Welcome to the Fintech One-on-One Podcast, Episode No. 370. This is your host, Peter Renton, Chairman and Co-Founder of Fintech Nexus.

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Peter Renton: This episode was recorded on our Podcast Stage at Fintech Nexus USA at the Javits Center on May 25th. It features Rob Frohwein and Kathryn Petralia of Keep Financial. If you've been following fintech for any length of time, those names are very recognizable, they were the Founders of Kabbage, they sold Kabbage in 2020 and have both recently left.

Rob left in December of 2021 and Kathryn just recently left, but they have been working on a new company which is all around compensation, revolutionizing compensation. They've got an interesting idea, it's something that hasn't been done before and they've already raised a decent amount of money and we talk about what they are doing in some depth, why it's needed and what's wrong with employee compensation today. It was a fascinating episode, hope you enjoy the show.

Alright, here we are at Fintech Nexus USA and joined by the delightful Kathryn Petralia and the delightful Rob Frohwein.

Rob Frohwein: I don't get the difference. (laughs)

Kathryn Petralia: We should get our own adjectives.

Peter: Yeah. What's you adjective? The intelligent Rob Frowein. (laughs)

Kathryn: Not only that.

Peter: What will be your adjective, Kathryn? (cross talking)

Kathryn: Amazing.

Peter: Amazing. Anyway, we are here to talk about the new company, we're not talking about Kabbage today as anyone who has been following fintech for any length of time would know that Rob and Kathryn were the Founders of Kabbage, sold to American Express in 2020. Rob has left the company several months ago and Kathryn, since it's May 25th, I believe you have six days left before you move on. This is being recorded so....

Rob: The nodding of your head is not going to be picked up (Peter laughs)

Kathryn: Yeah, sorry, got it, when I'm leaving, minus six days.

Peter: Alright. So, let's get started by, maybe I'll start with you, Rob. You left Kabbage in 2021, I'm not sure what month it was.

Rob: December.

Peter: December, okay, so it's been almost six months.

Rob: December 17th.

Peter: Okay, a Christmas present. So, what have you been doing for the last five months?

Rob: I tried my hand at gardening although I worked on that even before I left, but pretty immediately came up with the idea for this new company, really started, you know, putting together a pitch deck for what might look like back then, what I do and I have some ideas as I sort of think about how to present those ideas. I think about how those ideas would actually generate revenue and hopefully, profit and so I spent the next several weeks doing that.

Peter: Okay. Kathryn, you still are gainfully employed right now, did you want to take some time off as well? You're going straight into a new venture with Rob, what do you think of him after about 12 years at Kabbage? (laughs)

Kathryn: Yeah. It's just sort of like a dancing team that you hear about, now working with him. No, I don't want to sit around, I'm a terrible gardener, my husband would not like to have me just puttering around the house so let's get busy.

Peter: Okay. So, let's talk about the idea for Keep Financial. You know, you said you thought about this, not working on it right away, did you have the idea while you were still at Kabbage?

Rob: No, not while I was still at Kabbage, but I was thinking about, I'll try to make a long story short.

Kathryn: Good luck.

Rob: Kathryn is about to put me on a stopwatch here. What I was thinking about, I used to practice law, did you know that?

Peter: I did.

Rob: Okay. I used to practice law and 20 plus years ago, I represented a doctor who graduated at Harvard Medical School and took a job in this very small rural town in Southern Georgia. And so, he had offers all over the country, but yet he decided to move to a town that he had really never been to and had no connection with so you might ask, why would he do that. And it was because the local health system had given him a $400,000 forgivable loan, basically, here's $400,000, stay with us for four years and we'll forgive it.

You know, I was thinking about the world of recruiting and retention, how difficult it is and I thought, you know, if you were going to take this concept, not $400,000, but how do you make it a current day platform that any employer in any place would be able to implement it. Of course, fintech, I'm doing a talk here tomorrow, fintech came to mind as a way to actually implement way to actually create a situation where you give cash today to an employee and create an obligation for them to stick around for whatever period of time you decide.

