LendIt Fintech

PITCHIT FINTECH STARTUPS PODCAST NO. 27-KAREEM SALEH

Welcome to PitchIt, the fintech startups podcast, one founder, one startup, one investor at a time. I'm your host, Todd Anderson, Chief Product Officer, LendIt Fintech.

(music)

Todd Anderson: On Episode 27, I talk with Kareem Saleh of FairPlay. FairPlay is the first Fairness-as-a-Service solution for fair lending compliance that use AI-powered tools to help assess a lender's automated decisioning models which can help not only with fairness, but as profits as well. You know, Kareem and I dig into what exactly do they mean when it says Fairness-as-a-Service, the types of fairness and inequalities that they're trying to fix here, you know, racial, gender, economic, all the above.

We also take a pretty deep dive into bias and since algorithms are inherently created by humans, they'll have some bias in them and so we dig a bit deeper into that and how they are working to essentially limit bias as much as possible. We also dig into the work that Kareem did prior to being a Founder for FairPlay, you know, he worked with retailers, worked in politics in the Obama Administration and so I think it's a really fascinating and interesting interview, especially when you dig into some of the stuff going on in financial health and wellness today. So, without further ado, Kareem Saleh of FairPlay, I hope you all enjoy the show.

(music)

Welcome to the podcast, Kareem, how are you?

Kareem Saleh: Hey, Todd, thanks for having me, great to be here.

Todd: It's great to have you. And so, I'd just like to start this off first if you can give the listeners a bit of a background, you know, where have you been prior to starting FairPlay and kind of what brought you to the moment of launching FairPlay?

Kareem: I have been working on financial inclusion as it was basically my whole career and that work really was shaped by my family's experience with exclusionary lending at a very young age. My folks are immigrants from North Africa, they came to America in the mid-70s and like so many immigrants, they needed a loan to start a small business and they couldn't get one and in our case that ended up having somewhat tragic consequences. So, the issue of access to capital and credit is deeply personal to me, it was our own kind of real lived experience that got me interested in this question of underwriting inherently hard to score borrowers, thin files, no files, people with some kind of credit event in their past like a bankruptcy or foreclosure.

I started doing that work in the frontier of emerging markets, Sub-Saharan Africa, Latin America, Eastern Europe and a place called the German Marshall Fund. Spent a few years at an unfortunately named mobile wallet startup called Isis (Todd laughs) that was a rebranded soft card and sold to Google and then spent several years working on financial inclusion issues in the Obama Administration at the State Department and at the Overseas Private Investment Corporation and that gave me visibility into the underwriting practices of some of the most prestigious financial institutions in the world.

What I was quite surprised to find is that even at the commanding heights of global finance, the underwriting methodologies were still quite primitive, you know, models built in Excel and at the same time, a lot of those underwriting models exhibited disparities towards people of color, towards women and towards folks from other historically disadvantaged communities.

And it's not because of people who made those models are people of bad faith, it was largely due to limitations in data and mathematics, but increasingly, the last several years have seen the emergence of new AI fairness techniques and those techniques allow you to identify the bias in data sets and algorithms and attempts to introduce counter proxies to nullify or remediate that bias.

I was surprised to find that virtually nobody is using those methodologies in financial services today and so we thought that by applying some of these new AI fairness techniques in consumer finance that we could both increase positive outcomes for folks who have been traditionally left out of the system and find more good loans to enhance the profitability of consumer and small business lenders. That's our mission at FairPlay.

Todd: Before jumping into, you know, exactly what the FairPlay product is, how'd you come to the name FairPlay?

Kareem: FairPlay is a term that was coined by Yves de Coubertin who is the gentleman that revived the modern Olympics and when he decided to revive the modern Olympics, he had a vision of bringing the world together to compete on a level playing field and in a spirit of excellence and modesty and respect for one's fellowman and that is the animating spirit of our business and so we thought it was a fitting name.

Todd: And so, is you can give the listeners an overview so exactly what does FairPlay offer, who's the target customer. In that way, we have a bit of a basis for exactly what you guys are offering today.

