FINTECH ONE-ON-ONE PODCAST – SARAH LEVY

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

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Peter Renton: Today on the show, I'm delighted to welcome Sarah Levy, she is the CEO of Betterment. Now, most people would know Betterment as the pioneer in Robo Advice, they do so much more today, and we discuss in-depth the full range of their offerings that they have. We talk about what investors want today, we also talk about the demographics that they serve, we talk about education. We talk about crypto and we also go into the lack of diversity when it comes to CEOs of fintech companies and Sarah provides some really interesting insights into what an outsider can bring to the CEO role. It was a fascinating discussion; hope you enjoy the show.

Welcome to the podcast, Sarah!

Sarah Levy: Thank you, great to see you.

Peter: Great to see you. Okay, so let's get started by giving the listeners a little bit of background about yourself. You haven't been in fintech your whole career, you've had an interesting kind of arch of your career, why don't you give us some of the highlights.

Sarah: Absolutely. So, I spent the first 25 years of my career in the media business starting at Disney and then the lion's share of my time was spent at Viacom where I was the Chief Operating Officer at Nickelodeon for about a decade and then took on a more corporate role where I was the Chief Operating Officer of what were called the Viacom Media Networks at that time and that includes great brands like MTV, Comedy Central, BET, Nickelodeon. And I oversaw a whole range of departments there, strategy, operations, finance, among others, and built a lot of the non-television businesses for those brands. So, some of the fun stuff I worked on included acquiring the Teenage Mutant Ninja Turtles, launching the business into streaming and then, of course, worked with Sponge Bob Square Pants for a good two decades. So, that's where I started my career and I joined Betterment as the CEO and made the move to fintech about two and a half years ago.

Peter: Now, tell us a little bit about that move because it's not a logical move from being in media for a couple of decades or more and then deciding to go into fintech. What was behind that?

Sarah: So, there were a bunch of reasons. I felt that I had exhausted the media business and I was looking for my next challenge. I would say I'm a lifelong learner and so one of the things I was looking for was a new industry and I was told early in my career, a great piece of advice, that really finding an industry where there was growth is where you should start and then from there find a great business you can believe in and so that was really my journey to Betterment. It started with, you know, I want to learn something new and I want to find a growth industry and then I really fell in love with Betterment. I did not know the business or the brand when I first was introduced to the business, but I really was inspired by the mission which is making people's lives better and I felt like there was an opportunity to do something to really take an aspirational brand and bring my marketing and operational experience from the past few decades just to a new challenge and a new space.

Peter: So, how has it been then? You've been in the job, it's like two and a half years now, I guess, more than that, right?

Sarah: About two and a half, that's right.

Peter: Yes. So, how has that adjustment been, I mean, obviously Betterment is a very serious business, right. You're handling people's money, not that the media business isn't serious, but it was a lot of children programming, right. If you get something wrong there, no one loses the show, but what's that adjustment been like?

Sarah: Well, I've always been a person who believed that we put the customer first. So, I think, you know, starting there in the kids' business we had a motto, what's good for kids is good for business, and that was really kind of an important part of our success. So, I would take that same theme forward and say, you know, you've got to put the customer first, understand what they want and do what's best for them. For sure, managing people's money is serious, but we at Betterment are a fiduciary so that means that people put their trust in us and we are legally required to do what's best for them. So, you know, that's the good news about the brand and the business even before I got here is, you know, this is a business that is really here to deliver on our mission and to help people plan and save and think about a better future. I guess it's a little bit different than kids' television, for sure, but either way we want to do right by the audience and drive great outcomes.

Peter: Right, right. So then, let's just get into Betterment now and maybe we could start with how do you describe the company today?

Sarah: So, I'll take a step back. We've been around for 13 years, 13 years strong, we have over $36 Billion in assets under management and over 800,000 customers so that's the size of the business. The business starts fundamentally with a wealth management platform and it's a great technology that powers great financial outcomes for individual investors and that's kind of where the business began 13 years ago. From that perch, we then added a couple of other customer segments that were logical extensions of what we did, but distinct businesses in their own right.

The first is the small business segment so we have a 401(k) product and an emerging financial wellness benefit solution suite, and that suite of products is a modern solution to benefits that a diverse workforce need and want and we're trying to address really financial wellness and again back to our mission of making people's lives better but doing that with the help of their employers. And then the third line of business is we license all these great technology as a custodian to Registered Investment Advisors, RIAs, who are increasingly kind of breaking away from bigger shops and looking for solutions that can help them scale their own small businesses.

