FINTECH ONE-ON-ONE PODCAST – ROY NG

Welcome to the Fintech One-on-One Podcast. This is Peter Renton, Chairman & Co-Founder of Fintech Nexus.

I've been doing these shows since 2013 which makes this the longest-running one-on-one interview show in all of fintech, thank you for joining me on this journey. If you like this podcast, you should check out our sister shows, PitchIt, the Fintech Startups Podcast with Todd Anderson and Fintech Coffee Break with Isabelle Castro or you can listen to everything we produce by subscribing to the Fintech Nexus podcast channel.

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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'm delighted to welcome Roy Ng, he is the CEO & Co-Founder of Bond. Now, Bond is in the very hot embedded finance space, and we talk about why embedded finance has become so popular, we also discuss the different products that they're offering today. They are focused on two credit products, two different credit products, we talk about how their embedded finance solution works, the steps involved in implementation, we talk about the backend and the bank partners that they work with. We also discuss a new venture he has with Adam Neumann's latest company, Flow, he was the former Founder of WeWork, you know, has a company based in the real estate space so Bond is partnering with Flow, we talk a little bit about what that's all about, we talk about the future plans to move beyond credit and Roy provides his perspective on where embedded finance is going. It was a fascinating discussion, hope you enjoy the show.

Welcome to the podcast, Roy!

Roy Ng: Glad to be here, Peter, thanks for having me.

Peter: My pleasure. So, let's get started by delving into your background. You've had some pretty interesting positions in your career and you're also an investor, it looks like, according to your LinkedIn profile. So, can you just hit on some of the highlights of your background to date.

Roy: Moved to the United States when I was ten from Hong Kong and knew that I always wanted to kind of get into something in the financial services space. And so, first job out of college, I was with Goldman Sachs in their Investment Banking Team, worked with high growth technology companies, not only in the United States but in Asia and Europe, and really enjoyed that and I ended up actually joining one of my clients which was a high growth company, HR software company called Success Factors. Never turned back, loved helping build companies and, you know, scaling them out, working with customers and my first company was acquired by SAP, stayed on for a little bit to help with post-merger integration helping them set-up the cloud software business.

I was then recruited to a platform, a developer platform, called Twilio, back then this was a very early company, you know, focused on communications so really unlocked a potential for software developers to incorporate communications inside their applications so be it sending text, SMS messages or making phone calls programmatically. So, this was the first time where software people can get their hands on the building blocks of communications. I was their first COO and joined to basically scale out the commercial functions and fast forward a couple of years, we took the company public. The big learning for me there was that the power of software and developers being able to kind of transform, you know, historical industries that have not been software-enabled, so to speak.

I went on to join another company called Mapbox which focused on location and mapping, but all of this really led to the founding of Bond. This was when I met Yan Wu, my Co-Founder, who headed up data science at SoFi and along the way he was there when they introduced a number of different products and they realized wow, like the software developers needed to kind of rebuild this infrastructure for every product. It was very time-consuming, it was expensive and a lot of the resources was spent actually building the plumbing, less on the actual user experience which is, you know, generally the competitive advantage of fintechs.

And so, you know, we decided to start the company in 2019 and basically build a developer-first approach to building financial services and we are one platform that allows you to build a plethora of different financial services products. I'll talk a little bit about where we're focused on now and the lessons there, but, you know, we support a variety of customers, B2B, B2C in different industries and so really look forward to having this conversation.

Peter: Sure, okay. Well, let's get right into it. Before we talk about Bond, I want to sort of take a step back and talk about embedded finance because that's really what you've just described here and it's become a hot trend the last few years, it keeps getting hotter, it feels like. But before we go any further, how do you define embedded finance?

Roy: Yeah. Embedded finance is such a broad term, frankly, right. I mean, if you think about, the folks like Adyen and Stripe on the merchant acquiring side to folks like Bond that's on the issuing side, the whole concept of embedded finance is that you're able to incorporate a financial services solution as part of something else, a software flow or some sort of activity you're already doing. And so, you know, the reality is embedded finance has been with us for a very long time, I mean, from the earliest co-brand cards, that's embedding some sort of financial product as part of, you know, buying from a department store, for example, right.

But the experience has always been very disconnected, right, like if you do a co-brand, you sign up on the application, the underlying bank is the one that you're kind of filling the applications to and so like the brand experience is there's a little bit of a disconnect between the brand experience and your experience basically applying and, you know, your ongoing relationship with that financial product.

Peter: Right.

