FINTECH ONE-ON-ONE PODCAST 399-KURT LIN

Welcome to the Fintech One-on-One podcast, Episode No.399. This is your host, Peter Renton, Chairman & Co-Founder of Fintech Nexus.

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Before we get started, I want to talk about our flagship event, Fintech Nexus USA, happening in New York City on May 10th and 11th. The world of finance continues to change at a rapid pace, but we will be separating the wheat from the chaff covering only the most important topics for you over two action-packed days. More than 10,000 one-on-one meetings will take place and the biggest names in fintech will be on our keynote stage. You know, you need to be there so go ahead and register at fintechnexus.com and use the discount code "podcast" for 15% off.

Peter Renton: Today on the show, I am delighted to welcome Kurt Lin, he is the CEO & Co-Founder of Pinwheel. Now, Pinwheel is a super interesting company, they're focused on income data and they've really created this infrastructure around income data, it says here on their website, "Income Data Engineered for Fintech Innovation, " we get into this innovation in some depth.

There's really three different use cases or products that they offer. One is the Pinwheel Verify which is all around helping lenders underwrite more accurately and really also helping prevent fraud. Lenders want an accurate tally on what the income of each borrower truly is and Pinwheel helps with that. They also have Earnings Stream which is all about Earned Wage Access, and that's a super interesting product and one that I'm a big fan of and they also have Deposit Switching, they take the pain out of switching direct deposits. So, it is all around income data connecting payroll and disparate types of data which we get into in some depth on the show as well. We talk about also the survey they did that had a lot of interesting findings. It was a fascinating discussion, hope you enjoy the show.

Welcome to the podcast, Kurt!

Kurt Lin: Happy to be here, Peter.

Peter: Okay. So, let's kick it off by giving the listeners a little bit of background, why don't you tell us some of the highlights of your career before you started Pinwheel.

Kurt: I'm sure I don't have as storied of a background as most of your esteemed guests so this'll be pretty brief.

Peter: Well, you're still young so we don't expect it to be a long resume. (laughs)

Kurt: (laughs) I appreciate that. I actually have always kind of been a serial entrepreneur. I like to tell my team I am constitutionally unemployable. (Peter laughs) So I started my first company when I was actually at UCLA. It was a piece of hardware that was attached to your bike to prevent bike theft, the highlight of that was that I got to have my own company, the lowlight was that I had no idea what I was doing and did not go very far, but it made me realize that I wanted to continue starting companies. So, joined a friend at a public design agency and then went to join a startup called Luxe which on on-

demand parking and that's where I met my current Co-Founder, Curtis, and so after we sold that business to Volvo back in fall of 2017, we decided to co-found Pinwheel together and that's how I found myself here today.

Peter: Okay. So, let's dig into that, what was the problem that you saw or the genesis for the founding of Pinwheel?

Kurt: It's a great question. As I think many of your audience members know, starting a startup business is never a linear journey or the way you think it is at the beginning, as we like to say, wandered the desert for a bit. We actually started by trying to build a automated HSA so basically health savings accounts that are really tax advantaged accounts, but utilization of them is super low because people have to pre-fund them to use them and we realized that most people didn't have the cash flow to actually pre-fund. So, we decided to build an automated HSA that would look at your spending and then detect a qualified medical expense, go in your payroll system and automatically make sure that you start another tax savings added to your paycheck every month.

And so, that was pretty cool, raised a seed round, brought it to market and then interestingly, we were spending all of our engineering hours not actually building the product which is always not a good sign. We were building integrations because we had customers coming in and saying this is cool, I want to use it, but I have ADP or I have Workday or I have whatever payroll platform can you guys support us and we'd be like, no, what we have is this incredibly janky data, customers just………..

And so, we were looking around trying to figure out hey, is there some sort of API out there that allows us to connect into these payroll systems in order to build the fintech app they want to build and we didn't see anything. So, we built that platform internally just to power our own app and then quickly realized that there were a lot more other, not just fintech apps, but frankly innovators in the financial services space that needed access to the really valuable data and direct deposits in these payroll systems. That's when we pivoted away from the HSA app we sunsetted that, and then really focused on the infrastructure layer to enable innovators like ourselves to be able to build the future of the financial system.

