LendIt Fintech

Fintech one·on·one

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Peter Renton: Welcome, everybody, to a special Fintech One-on-One Podcast on LendIt TV, we are broadcasting live.

I'm delighted to welcome Steve Smith who is the CEO and Co-Founder of Finicity. Finicity is one of the real market leaders, has been around for quite some time, we'll get the full story from Steve in a second, but I wanted to get Steve on because he is a market leader and someone who is a thought leader as well in the space. We're going to be talking a lot about open banking today and how that has really evolved over the last few years here in this country.

Welcome to the podcast, Steve!

Steve Smith: It's great to join you, Peter, looking forward to this conversation.

Peter: So, maybe we can kick it off by giving the listeners a little bit of background. I know you started Finicity some time ago so why don't you just start with what was the sort of impetus to start Finicity and how it's evolved over the years.

Steve: You know, it’s interesting, the drivers for today, the passions for today and the principles that really form our thought today are much like they were two decades ago, but, as you said, things have accelerated, they are moving at a pace that is really exciting today.

A couple of decades ago, it was really about putting data in the hands of consumers and allowing them to have more context, their financial life and so, you know, it's about building the technology that would allow them to have data in real-time on a device where they were making decisions and be able to make those decisions and context to the rest of their financial life or their financial information.

So, we set out to build a cloud, we call it cloud-based today, that's not a term we used a couple of decades ago, but cloud-based offering that synchronized with mobile devices and provided information about your spending habits and providing contacts with relation to those spending habits and trends associated with your cash flow. It really was, to use a phrase today, democratize data, but it really was to open up the data that generally fall in different places and put that all in the hands of consumers.

So, obviously, that led us to the path of building out connections to banks and beginning to build up the platform that came, you know, what is now today our open banking platform, open finance platform, you know, has over 10,000 integrations built out of financial institutions, payroll, wealth management companies, credit companies. So, not only the platform that we used for our own application, personal management solution in all those years ago to create context and now, as a platform for literally thousands of applications and services that can provide value-added services and products that do the stuff, you know, provide additional context that innovate on new solutions and provide additional levels of value.

Peter: Right, right. So, we were chatting before we started recording here and we were talking about how fintech has exploded just in the last couple of years and you and I have both been around, it's my second decade, I don't know if this is your second or third, Steve, but you've been around awhile and it's really interesting to me to see the ...I mean, exponential change gets thrown around a bit, but, you know, the 2010s were steady change, we thought it was pretty cool at that time from the things we were doing. But, now looking at what's just even evolved over the last couple of years, it's just amazing how quickly things are changing, but how is Finicity kind of evolving with this real rapid development of fintech that we're seeing today?

Steve: You know, it's interesting to look back over a couple of decades.

So, I have been in the financial technology space for more than two decades and, you know, I liken this often to the acceleration that we see in the other industries. A great example here is Uber and Lyft came on to the scene and it was amazing technology and people started to use this service. It was disruptive, it was innovative, you know, it did a number of things and now you're seeing additional services and products leveraged on top of that capability.

But, when you think about the core technology that really drives that experience, we get back a couple of decades and think about mapping the earth and getting to a place where we have the ability to build GPS solutions on top of, you know, every street and every location and we'll talk location technology for a number of years and, suddenly, you've got an API infrastructure on top of all of that core data that drives value-added applications and services like an Uber or a Lyft and it's largely the same with financial services.

If you go back a couple of decades, we were really thinking about, you know, what computing capability is there, what's the mobile space look like, what are mobile devices, you know, how capable are they, you know, the aspirations around them and you go through and you combine all of the big data, data analytics, computing capability, mobile devices, app capability and you get all of these things kind of accelerating to a place where suddenly you start seeing interesting products and services be developed on top of that core technology.

That really started to happen in the space in about 2012 and so 2012, you saw a significant level of investment coming into this newly defined space called fintech and we've seen acceleration every year, I think, to the point where we are today where fintech is on the scene. There's not a single aspect of our life that is not being touched in some way through, you know, investment innovation in and around fintech. So, you know, it has been that kind of accelerating factor, but, you know, really our advice, some of these really significant advancements in technology over the last couple of decades.