Peter: I want to talk about that last point real quick then because like your predecessor, Jon Stein, I knew him for many years, he spoke at many of our events, you know, the concept of the company was really, how I see it, was really taking on the advisors, right, because the initial product was Robo Advice. And so, it's very name implies you don't need an outside advisor, how has that narrative shifted?

Sarah: So, you're right in that. When we first started, I think advisors were a little wary because part of the promise, to your point of the tech solution, was we can do it sort of cheaper and better via technology, right, and automation and optimization are things that are sort of better served by technology and I think that was a great premise. But I think what that sort of missed in terms of our destination now is this idea that finance is an incredibly emotional and your finances are incredibly emotional, right, and money and life are inextricably linked. And so, when you think about kind of the different customers on different, you know, places in their financial journey and their life journey sometimes you want that human advice and sometimes you want a human in the net.

So, we now believe that actually the technology is really important but it's technology and service and that service sometimes is as simple as, you know, I'm locked out of my account and how do you help me. And sometimes it's something more impactful on your life, I'm getting married, I'm buying a home, how do I think about, you know, setting up this next chapter of my life and being, you know, financially secure for the long term. And so, when we think about like why do the pieces of this business make sense together, we think about the different investors and at different points in your journey you may come to finance with different needs. Sometimes you want a human sometimes you're getting married via your employer, many, many of our customers their first investing experience is via a 401(k) and a retirement solution that they got from their employer, but then they want to go deeper and sometimes they're comfortable doing that just technology first and sometimes they want a human advisor.

Peter: Right.

Sarah: And so, I think what's really kind of exciting about how the businesses evolved is that we did start out saying we can do it better than advisors and we ultimately evolved to say, you know what, actually we can make advisors better at what they do because our technology can super charge what they offer as well and that's an and not an or.

Peter: Right, and makes sense. So, you know, I'm on your website now, on the Home Page you really emphasized your Cash Account, you know, paying 5.25% variable APY as of today, tell us a little bit about that offering.

Sarah: So, in mid to late 2019, we launched a High Yield Cash Reserve is what we call it, High Yield Cash Reserve product and it's effectively a cash suite account that has $2 Million in FDIC insurance and that's because we essentially are an interface through which we take your cash, we farm it out to banks, it's insured in all of these banks for $250,000 per bank and so you can sort of stock the banks on top of each other and we pass along a meaningful yield to the customer.

And so, one of the things that we are finding now, particularly in this sort of volatile market economy where people aren't sure, you know, are we heading for a recession, are we not, what do I want to do in investing, what we found is that savings is really an important part of your investing journey. And so, having that account alongside investing accounts, whether taxable or tax advantaged, is an important part of the mix and we could serve the customers sort of in all market conditions and so through a customer lens it's an important part of the account suite that we offer.

Peter: Did you have that $2 Million FDIC insurance before the banking crisis in March where people suddenly became very aware of FDIC insurance? More broadly, how did that impact you, did you see more inflows coming in?

Sarah: Yeah, that's a great question. So, the answer is we had $1 Million dollars in FDIC insurance for an individual investor and $2 Million for joint accounts prior to some of the banking mayhem earlier this year and we now have $2 Million for an individual and $4 Million for a joint account. And so, yes, we did take the opportunity to listen to the customer, to hear what they were looking for and what they were looking for at that moment. Security was top of mind, I never thought there would be a day where the average investor, even the words FDIC insurance would just roll off the tongue and now they do (both laugh) and they did in that moment.

And so, we sort of took advantage of that moment to say to customers, look, let us reassure you and let us explain to you, you know, how safe your money can be and how we can be a secure partner both in terms of educating you on what this means and then also in terms of, you know, being a fiduciary and really tending to your funds. So, security and access to liquidity were both kind of important parts of the conversation and interestingly, I think we among other digital challenger companies really understood that some of the big banks were capturing those economics for themselves and we felt that the customer opportunity, again, was to pass along this economics.

Peter: Right, right, that makes sense. So then, I'm curious about sort of your demographic of your customer base. Now, I did the math when you gave your scale early, I mean, you're not talking about an average account size of $500 or $1,0000, sounds like it's five figures, mid-five figures even, so this is not a low end of the market, probably not the high end either. What is the typical......not just one type of profile, but sort of tell us a little bit about your target demographic?

