameroon, came back, looked at him and I said, I get it and I sold my house, I gave up everything, I threw all of my husbands 401k into building a series of businesses hoping to find the right solution and I've never regretted it.

Peter: That's fascinating, fascinating. So let's just talk a little bit about Africa because I think...I know that you operate, I believe, maybe you tell us. I know you started in Cameroon, I think you're in Côte d'Ivoire, Ivory Coast for the westerners, are they the two countries you operate in today?

Viola: Those are the two countries that we're operating in today, but the beauty of Africa that many people don't realize, is just as we are now in a potentially post Brexit world in the UK… before there was Brexit you had great hospitality, passportability of business solutions, banks and everything else throughout Europe, right, so you would look at it as an addressable market.

Well we have the same advantages on the continent so by being in Cameroon, we're in a 6-country cluster known as the CEMAC region, it's got one currency, one business law, one central bank. Everything you do in one place, you can service the rest of it so it's a great place to build a hub which is what we did for our extended beta and then we went over to Ivory Coast, again, one currency permanently pegged to the Euro just like our Cameroonian CFA, they have a West African CFA.

All of the laws and regulations that we operate with are connected to both countries in a large harmonized cluster called OHADA so we have one law that governs everything and it makes scaling in Francophone Africa an absolute dream, but very few people know that. So we've taken advantage of that.

Peter: Right, I didn't know that, so what are the other four countries in the region?

Viola: Nigeria, Ghana are the two non-French speaking entities in the region, and I'm trying to remember if they themselves are in OHADA and I don't think that they are. They sit outside of it, but Ivory Coast, Mali, Senegal, Guinea, Cameroon, DRC, both of the Congos, Gabon, Equatorial Guinea, it's about a 17-country cluster and it is a really great place to build a business.

In respect for Cameroon, it was the perfect place to build our own private sandbox and believe me, when we started out we didn't have the sort of language to describe what we were doing. We just told people it's a great petri dish, we're building and testing ideas and innovation, both technology wise legally because Cameroon is Africa in miniature and it's one of the most difficult countries to do business.

Everything that you test within Cameroon has an element of applicability elsewhere because it's bilingual and we have French and English law running side by side, we have Christians and Muslims, 262 different tribes with distinct behaviors and reference points for understanding repayability which is how we began to create this unique proprietary process of measuring risk by African realities versus an outside opinion and it's been a great place for us to test what we do and the regulator actually likes what we do. So we've broken a few barriers and have been first to market on a number of innovations.

Peter: Right, maybe we should get to that and talk a little bit about what your product is today and how it has evolved over time. I know you've gone through a couple of pivots so tell us what you offer today and how that has changed.

Viola: What we offer today is what we are calling “trade tech,” it's not a term you hear very often in the light of fintech and what that actually means. We figured out that majority of the businesses in the markets that we operate in are looking for capital and for financial inclusion to participate in some sort of buying or selling activity, “trade", and it's the one area that many African banks just do not offer to SMEs.

They don't understand those businesses, they don't consider this to be a very good risk, they really only want to provide them with a deposit account and measuring risk is something that's still not as mature as it should be. It's only recently that we have found that many of the African banks want to contribute to the development of databases in order to get the information that they need, but when we came along, that didn’t exist, we actually had to build that ourselves.

So today, we have a trade finance product called Growth-As-A-Service and it actually has a chassis that is Islamic finance which is beautiful and elegant because it prevents us from being a bank, it is a fully structured process for owning an asset from the beginning to the end of a transaction so it's really collateralized without having to pay additional collateral. It's very streamline, it's very lean in it’s structure and it keeps us from having to deal with going to the bank and going to court to enforce a lien when a customer doesn't pay us back.