Peter: Interesting, interesting. So then, what is your product suite today, what are you offering?

Kurt: So, at the most basic level, what we do is we provide connectivity via an API to the vast world of both payroll and more broadly, income sources. So, you have like the major payroll providers like an ADP or a Workday, you have all of the gig platforms like an Uber or Lyft or DoorDash, you have all the federal portals for federal employees whether it's a postal worker or whether it's someone who works in the military as well as all of the kind of proprietary systems that the Fortune 1000 and beyond uses. And so, we have about 85% coverage of all workers in the country and we're quickly expanding that to hopefully, 100%.

And from that point of connectivity, what we can do is a number of things, but kind of at the high level we can both read and we can write data. And so, on the write side of, it's pretty straightforward, we can update things like someone's direct deposit settings so obviously, as I'm sure your audience knows, whether it's a neobank or whether it's a traditional FI, getting that direct deposit is super important, right. But it's really high friction action to switch direct deposit so we take all of that friction out and

bring it down to just one or two clicks and then we embed it at the point of highest intent. So, in an account opening experience, for example, it became really easy to say yes, I want to move my paycheck over, that's one core product.

On the reading of data, we have products around income and employment verification which obviously is critical for any sort of lending process. And then, we also have additional products like our Earnings Stream product which takes not only all of your historical pay, but also takes in time and attendance and kind of like what your future inputs are to be able to say, I know when Kurt has clocked in and clocked out of the shift today, I know that he's going to get paid, you know, in two weeks. And so, I can give that data to a fintech partner or a traditional bank and say, you can offer Earned Wage Access, basically de-risk because you have that real-time information and that's what our Earnings Stream product enables.

Peter: Right, right. Now, that's three great use cases. I'd love to sort of dig in a little bit and talk about the payroll data, all of the income data for that matter, but this seems like a pretty manual process, right, because you've got to out there. I mean, ADP is totally different connectivity than TriNet or Workday or any of them and then you've got all of the 1099 workers. And so, is this just a case of starting these one at a time and just going through and writing the code to connect or how does it actually work?

Kurt: What we do is kind of, I would say, it happens in different phases. The first phase is just what we call Ingestion, but can we even get the data from where it sits in these different systems into our system, right, can we even build those pipes. The short answer there is, yes, it just takes time. Ideally, we are always establishing partnerships with folks and that's kind of the goal. And then the next phase after that is then what we would call Normalization, that's actually taking what you mentioned which is all sorts of different types of data that is highly unstructured and bringing structure and order to the chaos, right.

Like one of the classic problems that we encounter or rather our customers encounter that we help them solve is we look at income data. Historically, the unit of work has always been time based, it's an hour. Even if you're a salaried worker, on your paycheck it actually turns your salary into an effective hourly rate and that's how you get paid. With the advent of gig work like with Uber and Lyft, that unit of work is actually not time-based, it's actually transaction-based, right. You just did an Uber drive or you just completed a DoorDash, how do you make sense of that data so that when you give it to a lender, a fintech, an FI, they can actually use it effectively, right, whether it's for underwriting or even just for verification, help us make sense of these data.

That's where, I think, the payroll really shines because building those pipes that break off from each other, there's not a long term note there, right. Anyone can build those pipes and get the data in, but to actually make sense of it and organize it in a way that's actually helpful to our customers is actually incredibly difficult and that's the really exciting thing that we're working on. That's, you know, how we are able to build things like the Earnings Stream, etc. to actually make sense of that income data for our customers.

Peter: I just want to be clear here. So, let's just take an example of a random person, they've got a 9 to 5 job, they have the payroll, that's pretty basic, then on weekends they drive for Uber and then they

might also have, you know, like a little Etsy store or something, they might have a two, kind of really sporadic income sources as well as their day job. Do you connect all those three things together so the bank account can sort of see all the deposits coming in, but how are you kind of bringing it all together outside of the bank account?