Peter: Right, right. Let's talk about open banking now, how have the advances in the technology you've just talked about there, how has that sort of opened up banking. You know, we haven't had like…..in Europe, particularly in the UK where they mandated open banking back in 2017 it came into force here. There's been less movement on the regulatory front, but there's been a lot of movement on the technology front so what is the state of open banking in this country today.

Steve: So, let's just talk about where it started. I mean, the innovation really started here in the US, you know, with early entrants into the space of aggregation and those were the kind of integrations that were built then as part of an aggregation platform where early on they didn't have access to the information. They maybe weren't incredibly fast or, you know, there may have been data quality issues or gaps and the number of people, you know, in a couple of decades ago were using online banking, for example, or mobile banking.

So, just bringing people along to a place where online banking is a part of everyday life, mobile banking is now a part of everyday life and those technologies and advancements in the financial space were absolutely necessary to get to a place where we can, whether we have a regulated approach to opening up data and access to data, financial institutions or as we like to say financial stewards, whether that's a wealth management company, payroll provider, you know, typical financial institution.

And, we're actually able to, you know, build out using good technology a secure methodology for allowing somebody to be authenticated by that institution, allowing them to permission, very transparently, permission access to the data that they want to have access and allowing them to do that in a way that's transparent so that the data is permissioned for a particular use case and it flows into that, you know, value-added use case like a financial management product, lending tools and applications, you know, or account payment solution. Largely, I would just say, whether it's industry-led like it is here in North America or it's regulator-led, the core technology is the same, right.

We're building on top of micro services, we are using API technology, we are using authentication, a lot of authentication, standard technology and we're getting to a place where we are able to allow consumers. small and medium-sized businesses to add a high-volume permission access to their data. The question is really around the pace, you know, does it move faster given a regulatory approach or does it move faster given less regulation and more of an industry-led, innovation-led approach. And I think the jury is still out on that, candidly, because if you think about, you know, where you're seeing most of the leading innovation, often that's taking place in North America and then being exported to different places throughout the world.

If you're looking at maybe where there's less friction and finding exactly, you know, what data elements are available, what the uptime requirements are, how the API is built out, API server is built out by a data steward like a financial institution then you might look to a regulated space and say, well, there's a bit less friction there and the US is kind of working through those things with the standards organization that I Co-Chair, FDX. So, hard to say, Peter, but I honestly….you know, I think the outcomes are largely the same. We're driving innovation and value-added services on top of that and I think, ultimately, what we're going to end up with here in North America is continued industry-led approach with likely some regulatory overview or guard rails or assistance to provide definition in certain areas.

Peter: Right, right. And I think one thing is interesting too, I think in this country the consumer doesn't really talk about open banking, they just want to be able to connect their bank account when they go and apply for a loan or whatever it is. So, what I'd like to get your perspective on…..maybe could you give us some examples of where open banking is really making a real difference in consumer experience.

Steve: Yeah. Let's talk about that for a minute, but let's say you're one of the things that's helpful is to…..you know, we've been using that term open banking for some time as largely defined in Europe and you said in North America we've really used it. We're really talking more about an open financial data network, right. So, there's all kinds of data stewards that can participate in that open financial data network, including some of the examples I've talked about; wealth management or monoline credit card companies or payroll providers and, you know, I'm sure that we'll all see utility providers, perhaps insurance and others become part of this open financial data network, two-sided network, which is permissioned by a consumer or an SME.

When you think about how it's been creating impact, you look at the use cases so let's take Tomo Credit, for example, a partner of Finicity and Mastercard where Kim and her team were really looking at ways to, you know, extend credit to those who traditionally find themselves on the outside looking in from a standard credit perspective. But, with the open financial data network they can get a bank account, they can permission access to that account and there are absolute analytics that can be utilized around cash flow that'll allow an underwriter to determine ability and propensity pay. In that case,Tomo has given credit to hundreds of thousands of individuals who normally would have to wait some period of time before they can get access to credit.

