



PODCAST TRANSCRIPTION SESSION NO. 284-RAM PALANIAPPAN

Welcome to the Lend Academy Podcast, Episode No. 284, this is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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Peter Renton: Today on the show, I am delighted to welcome Ram Palaniappan, he is the CEO and Founder of Earnin. Now, Earnin is a really interesting company, they've got a unique model that Ram gets into in some depth. They, basically, offer an Earned Wage Access product for people who want to access money that is, actually, rightfully theirs in many ways, access to money before payday.

So, we talk about the types of people, the types of use cases they have, how the model works and their very interesting way of generating revenue which is primarily based on tipping and so that's a really interesting conversation in and of itself. Ram also gets into what this population really needs and how, you know, companies like Earnin are becoming their succor financial product. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Ram!

Ram Palaniappan: Thank you, it's great to be here.

Peter: Okay. So, I'd like to get this thing started by giving the listeners a little bit of context and some background. You've had quite an interesting career, why don't you give us some of the highlights of what you've done before Earnin.

Ram: Sure. So, prior to Earnin, I was running another payments company that was always trying to help people who were in the same customer segment so that's helped me a lot with one, like understanding what our customers go through, how difficult their life is, how expensive it is to be poor. It's also given me a really good understanding of how our payment system works and how the banking system works. All of those, it really informed like the work that I do right now.



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Peter: Right, okay, So then, was there something specific that....what was the idea that kind of led to the founding of Earnin?

Ram: So, I never really intended....I didn't really like set out to start a company, but it happened when I was at my previous company because I noticed that some of my employees were running into overdraft fees and payday loans. That didn't make any sense to me because I thought I was paying everybody well. I spoke with one of them, the problem she had was that she needed money the next day, couldn't wait till the following Friday. From my point of view, she already worked for half of the week and so we already owed her money for the work that she had done. I tried to get our payroll system to pay her and I couldn't (Peter laughs) so I was like, that bad. I'll just give you the money now and when payroll gets to doing it's stuff, you just pay me back and so I was doing that for a handful of my employees for several years.

I left the company and I moved over here to the Bay Area and the people I was doing this for, they wanted to know if I'd still do it for them and I didn't mind doing it. These are people who I'd see in the office everyday and so I continued to do it for them and initially started out with them sending me messages over Messenger and at some point, I realized that that was not going to work very efficiently. So, I built a really simple web form and then just had them fill out the form whenever they needed money.

Then what happened was people who I didn't know tried to use that web page (Peter laughs) like okay, this is more....I mean, if I can do it for them as well and what I realized was that when someone has access to their pay when they need it, their life is much simpler. They're paying all their bills on time, no more late fees on bills, no more overdraft fees, no more payday loans. That's when I realized that if I didn't try to make this into a product, I will always feel bad about myself.

Peter: Right.

Ram: And that's how it started. And likely the need was not just the people I knew, there's a lot of people who can't wait till payday. The whole concept of payday is really fascinating. Till a few centuries ago, people were paid everyday. It was during the Industrial Revolution that we moved to where we pay people either two weeks or on a monthly cycle and if you think about it as an employee, you'd rather get your pay two weeks before you work. Your employer would rather pay you two weeks after you work and the fact that today every employer pays people two weeks after they work, we don't even question it, shows you how much the balance of power shifted away from people to companies.

Peter: Right, right, that makes sense. I guess you've really focused on a certain population here, maybe before we get into that, why don't you just tell us how your product works exactly today. Obviously, you're very broadly sketched it out, but just maybe talk about exactly how Earned Wage Access piece works.



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Ram: Yeah, sure. So, we have an app and the app is available on Android and IOS and it does a number of different things. One of the products that we offer is what's called Earned Wage Access and the way that works is once you set up an account, you'll be able to see how much you've earned in real time so as you work, you can see how much you've accrued in earnings already. And then if you want that, you can transfer it to your checking account and the money shows up in your checking account almost instantly and you spend that with your bank's debit card. There is no fees, no interest, we let our members pay us what they think is fair. That's essentially how it works and basically it takes you out of having to wait for your payday and lets you access your pay whenever you need it.