Peter: Right, right. So, it's a pretty different business to Kabbage completely and I'm curious then this retention, you obviously had hundreds of employees at Kabbage, you retained many of them, I know many of them were there for many years, but is this something that was an issue at Kabbage because obviously there's the.........you have the stock options and there's different types of retention programs that are already in place, what's wrong with that?

Kathryn: I must say working with, managing, retaining, attracting talent was the thing we spent most of our time on.

Peter: Right.

Kathryn: I mean, it was really pretty remarkable when you look back on it, how much of all of our management team's time was spent doing that so we were always trying to figure out different ways to do it. I think people, Rob told the story earlier, I think it's great, we had a really great culture, our people loved working there, they had great friendships, but people would leave anyway even though they loved it and they will do it for money.

Peter: Right, right, okay. So then, tell us a little bit about how it's going to work, what's the concept, how are you going to put it into practice?

Rob: We were thinking about how the structure is, we realized, look, we want to give employees access to cash now, we want them to be obligated to stick around the company or if they leave early to be able to have an obligation to pay it back, we want to have a pretty flexible architecture for an any vesting term and any employer to be able to implement it. We also wanted to have the right tax outcome too because when you're paid the signing bonus upfront from the company or you receive any kind of bonus that is taxed immediately upon receipt.

So, we wanted to structure this in a way that the employee would not incur taxes until those amounts were effectively forgiven and that's what we did. So, what happens is an employer signs up on the system, they want to issue you, Peter, a Keep bonus, they basically say we're going to give you a $100,000, they talk with you about this, after two years, 50% and they're making this up, they can do whatever they want. They can decide the amount of money, they can decide exactly what their investing schedules so in this example I'm using $100,000 in two years, 50% of it to vest and then the rest of that quarterly thereafter for the next eight quarters.

You could set up that plan, you receive the money today and what's really important, from our perspective, is we'll have a lot of employees who are gaining access to more cash earlier in their career, what it does is really drive wealth creation. Salary doesn't really often drive wealth creation, but receiving larger portions of money at a regular time is what drives wealth so you have an opportunity to invest that, to maybe pay down a mortgage or put it down payment on a house, to be able to pay down student debt, to be able to start contributing to a 401(k) Plan or a 529 Plan, whatever they want and so we’re going to have a lot of these employees coming in. And then the next vision for this company is to also be able to provide those other financial services to the large pool of employees coming in.

Peter: Right, right. So then, I'm curious about, companies would not do this themselves?

Kathryn: Well, you know, it's interesting, there are many types of bonuses right now that have a retention element. There's a sign-on bonus, there's tuition reimbursement, there's relocation, employee referral, a lot of bonuses that have this time-based component, but most companies don't have a system that does that. Somebody gets a sign-on bonus and they leave eight months later, like some person usually has to say oh yeah, I got to get that money back from them, let me tell them that they need to give it back to me.

You know, it's not a very I think well-refined system in most companies, they give the bonuses up, but it's hard for them to track them and manage them and the whole idea of it vesting and for the employee to have access totally shows them what is vested and what has been repaid on their behalf. I think that's a really viable tool for the employee to remember as well as for the employer,

Rob: Can I do a value-add, do you mind, Kathryn?

Kathryn: You won't be Rob Frowein if you didn't do that. (Peter laughs)

Rob: So, if you really want to institutionalize this inside of the company, you're going to be managing vesting schedules for tremendous number of employees, you're going to have to deal with the proper compliance regulation and documentation in every state, you’re going to have to deal with onboarding and off-boarding friction, what happens when there's an unvested amount, how to collect it. As Kathryn was saying, all of those things are very difficult and so I go back to the example from 20 years ago which still hasn't been done.