You think about in the lending space with mortgages and the fact that now you can apply for a mortgage, you can do it online or with mobile, and you can gain access to your financial information and instantly have your assets, income and employment verified and it's cutting days off of the closing process for a mortgage. What's the impact to that? Look at the real estate side, how does that impact real estate transactions, how does that provide more frictionless solutions in the capital markets, how does that really, you know, impact other aspects of the consumer experience as it relates to a mortgage line and that's just two examples of literally thousands of innovations that are taking place as a result of this open financial data network and really making that data come alive and providing developers in this ecosystem an opportunity to add value on top of that data and drive solutions into the market.

Peter: I actually just refinanced my mortgage fairly recently just a few months ago and I did it with one of the fintech lenders and I was amazed. It was mobile-centric, I actually did mine on the desktop because that's where I'm sitting most of the time on my computer, but what was amazing to me was how few PDFs I had to upload. I had to do some, but it's such a different experience when I previously got a loan which was many years ago with a major bank. I was just noticing how seamless the whole process was and it wouldn't have been possible without some of the things you just talked about there. So, let's talk about consumer-permissioned data, what is that exactly and how's that being used particularly in the underwriting process?

Steve: So, consumer-permissioned data really speaks to data that, you know, is owned by a consumer so it's at the bank. You can think about this as well, I can go to the bank and I can get my bank statement and it itemizes everything, my financial experience with that account with that bank. So, permissioned data is just this ability for a consumer to, in a digital way, authenticate who they are and the fact that they are the owner of that particular account or that particular experience with a financial steward and then provide specific permission typically to a data access provider, like Finicity is part of Mastercard, to, you know, using the technology that the integration technology has been created to go and collect that data on behalf of the consumer.

It could be everything from transaction-based information to account-based information to, you know, an instant view of balances to, you know, any one of a number of different pieces of individual components of that account experience, we call them data complements that can then be used either singularly in a service like a quick balance check for before account-to-account payment is made or in combination with things like average balances, some attributes that can be calculated from that information and served up in a report that can be qualified to be used by, you know, Freddie or Fannie, for example, in a mortgage lending experience and that information can then flow as a combination of many micro services that combine together in a qualified report that then fully digitize that experience you were talking about.

You mentioned, you didn't have to go and pull PDFs. Well, the reason for that is because the consumer permissions in an organization like Finicity, data access provider, to go extend directly into the account and pull all the data that typically have made up that PDF and put it into a digital form, put that in micro services and create this instant kind of flow of data and information that checks the box for your assets or checks the box for income or allows for the creation of the attributes that form the risk analytic around your credit worthiness for a particular loan or, you know, something that you'd be applying for. That's how it's working and that consumer-permissioned data is, you know, the way that it flows into the value-added services.

Peter: I wanted to ask about cash flow underwriting because you mentioned it already once and I feel like it's just table stakes now, everyone should be using it. It has so much more rich data than just looking and pulling out a credit report. Where are we at with cash flow underwriting, I know you speak to a lot of lenders, do you feel like we have a long way to go still or most lenders are really interested in this now?

Steve: So, as you know, most lenders are really interested in that, but it's more complex than that. Risk models that are applied or risk models that have used typically for more traditional lenders for a number of users and the capital markets that sit behind that or cash is provided is typically sitting on top of something like a standard risk analytic like a FICO score. And so, when you change that up, it typically takes….a year is not, you know, weeks or months to really test into new methodology, understand how it might change the risk assessment and provide that back into the capital markets so they can evaluate the risk associated with the portfolio of a particular type of consumer or small or medium-sized business loan.

So, the fact is that if the capital market is behind it, if there's a capital market that said we like cashflow underwriting and we're here to support a fintech lender, for example, or a traditional lender that has, you know, access to capital that has been engaged, you know, from a capital market perspective in building out a segment that reaches into areas that perhaps are not traditionally served, where current credit underwriting creates maybe some difficulties….you know, I think in the US we speak to the number of about 50 to 60 million people that have what we would call thin credit or are credit invisible. So, for trying to extend into that population, you know, you've got a capital market partnership that's very interested in that, I think that's where we've seen the progress.