Peter: Okay. So then, how do people settle up, do you verify that what they're saying is actually....do you go into the bank account to make sure like they're saying, hey, I earn \$60,000 a year, but actually, they're earning really less than that. How do you verify that?

Ram: Yeah. So, the bank account is one part, the other piece that we have built into the app is very much like a time attendance system and what that lets us do is know how much somebody is worth everyday. So, it's very similar to modern time and attendance system like TSheets from Intuit. We have some more technology, we can basically construct what someone has earned since their last payday as well, again, that can basically construct what we call the Earnings Account.

Peter: Right, right. And so, they go into their app and they get a real time view on how much they've actually earned. I mean, it's a receivable right now, it's not cash, but they....you know, it's payable to them, they can go in and then what can they take out of that. I mean, they can't take it all out, I imagine, what are some of the parameters?

Ram: And so, you are correct in that they can see what they've earned till that point in time and that's actually the primary use case of the app, people want to know what they've earned right now, it helps them budget as well. We get over 25 app opens a month and it's because people come in to see how much they've earned till that point in time and then we let them take out a part of that. We limit it to \$100 a day and typically, it's also limited to about \$500 a pay cycle.

Peter: Okay. And then, what is the primary use case, I mean, is it groceries, is it rent, what are the use cases that people are doing this for?

Ram: Yeah. So, the biggest one is food and groceries and people also use it to buy gas, they're using it to pay their bills, utility bills are a big one, using it for rent and then to avoid overdraft fees.

Peter: Right, right, okay. I mean, how much do you notice that.....because if you've got insight into the bank account, you get a pretty good idea. I mean, do you notice overdraft fees going down, payday loan applications going down that sort of thing?



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Ram: Completely, yes. So, you see overdraft fees going down. Our customers, if they didn't have our app, they would incur about four more overdrafts a month, they also tell us that their late fees have come down, they tell us that the late fees have come down by about \$55 per month so they're paying their bills on time. The other really interesting impact that we see is attendance goes up.

Peter: Right.

Ram: When attendance goes up, your income goes up as well. So, we're seeing that when someone starts using our app, attendance goes up, income goes up and it goes up by about 8% over six months.

Peter: That's interesting.

Ram: It's amazing and one of the mechanics by which that happens, which I thought is really interesting, is around gas. So, our members typically buy gas \$5 or \$10 at a time, they can't afford to lock up \$50 in their gas tank. Now, if something happens before payday and they can't buy gas then they would have missed work. But now, with the app they can access their previous days' earnings, buy gas, go into work and they don't miss work.

Peter: That's really interesting. So then, Earned Wage Access isI was on your website just before we came on here and you've got some interesting other products so why don't you tell us a little bit about like what you're trying to do holistically beyond just the Earned Wage Access.

Ram: So, what we're trying to do is build new types of financial products that get people to a better place financially so Earned Wage Access is one of those. We are seeing a huge amount of savings come from that. We also have a product called Balance Shield which lets you set up alerts on your checking account so that when you're going to run low, you know, when you can either pull back on your spend or you can access your earnings to avoid overdraft fees.

We have another product Tip Yourself that helps you put money aside and then you can either put money aside to cover rent or if you want to plan for something longer, you can set up some kind of goal to hit. We see that about 85% of our members are using the app to actually set up recurring automatic movements to keep money aside for their future.

We also have another product called Cash Back Rewards which is very similar to cash back rewards in the credit card. So, if you have a good credit card, you get 2% cash back on your purchases, just a subsidy on your purchases. The ones who really need the subsidy are my members and they don't get those credit cards.

Peter: Right.

Ram: So, what we've done is we're dealing the reward base from the card base so you can continue to spend with your bank's card and we have a network of merchants where if you



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spend any one of those, they will give you cash back. The cash back system in the app and whenever you want it, you can pull it down into your account.