Two large law firms hired, eight weeks later we had the document negotiated and we did the deal and it was one vesting plan and they used the same concept for three different people. So, there's just no ability to bury it plus you have to take the cash all up front, you have to take it all right away, it's the way that worked. This situation we can give, you know, optionality to the employee to draw down when they might want to draw down, use it how they might want to use it, put it on whatever else.

Peter: So what you are providing then....you're providing infrastructure, it sounds like it's not just software, you know there's compliance pieces to it, I mean, you're creating the entire backbone.

Rob: Well, think of it from this perspective, I think probably ten years ago, everybody thought oh, I keep my cap table on an Excel spreadsheet, right.

Peter: Right.

Rob: And what is this company Carta, can I do that myself, but when you get into Carta you realize the flexibility of Carta and all of the little pieces of it and the benefits of it then you realize it's a much more complex thing and it takes a huge headache off your shoulders. Compensation is broken and, you know, we believe we can help to fix it and let's talk about that, like how is compensation broken?

Kathryn: I think a lot of the challenge is around variable compensation so whether it's equity, options, RSUs, the type of compensation that a lot of employees get and they want, but they don't understand it and most of them don't actually have the ability to influence the outcome. The stock goes up, the stock goes down, think about all the people who work for all the major tech companies and most of them are now under water if they were hired after 2018, just in the last few months and that's really demoralizing and it actually makes you, you know, care less about the company and less about the work because a lot of what you thought was going to be your future wealth has now evaporated.

Peter: So, could you see a time where fintech companies or just any kind of fast growing company goes away from stock options and goes to more of a cash base compensation type reward?

Kathryn: I think it depends on the stage of the business, I think super early stage like startup, there's always going to be an equity component there, but as the business grows, as you hire different types of people, options just make less sense for, you know, certain employees after a company is in a certain stage which I think, yes, I think you can say cash come in and replace a lot of that.

Peter: Right. Let's talk about capital because obviously that's kind of your area of expertise, I mean, there's obviously going to be some companies that probably could afford to fund this themselves, I mean, depends on how big a program they have, but are you lining up, you know, funding lines with a bunch of different companies to bundle with?

Rob: Yes. So, the model is basically, it's one of really three things, either employer-funded, employer-guaranteed so we provide the capital with a guarantee from the employer or we help them arrange direct borrowing from a third party so we're spending a lot of time with folks who would like to fund those businesses directly. You're right, it depends on the size of program, depends on their balance sheet, what that capital is earmarked for, all of those things.

Peter: Right, got it, okay. And no one's done this before, right, you're basically inventing a new product.

Kathryn: That's right.

Rob: Yeah, absolutely, which is I know sounds ridiculous, but it does appear that way.

Peter: Right, interesting. So, I imagine one of the challenges is going to be, like for instance, our company, Fintech Nexus, we use a company called Trinet to manage all of our payroll, our benefits, the whole nine yards. If we were going to do something like this, we'd have to integrate with them I imagine or is this outside of that or how are you kind of planning to integrate?

Rob: I mean, you can basically say to Trinet, like we'd like to start implementing this program so you can probably do it separate and apart from that or you can ask Trinet to implement it. So, we are talking to some PEO players and staffing companies right now, I mean, it's really a gigantic market in terms of the range of companies we can work with, but for the most part, we don't need to implement. So, if an employer is doing this directly, it's a totally cloud-based system, doesn't touch IT, we were warned to stay away from IT so we have, they can implement it, we can report out to any of the systems so you can look at total rewards inside of a company so we can report out to it, but over time, we'll do more integration mostly so that we can help the analysis side of this because there's a big data science piece.

Peter: Right. I can imagine that that's really…..you guys, there's a strong suit. Before we get into that, I want to talk about the business model. So, how are you guys going to make money?

Rob: Let's assume it's an employer that is funding it themselves, we charge them a percentage of their total bonus amount, right, so if they're doing a million dollars in Keep bonuses to their employees, we'll charge a small percentage of that just to have the people on the system, to have them there for four years or three years or however long and to manage collection and servicing should they leave.