We've been innovating around this for some time with the credit bureaus and with FICO, for example, we released the UltraFICO score together with Experian and FICO coming up three years ago and it was really…it worked around the notion that you could take a standard credit report and then collect the data and look at the data, transaction data, from a cash flow perspective and actually augment that standard report with more data that would either help, you know, in the case where you have a thin file or actually provide an ability to underwrite where a person is credit invisible.

That's been tested into the market, there are applications where it's being used today and so, you know, we're seeing where there's this application of bringing transaction data together with more traditional credit underwriting, a data that would be provided by the credit bureau, a lot of testing in the market and a lot of…..and I suspect it will continue in that phase of this innovative development for some time and then more rapid innovation around places where the capital markets are coming in and being a partner in that process and really looking at this and saying, no, the analytic makes sense, we agree with the data behind it and we can get behind this because the history associated with this type of underwriting now is rich enough that we can fund with confidence.

Peter: Moving on, I wanted to touch on financial inclusion because it feels like a lot of these, you know, like some of the UltraFICO projects and other things, there's been actually a lot of different initiatives that have really tried to, you know, open access to credit to those who are underserved and I'd love to get your perspective of where we're at. I mean, I feel like fintechs done a lot, particularly I think in the lending space there's a lot of fintech lenders that are focused on the underserved communities, but where do you think we're at and what more needs to be done?

Steve: I think where we are is the market from both the traditional lending perspective, fintech perspective and technology perspective, regulator perspective has largely recognized that cash flow data, transaction data is and can and should be used to extend credit. You have the joint statement from five regulators, you know, basically that said, you know, we've looked at these and it needs to be done, you know, thinking through compliance with FCRA and compliance with Equal Opportunity, EOA, that was a major step forward. And so, that was down the heels of a number of current studies that took place over the last four to five years though, largely, we're in a place now today where the innovation has taken place.

It's possible for somebody to come into the US, you know, first time, never had credit here in the US, worked with a number of different fintechs, including Tomo, the example that we've used before, and establish a bank account in a very short period of time, be qualified to get a loan on a card and build your credit much more quickly than ever before, before six months to a year. Now, within a couple of months you can be at a place where you've established some credit and in a short period be in a better place. So, I think that the innovation now is driving real impact into a number of those areas where you find people on the outside looking in from a financial services perspective here.

Listen, we still have miles to go though when you think about the number of people that are impacted and the number of people that we would like to bring into standard financial services right here in your backyard. I'm really excited, Peter, about the progress that's being made. In the last year, we've made so much progress around actual value-added solutions that are driving real impact and I think you'll just continue to see that accelerate in terms of number of people served. The number of people that are brought into the standard kind of financial services world with access, full access to financial services in a meaningful way. And, ultimately, if you look at developed countries, you know, how much of our foundation is based upon the efficient distribution of low cost capital…..

Peter: Right.

Steve: ….it's like that is fundamental to how we establish successful economies. We were doing some of the initial research with FICO, we looked at the fact that if somebody could get a bank account, if you have an identity and somebody could get a bank account on a mobile device, okay, and have some kind of degree of spending money on that account, they could be meaningfully scored, meaning that the UltraFICO score or any other type of cashflow-based analytic that has proven to be successful, they could be meaningfully scored and we're talking about billions of people, you know, where that can extend into on a worldwide stage. So, some of the most exciting work that I think, as an industry, we're doing is this notion of how we can truly drive impact with financial innovation at the open financial data network.

Peter: I'd love to just get…just touch on it briefly, the FDX, the organization you Co-Chair. Can you just tell the listeners a little bit about that organization, what its goals are and what it does?

Steve: Yeah. I mean, I've been there five years ago. You know, when things were starting to accelerate it was very clear that the open financial data network was coming together, there was a need for us to bring a standards organization together, much like the Bluetooth Organization did twenty years ago when we had all these innovations around short-range connectivity that people take for granted today. It was this recognition that as an industry working together, you know, we can solve some real problems, rising tides lift all ships that we can get to a place where we have a great interoperability between data, data access providers, value-added, innovative developers and data stewards that we really could accelerate the pace of innovation and we could it in a very responsible way and so that was the notion.