Peter: Interesting. So, you're signing up merchants to provide your population with a special deal. I mean, that's super interesting, like is this fairly new, I mean, how big is this program?

Ram: So, I would say like our next generation of products. The first one that we started off was the Earned Wage Access and we have a good part of our members actually use that. It's not going to be on every transaction because it's for certain sets of merchants. Most of them are enrolled in this and they go to these merchants and they get the reward back.

Peter: Right, interesting. I went back and watched your session at LendIt Fintech USA last year and you talked about community and it was a really interesting point that you made. You had these great stories about different.... I think it was a plumber in Florida or somewhere where they're helping each other out, just members of the Earnin community helping other members out andI mean, this is something I think many fintech companies would love to emulate. I mean, how have you kind of fostered that sense of community?

Ram: Yeah. So, it started with one of our core beliefs which isI think like society will be much better if we're all helping each other instead of everyone being isolated and independent. We were trying to build to that future, we are trying to build to that future through our product. We have many peer-to-peer attractions, we let our members help each other, we let them send messages to each other and we're seeing that behavior shift into other areas like what you said with the plumber. We've seen a lot of this happen, particularly since Covid, where our members are helping each other, find government assistance, get on to unemployment, understand what's happening with stimulus checks. We're seeing a lot of like people helping each other out, particularly in the beginning of COVID.

When people lost their jobs, it was a sudden shock, they were sometimes struggling to find meals and you can see the community like buying Uber Eats for another family, like there was a lot of this kind of like people helping people happen. In the plumber, Richard, his story is also really interesting. He had much less work to do during COVID and one of our other members had a sink that was flooding, it was fairly close to where he was and so he went to help her and she thanked him in one of our forums.

And then there was another lady from Georgia who said her sink was also clogging and she was at home with her daughter and her grandson and wanted if there was anybody close to her who could help. Richard offered to down to Georgia to help and so a number of our members pooled together to pay for his gas, he went over to Georgia, he needed to get some parts because he had to stay overnight, four other older members pooled together to pay for his hotel room and then he fixed the sink the next day and came back.



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Peter: Right. That is a great story and really to me it gets to the real heart of fintech and what the promise is. That promise is, obviously, bringing people together who would never have met, never have any reason to know each other, but through the connection, through their phone, most likely.

Ram: Yeah. It's also I think interesting to like recognize the challenge that come with that because we've never previously, in financial services, contemplated in people helping each other.

Peter: Right.

Ram: How every product is defined, whether it's in regulations or otherwise, it's always been institution to individual. It doesn't contemplate people who try to help each other like making a product work because of those peer-to-peer attractions.

Peter: Right.

Ram: I think people helping people is not really.....we haven't built products around people helping other people.

Peter: Right. Or regulations for that matter, we haven't really imagined a world like that, it's pretty interesting. So then, I'd love to get a sense of the size you guys are at like how many members do you have right now?

Ram: Yeah. So, we have a few million members, we have employees so all of our members are employees of some company, we have employees from about 350,000 different companies, but 100,000 of these companies have less than 25 employees.

Peter: Right.

Ram: We have provided a few small business employees as well who are using the product, many who work for the government so think of TSA agents. We have lots of teachers who use, we have lots of people who work in like groceries, retail, call centers, people who are working hard, they're bearing the brunt of the pay cycle.

Peter: Right, right. And so, how important is it for you to have this business model that's focused around tipping rather than charging a fee, as most businesses charge fees. You can offer this for free to your members, like is that like really a core piece of who you are as a company?

Ram: Yes. So, I think if you look at financial services, it's always been like all of the control is centralized like the bank decides how your products are and you passively have to accept that. Your employer decides what your pay cycle is, you have to accept that and our customers, our members are always at the losing side of anything financial.



Peter: Right.