Kareem: So, our software allows any company that uses an algorithm to make a high stakes decision about a person's life to answer five key questions. Is my algorithm fair? If now, why not? Could our algorithm be fairer? What's the economic impact to our business of being fairer? Finally, did we give our declines, the folks we rejected a second look to see if they might resemble good applicants on dimensions that our primary decisioning system did not heavily take into account. Our customers who've gone to market in financial services, we were seeing great traction, we've got three of the country's biggest fintechs using our Fairness-as-a-Service solution and they are already seeing the ability to increase approval rates for Black applicants of upwards of 30% with no corresponding increase in risk.

Todd: And so, it's not an underwriting technology itself, what it does is it examines what the lender does and then offers up for simplistic terms, here's what you're doing wrong, here's where you can re-look at maybe at some applicants. Is it itself an underwriting technology or it kind of looks at what the lender already has in place?

Kareem: I would say it is an underwriting technology that takes advantage of new fairness techniques and we'll probably get into this a little bit more later on in the conversation, but the key insight here is that there are a lot of folks who are not well represented in the data. And so, if you can identify those sub-populations and kind of zoom out and look for ways in which the folks that aren't well represented might actually resemble good credits that were approved, it can allow you to open the aperture and find more of the loans that perhaps you might have overlooked.

I think what's really important about our solution is that as opposed to some of the other companies out there, we don't suggest that lenders rip and replace their existing underwriting methodologies, our solution allows you to augment your existing underwriting methodologies with a second look model. And so, what we tell lenders is hey, keep your existing underwriting model in place, but route the declines to this underwriting model that's been tuned with AI fairness techniques to enhance your fairness and your profitability.

Todd: Ultimately, are you trying to address the fairness aspect by economic conditions, race, gender, all the above and I guess if it's all the above then how complicated does it get to ensure that you're hitting all those different criteria so when someone does come to whatever institution to take out a loan or any source of credit that they can be sure that alright, whether I'm a Black woman or, you know, a Hispanic male that they get the fairness that they deserve.

Kareem: In the first instance, we're just trying to help folks from historically disadvantaged communities who've been locked out of the financial system traditionally get access the credit and opportunity they deserve. Just to give you one example, you know, one signal that we see a lot in credit underwriting models is consistency of employment and, of course, consistency of employment is an important credit signal, but consistency of employment is always necessarily going to discriminate against women between the ages of 25 and 45 who take time out of the workforce to have a family.

So really, what we're trying to do is identify these variables and dimensions that might be good at underwriting say white males, but not so good at underwriting folks who are less well represented in the data sets and try to surface some of these other variables or combinations of variables that might actually make those folks be good credits in ways that aren't immediately apparent.

Todd: So, in that example something that just came to mind, curious if it applies I guess in a similar way which is that gig economy-type job or say a small business owner that has lumpy-type income.

They make a lot over the year, but when, practically speaking, they're not paying themselves every two weeks like say I would get paid at my employer, how does that impact those type of workers as well?

Kareem: Yeah, that's exactly right. So, we often say that our solution doesn't only help folks from protective classes, but it helps gig workers, solopreneurs, maybe caregivers who've taken some time out of the workforce to care for a loved one or folks who have started a small business. Those are borrowers who are inherently hard to underwrite because there's just less evidence of them performing well in the credit repositories. So, sometimes, you've got to look past traditional credit worthiness to paint a finer portrait of their ability and willingness to repay a loan.

Todd: I want to step back a little bit. Just on the general question of algorithms, AI or clearly it's become a lot more present in fintech and banking today. You know, we've known each other a little while and you had a history of working with firms that have AI-type solutions, but I guess it boils down to humans still create the algorithms and regardless of how much fairer we're trying to get, isn't there always going to be some semblance of a bias somewhere and it's just a matter of trying to limit that bias as much as possible even if accidental bias?

Kareem: You are absolutely right. We don't claim to make things perfectly fair, I'm not sure that's even possible, but our goal is to set up guardrails and safeguards so that these algorithms can be made as fair as possible, given the technology that's available today.

Todd: More broadly speaking in fintech, there's lot of AI models out there and I'm not looking to call out any specific names, but today and how much AI has....I'd probably say advanced pretty well the last couple of years than say the previous five or ten years, our AI models today, would you classify them as fair or do we still have a significant amount of work to go?