Peter: Right. You know, this isn't just for high paying tech jobs, right, I mean, is it any company or who's the target market?

Kathryn: It's honestly any company in any role, people tend to think that it's for the highly compensated employees, but honestly, there's so much attrition that happens with folks who are hourly, who are entry level roles, you know, high velocity, high through put jobs and it's really expensive for the companies to have to re-train those individuals and frankly, it erodes those employees' wealth when they change jobs on whether they're getting it or not, typically doing it to get a much higher salary.

Peter: And they'd probably be really thankful for like $10,000 forgivable loan, right, it's like a $10,000 bonus for them because a lot of these people are living paycheck-to paycheck. That would be pretty appealing, I imagine.

Kathryn: And it costs a lot more than that to train somebody new and get them in and make them successful.

Peter: Right, right, interesting. So, do you think…….is this sort of the future of compensation? I imagine you're pretty bullish since you've just started the company, but I could see how there is a real opportunity that…..as you say it makes business sense. You could try an increased retention, you've got lots of turnover.

Rob: Yeah. I can see the twinkle in your eye because (Peter laughs), you know, it's funny as we start talking about it, people realize just how enormous the opportunity is.

Peter: Right.

Rob: There was $8.9 Trillion in compensation paid in 2020, only 2.3% of that was designated as bonuses. You know, in our mind, this is kind of like the Uber moment where they go, this is not about look at the market size of taxis, it's like let's look at transportation and how something like Uber or Lyft could change transportation. We believe that 10/15% of all compensation paid should have infused within it retention and then what we'll release in a few months is also how to embed performance aspects into it as well to accelerate vesting. So, the idea is you could start driving more of your employee-base towards sticking around longer for good reason because the company has given you access to cash and it allows you to accomplish something, but also potentially get your next Keep bonus more quickly based on hitting performance targets.

Peter: Right, right. And I imagine like that 2.3% you mentioned, I mean here we are in New York City where there's probably a huge chunk of that 2.3% probably went to highly compensated people who got massive bonuses at Christmas time of whatever so you take that away and it's probably a much smaller percentage. I can see that from our perspective as a company is….I mean……..

Rob: Well, we'll send you the contract (Peter laughs) after the podcast, Peter.

Peter: Okay.

Kathryn: Just to give an example of what that could look like and Rob talked about this, but let's say somebody makes $150,000 a year and may say, you know what, I choose to take $50,000 now and I'll take $100,000 over the course of the year. The other opportunity I think is with actual year-end bonuses, the big companies, not that I've been around one for the last 18 months or anything (Peter laughs), the day after bonuses were paid, everybody holds their breath and they just wait for the resignations to compile again so change the paradigm there, change the conversation so that the bonus happens and then people are signing up for more. So, they're saying hey, I'm going to stick around for the next 12 months, you know, move the bonuses, move them into the cycle so that you're not dealing with that all on, you know, February 16.

Peter: Right, it makes perfect sense. I think I'm getting sold here on the whole idea because retention is something that is so important, you know, it's hard, it's hard to retain good people. You know, I love that whole idea, you take a $50,000 bonus and then have a $100,000 salary instead of a $150,000 salary, that sounds really good. So, what about the tax implications? If you were sort of getting a forgivable loan, is that compensation in that year?

Rob: If companies hand out their own signing bonuses or hand out, you know, bonus compensations, it's taxed at time deliver, but the way that we've structured this as a loan from Keep to the employee with the employer being able to effectively pay down the loan over time, it has no effect really on the balance sheet. If they provide the cash, cash becomes an account receivable, right, because they're owed the money until they're not owed the money and the income statement doesn't take a hit at all which is really important because what you don't want to do is start issuing a bunch of Keep bonuses on your income statement looks swanky on the year you deliver them.

Peter: Yeah, I can see that.

Rob: That was an important part of how we structured it as well.

Peter: Right. And then the thorny piece here, and I know you've talked about this, is when they do leave, what happens?