Kurt: So, the interesting thing is not all of that information is actually coming up in the bank account, alright. That's one of the big things that our customers come to us and say hey, we have visibility into their bank account and we're seeing inflows around one direct deposit. But we have a hunch that there's probably more that they get that isn't coming in here, right. And we say, great, well input Pinwheel and then we can have them connect all of their income sources. So to your point, they may have the W2 from a standard 9 to 5 day job and they also drive Uber at night and so they can connect their Uber account, if they also have an Etsy account they can connect that Etsy account as well.

And now, we've built a comprehensive profile of their income and actually also done the work to organize that data in a way that says hey, you know, so and so lender or so and so bank, here is Kurt's true income in aggregate. Here is all the different sources of where it comes from, here is what you can expect as far as what their future pay is going to look like, etc. And, by the way, because of your view of what bank account, you're only actually seeing the 9 to 5 income, you're not actually seeing the Uber income, you're not actually seeing the Etsy income because it's getting sent to a different place, oftentimes to like a native card that is being offered, like Uber has their own card and Etsy has their own financial services embedded as well.

Peter: So then, how are you finding the Etsy and Uber if they're getting paid with a debit card. You said something like they can sort of credential their Etsy store or whatever, maybe take us through that. A lender is doing an application, there's a borrower who's putting down their income, like is this the borrower doing it during an application process, how does it work?

Kurt: That's exactly right, it's consumer permissioned. So, if a consumer is going to let's say, take a big bank like Wells Fargo, right, and they're applying for a mortgage and they're trying to show all of their income sources, at a certain point when they're in the application flow it'll say hey, Wells Fargo partners with Pinwheel to understand your income, please connect all the accounts which you're actually generating money, right.

And so, they'll connect their AP account for their 9 to 5 job, then connect their Uber account, potentially their Etsy account and what have you, and that's done largely through a log-in credential although we are increasingly forging partnerships where it makes the friction a lot less for the consumer where they can just say, here is, you know, my information, here is my last four of my social, we can match it against a database and then send a two-factor auth code and provide a much more seamless experience for that consumer.

That's something that we're excited to continue to introduce, right, because everyone knows the more friction you have in that funnel, the more painful it is for the consumer, frankly, the more drop off for the lender, right. So, the goal is to always make that experience easier and easier.

Peter: That makes sense. Now, I can see how they may be motivated, but at the end of the day, they go, but I only make like $100 a month from my Etsy, I'm not going to bother then they just bail out of the whole application so.

I want to talk about the Earned Wage Access, the Earning Stream product because it's something that I'm a big fan of. I think none of us should when we all do, but we all have these loans that we give to our employers because they only pay us twice a month or even if it's once a week it's still a good chunk of time where you are lending money to your employer at 0%, I might add. Tell us, does that work the same way or is it just you're targeting one particular income source or how does it work?

Kurt: If you will humor me, I will give a quick history on Earned Wage Access and then I'll go into what we do that's pretty different.

So, historically, the way that Earned Wage Access has always worked, first of all I agree with you, it's pretty wild that we're lending money to our employers and it just floats there whether it's every month or every two weeks. And I think everyone, it's one of the rare issues where there's bipartisan support, where there's not really any argument that hey, like if you make money today, you should go to get your money today, right, like it's an artifact of an older system where they needed to process which doesn't actually really need to happen in today's day and age.

I think a lot of people are rightfully so working on how to solve that, right, so when you think about what has happened historically, the first phase of this, or what I would call like the first generation of Earned Wage Access providers were basically going to the employer and saying, hey, Walmart or whoever, Amazon, we have all these data, someone needs to work with the data that you have to be able to see who has earned what on what, you know, timeline and what context and then it's actually pretty easy for them to forward them their money for that day, right.

The problem is then you have to go employer by employer and sell them on that this increases employer retention and engagement and this is really like good for your people, you should actually pay for this service because it's going to help you in the long run, blah, blah blah. It's just a really, really hard sale, right, you encounter an HR team that's always, you know, an uphill battle because it's largely seen as a like an Earnin, right.

