

PITCHIT FINTECH STARTUPS PODCAST NO. 21-MARTIN SOKK & MIHKEL AAMER

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Todd Anderson: On Episode 21, I talk with Martin Sokk and Mihkel Aamer of Lightyear. Lightyear is a simple and approachable way to invest your money globally without unnecessary barriers and fees. We saw just a huge influx of retail investors the last 18 months, not only here in the US, but around the world and when thinking about those retail investors, you know, not all markets are equal. There are some that have better technology, some that have worse, some that have high fees, some that have no fees and really what Lightyear's looking to do is help right now these UK-based retail investors gain access to US markets. Martin, Mihkel and I discuss why they decided to start with the US markets, the impact of Robinhood on their business, not only what it means for the business, but also the awareness of trading overall, their future roadmap, raising money and a whole lot more. I hope you enjoy the show.

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Todd: Welcome to the podcast, Martin and Mihkel, how are you?

Martin Sokk & Mihkel Aamer: Good, how are you?

Todd: I'm doing good. Just for a quick introduction, if you can just tell the audience a little but about yourselves, professional background, where were you before starting Lightyear?

Martin & Mihkel: Firstly from me, my name is Mihkel. For the last ten years, I've been working on financial services technology in a company called (inaudible). I started my career actually with UBS Investment Banking where I was building trading systems and (inaudible) systems and then I joined a company called Transferwise, now called Wise. It was early stage and I was building also software

there, building the team so initially, it was all about international expansion and later on also new products including multi-currency, debit cards.

My name is Martin, I actually met Mihkel in Transferwise. I joined when we had barely a handful of people there and we tried to figure out like how do you move money across the borders. The official job description was pretty weak at that time because nobody really knew what kind of job needs to be done like everything needs to be done, but I ended up and settled on a product job so I led Product Development, but also occasionally the Operations Team and in the end of my Transferwise career, I somehow ended up leading 50% HR and internal....how do you manage the people and how to make them happy.

Todd: Did you both eventually always want to start your own company? Have you always kind of had that entrepreneurial bug and hey, I'm eventually going to get there or was this something that you've kind of found a problem and it kind of just sparked from there?

Martin & Mihkel: I can talk to myself like the people who are Transferwise employees are often these entrepreneurial....trying to figure out how to solve the problem, how to go deep understanding what's broken in the world and making this bit of extra effort of solving these problems. I think the Lightyear idea came from not that because we found and figured out like we're going to do a business, like it was more of sitting in a cafe.

People have been investing in like their whole lives and trying to figure out like why the investing is so broken and we tried to figure out the best solution and when we didn't find the solution we ended up saying hey, we should solve that because....it's actually pretty similar to that idea about Transferwise has been solving is the global financial markets, make it approachable, make it so that everybody has an access, everybody has equal access to that and make it good cost-base, usability-base. We ended up just solving the problem for ourselves.

Todd: Before we jump into exactly what Lightyear is going to offer, how did you come to the name of Lightyear?

Martin & Mihkel: You know, everything has to be lighter, better than it is right now so incorporated that into our name.

Todd: Alright. Well, that's pretty straightforward. Sometimes, I hear these funny stories about how people came to a company name. Yesterday, I interviewed someone, it was the most pronounced name that was short enough that they found in the Latin dictionary and it had nothing to do with the product. So, people come from lots of different places to find their company names. So, for the listeners, what is the Lightyear product offering and who is the target customer?

Martin & Mihkel: We started solving our own problem, the problem was pretty simple. In Europe, you have limited access to the global markets and if you do not have an access then it's incredibly expensive and you're going to go to these kind of boundaries, you look into how do you interact with

these markets and it's incredibly complicated, it's cognitively hard to understand where you can invest, how do you get the data, how do you understand, are you making the right decisions or what not. So, in a really simplified manner we wanted to solve that problem. We are doing that in Europe, I think in the US, you are a little bit ahead of Europe, something like a couple of decades, the way how Europe is investing, what kind of products we have here and so on so it's like a fragmented market.

We need to constantly go through different sets of fees like FX fee, you need to convert money constantly because Europe has so many different currencies and a lot of people invest in the US markets and then you have local markets and access to these local markets. A lot of people started investing in the US so it's mostly a complicated fragmented market. So, the simple answer is that we want to solve...make investing really, really good for Europeans who are struggling with this fragmentation in the local market.