When we started, we thought that we were going to be an investment platform for the diaspora to put capital on our platform to fund businesses in their home region. Six/seven years ago, there's no way that was going to work, it was ahead of it's time, there was no way to do it, the SEC would have frowned on it, all of the litmus tests for an accredited investors would have been completely violated and just how do you build a platform with as many languages and risk profiles for that many people considering we've got 54 countries, 1.1 billion human beings and many of them informal, you can't find them anyway so that idea had to be completely scrapped.

And then we thought, alright, let’s just partner with micro finance institutions and help them to do better lending to businesses that way we won't have to buy a banking license. It's a good idea in theory until you [inaudible] service, we’re talking 2014/2015, you find that many of these small micro finance institutions don't even like to have that much technology because they don't want that much clarity or trust-based business. They've been setup so that they can fund their own projects.

So there was no way we could scale when they take maybe two to four weeks to make a business decision and our technology took 60 seconds to do a prequalification. Now I will say this, hands in the air, one of our favorite platforms from back in the day was SocietyOne from Australia, remember them?

Peter: Oh, yeah, yeah, sure, they're still going.

Viola: They’re brilliant. When we saw their first demo at one of your first events, Peter, at the speed and the elegance, we were so enamored and thought, imagine what this will do on the African continent. So we actually spoke to them, they gave us some great guidance, they built out our very first MVP. It went much further after we realized that micro finance isn’t really where it is at.

You can't even deploy that much money to them because they've got treasury limits. We had to go back to the drawing board and change the questions we were asking from, how can we give businesses money to what do they want to do with it and that's when everything changed. That's where the biggest pivot before this recent one has occurred and GLI, Crowd Credit and all the other institutional investors came on board and things just took off.

Peter: Right, right. So then today you're working...is it importers and exporters, they're the primary target audience, is that correct?

Viola: That's right, that is correct.

Peter: Okay, and so these are SMEs, African SMEs from Cameroon, Côte d'Ivoire then. What other options do they have if you say like the banks won't lend to them, how are they obtaining capital to sort of build their business?

Viola: Brilliant question. Many of them are going to what we call "the grey market." This is where they go to their informal family groups, social groups, ethnic groups who save money together every month and every month that they meet, they rotate who gets the pot of cash that they collected at the meeting. So you end up with these very long cycles of waiting for capital to do business which adds to the overall problem of the African SME which is cash flow management.

When we understood that, that's when our innovation began to shift and change. The typical business will go to a bank or a micro finance institution because they just come back from an international location where they want to buy raw materials or they want to buy inventory to sell in their shop. By the time they get back from China, Tokyo, wherever, go to the bank, wait two to four weeks for a decision, get as much money as they can not taking into account the customs duty or customs clearance, find an expensive way to send that money to the supplier, wait for the supplier to send the goods to them. It could take as much as an additional 90 days.

In the meantime, their shop is sitting empty, they might even be getting some goods from a competitor just to look as if they're still in place. Then they have to sell everything as quickly as they can, pay the bank back and do it all over again. Interrupting that cycle is a $330 billion credit gap opportunity and if you look at it from a trade standpoint as to how much money these businesses need for trade, it's somewhere close to about $2.3 trillion.

So Ovamba interrupted that, disrupted it by finding investors who are willing to allow us to put as much as a half million Euro as a transaction amount to buy and import and use logistics for these customers to bring in goods that will match their ability to smooth out the cycle over three to six months period of time and make sure that they have more inventory before that cycle has ended.

That means that their bank, their capital in their bank is still sitting there, the goods have come in, but they never go through that 90-day drought again and we're now assessing risk and evaluating service fees on the location of the inventory and the speed at which they can sell to their customer base which is now more loyal and more sticky. We also get to dive deep into their value chain, and their supply chain, when they bring their best retailers to be funded by us after we've already funded them on a wholesale basis.

Peter: Interesting.