The next iteration of it were folks who were going, you know, D2C, right. An example of this is like an earning who…given the different inputs like hey, I can map your geo location and figure out that you've been out of the same location like the same Starbucks for eight hours, I can surmise that you've worked your shift and give you your money. But there's still a lot of unimagined gaps and actually understanding from source data that's actually happened, right. But the benefit of use is you don't have to go to the employer anymore, you can actually do it directly to the consumer who is the one that really understands the value prop and really needs it, right.

What Pinwheel does that has never been done before is that well, if we just extract away all the complexity, and connect directly into the time and attendance systems and the payroll system and HRIS systems that have all this information, then we can enable anyone who's providing a benefit service to actually offer their own taste and flavor of Early Wage Access. So, what we do is we say

okay, let's connect it into this time and attendance and payroll system so we know, number one, that Peter has, you know, clocked in and clocked out today of his shift at Chipotle.

Number two, we know, because we have real time data, that as of this very second if he is requesting a pay advance, he's still employed so the risk of fraud goes down dramatically, right, we're not trying to like game the system here.

And then thirdly and arguably the most importantly, we have access to the direct deposit rails as well. So, when they do get paid in two weeks or a month, we can ensure that the person who is advancing the pay or rather the company that's advancing the pay can claw back those funds and be first money out. And if you put those three things together, you have Earned Wage Access-as-a-Service so that's what we're helping enable for some of the largest players in fintech and hopefully soon some of the folks, the biggest in names in traditional FI as well.

Peter: Right, right. It's a true example of Embedded Finance right there where you can just embed this Earned Wage piece into a system. So, I just want to be clear though, I get the premise that clawing the money back, how is that done where, you know, you've got the person who's applied for this and then two weeks later their pay comes into their bank account, like you said, you've got like read/write access. You've got the power to write to their payroll system to divert that money back to the lender before it is sent back again, is that how it works?

Kurt: That's exactly right. We're adding-in, effectively, a direct deposit allocation for the amount that the consumer has expressly permitted and okayed as saying yes, I want to take $50 out of my next four paychecks to pay off this advance that I received from, you know, so and so neobank, for example. And so, it's really important to note that this is only ever being done as a voluntary thing from the consumer's end, it's not like some sort of, you know, garnishment that I think sometimes gets confused as like what actually happens. So, the consumer has the prerogative to say, I don't want to do this anymore and TOL, but it's being done through the direct deposit allocations in the payroll system.

Peter: Okay. Obviously, a lot of people have two or more bank accounts where their pay is going on a regular basis and you've been able to get through your technology write access to say okay, this is a little temporary direct deposit switch of a tiny amount going back to a different bank account, the lender's bank account, right?

Kurt: Exactly right.

Peter: Okay, I'm clear now, that's good. So, that leads into the Direct Deposit Switching piece which I want to dig into here and that you've explained it a little bit there, but maybe you can talk about the use case of, I'm in fintech and I've got multiple accounts with multiple fintechs and I've also still got my traditional bank account that I've had for 30 years. You know, I keep that and I'm not your typical consumer, obviously, but explain sort of what are the popular use cases, is it really just account openings where this is being done or tell us a little bit more about that product.

Kurt: So, I think it's always good to start with what are the problems that we're solving, right, and I think there's always been this Holy Grail that's been discussed amongst folks in financial services

around account portablity, right. How easy is it actually for a consumer to switch from one bank to another bank and there's kind of two pieces to it. One is well, I need my data to be portable, that's kind of been the topic du jour in open banking. The other piece that doesn't get discussed anywhere near as much around portability which, by the way, was one of the three pieces that Biden has released in an executive order…..

Peter: Yeah.

Kurt: ….highlighted as like the key piece of, you know, the work that the CFPB should be doing.

That also reminds me of Director Chopra's remarks as well. The other key piece about portability is oh, I've got to move my paycheck over, otherwise, even if I have all my data switched, I'm still getting all of my money into this old account of mine right, that I don't actually want the money to be going to them. And so, when we think about how that actually works, particularly in deposits, is really hard. You're either submitting a paper form to your HR team which more often than not that magically vanishes into the ether and never gets processed, right, or you're trying to self-serve the ADP portal which was never designed actually for the end-user, it was really designed as just a mechanism to make sure that employers had something they could point to give their people, something to actually, you know, select their benefits…..