Kareem: Some of them are fair, but most of them aren't. The reason for that is that algorithms are just math, they're math that's been given an objective and if you make that objective profitability, the algorithm is going to maximize profitability without regard to other harms that it might create along the way. I would like to invoke the analogy of self-driving cars, you know, if you told a self-driving car just get me from point A to point B, it might do that while driving the wrong way down a one-way street or driving on the sidewalk or cutting across someone's lawn.

And so, the way that these algorithms that power these self-driving cars are developed is to constrain them, right, just get me from point A to point B while not causing mayhem along the way and I think that that's the future of algorithmic decisioning in financial services is constraining these algorithms to maximize profitability while also minimizing the potential for discrimination.

Todd: You know, a lot of different lenders incorporate different levels and sets of data in addition to say a FICO or whatever credit score they might use. My question really is, do we need maybe a complete revamp, that's not the way to say it, but do we need a new credit score for the digital or the fintech age? It seems that since a lot of these models, at least, incorporate some level of credit score into them, I know not all necessarily do, but a lot of them do, do we need to really take a close look at the credit score and say, hey, it's time we take this version and really update it for what we've seen the last 15/20 years.

Kareem: Yeah, look I think that the development of the generic credit score is probably one of the most important inventions of the 20th century, but I think where we're headed is the future of many thousands of scores, custom scores that, you know, relate to what dimension are we scoring you on. Maybe a generic credit score is not appropriate for both a mortgage and an auto and a hillock, right, it really depends on the application of that score and then, of course, the dimensions on which you want to assess the responsibility of that person relative to, you know, the product that you're offering them.

So, I think we're headed for a future where we have many, many different kinds of scores that attempt to assess many, many different kinds of behaviors and there are probably much more individualized in context specific than the generic score based on 20 to 50 variables in a relatively manually underwritten world can provide,

Todd: In looking at your background and you talked a little bit about it at the top here, you know, you've worked with retailers, you worked in politics, you know, what are some of the lessons from those sectors that you think can be applied not only to obviously what you guys are doing at FairPlay, but just broadly in fintech. I mean, there's a lot of things, especially in the last couple of years, that fintechs has begun to look at how do retailers interact with their customers, how do e-commerce sites interact and deal with customers, whether it be experience, expediency, what other types of lessons are out there in terms of your background that you think could be applied not only to FairPlay, but maybe to the broader fintech market.

Kareem: I think that the general startup ethos is kind of, you know, move fast and break things and I think that, you know, there's no question that maybe that's appropriate if you're building a ride sharing app or a home sharing app, but in high stakes domains like financial services or healthcare, moving fast and breaking things can cause real harm to people.

And so, I think the challenge that's going to be faced by the fintech industry is, as you say, taking advantage of some of the opportunities around customization and personalization that these new technologies afford us while also kind of balancing responsible governance of things like Artificial Intelligence so that consumers and the safety (inaudible) financial systems aren't threatened at the same time.

Todd: You know, there's a lot of talk these days, at least, about regulators, fintech, crypto. Obviously, we're not talking specifically about crypto here, but more broadly on the regulator question, you know, is there more that they can do in terms of understanding some of these new technologies like AI and these different models moving away from potentially the traditional credit model? Should they be doing more to potentially get up to speed? I mean, it seems that things are moving really fast and the regulators, not necessarily criticizing that they're slow, but they need to take into account so many different things, is there more that they can do to maybe get a better level of comfort with some of these new models, with some of these new technologies?

Kareem: Yeah. I think the regulators are in learning mode and I think they're coming up speed and they're trying to do so quickly. You can see that with some of their requests for information that they put out on Artificial Intelligence recently in some of the statements, for example, that are coming out of the new Head of the CFPB, Rohit Chopra.

I think that, you know, we are in for an interesting few years as it relates to the relationships between the fintech industry and the regulators because candidly, there really wasn't a cap on the beat for much of the last four years and I think with the change in administration in Washington, you can now see the pendulum swinging back in the direction of more regulatory enforcement and I think that's going to result in a rude awakening for some folks in our industry. My sense is that the fintechs who engage with the regulators early, who demonstrate their commitment to being best-in-class on compliance issues like fair lending are going to have a much easier time from a regulatory perspective over the course of the next several years.