Viola: It is a very ecosystem...yes, it's a very strong ecosystem. Explaining this to investors has challenges and opportunities. Some investors view fintech as a traditional lending opportunity where you give money to customers, but we've resolved the fact that it's very difficult to do unsecured lending and it's even harder to do collateralized lending, very bulky, it's very messy. But once they understand that we're talking about trade and not loans those that get it, get it quick and they see the impact so that's where we are.

Peter: Okay, so then let's just...I want to unpack that a little bit. So let's talk through an example and how...I'm curious about a number of things, the terms and the financing that you're providing, who actually owns the goods as they're in transit so maybe you can just talk us through an example.

Viola: Sure exactly. Peter, I love the way you've asked the questions because that really assigns some consideration to the risk areas of these types of transactions. First of all, the goods stay in the ownership of Ovamba and as long as they are in our ownership, the way our subscription agreements are written, the note participation flows the ownership and acts as the ownership to our investors. So we're collecting on behalf of them and we're liquidating on behalf of them and we're managing the asset on behalf of them.

The goods stay in our physical and in our legal possession. The way they stay in our ownership physically...it's very hard unless you've been to the continent. Some people have kind of an accidental view in their brains as to what it looks like, but customers who have never had the ability to have enough capital leftover from profits to build a warehouse, will have some sort of warehousing facility, but because they're small it keeps their physical constraint to the point where they can never sell more goods to have enough revenue, profits and cash flow to expand so they stay small.

That's another area that we've disrupted in the physicality of the geography by doing what Airbnb does; get all of the customers who have warehouses and act as if they're apartments whereby we can utilize available space in the ecosystem because Ovamba has created a dashboard of where all the empty spaces are so we can provide warehousing support, both by stock controllers and physical space available, that we can rent on behalf of customers to manage the asset during the transaction.

That's a great way of being as far away from banking as possible because as you know, banks can't take assets on to their books, we're an off-balance sheet trade and finance structure...what was the other part that you wanted know?

Peter: The terms of the transaction, let's go through it.

Viola: Sure, six months usually and what we find is the transactions lasts about four months. Some customers, because Growth-As-A-Service is a la carte, they just want the purchase and the customs clearance and they might make a bullet payment and take all of the stuff away with them. Some customers want all of that plus logistics as in delivery to a specific location and they might pay that off over two/three month period as in they buy the goods back over that two/three month period, but six months is the limit, half a million euro is top end.

Portfolio averages about between 86,000 and 110,000 as a transaction amount and everything is fee-based. Ovamba earns an origination fee on all transactions and we can return to our investors anything between about 7 and 15% net of taxes on what is basically a full secured collateralized product and is short term.

Peter: So I imagine...I'm just thinking of the small business owner who's doing this. They want to import some products, let's say they're selling it, I imagine many of them wouldn't be able to afford to pay you back in full until they've got some revenue in themselves. Is that why you have this 6-month kind of term that's set in place?

Viola: Yes, and that's why the payments are linked to the sale and rotation of their inventory. So the faster and the quicker they sell, the faster and quicker they can buy the goods back. So customers can pay...we charge fees on a daily basis, we have some of our customers who pay every single week, we have some of our customers who are now learning how to get advanced orders for the goods that they're bringing in and as soon as they get money, they come and pay and we will deliver on their behalf; almost like an Amazon fulfillment structure.

Peter: Right.

Viola: So it's always a very big cash and carry that has been digitized for the African market as a way of gaining financial inclusion because what are they wanting to get included to...the opportunity to have money to do business. This is just another way of doing it in a derisked fashion and to teach them how to run their businesses better.

Peter: Right, right. Okay, that makes sense. So then how do you underwrite these businesses and these transactions. I imagine, as you say, it's not like a loan, you've got a hard asset that you’re acquiring. How do you decide which businesses to go and which businesses to reject?

Viola: Great question. The algorithm that we've created and the machine learning has allowed us to make these massive improvements in how we do that from transaction to transaction. So we're looking at their personal information, their family information, their business experience, the state of their current business, who their suppliers are is a big part of this and who their best customers are.