Roy: What Banking-as-a-Service platforms like Bond does is basically enable these capabilities to be embedded deeply inside the software that you actually use. And so, you know, I always use kind of the example of Apple Card where when you sign-up for an Apple Card, the experience is uniquely Apple, it is not a Goldman Sachs experience per se, if you look at their underlying bank that supports that program is really Goldman Sachs, but it's really kind of how Apple expects their users to kind of go through that experience, you know, even the app that basically continues to support the Apple Card, that's a uniquely Apple experience. And so, you know, it's all about the experience being coherent that like you can embed financial services products, but if it's jagged, it causes a disconnect with the user, right. A lot of times, the user is opting to use that embedded financial product because there's that brand loyalty up front from that particular brand.

Peter: Right.

Roy: And so, if you re-direct them to a different application form that sounds completely not like you and that's not the experience they want, that is, from my perspective, not truly embedded. I think truly embedded means that the UI/UX is consistent across that experience, you know, from buying the car to actually financing the car, it's kind of one experience and a lot of this can be achieved through software because you could build software that kind of bridge these various elements together into one coherent experience.

Peter: Right, got it. So then, you launched your company and you decided to focus on credit. Obviously, there's lots of different types of financial products, credit is one of the big ones, why did you decide to focus there as your first, I know you've got two different core products, they're both focused on credit?

Roy: Great question. We actually did not start the company focused on credit. When we started in 2019, we were building a very horizontal platform that did credit, it did debit, it did consumer, it did commercial and the idea there was hey look, we're going to build a bunch of building blocks, Lego blocks, so that you could kind of build "whatever you like" and we basically, you know, map you to a sponsor bank that could support that program. As we continued to build the business and engage with customers, we realized that there are so many flavors of products that you could build that it was not a sustainable approach to be so broad and be so open to whatever constructs someone wants to build. And so, we went back a little bit to the drawing board and say, where are our customers needing a product and why do they need that product?

And so, we first looked at the consumer side and then looked at the commercial side. On the consumer side, what we saw was a lot of neobanks, in particular, are consumer-facing fintechs needing to add more value to the end-users. The first wave of fintechs focused on debit and bank accounts and while that was very useful, especially for those who are historically under-banked, you know, the value it brings to the users is pretty limited and frankly, that product is pretty commoditized and so a lot of these neobanks and fintechs are figuring, what value can I bring to them, incremental differentiated value.

One of the key things that they wanted to do was really help them build credit because for that population, you know, building credit is a pathway towards financial health. You know, according to Experian, there are 150 million financially at risk people in the US and a full third of US consumers actually have sub-prime credit scores which is 580 to 669 and so the market is not small even in the US. And so, as you know, a lot of fintechs started because they want to help this like large population that historically were under-banked or unbanked and so having a product that allows you to help them build credit was going to be very powerful so we decided, on the consumer side, to focus on what we call the "consumer-secured credit card."

So, this is a credit card that does not require a credit check, it allows you as the consumer, let's say Peter puts in a $1,000 in his security deposit account, you're immediately granted $1,000 of credit limit. Obviously, you have to go through KYC and the sign-up process, but you don't need to go through a credit check and that's a game-changer for people who, historically, have not been able to access a credit card. And, you know, for the consumer, as they're paying their monthly payments, we are reporting that back to the credit bureaus and so they're actually building credit along the way. So, not only are you now able to kind of use a credit card, but now, you're able to build credit along the way and this is a pretty big thing.

You know, one thing, I mentioned about my background is coming in as an immigrant when I was ten, I still remember, you know, we lived in Hong Kong and moved over and it was just my Mom and myself initially, it was pretty hard to get credit, we couldn't qualify for any credit cards when we first moved to the States. I still remember one of our relatives said, hey, go to a department store and open a card, this was a Sears card, my Mom opened the Sears card to buy our refrigerator and things like that and that's how we actually started building credit. So, building credit is, for many of us who already have credit, I think it seems like a foregone conclusion, but for a big part of US consumers, building credit is pretty hard.

So, I think this product has been well received, I think, in the market on the consumer side. It also kind of contrasts to, you know, the typical unsecured credit card where you have to obviously go through a credit application process and there is, you know, especially for that demographics, you know, the decline rate can be pretty high, depending on who you're targeting. And so, you know, this particular product provides good economics for our brands, our customers as well a good value prop for the users. On the commercial side, we have a commercial unsecured charge card which is also very in demand because a lot of Software-as-a-Service companies, SaaS companies, are looking to embed B2B payments with cards.

Peter: Right.