Todd: You know, in terms of a little bit more about how the product works, are you working with various partners on like trade execution, clearing? How does some of that, you know, part of the product work and then why start with....I was reading some of the stuff on your website with access to the US markets versus some of the access to the UK and European markets.

Martin & Mihkel: So, our aim, as you mentioned, is access for our UK customers to US stocks and for that we are partnering up with the US-based broker/dealer right now so that's essentially the first phase. This is based on like customer demand, what we're seeing and what the customers are looking for are the biggest companies right now trading in the US and that's also what people are interested in buying and selling. Our next phase will also involve more European local instruments.

Todd: So, in terms of potential opportunity, what does the retail investor appetite look like in the UK, in Europe more broadly. I mean, I've seen what a company like Robinhood and others have done here in the US, is that type of demand there in Europe and the UK and you're looking to kind of tap into some of them?

Martin & Mihkel: The market is even more interesting here at the moment. In the US, like you mentioned, you have a lot of different providers and the market has been maturing greatly. In Europe, you are missing a lot of that so people have not figured out how to do good execution, how to do good pricing and everything, that's largely missing so what we see right now in the European market is if you're making an improvement here to the level, for example, of what's in the US, it's a massive difference like this is something European customers rarely see at the moment.

So, I can give you an example, like I have a handful of various bank accounts and the banks are still mostly in Europe to invest so the broker situation, online broker stuff is there, but not so prominent like in the US. I went to my bank, I give my 100 Euros, convert 100 Euros to dollars, paid 1% of that because if you want to invest in the US market, you need to do that. Then I went and bought Twitter stock so I went to buy one stock because like I can't buy fractionals in my bank so I paid something like 15 Euros for that trade.

Now, going back, selling the stock and converting back to Euros, I'm losing a massive chunk of my money. So, this is something we're trying to know in the markets, even to remove that FX cost, if you're able to eliminate the transactional cost about this then you're making a massive difference for European customers, something they haven't seen here in a kind of large scale at the moment.

Todd: Yeah. I mean, from what you described, it sounds like you start with 100, but you're really starting with like \$60 or 75 and you're investing that and so you already have to make 30/40% back just to break even and probably more because of the fees on the other side when you're selling as well and so you're starting pretty far behind.

Martin & Mihkel: So, that's the thing we see right now is other people are starting behind late. This is an extreme example when you're trying to invest 100 Euros or something like that, but it kind of shows in a way like the market incentivizes people to invest large chunks of money, collect money and invest them in one go so your transaction fees have less impact on your investment. Effectively, you have to be longer on the market to gain back that amount and if you need to gain back that 30% it's quite a long time.

So, how do we get into the position where people have a better starting point? So, effectively, what we want to solve is that how everybody can invest and be exposed to the global markets so that's the main goal. How do you have these exposures so you can start growing your wealth and do that in a normal way so that you can invest 100 Euros or maybe 300 Euros at a time and diversify that. Right now, taking 100 Euros and diversifying that to ten stocks then you have no money left, effectively, like how do you get into this normal investment behavior over a long period of time. This is something we are looking at, how do we get people to effectively manage their own portfolios in cost-saving ways.

Todd: Now, in the US, prior to Robinhood and some others, most people have invested through an ETF and mutual funds, the 401(k), is it similar in Europe in the sense that they're investing through certain vehicles versus owning individual or groups of individual stocks?

Martin & Mihkel: Yeah, we are seeing that, ETF penetration in Europe is actually quite a bit lower than in the US, the numbers are way lower, but what we're seeing is higher uptake of ETFs in the recent years and definitely past through is gaining. When it comes to overall like market, total addressable market in the UK is about 2.4 Trillion Pounds, looks fairly large, but only a small proportion of the overall kind of population investing today. So, what we see as a big opportunity is people who don't invest today actually start investing.

Todd: In terms of the different countries in Europe dealing with US markets, how complicated is it with, you know, potential different requirements in different countries, different standards, different regulations, you know, how complicated web is that when looking to give customers access to various markets?