Ram: And we're trying to build in a different way where rather than being passive recipients of the product, they are active participants in the product. And so, that's what we're trying to do and if you think of it, like a bank charges \$35 for an overdraft fee, that erodes trust.

Peter: Right.

Ram: What we're doing is we're letting our members choose to pay whatever they think is fair, that actually builds trust. And so, it's a very different type of product when you actually put the customer in charge instead of dictating to the customer what happens.

Peter: Right. What percentage of your customers pay something, even if it's a very small amount?

Ram: So, most people pay something, they may not pay every time.

Peter: Right.

Ram: It depends on what the situation is, but at some point in time, most people pay something to support the service.

Peter: Right, right. And then, is this your only source of revenue, is the tipping really the only wayobviously, you have employees, you've got bills to pay, you need to create a sustainable business. I mean, are there other sources of revenue?

Ram: Tipping is the main way in which we sustain ourselves. There is a little bit that comes out from the cash back offers where the merchants will sometimes give us a little bit as well.

Peter: Right, right, okay. And, obviously, you've been doing this now for many years so the tipping.....I mean, you've got a...it's so funny, no, not funny, it's antithetical, I guess, to most businesses where, you know, it's a fee for a service and that's how businesses operated for millennia, but you're sort of turning that model. I mean, do you think this is ...is the tipping model something that you think can work across businesses?

Ram: I think, it depends on the type of business. If you look at the work we're doing, we're dealing with money that is digital and it's much easier to do this with a digital product than with a non-digital product.

Peter: Sure.

Ram: One of the pieces that's really important to make this work is to keep your cost really low...

Peter: Right.



Ram:...because everyone is going to look at what the alternatives are and they'll pay you based on that, they're not going to pay you more what it costs somewhere else. So, almost by definition this will monetize lower than all of the other alternatives that somebody has. So, the key role here is to make sure that you can run this really efficiently. That's where we built it to understand someone's earnings actually helps us a lot.

Well, to do this the way everybody else does, which is to hope that it will all work out and because it may not always work out, they're going to have much higher amount of cost that's why it becomes expensive. So, I think like our technology gives a huge advantage which then lets us do business in this type of model.

Peter: And I'm also wondering if you get more of a positive selection on....like you've got to underwrite these people, right because, I imagine, you tell me, but I imagine you don't do this to every single person who requests it, but how...I mean, the fact that you've got a tipping model, how does that sort of impact the way you underwrite the people who are coming on your platform?

Ram: There's no connection between the tipping model and the underwriting. The underwriting essentially is figuring out of somebody's working and earning money or not.

Peter: Okay.

Ram: What it does though is we are always the best option for anyone. When they are prioritizing where they want to like be in good standing, we're going to be on the top of that list because all the other alternatives are not favorable to them.

Peter: Right, right, okay. And so, do you have...because you're taking on risk, right, like someone, you're taking on some risk because you don't know whether they could get fired from their job the next day and not be able to pay you back, I mean, do you have some stats on kind of how much or what the losses are that you've gone through over the course of your operation?

Ram: Yeah. So, we do have some risk and some loss and one way to describe when someone loses their job, the risk truly is we did not correctly recognize that they lost their job because we're trying to figure out your earnings continuously during the day and if you stop working, we should be able to pick that up. So, it's really very, very minimal and in terms of like scale, some of our large costs really are things like moving money up and down. We move money almost instantly into people's bank accounts, we send that over like the network rails so we use ATM networks and we send it backwards and those have costs, we cover all those transaction costs.

Peter: Right.

Ram: We also have access to capital that we paid for in order to be able to fund these, we have those costs. Actually, those costs are quite material and the risk piece while it does exist, it's far lower than what you would expect if you would look at alternatives that our customers would go to.



Peter: Right, right, for sure, I get it. So then, I'd love to get some sense of how this model that you've created....I know you're not the only one doing tipping, obviously, there are others that have a similar approach, but certainly you seem to be the largest doing this. One question I've always had is are you a profitable business, I mean, is this really something that has long term potential as a business model?