Todd: Relating it back to your business, how hard does it make it when you have the pendulum swing so widely? You know, conceivably, it can happen every four years, you know, we've seen obviously every eight years in recent past, but, how complicated does that make it to build a company when it could be such a wide range of how regulators, legislators look at various sectors.

Kareem: There's no question that the uncertainty has been a restraint on innovation, it's very, very hard to be able to service one's customers effectively if you don't know if the rules are going to change. So, we have the benefit, I would say, in financial services, of having some frameworks that have been put in place over many years and there are frameworks of general applicability let's say to model risk management which are well suited to the AI era even if they need some updates in some ways.

So, you're absolutely right that it would be great to get regulatory clarity in a number of areas. I think that the new kind of folks in charge of various places in the government are trying to provide that clarity or at least get up to speed so that they can understand what a meaningful and effective regulatory regime for fintech is going to be in the future. I think as a fintech, you've got to stay engaged with members of both parties so that you can chart a course no matter what changes, politics or Washington may bring.

Todd: Before we shift a little bit of the conversation to the next phase of our discussion, I wanted to end this piece with, you know, what's the best piece of advice you received, so far, maybe while building FairPlay or maybe just in the last few years in fintech, the best piece of advice you received.

Kareem: Richard Plepler, who was the former Head of HBO famously said, “talent and culture eat strategy for breakfast” by which he meant, you know, you can have the greatest strategy in the world, but if you don't have amazing talent in the foxhole working alongside you and you haven't won their hearts and minds, that strategy has little chance of coming to fruition. So, I often try to keep in mind Richard Plepler's words that culture and talent eat strategy for breakfast.

Todd: So, I want to shift a little. How big is the team today, is it all based in one place, you know, how has building this company during a pandemic, how has that dynamic played out for you and the team?

Kareem: We're ten people today and we're hiring aggressively data scientists, product people, marketing people so if anyone out there listening and wants to build the fairness infrastructure of the future, please contact us at FairPlay. We are really trying to take advantage of some of the benefits that remote work does provide while also maintaining the kind of serendipity and the energy that comes from being a small team in the foxhole together working to do something big.

So, we’ve adopted a hybrid approach, we're kind of remote first, but we do try to bring the team together at least once a quarter here at our headquarters in Venice Beach to kind of maintain, as I was saying, that energy that comes from just being a small group of folks committed to a mission working alongside one another and really keeping the cross fertilization of ideas flowing.

Todd: You're a CEO or Founder, you're obviously, you just said you guys are aggressively hiring, you know, how do you keep up with the pace of change happening in fintech. It feels like the last two years has been ten years, how do you manage everything going on with building a company and aggressively expanding as much as you guys are?

Kareem: It's really hard, especially with the rate of change, you know, going as fast as it is. I reserve my Saturday afternoons for reading so over the course of the week there's something across my desk that looks interesting, I try to note it and put it my "to read" file, but I also get creative, you know, listening to podcasts like yours in the shower, while I’m cooking dinner for the family and all that, but there’s no question, it’s really, really hard to stay on top of all of the developments that are taking place in our industry right now.

Todd: Has there been one thing over the past couple of years, I guess you can call the biggest benefit or detriment to either your business in fintech, I mean, seems like a lot has changed since COVID has kind of taken over all of our collective worlds. Have you seen maybe one biggest benefit or detriment the last couple of years?

Kareem: Yeah. I think there were, you know, personal benefits and detriments and societal benefits and detriments, right. I think, you know, personally, working from home gave me the opportunity to spend more time with my family, maybe spend a little bit less time in transit. Of course, the detriment was not being face-to-face with my team and with my customers as much as I would have liked.

Societally, I think there massive detriments to many people as a result of the pandemic, but I think the silver lining may have been that many eyes have been opened to the extraordinary unfairness that people of color and women and folks from other historically disadvantaged communities have faced for centuries and still continue to face. And maybe as issues of racial equity have moved up the national agenda, we’re starting to see more of a commitment both from industry, but also from the government and other players to try to move the ball forward in terms of financial inclusion and wellness for all Americans.