Martin & Mihkel: It's difficult, nobody has done that. There are some companies who have barely done that, but their products are already coming from the US and are incredibly hard to use in Europe

so it's more like a kind of professional traders and have some access. The problem is it has like multiple angles so starting from the regulatory. So, you have to have multiple licenses to cover all of Europe and then Europe has this concept for passporting to license, what you can use, one European license in another country, we still have this kind of worry so that's kind of regulatory.

But, you still have various currencies, various ways how you actually fund their accounts then you have various cultures, people speak in different languages, the way they see financial markets are different. So, you have maybe Norwegians and the Nordic Region versus Germany and France, the ways they are kind of interacting with the public markets are totally different so some of them are more cautious, some of them more brave the way they are actually saving money or investing is, again, different. So, effectively, to build European products you need to figure out all the countries and who are these people there and then deliver the product to these people. Fragmentation is definitely there.

Todd: In looking at some of the stuff on the web and on your website, you make a point to obviously talk about no fees, but how do you make money?

Martin & Mihkel: When we started thinking about like how do we do investing and what's inside this investing term, it was like a fascinating journey to make it all into granular and figure out what are all the bits and pieces there. You should start looking into what's the actual cost of making a trade so you have to execute and pay for that, then there is clearing, settlement and custody and then you moving the money around and liquidity questions and overhead. So, if you're thinking that then you can see that you can do it relatively cheaply. If you're able to grow into a large scale business, a lot of these costs would drop off.

So, a lot of these costs are coming in from this concept that you have this....basically, people are reselling, packaging and reselling services so if you're getting close to the markets, close to the actual accounts then you can do it at a relatively low cost. So, our approach has been simple, so we are driving towards the line where we can remove all or practically all the costs from the system. On top of that, we try to be able to build a premium model where you have parts of the system that are basically free for use because costs are relatively low and then the people who want to use the product in a more personalized manner, they want to use other types of news feeds or what not then these people will get different types of products.

So, we are charging for this personalization for the more advanced type of product so if you are asking why are we not charging that? We have not built that yet so, first and foremost, we need to build baseline services that everybody can have good access, good pricing, good info and all that stuff and on top of that, we start building specialized products.

Todd: That makes sense. So, does the success of someone like Robinhood, does that help/hurt the company and potential trajectory long term. Obviously, Robinhood has had some issues related to regulatory or there was the issue that they had when they stopped the selling of trades or the buying of trades, excuse me, but does a success of a company like that help or hurt your trajectory long term, you think?

Martin & Mihkel: I think it helps for sure, so there are more people investing now, both in the US and Europe, never before. However, there are also some downsides, what's important is now helping to educate these people so they can make informed investment decisions and helping people understand their investments as much as possible, especially those who have less experience. But, through it all, I've been thinking those.

Yeah, I think like in many ways it's actually amazing. Last week, I spoke to a couple of banks and they were like they had wide eyes and trying to figure out like how can you improve this service that you have there. It's like, it's not super expensive and people are using it. I think this kind of broken mindset, that's the reason why the investment is broken, people are not challenging into the core bones like what is the cost basis, how are people making these decisions, how do they actually manage their portfolios and what not. So, in that sense, like challenges that are on the market are definitely beneficial. In one way or another, this problem has to be solved globally so if there are inspirations across the pond or even local competitor share, we are actually super happy to see that.

Todd: Any thoughts on crypto and where that space is today and potentially adding that to the offering sometime in the near, medium or long-term future?

Martin & Mihkel: Everybody is super excited about crypto. Today, there is a lot of excitement around that, a lot of people are playing around and trying to make sense out of it, it's definitely one sector where people invest. So, when we are looking into what our customers want to get an access to or how they want to interact and there are crypto, there's the real estate question, bonds, public markets, options, what not, there's a lot to speculate here. So, what we are targeting at the moment is the biggest problem today, access to public markets in the US and Europe so this is the main focus, the main problem we're solving. Where we end up after that, we'll see.

Todd: So, I wanted to shift a little bit. You obviously launched during the pandemic, you know, how has that been? I mean, you both worked for high growth companies previously, how has the launch been, how big is the team. You know, has there been a kind of significant down or upside in terms of the pandemic for you guys?