Ram: Yeah, it's an interesting question. When I was starting this, it was a choice that I had to make, do I try the structure it as a for profit or a non-profit?

Peter: Right.

Ram: And having like seen what happened in 2008/2009 which was the previous crisis then where the same customer base needed a lot of help, what I found was that that was when the non-profits could not raise money. I was when people needed help the most was when it was most difficult to raise money. It was not like the greatest way to help people who were going to be impacted during the downturn. And so to me, the way to make this work was structured as a for profit.

Peter: Right.

Ram: And I think what we're seeing that for many people won't be coming to default a financial app. It's not that many financial apps that you open 25 times a month. In fact, it's really interesting in that if you would look at your bank account, most days you'll see what you're spending, only twice a month you'll see money coming in.

Peter: Right.

Ram: So, you get the good news twice a month (Peter laughs), bad news everyday. And what we're going to do is like show you how much progress you're making everyday. To me the other piece that's fascinating with this is as a business, I know what my revenues are everyday, everyday I know what my revenue is, but only at the end of the month do I know what my costs are.

Peter: Right.

Ram: Whereas, as an individual, I know my costs continuously and I get my revenue at the end of the period. It's just interesting how the world is so different for business compared to an individual. What we're really doing is building what I think is a much better way for people to manage their money, they're budgeting much better. When you're able to synchronize your income and your expenses, your life is much smoother. Just think of what happens on payday otherwise, you get athere's lots of studies on this, but when you see money coming in in a large amount, on payday you feel like you have a license to spend.

Peter: Yeah.



Ram: And then your discretionary expenses are what goes up, but if you were to get money more continuously and you can synchronize it with your income, you actually get much better at managing your money. It's a little but like moving from batch manufacturing to just in time. Manufacturing figured this out 60 years ago, but when they were doing batch manufacturing, it was a lot of wastage because you would manufacture one batch, but the quality wasn't good, you throw things out, but when you move just in time everything worked much better.

Peter: Right, right. So, that brings to another question here because...I mean, I think...I'd love to get your perspective, is it inevitable, do you think, that the way people are paid, people with W2 type wage earners, it just feels like to me the weekly, bi-monthly, monthly pay cycle, whatever it is, it's an anachronism from when we got paid in cash and when things were manual. Now, it's just all technology, I mean, ADP could pay everyone of their people everyday, if they so chose, it's just a software, its actually pretty trivial when you think about it. I mean, what's your vision for the people of...wage earners, in 25 years time or 20 or ten years time, will everyone just get paid whenever they want?

Ram: Yes. I don't know if the time is that far out. I think people will get used to getting their pay whenever they need it before that. I think we're going to question it at some point like how did we ever accept.....

Peter: Right.

Ram: ...some piece can hold our pay for two weeks.

Peter: Yeah. Because, I mean, you need the money more than they need the money, most of the time, anyway. So, where does that leave Earnin if ADP switches to daily pay or switches to on-demand payment which is probably more what you're offering?

Ram: Yeah. So, we already do on-demand pay and so I think that might be the way in which employees finally get to...getting their pay whenever they want.

Peter: Right, right. So, if ADP does it, where does that leave Earnin?

Ram: We're already doing it and so we're only having customers who are doing an ADP has to move to do this, to catch up to where we are. But, I think, like any people will be another player in the space and whichever product the consumer likes the most should be what they use.

Peter: Okay. So, you just feel like it's...yeah, I see what you mean because, obviously, not everyone is using ADP. I mean, you talk about a lot of your members are 25 employees or less, many of which are just using, you know, QuickBooks or something.

Ram: And it could be the employee's choice.

Peter: Right.



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Ram: Like we're trying to do things from the employees' point of view, like we're building ways for them to put money aside, we're trying to help them get some money back from merchants where they shop. And, I think, eventually this moves to like what is a consumer's first approach and quite often, the more traditional payroll companies...we're looking at what their customer, who is the employer not the employee, wants. What we try to do is build what the employee wants.