Todd: When hiring someone, I'm not sure if it's happened completely to you, but how is the dynamic of hiring someone without actually meeting them. I'm assuming you've had to probably do some of that, maybe not the whole team, but, I mean, it's a strange dynamic to talk to someone, get to know them a bit, but there are lots of different queues and tells when you're sitting in the room with someone that maybe gives you alright, I get this person, I'm going to make that offer, some of that non-existent over video, how has that dynamic been?

Kareem: Yeah, it's true. It's meant that our hiring bar has gone a lot higher, we spend a lot more time with candidates usually over many sessions over many different days so that we can try to get as much of that 360-degree view as is possible when you're doing the meetings over Zoom. The truth is, managing teams remotely where you don't know the people you're managing is hard and so that's part of the reason that as COVID appears to be getting increasingly manageable and there's more widespread vaccines that we are trying to bring folks together more often to build the esprit de' corps of the team, to get to know each other's strengths and weaknesses better, there's been no question it's been a challenge.

Todd: So, right now, fintech is probably, if not the hottest segment from a fundraising standpoint, it's definitely near the top. There's all kinds of rounds, whether it be hundreds even billions raised, feels like every day there's another $100+ Million rounds, you know, obviously raising money is not as easy as it might seem through CNBC or other press outlets, how did you guys find that the realities of raising capital, investor sentiment towards what you guys are building, is there any advice you would give to say there was a founder in that space, alright, we need to then go raise some outside capital, anything that you've learned from your process that maybe would be helpful for others to hear.

Kareem: I can only speak for my experience, but we've been incredibly blessed to have an incredible syndicate of investors who believe in our mission and who have been supporting our success. These are folks like Third Prime and FinVC and Fin Venture Studio and TTV and Amara and NevCaut Ventures. My advice to founders is go find the investor that is going to have your back when things get bad as they inevitably do, not just necessarily the first offer that comes along, really make sure that you are simpatico from a mission and a culture perspective and that everybody's got at least a commitment to treat each other with grace when things get rocky. You have investors who will ride the rough road resiliently with you, I'd like to say.

Todd: We have just a few minutes left here, I'd like to end with a little bit of fun and some lighter questions. You mentioned, you like to bookmark things and Saturday afternoons you like to read, do you have a favorite book and what was the last book that you read?

Kareem: I'm originally from Chicago, my favorite book is "Boss" by Mike Royko about Chicago's legendary mayor, Richard J. Daley. He was a deeply problematic man, but he built my hometown and was a master wielder of power and so I enjoyed very much that history of my city. The last good book I read that I would commend to any founder out there is "The Good Fight" by Liane Davey, it's a book about how to harness healthy conflict and healthy differences of opinion to drive success in your organization.

Todd: You mentioned you're from Chicago so I presume to know the answer maybe to this question, (Kareem laughs) but favorite sports and sports teams that you root for?

Kareem: I'm a Chicago basketball fan to the core, not just the Michael Jordan era, but love the franchise.

Todd: Feels like you always have to make that caveat like I just didn't like them with MJ.

Kareem: Yeah, that's right. I'm a Chicago basketball guy in my heart, all the Chicago sports teams really, but really, I'm a Bulls fan at my core.

Todd: Final question, biggest inspiration in life?

Kareem: Without a doubt, it's got to be my parents. You know, they immigrated from North Africa to the US in the 70s with nothing and they gave us a great education and a happy, healthy American upbringing and they inspire me every day.

Todd: Well, Kareem, I greatly appreciate your giving me a few minutes here. Tell the audience where they might be able to find you, whether LinkedIn, Twitter, you know, tell them where FairPlay can be found.

Kareem: Contact us at any time via email or via our website www.fair-play.ai or info@fair-play.ai

Todd: Thank you very much for coming on the show, I greatly appreciate your giving me a few minutes here today. Best of luck to you, the team and your continued success and hopefully, we'll get you back sometime in the future.

Kareem: Thanks for letting me talk about the fairness infrastructure of the future, Todd, really appreciate it.

Todd: You're welcome.

(music)

Thank you for listening to the latest episode of PitchIt, the fintech startups podcast. I encourage you to take a few minutes to write a review or rate the episode. Ratings and reviews both help us to improve the show for future episodes. If you're interested in learning more or would like to be considered for a future episode, please reach out anytime to Todd, T O D D, at lendit.com and until next time.

(music)