Some of the businesses that we deal with who are informal don't even keep an account of books, but they've got a few pieces of paper that has got information about their receipts and we've created internal processes and the technology to be able to make sense of that and take a look at bank accounts. Peter, do you realize that in a lot of Cameroon and other countries, you can't even build an API to the bank to get a direct feed so you have to be able to verify that this information is correct.

We are very good at catching when the information is not or it is not as authentic as it ought to be and start to come up with almost a debt to income ratio or how much do you really sell and how well is your business run, where is it located, how many people are buying from you, what is the seasonality of the assets that you're asking us to buy. These are all the things that go into assessing what you call underwriting that we call risk management, risk measurement because underwriting is a credit activity.

We're so, so careful with how we talk about our business because the banking regulator is so quick to jump on anybody who talks about charging interest or doing loans because that is the province of banking only, which we are not.

Peter: Right, right, I get it. I'm curious about how you are getting the funds to actually...who are the investors that you're connecting with that are providing the capital for these transactions?

Viola: We've recently seen...and I just got back from Norway and Amsterdam and people who actually have heard of us who are crowdfunding platforms looking for places to place capital that are a differentiator from what they currently have and Africa does present some enormous opportunities in that respect if you can find a good and steady reliable operator, in this case let's say Ovamba. We also have high net worth individuals and family offices.

The next group of people that we really have found a good way in which to connect, and it took us a long time to learn their language, are insurance companies and hedge funds. Hedge funds want to see volume, which is where we're beginning to head so we are looking forward to engaging them. But the recent pivot I mentioned to you about is we now have actual banks on the continent that want to do a pilot trial with us by having our product, our technology and our innovation and ways in which we manage businesses in the bank to deliver as a trade finance solution to their deposit account holders. That's going to be an excellent way for us to improve our volume, and our partnership and channels.

Peter: Interesting, you'll have a software as a service division of your business, it sounds like.

Viola: And somebody today called it platform as a service and I thought, I like that.

Peter: Right.

Viola: I mean, the product actually has a trademark name of Growth-As-A-Service because what we are showing is the ability to take businesses from being able to absorb X amount to more and more and measuring the amount of inventory that they can churn out. But you're right, Platform-as-a-Service or any of those names would make total sense in describing us.

Peter: Right, right. Okay, so you talked about scale, I mean, can you give us some sense of the scale you're at today?

Viola: Yeah historically, in the numbers that we've recently put together when speaking to anybody who's doing due diligence, what they will see is a recent announcement that's slightly late, at the end of last year, we realized that we actually had processed more than a thousand transactions. And that is in light of how long our beta took for us to get to full productivity and we've been out of beta now for, end of this year it will be two years.

We have funded almost 370 companies, we have deployed about 23/24 million euros, we have a default rate that hovers between 6 and 8% and for us a default means late or slow to liquidate. It very rarely ever means loss of capital because the goods belong to us and all we need to do is sell them.

Let's see, what other...in terms of scale, that is in Cameroon with a very…say less than 5% of those numbers belonging to Ivory Coast as we only just got into that country about a year and a half ago where we experimented with cocoa exports which will be good if we can partner with the kind of investor that likes soft commodity exportations, otherwise, their government is very keen to have us do exactly what we did in Cameroon and we're in negotiations with a 6-branch bank that wants to have the Ovamba platform in their system.

The scale is growing, but one of the things that happens when we have these conversations, Peter, with western investors is they immediately compare us to the fintech platforms of East Africa, the M-Pesa's of the world.

Peter: Right.

Viola: PayGo and all of these great companies. But what they don't realize is these are smaller payment transactions at a high velocity number compared to us, whereas we are large-sized transactions with a very different cycle. At the risk of sounding incredibly cliche, we're talking antelopes versus elephants, one is bigger, one runs faster (laughs) so it would be very unfair to compare us and we have a hard time at getting people to understand payments and trade are not the same market at all.