Kathryn: So, what happens is they're put on a repayment plan, they have some period of time to pay it back before it becomes a one or two-year installment loan that they pay back over that period of time and a lot of these is determined by the employers themselves, like what the terms are and how it works and how they view repayment of that particular bonus is then it becomes something that they begin to repay.

Peter: Right.

Rob: The only thing I'd add to that is most employees leave not because they're fired, but they voluntarily leave, right, so they go to a new employer, it is quite likely that they're going to say to the new employer is, give me what I had over there, which is a great form of business development for us.

Peter: Right.

Rob: And also, if an employee involuntarily separates from a company there's usually a severance and release agreement that's put into place and there can be some forgiveness on the outstanding debt, maybe not all of it and maybe some of it in exchange for their agreement to, you know, release the employer from any liability going forward.

Peter: Right, right.

Rob: And I can see, you know, where you've got people who have left, maybe they could negotiate part of a new package, hey, pay off my Keep loan as part of the…….

Peter: And probably get another one.(laughs)

Kathryn: That's right.

Peter: Right, okay. So then, what are you going to do, Kathryn, what's your role at this company?

Kathryn: I think it's going to be a lot like it was at Kabbage when we just got started, it's you divide and conquer. There's a lot to do and there are few people so it's kind of fun to get back to, you know, reading copy on websites and talking to customers and, you know, figuring out how money flows, things like that.

Rob: You know, Kathryn, at Kabbage she handled product, technology, data, people, policy.

Kathryn: That's enough

Rob: (laughs) That was enough. I don't actually know what I did so I'm counting the days until Kathryn joins and so is the team, I'm sure.

Peter: So, how big is the team?

Rob: We have a total of about 12 people fulltime working on it.

Peter: Okay.

Rob: We have six fulltime developers that are not US-based right now, but I've been working with them and Kathryn and I have been working with them on various projects for the last several years so they're part of the team as well, but we're growing slowly.

Peter: Got to start some way. So then, what about the data science piece, like this is a whole area of rich data with, you know, payroll data has got all kinds of different components to it so how do you think you've got the data science piece?

Kathryn: I'll start. I think some of the ways you use that is to demonstrate to players how they can impact attrition, how they can attract talent, you know, what the actual financial outcomes are as a result of that activity. I think there's another really exciting opportunity to show sort of a DNI impact so you can see what happens, what are the actual outcomes for people who get these bonuses, how did they build wealth, how did they improve their financial situation, what changes in their lives. These are all things that can be measured and I think it will be really easy to do that and as Rob mentioned earlier, as you expand the product set to other financial services that they may want to have with us because we're already in the flow of funds for them then I think you get even more data that you can use to accelerate that announces.

Peter: So, can you tell us a little bit about how you envision the full product suite developing.

Rob: So, obviously we have this core product, right, which is retention-based, we'll infuse performance and also sort of unitry of investing so when I talk about that think about that as……you know, in healthcare it may be nurses' shifts, right, where you agree to do a certain number of shifts in exchange for receiving a bonus up front for doing it. And, by the way, if you work evenings and weekends maybe you get credit for two shifts, that'll be a performance model.

We also work with other independent contracting firms so think of the DoorDashes, Ubers, Lyfts and others of the world, they pay a of incentives. One of the really interesting use cases though, I want to bring up one that we were talking about earlier that one of the new customers, they work in a trade where people need to spend probably $4,000/$5,000 to buy the tools up front to be part of the trade and so what they want to do is issue Keep bonuses to them for $4,000/$5,000 so they can buy the tools and require them to be with the company for at least a year, like amazing use case that is, right, somebody being able to get into a trade.

And then beyond that, look, we're getting a huge number of employees who are getting a large amount of money earlier in their career, they need investing products, card products, banking products so we think the brand will expand and we'll be able to provide other services to those employees.

Peter: Okay, interesting. So then, you're thinking of this as a purely business-to-business type play versus B2C?