Sarah: So, our core customer we refer to as a millennial professional and typically that customer has about six figures of income and six figures of investible assets. We do find, your math is very good, (Peter laughs) we do find that our customer oftentimes, if not typically, has had a prior financial relationship prior to coming to Betterment and well, we do get high marks for beginners because I think there is an ease of use and a simplicity that we offer that you can get started with us.

I think what we offer really caters more to a sophisticated kind of emerging investor who maybe does not want to spend a lot of time worrying about their finances and so we take the worry off the table by automating a lot of things, but we can expand and grow with the customer. So, originally, I would say today our average user is late 30's or even pushing 40 and we're also seeing a lot of interest now at the earlier end so more of a GenZ customer starting to emerge. But the bulk of our customer segment is getting married, buying a home, thinking about educational savings like really setting up their life for buckets of savings and using our platform to think about that longer life journey.

Peter: So, I want to dig into your business-to-business offering here for a bit because it had been around for a while. I read that it is one of the things that you really championed after you got here to Betterment and I'm curious. Maybe you could talk a little bit about what you saw there as far as the potential and just describe a little bit more about those offerings.

Sarah: So, I should give credit to my Founder, Jon Stein, because he was a guy who really saw around, for better or for worse, he saw around corners, right, and I think as sort of an OG Robo guy, like he really pushed the industry to do interesting things and to advance technically in ways that I think are really important almost to the point of making some of what we originally pioneered table stakes. And so, when I got here, I thought, wow, this is a great tech stack and we have some interesting products for B2B audiences namely, small businesses and RIA's, but we didn't really have operating and sales capabilities to talk to those segments as distinct from our core retail business. And so, the insight that I had was these are great products and these are real needs in the marketplace so let's complement great technology with sales and service that are dedicated to those audiences.

So, if you think about, for example, the SMB world, there are 6 million small/medium-sized businesses in this country and those businesses employ 50% of the workers in the country and somewhere there is just a tranche from 60 to 90%, but 60+% of those companies did not historically and do not currently offer retirement benefits to their employees. And so, if you think about all these employees, you go work for a big enterprise and you're offered a retirement plan, but if you go to a small business you don't have that same kind of benefits package and that just felt like a missed opportunity.

Interestingly, the big enterprise solutions, they scale up really well, but they don't really serve that long retail customer. And so, that was a real miss and a real opportunity that we felt only technology could serve because our cost to service is just that much lower than the big guys, right. We no longer have fax machines and paper and processing and all that and they have to sort of unwind a lot of that so it was an untapped market in the sense that they didn't even want to serve that market because they can't do it profitably. So, that just felt like, again, back to our mission, we always start with our mission, making people's lives better, it starts with a secure retirement and a secure future, that felt like a great place to be as a brand.

And then, similarly, in the RIA space, you know, where you started earlier was to say, look, this is a crowd that uses you as a competitor and I think what we started to understand was, wait a minute, alongside them we can become advisors superpower, we have great technology and some of that technology is better maximized with human intervention. So, if we added a robust layer for them, why shouldn't the advised clients also benefit from our great tax servicing and from automatic rebouncing and automated trading and things that take a lot of time and cost for the RIA that we can just take out of the mix for them and just make their business that much more powerful so that they can serve smaller and smaller customers profitable.

Peter: So, on the, as you said, small business side, 6 million small businesses, how are you kind of marketing those because I imagine that spending, you know, a lot of time and effort for one small business customer who's got 10 employees may not be as profitable or as easy to make a profit on. So, what's the sort of go-to-market strategy there?

Sarah: I wish you would have told me that a few years ago, I would have saved a lot of time (Peter laughs), I'm just kidding. So, we have actually four different channels in terms of go-to-market. I think one of the early things we did is introduce a buy-it-yourself funnel that basically took what was once an outbound sale and turned it into an inbound purchase and that's for the 10% employee you frequently have, you know, a company that doesn't necessarily have a head of HR, right. They have someone who's juggling six or eight different jobs, you know, office manager, trying to figure out HR and benefits and they're literally going online and searching like retirement plans or 401(k)s for a small business. And so, that is a huge source of business for us because it's simple, it's turnkey, you don't need a whole HR team to get started so on the low end that's a great sales channel.