Roy: We have customers that are using it as an expense management tool so using the virtual charge card as a way of basically controlling the spend. We have folks that are launching a Brex competitor for a particular, like narrow vertical and so, both on the B2B side and the B2C side we decided to focus on credit partially because of market demand. But we didn't start off with kind of that focus, it was through learning from the market and what they needed that we decided to focus on these two areas.

Peter: They're two obviously pretty separate areas, you've got a commercial and a consumer offering so then, maybe for each one, you touched on it with the commercial, let's start only with the consumer one and talk about who is the target market for Bond? I mean, are you mainly going after fintech companies that want to offer credit, I could also see some of the brands and other like software platforms potentially wanting to offer this, who are you going after?

Roy: It's actually pretty broad. We do work with a number of neobanks and fintechs that have a consumer-facing angle addressing a population that is less addressed through the kind of mainstream banking market, but we also work with kind of large finance companies. So, for example, we're in late stage discussions with one of the largest college student loan providers in the United States, obviously, they're providing student loans, but what they realize is their target demographic also needs to build credit. So, I wish, like when I was in college someone told me credit was really important for you to start building and so what they're looking to do is start upselling a credit builder card construct into the segment where they're issuing the college loans.

And so, what they can do then is responsibly build credit, like during their time in college so that by the time they graduate, they will have a head start on the credit score and it can help you lease a car, rent an apartment, things like that. We have a customer that is approaching a similar demographic, but in a different way. So, this customer focuses on Division One college athletes so the idea here is that because there is quite a lot of disbursements across different teams where you play football, volleyball, whatever it is, coaches generally have to disburse funds to the players once they are going out for games and things like that.

And so, the first part is to really kind of consolidate that into a piece of software so that the funds can be disbursed via the app and then via the app, you can actually spend. Versus kind of, you know, literally right now, coaches come with envelopes with cash and pass out cash to the players, right, that doesn't make sense. And so, on top of it, right now, what they're doing is putting some of their scholarship monies, things like that so that you basically spend through this platform and the card mechanism they're using is also our credit builder cards so that these Division One college athletes can actually build credit as they're spending, spending from away game kind of stipends or also spending from the money that they get from scholarships and things like that.

And so, as they spend they're building a credit history and, obviously, credit is dependent obviously on on-time payments, but length of like your credit history and so, getting a head start, again, is very important. And so, for schools, why is this important, why do they support these coaches? Because the schools also want to recruit these athletes and how the coaches in these schools are now pitching these parents of these potential Division One college athletes is not only will I help your child excel and give them a platform to win in that particular sport, but we will also help you help your child build a solid foundation financially as we have this kind of product and solution that helps the student athlete progress through the years in school being an athlete.

So, you can kind of see how on the consumer side you could kind of cut it in pretty different ways. And I think, you know, one thing about platforms, just like my time at Twilio and Mapbox, is that you always see innovators kind of trying to address the market in a very unique way. We're the infrastructure that allows you to do that, but the angle in which you approach the market could be really, really unique.

Peter: Right. So then, I want to dig into a little bit, if we could, let's just assume there's a fintech company listening or any kind of company listening that says okay, this sounds great, I want to start a secured credit card program, can you take us through the steps? What's involved from the time they first kind to decide to move ahead with you guys till the time they can actually offer this card, what are the steps, how long does it take, tell us about that process.

Roy: So, when they first approach us, one thing that we do pretty uniquely is that we are very transparent about what the funds flow should look like. So, we have already agreed with our sponsor bank partners and we've kind of structured our APIs in such a way that it enables a certain funds flow for that particular product so in the case of the consumer secured credit card there's a defined funds flow. So, we want to really align with that customer on this is indeed your funds flow and once that high level blueprint is agreed we then, obviously, commercial terms, things like that, we sign an agreement and within a week we generally kick-off and so we have a Customer Operations team that work with the customer.

One of the two long poles we found in all of our customers that, you know, want to kind of launch a product quickly is one, due diligence. We need to do due diligence on the company itself such that we could satisfy the bank's requirements and so we have a list of things that the customer needs to provide to us. Second is actually to the extent there is a card associated with that card design. What we find sometimes is customers kind of take quite a while back and forth on the design itself and so, you know, that becomes a long pole because the card manufacturing process, as you may know, can take quite a while and so we try to get those two things done upfront very, very quickly and get aligned.

In fact, the API and the engineering integration actually for a team that's well-staffed and they have a sense of what their user experience needs to look like, is actually fairly quick, you could do that, we've seen it like integrated in as quick as like three weeks. And so, if you know what your flow needs to be and you know like this is where you can display the disclosure, this is where you're going to charge them the fee, if you know all of that it actually doesn't take that long. I think where, you know, some of these programs, the implementation gets longer is when the client is kind of iterating as we go along and so that tends to extend out the time frame.