The hockey stick that we are looking for where you might see lots and lots of transactions doesn't mean that they're all quality transactions, whereas for us, we've been so excited a recent audit showed that all of our transactions are actually profitable so the model is tested and we've done it in a region where there's been some civil unrest.

Peter: Right, right, yes indeed. Anyway, we're just about out of time, but a couple of things I want to get to before I let you go.

Viola: Sure.

Peter: Last year, I remember this article, you were featured in Vanity Fair…

Viola: Oh, yeah.

Peter: …as one of 26 black women who have raised at least $1 million in funding which is a very small number of people, so what do you think is needed? What is it like out there when you're trying to raise the money, what is needed to sort of increase this sort of…dramatically increase this number from 26?

Viola: Well the number is now at 34 and maybe more than that and I think what needs to happen is these success models and understandings of how black people raise companies is sometimes different from the way a white male would. It's a fundamental difference that many people are uncomfortable talking about.

The amount of time it takes for me to get somebody comfortable to invest in a black led tech company for the African market that does not have the same comfort value around it than, let's say young, white Silicon Valley guys with a hoodie with a business plan that they might even get rewarded for failing at.

Whereas as one VC that said to us, you've got three or four black investment opportunities in your portfolio and one or two of them fail, what you end up saying is 50% of black businesses fail. That is not the way to look at it. Also, some of the tools for success that we bring to the table you don’t know how to calibrate for. It's just a very...you have to evaluate and be willing to hear and learn a lot more.

The value that I deliver on a company with such a small funding footprint is huge, if you compare me against the next competitor that is remotely like me with more money to do better things faster on an operational level. So we take longer to grow because capital is so constrained, but you have to look at it in a variety of different ways. But, you're right, a million is tiny and 26 women is miniscule.

Peter: Yes, yes, indeed. Hopefully, there will be much more of this going forward. I know that's what the whole venture capital community needs, it needs a big shake up, it feels like, but that's a topic for another day. So last question then...

Viola: Absolutely.

Peter: So what's on your radar, what's next for Ovamba?

Viola: The fact that we have launched what will probably be the African continent's first licensed opportunity, we're going to due diligence with individuals that want to buy the right to operate Ovamba almost on a franchised basis on the continent and our partnership with banks in this way is exciting.

We are so inundated now with the process of due diligence, the business model has been created, it's been tested, it’s gone through everything and now we're getting investors beginning to ask questions, how can I invest in Ovamba and that is going to be great. The only thing it means is we’ve got to raise the capital to get some of the best skills and intelligent, smart business operators and managers to help this business. So it's a great place to be. It's been a long journey, we are now six years, six years since we first encountered you in New York and we're still here.

Peter: Yeah, it's great to see. I think you've got a fascinating story, Viola, and I wish you all the best. You've taken on a big challenge and it sounds like you're really getting some traction now so congratulations!

Viola: Thank you.

Peter: I appreciate you coming on the show today.

Viola: It's been a pleasure, we appreciate it. Thank you so much and greetings from Marvin.

Peter: Yes, indeed, tell Marvin hi. Thanks, Viola, I'll catch you later.

Viola: Have a great day, cheers!

Peter: Bye.

You know many western entrepreneurs ignore Africa and the reality is the opportunity there is immense as Viola just talked about 1.1 billion people, the number is growing rapidly, many of them...I would argue, most of them are underserved when it comes to financial services. There is tremendous opportunity for all kinds of different fintech companies to gain a foothold and to grow and companies like Ovamba are leading the way in a very targeted niche and there are certainly other examples of companies that are also starting to target it, but I think the opportunity there is immense and one that is only going to grow.

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

Today's show was sponsored by LendIt Fintech Europe 2019, Europe's leading event for innovation and financial services. It's happening September 26th and 27th at the Business Design Centre in London. Registration is now open as well as speaker applications. Find out more by going to lendit.com/europe

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