Rob: A lot of people bring up the daily wage stuff which obviously has both the B2B and B2Cs, let me put it this way, Kathryn and I spent a lot of time working in a credit business where there was a high cost of acquisition, right, we spent a lot of money to acquire small business customer, we've generated a lot of revenue, no doubt about it, we took a lot of risk. This is an enterprise sale with a credit-like return with really no credit risk so we think of that as the ideal for the company going forward and we're going to stick in that arena right now.

Peter: Right. So, how far along are you guys, do you have anything ready-to-go or are you still in product development?

Rob: We did our launch last week and we're starting to sign-up customers right now.

Peter: Okay. I saw the press last week, we talked about that on our new show and obviously you announced the seed round with Andreessen Horowitz. So, firstly, do you have people signed up here, is there any alpha customers or beta customers that you've gotten onboard?

Rob: We didn't bring any alpha or beta customers prior to launch, but we've got customers that are signing up right now.

Peter: Right now, okay.

Rob: So, we're about to start issuing our first bonuses, yeah.

Peter: How was the fundraising process for you guys, I mean, obviously you've got a track record that maybe was a bit different, it was just people starting their first company, but was it a pretty easy fundraising process?

Rob: I started talking to VCs in January, met with Andreessen on January 10th, they gave us terms on January 14th.

Kathryn: Which was like Kabbage, it was just that easy every time.

Rob: Now, the one funny part I'll share with everybody is Owen, he's a great guy, the guy who invested in the company called, said he did some background checking and he thinks we have one more in us (Peter laughing) cwas……

Kathryn: He was talking about Rob.

Rob: ….which was kind of like fuck you (Peter laughs), but maybe he's right, I don't know, one or more, right.

Peter: Right, okay. So, as we kind of wrap here I'd love to kind of get your vision for not just the company, but maybe we've touched on a little bit, but I'd love to hear from each of you about the vision for the company and then the vision for the new product category that you've invented.

Rob: So we say, keeping employers and employees together longer and happier, you know, we're very, very focused. You know, there's lots of really interesting...we've had employers come to us and say, hey, we love giving away trips to Hawaii or season tickets to the ballgame, but like what can you infuse retention and performance into so we really want to re-define compensation. I mean, there are lots of companies out there that, you know, will give you analysis around compensation or provide you with a payroll system or do all these types of things, but it's kind of fun to get in there and say, compensation is broken, it should be very different than it is today and we think that's a big opportunity. There's not a lot of people who focused on that.

Peter: Right.

Kathryn: I think work is changing too and if work changes then compensation should change. I've noticed in our town halls for the last couple of months when we introduced people, every month we have town hall, this is for Kabbage right now for me, we have town hall, employees come in and I would say more than half of them, especially folks who are working like customer service and sales & collections, they have a fun path they always tell and more than half of them have a fun path that they're a creator, they're an influencer, they have a side hustle, they have another gig and I thing as the future of work continues to change, the compensation needs to reflect that. It's going to be harder to keep those employees when, you know, potentially they really would rather work on something else.

Rob: Right. And guess what, these employees need to get those hustles started, cash, right. You know, we've done a lot of research before we started the business and what we were able to discern is people like cash.

Peter: Right.

Rob: Probably even more than season tickets to a football .....

Peter: To a ballgame, exactly, okay. Rob, Kathryn, it's always a pleasure chatting with you, best of luck on the new venture.

Rob: Thank you.

Kathryn: Thanks, Peter.

Peter: You know, inventing a whole new category in fintech is not something for the faint of heart, you really need executives with the experience and the gravitas of Rob and Kathryn who, you know, could raise money, they can attract attention, they can attract trust and that's what they're going to need to kind of get this off the ground.

There's an education component that I can easily see it becoming a major part of the landscape because nothing has really been done for compensation for employees with any kind of creativity, particularly those that are not highly compensated with stock options and those sort of things. This is really something that can, as Rob said, branch across all income levels and I think we're going to see a lot more just going forward.

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

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