As we go a little more up-market to the 50% and 100% company where you typically have an HR leader, we actually have a couple of different ways, we meet that customer and a lot of education and webinars and conferences and stuff like that with an outbound sales team meeting those folks and then secondly, via advisors. So, a lot of companies look to financial advisors and say, can you help me figure out what's the right 401(k) solution and then what investment should I set up within that solution and so we work with that channel as another important channel.

And then, lastly, we have partnerships and integrations with benefits providers and payroll providers because, again, a lot of times you have an HR executive going in and trying to set up a whole suite of benefits for their company. This is one of, including payroll, and so how seamlessly we work with all those other technology partners is a really important part of their value proposition.

Peter: Okay. I want to switch gears back to the investing side of things. When you're talking with your customers for investing, what is it that they value most? Do they really want the automated choices, are they wanting more sort of the financial advice now, what do they value most when it comes to investment choices?

Sarah: So, I think the first thing is that not all customers value the same thing, right, so I think some amount of personalization and customization is kind of a critical part of what you need to offer and understand that people are sort of different moments on their journey, right. And even to click a level deeper on that, some really buy-in into goal-based investing and saying, okay, I want to set up buckets of money for different purposes and I want to really make a plan. For others, that's too much cognitive overload and they think like, I don't want to set up all that, I just want to grow my money, I want it to be simple, I want it to be worry-free.

And so, we have really sort of two paths, I would say, for an investor. One is the path that is very plan-ful and involves a lot of sort of upfront thinking and you work with a platform to help you set it up, but once you set it up, it’s automated and it handles it. On the other hand, you have folks who just say, I want it to be simple and seamless and easy and I just want it to grow, and for those investors there’s also sort of what I’d call the fast path where you can just get started easily, I think when you ask the question about investment choices specifically. So, the balance for us is making it simple enough and at the same time offering enough choice.

And so, how do you meet kind of both of those needs at the same time? Part of that is via your UI and asking kind of the right questions up front of the customer to say sort of how many degrees of freedom do you actually want. If you want us as a platform to just select the portfolio for you, here it is, you tell us a couple of things about yourself, you tell us about your time horizon and, you know, we’ll handle it for you, it’s diversified, it’s long term, you’re off to the races. Others say, I want socially responsible investing, I want to customize my portfolio and put things in and out and so as you go deeper into our platform, you have an ability to add, more or less, customization, depending on your personal interest and diving deeper.

Peter: That makes sense, okay. So, do you think that investors today are more financially savvy, I mean, maybe and also touch on like education of your customers. Do they want to come to Betterment to learn or how are we sort of doing when it comes to sort of educating our population?

Sarah: Well, again, I mean, I think there’s no one-size-fits-all answer to that. I think, fundamentally, we believe in long term planning, good habits, diversification, right. One of the things that you saw in 2021, and actually even coming back now, there’s a lot of this meme stock and YOLO and, you know, all of this craziness. And, essentially, you know, this is sort of counter to how we think about investing at Betterment because you really need a lot of information to be an expert and just sort of “beat the market,” that’s not easy to do. And so, what we saw in 2021 is when the whole market is up into the right, everyone believes they’re a genius and so people are doing things that fundamentally may not be in their best long-term interest and some are getting lucky, that’s good for them and some are unlucky.

And so, we just would say to our customers, don't play that game, if you're not a professional diversification and cost of time spent in the market is your best friend. So, set up good habits, set up recurring deposits, slow and steady, don't try to time the market, these are all things that typically don't end well. So, I think, yes, there's a lot of information out there and there certainly is a sub-set of people who think, I've got a lot of time to spend on this and I want to spend my time, you know, really learning stock by stock, that's typically not our investment profile or our customer profile. Our customer has a job, has a life, has a lot of other things to do and says like, I want this to be worry-free and I want professionals handling it and that's really what we offer.

Peter: That's sort of a good segue way to my next question which is around crypto, and you do have a crypto offering, I saw it on your website. Tell us a little bit about what you're doing there and I imagine you're not emphasizing it as much now as you may have been in 2021 or early 2022. So, what are you doing there?

Sarah: Let's talk about why we introduced crypto in the first place. So, we introduced crypto to the customers and, again, it was consistent with our philosophy around diversification, right. We believe in diversification, the math supports diversification, right, so our belief and as we listen to the customers, both existing customers and prospective customers, what they said is, I'm crypto-curious, right, I want to understand this asset class but it's vague and complicated and changing. And so, we looked at the market and we said, is there a way to think about the asset class and to help customers get exposure to the asset class without having to worry about the 10,000 or so different coins and assets that were going to come in and out of vogue.