So, we generally quote our customers about 90 days to go live and this is kind of short long end, but generally 90 days to go live and once you go live you have a test card, you can start testing things and, you know, then launching the program itself. So, that's roughly kind of how we work with our customers. I think what we pride ourselves in is not just like, you know, hey, here are a bunch of APIs, go figure it out yourself. We tend to be a little bit more bespoke, we guide you through it, we have a lot of documentation so our customers can kind of look at the rich documentation and figure some stuff themselves, but our Customer Operations team also stands ready to also answer questions as they're building.

Peter: Right, right. You mentioned a couple of times, a critical part of this process is the partner bank, you have to have a partner bank if you're issuing this type of product. So, tell us about how that relationship works and does everybody have the same partner bank, do you spread it around, how does that work?

Roy: Yeah. So, let me start, we're bank agnostic so we built our platform from day one to be bank agnostic, technology agnostic. So, we work with a variety of technology vendors, we work with several different banks and so our platform is built such that if we want to connect to another bank, it's not difficult because we have gateways built out specifically for each bank, same thing with technology vendors. For example, we have various KYC vendors underneath the hood, we use LexusNexis, we use Persona and a number of others and so, depending on kind of the product construct we use the underlying kind of technology that fits that product construct.

From an engineer or builder product person perspective, you're still using the Bond API so if the API is for KYC, you're still using the Bond KYC API and you don't need to change anything even though the underlying capabilities may be different because we're partnered with different folks. So, first of all on the bank side, you know, we're agnostic, we have three partner relationships, three bank partner relationships, two of which is where we put our kind of brands currently and so the relationship is such that when we engage with a brand, we due diligence on our own, we know what the criteria is from our sponsor banks so we sift through whether we believe they meet the requirements.

And the first thing we do even before they start implementation is to start the diligence process and so we submit diligence to our bank partners, we have a working relationship with them where they review the brands that we bring to them. We're called aggregators to them so we aggregate demand and we basically share with them hey, here are some interesting brands that we're working with right now and giving them kind of hey, this is the product that they want to offer via the bank platform, here's what they're actually doing, here's the construct, you know, we get the diligence.

Generally, they have a preliminary approval upfront, so it allows them to continue to build and before they actually launch the product, they actually do a screen-by-screen review of the product that they end up building under our guidance. So, we give our customers also a set of, you know, disclosures that we need them to provide within their app, all of that is provided and once they are ready to launch we do a final review with the bank and we launch the program.

Peter: Right, okay, interesting. So, switching gears, I want to talk a little bit about this partnership that I read about a few weeks back and that you're working with Adam Neumann of WeWork fame and now, he's got a new venture, Flow, based on real estate, that got a lot of press when Andreessen backed him for hundreds of millions of dollars. You're working with Flow, I read you're creating a digital wallet so this doesn't sound like the exact same thing you've been talking about here, what can you tell us about that partnership?

Roy: A lot of this is going to be announced as we like rollout, we're targeting first quarter of this year to have some of these products out, but the idea here is Adam started this company to basically create a community around multi-family housing. And so just like with WeWork you have a network of offices that companies can leverage and their employees can leverage, here is basically a network of communities that people can choose to live in. What we're providing to them is fintech capabilities, the fintech capabilities include the ability to pay the rent or HOA, fees, but we also have a card program that allows them to basically take that Flow brand outside of their community.

Obviously, the card program can work within kind of the various communities, but also allows them to expand beyond it because in the end, the idea of Flow is really around a lifestyle. The people who live in a Flow property, there's a certain lifestyle, there's certain expectations and so, you know, the fintech capabilities will basically augment and create that like loyalty and create that, you know, stickiness around the community. So, we're really excited about working with them.

They have I think about 3,000 apartments in the initial phase and obviously, beyond the initial set of properties working with property developers to kind of have that software layer embedded. You know, obviously, we are one part of like the whole thing, right, there are other software-enabled things that you can imagine just like when you go to a WeWork office, right, being able to access the building, being able to monitor who's coming in to visit you, packages, things like that is part of like the software platform, but we provide the fintech component for Flow.

Peter: Interesting. So, that kind of leads me into my next question which is, you obviously have the credit products, the two different credit products we've talked about and you said yourself you started off with trying to build for many different capabilities, are there specific areas that you want to get into next? I mean, embedded finance can work in a myriad of different ways within financial services.