Martin & Mihkel: We started our business in two different countries during the pandemic where everybody was on lockdown. It was a fun journey, but lucky for us, we had lots of good people who were really, really good at the stuff they're doing and they're really passionate like solving the same problem that we are after. We managed to grow the team to 14 people, they are split between London, UK where we have headquarters and Tallinn, Estonia so that's the place where Transferwise or Wise has the biggest office. So, we are mixing these teams, both of these teams, doesn't really matter so can't say that we are fully remote company.

We still love to come to the office, but we this flexi-working, a lot of us have babies, they can go and spend time with them, they don't need to be in the office constantly. You can travel between countries to see other people, have this kind of flexibility around working, but, at the same time, I'm definitely a

believer of growing a startup in a way that you can make a team sit around a whiteboard and figure out like how do you actually solve this complicated puzzle and figure it out and build it. What we do right now is that we are working, we have an office so people actually go to the office, we also try to move between countries. It has been a little bit more difficult, but it seems that with all the vaccinations and everything, borders are opening up so it's getting easier again.

When we start looking into who are the people in our team then today, we have this interesting situation where we have a large portion of Wise people, the people who have build the global remittance business and understand how the financial markets work and we have a couple of superstars from Revolut who have done the similar thing in the UK. We have someone from Pipe, another unicorn who is doing the CRM management systems, also one from Robinhood who is working and one who is half working and an investor in our company so it's an interesting set of skills there.

Todd: Well, certainly, it's getting people from the right fintech companies, that's for sure. So, I saw you raised a little bit of seed funding, how was investor appetite? You know, obviously, right now, it is quite a hot time in fintech funding, any advice for other founders who might be thinking about raising money from some outside investors?

Martin & Mihkel: We didn't have like too much struggle at the moment like raising money, but I think the question wasn't so much of a hot topic or anything, but like we were incredibly focused on solving this problem. The problem is huge at the moment so, effectively, all our investors invested in the team and the way the team solves problems. So, I think finding your passion, finding the good solution on the market and like being really practical how do you solve the problem, I think that's kind of the key.

Our first investors came friends, basically, we had Transferwise founder, Taavet Hinrikus and Skype founder, Jann Tallinn and then we have a handful of little smaller investors who are incredibly knowledgeable in the various parts of how this business works like transfer, CMO. We have somebody from Robinhood UK trying to figure out like how to have this best knowledge in here because the market is huge, lots of stuff needs to be built and we try to figure out like who are the most...like best people to surround us. These people are definitely incredibly useful.

Todd: So, we have just a few minutes left, I'd like to end with some fun. Do you have a favorite book, both of you and then the last book you read. If you don't or if you're not big readers then maybe a podcast or some other medium that you guys consume information.

Martin & Mihkel: I can go first. I'm reading a lot of space junk sci-fi stuff. If you haven't read "The Poplars," (?) then go and read that, that's amazing.

I'll go with (inaudible), classic.

Todd: Do you have a favorite sport, I presume soccer?

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Martin & Mihkel: No.

Todd: No?

Martin & Mihkel: I would say volleyball. I'm doing this weird thing like ultra-running. If the pain at work is not enough so I go and try to run.

Todd: Final question is your biggest inspiration in life.

Martin & Mihkel: Oh, that's a tricky one. I'm massively fascinated by the people who are able to create some impact in the world. There are lots of business leaders, lots of people who are like not afraid to be weird, since you're having an opinion, and making...essentially like don't care about money or what not, but more of a like how you actually solve something that makes other people's lives better. So, that's my constant flow of inspiration.

Yeah. So, what inspires me is I'd say positive outcomes and when you see that your actions are positive outcomes in the context of the product so seeing the customers are using the product and customers are benefitting from that product, that's most inspiring for me.

And I keep thinking of Wise, the example has been really cool where students have been like I'm going to school and I need to pay a lot of money for that and now, I am in this situation where I need to transfer this money and like the banks are taking a big chunk of that. This is cool where you can solve this problem, this is not a money transfer problem, it's more about how people live and like you improve their lives and that's cool

Todd: Well, Martin and Mihkel, I appreciate your giving me a few minutes today. Thank you for coming on the podcast, I wish you, the team at Lightyear continued success and, hopefully, we'll get you back sometime in the future.

Martin & Mihkel: Definitely. Thanks, Todd.

Todd: Thanks so much, guys.

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