Peter: Right.

Kurt: ……even manage their pay. And so what happens is people get to this point and there's so much friction, that they just don't end up doing anything and so what we're really out to solve is the friction problem, right. Take all of that complexity out and give our API access, allow the consumer to just with a couple of clicks say, yes, I want to connect my ADP account and yes, I want to move either all or some of my paychecks over and you can embed that. I mean, I think the most relevant and where we see the most traction is in account opening, but it really actually can be used for a bunch of other use cases as well. We just touched upon using it as a way to repay an Earned Wage advance or it can also be used as a greater lending concept too, right.

Like we work with a number of short-term installment lenders where they offer consumers the ability to say hey, if you connect your paycheck with us and allow us to collect payment directly out of a direct deposit, we can offer you a lower interest rate because we reduce the risk in this equation. We've proven that on average, there's a 3X increase in repayment rates when you have a direct deposit connected, especially for people who are thin file or a FICO score that's, you know, below 600. And because of that, it's a "win win" when the consumer can actually access a much lower interest rate even though they don't have the FICO that would allow that lender to feel comfortable giving them that rate, at the same time that lender feels more comfortable extending them a lower rate because you now have a direct deposit collection mechanism in place to reduce risk.

Peter: Right.

Kurt: And so, it's a really exciting thing to be able to offer for any of the lending customers.

Peter: It's a great thing for the sub-prime consumer. I know of a couple of lenders that are using this as a way to reduce the interest rate and we're talking like materially reduction, like reducing it from, you know, it might be 36% down to 12% in some cases or the real sub-prime guys and they go from triple digits down to like 30%, you know, these are really big benefits to the consumer.

So, one thing you recently did that I want to get your perspective on, this is the survey that you just did. I saw the press release, some of the articles that were out last month about this, tell us about the survey and like basically who you surveyed, what you asked them and then some of the key findings.

Kurt: One thing that we had talked a lot about internally was that we exist because we believe that unlocking access to all of this different payroll and income data and putting it into the hands of consumers would lead to materially better financial outcomes for this folks, especially those that we consider underserved, right. So, either people who tend to be lower income or those folks who tend to be more thin file who just don't have, you know, a large credit history, right, the thesis was giving them this data allows them to access better products.

Now, while we all believe that to be true, we never found good sources of information to be able to point to and say hey, you know, the people who we were looking to help really actually see this as a problem and those who live it every day are the ones who need it the most, it's actually pretty hard to find good data on that. And so, the "why" of all of this was we were like, well let's you know, as an all great product development process here, let's go to the people that we're actually trying to help and actually get their feedback firsthand, right. Tell us what are the problems that you face, tell us like what is wrong with the system as it stands today, what do you want to see changed.

That will help us then as we work with our customers and our partners build the solutions that are actually going to lead to the outcomes, that will actually meaningfully help those who need it most, right. So, that was kind of the why in it all and I think we have found a lot of really interesting things. One of the things that I think we're really excited about, especially as it relates to credit scores, is that for the majority of people in the country they actually either have no score or a bad score because, as you know, it takes time to build a good score, right, and because of that they're inherently barred from accessing what would be an affordable and non usurious credit product.

One thing we saw is that 60% of working people in the country feel that their credit score doesn't accurately reflect how financially responsible they are which....the goal is well if we can show that someone's income, like the story that I like to tell is we see all the time these teachers and nurses who have the same job for four, five, six years have credible income stability, income volatility is incredibly low and actually perform much closer to a 700 or 750, but their FICO is at 550, right, because they haven't had the experience of being able to get a credit score or sorry, a credit product and then proving that they can actually perform. And so, by being able to unlock access to the data that we have, we are working on showing lenders hey, you should actually take a second look at these teachers and nurses or what have you and they are actually someone that you should should feel comfortable lending to.

Peter: Right, that's great. So, you know, the title of this report was "Propelling Consumer Finance into the Future with Income Data." So, with that, I'd love you to paint a picture of the future, what does the future hold when all this data is connected?