You know, we sent out invites to about 12 companies that started meeting together on a monthly basis that became what is now the Financial Data Exchange, it has over 200 members, it includes all of the largest banks, a number of mid-tier banks that includes the processors and cores and includes a large number, a growing number of fintechs and even thought leaders and individuals that are all working together to advance the standards around consumer permission, SME-permissioned, access to financial data and how that can then be used in a variety of different use cases.

Peter: I want to do a couple more questions before we let you go. I want to talk about "buy now pay later." You can't ignore it, there is an article every single day about "buy now pay later" these days and some of these companies do virtually no underwriting, their loan sizes are small and they are a loan because if you're paying for something later, by definition that is a loan, but they're building massive businesses. How do you view the "buy now pay later" space?

Steve: It's a new twist on something that's been around for a long time. I mean, issuing a credit card and using that to purchase items real-time and pay later is a "buy now pay later" methodology. Rent-to-own of the past and refund instalment is all a kind of a "buy now pay later." The challenge is that there's some degree of time associated with setting those up, there's some friction associated with setting up these accounts. The real thing that's driving "buy now pay later" is this kind of engagement where there's access to financial institution accounts, a variety of different ways to facilitate the payment, technologies coming together to place merchants in a position where they can extend, you know, micro lending around the acquisition of goods and services and they can either continue to support that and sustain it based upon the history that is very clear and very well defined as engaged or not.

And so, there's so much data available today it allows for more general-type risk assessment so you say they're virtually doing no underwriting, but they're definitely understanding risk and doing risk assessment that allows them to say no, we can do instant, frictionless solutioning around this and really open up that space. I think that's why, at the end, the access to data, the technology has brought us to a place where there's a variety of different payment methodologies real-time and you have this ability to continue to analyze the data to understand what your risk profile looks like and how it might need to be adjusted.

Peter: So then, last question we have here. How is the relationship with Mastercard, I mean, have you done much integration yet, how has your relationship kind of evolved over time?

Steve: You know, you look at Finicity and say we're a rapidly growing fintech company, we have close to 700 team members, we consummated the deal with Mastercard. Obviously, Mastercard has got a great brand, it's been around for a number of years, as an organization they're running a card network that is connecting to millions of merchants and tens of thousands of financial institutions across 200 countries and so it's big, right, it's a big organization and yet the open financial data network and growing that out as another network for Mastercard is one of their top priorities as a strategic priority for the organization.

And so, we have a very important role to play within Mastercard where we're engaging in a very real way to play that role. It's looking at what Mastercard had at that time combining those efforts together, expanding the stage, looking at other countries and frankly taking value-added propositions have been developed and services and solutions that Finicity has created in North America and looking at ways that that can be incorporated into other places where connectivity is being built out. So, all of that from a technology and in an advancement building out the open financial data network for Mastercard is moving very fast and the team is growing significantly and lots of excitement around that and some of the expansion.

For the rest of us, you know, bringing a small technology company together with a large company and, you know, fitting all those pieces together. We've done some integration, we'll largely be complete with full integration by mid-year next year. You know, the challenge around all of that is that the products and services and technologies are growing so fast and you have integration challenge on top of that so we all have our hands full, for sure, but there is no lack of energy and excitement around the activity.

Peter: Right, right, okay. Well, we'll have to leave it there, Steve, thank you very much for the podcast, thank you very much.

Steve: Let's do it again sometime.

Peter: Yeah, sounds good. Okay.

Steve: Thanks, bye.

Peter: Thanks too, Steve. Bye.

Thank you for listening to the live podcast we had here and I just wanted to touch on one point that Steve said there, that's around cash flow underwriting. I really think this is a big deal, particularly when it comes to being inclusive of really everyone in the financial system. The route is if you have a bank account, you should be able to get access to credit. Now, assuming that your bank account gets an overdraw all the time or you actually have consistent income coming in, but really the vast majority of people who are unscored have a bank account, they have income and yet they can't get access to credit because they don't have a credit score.

Cash flow underwriting changes that and I feel like that development, which is really part of open banking, is going to just be a gamechanger over the next really two to three years, you're going to see vast numbers of more people getting access to credit that they wouldn't have been to before.

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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