And so, our question was, at that time, can we develop diversified portfolios that would allow customers to have exposure to the asset class, but, again, to take all of the worry out which is, we'll re-balance it for you, we will worry about which coins are in or out based on really clear analytical frameworks, right, and not opinion and so we introduced four portfolios. We always advised and we're actually very overt in our advice from day one that our customer should put less than 5% of their assets into crypto, it was always part of a sort of what we called a "sprinkle" into your portfolio and an exposure.

What we're doing now is, you know, the best information in the market changes have suggested that, you know, some of the assets that maybe were included in the portfolios might be less liquid or might be, you know, coming out of scrutiny for regulatory reasons. So, we're staying abreast of all of that and basically rebalancing the portfolios alongside market changes so that, again, we're taking all that cognitive overload off of our customers, keeping them in the asset class with an eye towards simplicity and exposure as part of a diversified portfolio.

Peter: Okay, I want to switch gears a little bit. Looking back at my list of interviews I've done, I've over 250 fintech CEOs on my podcast and the vast majority of those people have been men, there just aren't many female fintech CEOS. So, even in the broader C-suite of fintechs it's still terribly lacking, what can we do to change that, I mean, it doesn't feel like it's getting better, certainly not getting better quickly, it may be getting slightly better as far as diversification goes, I'd love to get your thoughts on that.

Sarah: Well, I think I'm an interesting case study for that question, right, because I came from outside the industry and clearly, my board and my investors, you know, took a leap. I mean, you said it at the top, it was not a logical progression or something, I think that was your word, right. And, you know, I guess I would question, was it logical or illogical, I don't know, but certainly these investors took a leap and the leap that they took with me was, okay, brand building is an idea that can cross industry, operating excellence and customer centricity. These are ideas that, you know, great brands and great businesses need to espouse all of these elements and, you know, great management, it's something that's portable.

So, they took a risk, right, I certainly had fresh views when I came in, but I think that's really probably the most powerful answer is, we're not necessarily growing enough women up through the ranks in either tech or finance, right. Both are true such that maybe some more risk taking around bringing people in without side perspectives is going to be the fastest way to catalyze change at the top.

Peter: What do you guys do internally at Betterment, do you have like diversity programs there, are you trying to kind of be mentors to women inside your company?

Sarah: We do and I think diversity programs aren't just focused on women.

Peter: Sure.

Sarah: Although I think, you know, women is an important part of it. We've made progress, I don't know if we have made enough progress. Our programs range from...we've got a really robust set of employee resource groups that get together, we have either six or I believe we may have launched the seventh, I think seven is our count right now of different groups that I think build community and offer feedback loops for us in management about things we can do better and action really powerful. I think it's really powerful for sort of community and culture building above all else because I think if you feel connected to folks at work who are like you, I think it builds a loyalty and a comfort and so we're really seeing the value of that, that sort of diversity begets diversity.

We also do a lot of education and we require that education as part of our goals just so that every one has a heightened awareness to the benefits and the value of, you know, bringing people with diverse perspectives and diverse backgrounds and so that can cut across a lot of different things again. Media to fintech is another example of diversity and so I think we're getting there, but I'm not ready to declare victory and I don't think that work is ever really done so....

Peter: Sure. So, last question then, sitting in your seat now, looking at the landscape, looking at your company, what's your vision for the future of Betterment?

Sarah: So, I think about the competitive set and sort of where do we go from here. I would like to be one of the great, if not the great millennial financial brand, you know, of the future. So, when I think about sort of the wealth management triumvirate of Fidelity, Vanguard and Schwab, those are like my parents' friends and so the question is, who's going to be the brand in wealth management that serves all three customer segments, right, workplace, retail and advisors for the millennial generation. And my belief is that we have a lot of monoline competitors but Betterment is on a path to build that brand that is beloved by a generation and that will meet you wherever you are on your financial journey and take you through the financial arch of your life and that's where I see us building an enduring business.

Peter: Okay. Well, it's a great place to leave it, Sarah, good luck with that. Thank you very much for coming on the show today.

Sarah: Thanks for having me, really enjoyed it.

Peter: I hope you enjoyed the show, thank you so much for listening. Please go ahead and give the show a review on the podcast platform of your choice and go 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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