Kurt: I think the biggest thing will be that all consumers, not just the ones who are thin file or don't have a credit score, will see that the data that is unlocked is allowing financial service providers, aka our customers and our partners, to provide them with exponentially better experiences and products, right. So, I'll give you a couple of examples.

If there is someone who is trying to get an auto loan and they're being rejected because they don't have enough information in their credit or their FICO score isn't high enough or what have you, they're now actually being approved, right. That's a concrete outcome that we're excited to enable. A more robust one would be, like we discussed on the Earned Wage Access side, someone who gets paid every two weeks, but runs out of money in-between and can't make rent so they have to go to a payday lender, right. Being able to actually get paid every day, whether it's through a financial service provider or a neobank or what have you, now they don't have to go to a payday lender that is pushing them further into a deeper cycle of debt, right.

A more future forward one is okay, well with all the unlocking of these data even for folks who may not be lower income or thin file, imagine a world where all of your taxes, because we have real-time insight on how much you're making. We can basically build a W2 real-time and we can help you say hey.....you know, you have those W4 allocations, sometimes you end the year you have a massive tax bill or you end the year you have a massive surplus of money that you put away that you didn't actually need to.

You probably could have benefitted around that money throughout the year, we can actually say well, hey, you're like putting away way too much money. You should actually have the allocation be one or two instead of whatever you have listed or hey, you're actually not withholding enough. You're actually going to end the year with a massive tax bill, you should actually increase the amount of withholding so you don't end up with this massive issue down the line. Unlocking that data in real-time allows the entire financial system to build better products and operate more efficiently.

Peter: Very true. And so, the last question then. What do you see as Pinwheel's vision for enabling that future?

Kurt: So, I think our goal is to be able to say, no matter where you work or how you make money, honestly, it would be great if consumers didn't even know that Pinwheel existed, right, like if we had done such a good job of building all of the infrastructure with the lenders, the banks, the fintechs, the ones who are providing financial services to make the open flow of income and payroll data so efficient that it's happening with very little friction in the entire ecosystem. And anytime that you sign up for a product or you sign up for a loan or whatever, you are always getting the best rate or you are always getting the best product because we've done such a good job of making sure that when you need it most, that data is being shared obviously with your explicit consent to help you, you know, secure the best outcomes for yourself as a consumer.

One thing I should add to this that I think is oftentimes glossed over is this idea of a CRA, the Consumer Reporting Agency, which basically says in short that whoever is providing this data is responsible for the outcomes, especially if there are adverse outcomes, right. So, if you are not a CRA and the data you've furnished is inaccurate or in some way leads to a consumer being rejected for a

loan, you're not liable. We made the choice very, very early on to be a CRA because we felt it was obvious that we should be responsible for this. What this also allows our partners to do is actually use that data for underwriting.

Peter: Right.

Kurt: Everyone else who is not a CRA, that data can't actually be used to do the most important thing which is re-price risk and actually help consumers to access better financial products. And so, it just seemed ridiculous to us that there's all these data providers out there that aren't holding themselves to the standard and being CRA. And so, I'm excited to be leading the pack there and saying, we're planning and know that we're on the right side of history here.

Peter: I'm glad you mentioned that, yes, that's a very important piece. Anyway, we'll have to leave it there, Kurt, thank you very much for coming on the show today, really appreciate it.

Kurt: Thank you, Peter, this was a blast.

Peter: I want to go back and just touch on the Earned Wage Access product because this is something that I feel very strongly about. I think it is silly, as I said, that you have to wait all this time while your employer takes this, you know, loan from you before your pay is able to be accessed. It's pretty obvious to me in the near future, everyone will be paid whenever they want, and this sort of Earnings Stream product is like the precursor to this because right now, it's not like you can go to your employer and say, I want to get paid everyday. But this Earnings Stream, as this sort of becomes more commonplace and people will say, well, I need another $200 out of my next paycheck.

Eventually, you will just get paid how much you want, whenever you want, obviously, within the fixed boundary of your pay package, but if you want to get paid everyday, that'll be fine; if you want to get paid once a week, that'll be fine as well. It's a really interesting fintech development that is going to I think become commonplace very soon.

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

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