Roy: You're spot on and, you know, another lesson learned I think in the embedded finance or Banking-as-a-Service space, is you've gotta stay focused. You've gotta stay focused on a few key product constructs, as I call them, right, so we have our commercial one, we have our consumer one, we want to basically stay pretty aligned to those constructs, at least for the next year or so. There are some additional capabilities within each construct that we want to continue to invest in so those constructs become kind of best-in-class in the market. I believe we are already best-in-class in the market because we have live customers on both of these constructs and that's something unique to our platform and so, you know, we are going to continue to invest capabilities.

That said, it doesn't mean that Bond as a platform only does consumer secured credit cards and commercial charge cards, over time, we will continue to invest in next product constructs that we know customers want. So, on the consumer side, one thing we have on our roadmap is an unsecured credit card, we want to support customers as they go through their journey, as they kind of enter the journey they're trying to build credit. Once their credit is in a certain stage, we want to be able to support our brand partners and our customers to be able to offer them an unsecured credit card to them, obviously, that's a much bigger market.

If you think about kind of unsecured credit card market is about 700 million cards in circulation across Amex, Mastercard, Visa, Discover, etc., secured credit cards is only 6 million cards roughly in circulation. And so, you know, it's still a very, very early thing and when I share that 150 million of Americans are financially at risk, one third of consumers are subprime, you know, tells you that the market opportunity for secured credit cards are still very, very large.

Peter: Right.

Roy: And then there's a statistic I read the other day, 49 million Americans are considered unscorable at this point, they can't even get a score even if they wanted to. And so, for us we want to continue to focus on that, but we know at some point that there's going to be demand from our customers to kind of service that next generation as their credit builds up so that's what where we're at. And then on the commercial side, I think the commercial unsecured charge credit cards, we're going to continue investing in new features within that product construct, not necessarily, we wouldn't be jumping into lending, for example, like immediately, we're really focused on that commercial charge card construct.

Peter: Right, that makes sense, okay. Last question, I want to sort of get your perspective here on the future of embedded finance. I mean, I was reading an article in Forbes by Dave Birch, someone I've been following for many years, he basically said, embedded finance is going to take over banking because people want to, they don't necessarily want to go and have a bank, they just want to have the services that a bank provides provided by other brands potentially. And so, obviously, you know, you've got a vested interest here, I'd love to get your perspective on where do you think this is going in the medium to long term?

Roy: Yeah. I don't see it as black or white that like hey, all financial products at one point would be delivered by brands. I think banks will always play a role, I think, at least in the foreseeable future in the consumers lives so this is all about kind of time horizon. My view is you're going to have major brands that, you know, will take over a portion of the financial services in your life, a portion, not all, right. So, you know, if you kind of even think about I was just this other day going to Whole Foods to buy some groceries and obviously they're part of Amazon and Amazon has this card and this whole ecosystem around Amazon and Whole Foods and more and more of that, right, Amazon Prime.

And so, you may want to then open an Amazon card so that you can spend at Whole Foods, you can spend at, you know, all your Amazon purchases and so you're starting to kind of own like a segment of like the consumers' lives. But is that going to basically say hey, I'm also going to move my bank from Wells Fargo, BofA to Amazon one day, I don't see that in the foreseeable future. I do think that they will own where the consumer plays, right, if the consumer is going to the supermarket, if the consumer is buying on Amazon then I think financial services will follow where they do their activities day-to-day. But is it going to be kind of like brands take over and banks go away, I don't see that, at least in my lifetime.

I do think that, you know, like if you look at kind of the B2B use case, if you're a B2B platform, let's say you are working with a platform that deals with independent contractors and these independent contractors need to get stipends or get paid like on a real-time basis, will you use a platform that basically pays them on a real-time basis versus kind of maybe going through a bank, yeah, maybe. So, it's all about kind of where the activity that the person or business actually is taking place and that's where I think embedded financial products will take hold, but I think, you know, general kind of financial health, I think banks will still be the…

Yes, there will be neobanks and there will be a better user experience with neobanks, but the reality is these big banks are spending billions of dollars on their own modernization of the user experience. And so, that alone won't be, you know, the competitive advantage, it's really going to be where the consumer or the business does their activity day-to-day and that's where you embed financial services to be the most sticky.

Peter: I think that's a great place to end it, Roy. I really appreciate your coming on the show today it's a fascinating company you're building and let's keep in touch, thanks again.

Roy: Thank you, Peter.

Peter: If you like the show, please go ahead and give it a review on the podcast platform of your choice and be sure to tell your friends and colleagues about it.

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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