Peter: Right, right, I got it. So then, I want to get back to something else, you said just a few minutes ago that....you know, you talked about becoming a non-profit because when times are tough, they find it hard, non-profits find it hard to raise money. You know, times have been tough for the last ten months, I mean, I know for a lot of your community they had stimulus checks to fall back on, but I'd love to get a sense of like usage of your app, did it go up, did it go down, what happened during the pandemic?

Ram: So, there are two things that we started during the pandemic because there was a huge loss in jobs and we've seen some amount of recovery after that, but pretty uneven recovery. And then, we saw bank balances go up in April with the first stimulus check and we've actually been following how the bank bounces, have been trending and then we saw it go up again a little bit with the last stimulus check for \$600.

We contribute our data to a group out of Harvard called Option Insights, they've been working with the Gates Foundation consulting with various governments as well as the incoming administration on policy response because we have almost real-time inside into what's happening to people's financial lives.

Peter: Right, right, for sure. And then, we're almost out of time, but a couple of more questions I want to get to. How are you getting the word out there, I mean, are you working purely through the consumer or you're also going into businesses because, obviously, it's a two-pronged approach you could take.

Ram: Yeah. So, our biggest source of new customers is our current customers telling their friends and family. We also do have employers who tell their employees about it and some of that is through...we're partnering with the employer and helping them with the communication. Some of that is much more informal where we know in many, many stores...people will walk into the store, go to the manager and ask an advance, the manager knows about our app and just tells them to download the app and use it. Some of that is without us working officially with the employer, some of these where we have relationships with the employer.

Peter: Right, right, okay, interesting. Last question then, there's a lot of ways you can take this. Obviously, you've got a very engaged customer base, you talk about sort of their.....you are becoming the primary financial app that they use, I mean, what's next for Earnin, where are you taking this?

Ram: I think we'll continue to build new types of products, I think we're really proud of what we've been able to do already. The impact that we've had whether it's wages or people saving



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money. Another really interesting stat is that about half of our members who could not previously afford \$400 in emergency are now able to.

Peter: That's great.

Ram: Like if you've heard about the \$400 problem, when people are using our app that solves quite a bit of that. There is still so much work to be done like the income gap is huge, the wealth gap is huge and many of these are because of the way the system works. So, we're still like working on products that will help address these. It's very expensive to be poor because of the way the system works against them. There are just so many problems that still need to be solved.

Peter: Right, right, yeah, that's very true. Well, it's a noble mission and I really appreciate your coming on the show today, Ram, and best of luck to you.

Ram: Thank you.

Peter: Okay, see you.

I just want to go back to what Ram said, a minute or two ago, which I find just really fascinating. He said, around a half of the members had trouble with the \$400 emergency expense now are okay with that. That alone, I feel like, is a reason to get excited about what fintech is bringing here, I mean, he said something several times and it's a cliché almost that it's expensive to be poor, but it's also true that these people pay so much more in fees, they struggle to avoid late fees and overdraft fees.

If you provide them with a better product that is, you know, more in tune with their needs...most of these people have money coming in, they're responsible people, but they, for whatever reason, the emergency expense, they find it hard to avoid these late fees. But, if you can have a product like this where the money that is owed to them is able to be accessed.... that's one of the reasons why I'm so bullish on Earned Wage Access.

I think it's a great product because I want to see payday lenders go out of business, the whole industry go out of business, not because of legislation or anything like that, because demand is no longer there, because people are using better products and that's what I think Earned Wage Access is.

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

Today's episode was sponsored by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. LendIt's flagship event is happening online this year on April 27th to 29th with the possibility of an exclusive VIP in-person component. The verdict is in on LendIt's 2020 event that was held online with many people saying it was the best virtual event they'd ever attended. LendIt is setting the bar even higher in 2021, so join the fintech



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