LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 96: JAIDEV JANARDANA

Welcome to the Lend Academy podcast, Episode No. 96. This is your host, Peter Renton, Founder of Lend Academy.

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Peter Renton: I am here in the Zopa offices in London with Jaidev Janardana, who is the CEO of Zopa, a position he has held for the past 18 months of so. Now most listeners will know about Zopa; they were the first peer to peer lending platform in the world, they started in 2005, they've done over £2 billion in loans, but despite their age...I mean, it'd be hard to call them a startup after 12 years, but they are not afraid to go in new directions. They recently decided they would pursue a banking license, we're going to go into that in some depth in this interview. We're also going to talk about their core consumer lending business, the different product mixes they have and what else is new.

So with that, welcome to the podcast, Jaidev!

Jaidev Janardana: Thank you.

Peter: So let's just get started by just giving the listeners a little bit of background about yourself, what you did before you came to Zopa.

Jaidev: I joined Zopa in 2014, then as Chief Operating Officer. Before that, I spent 12 years at Capital One, both in the US and the UK. I actually started my career in the US before moving to the UK in 2008 and I did various roles in marketing, product development, credit and operations. The most significant of them that I remember is managing credit risk for the UK business through the recession. That was in 2008 which was a fantastic learning opportunity and I think prepared, I believe, a lot of us well...those who were managing credit risk through the cycle, if you will. Once things got better, I took a broader role doing marketing for bank credit for the UK business and really helped business come back to growth and profitability. Once we kind of did that, I found Zopa and I joined.

Peter: What was behind the decision to come to Zopa then?

Jaidev: For me, when I met people at Zopa the first thing that came out very clearly was that the heart of the people was at the right place and by that what I mean is that it was easily, by far, the most customer centric financial services company and in fact probably the most customer centric company I had ever met which really stood out in terms of how much people...Giles, the board and some of the management team cared about doing the right thing by the customer.

And I fundamentally believe that's what's broken about financial services that there aren't enough firms who have that customer centricity engraved into their DNA as Zopa has. That actually plays through then a lot of the performance that Zopa had and through it's history as well. I think Zopa's track record in terms of managing credit risk is unparalleled. It's so difficult to find a peer for Zopa in terms of how it has managed credit risk and consistently delivered positive returns for its investors. That prudence in risk management actually showed both the fact that the management and the board understood the growing and building of a financial services business is as much about taking risk as much as being prudent about how you take that risk. And that gave me a lot of confidence that the people here are in here to actually build something long lasting and something that's enduring and that's what I was looking to do.

Peter: Right, right. So you've been here as you said for about two and a half years and...you obviously spent a long time at Capital One which while not a 100+ year old bank, is certainly a more traditional financial institution than Zopa, so what would you say are the similarities and differences culturally between Zopa and Capital One?

Jaidev: That's a very interesting question and it's also a hard one to answer some ways because of the very different...almost maturity of the evolution curve of these two businesses. Capital One has been around now for 20+ years, but more importantly, has about 30,000 people, £3 billion in profits so it's a bit different stage, has made a huge mark in the world.

Peter: Sure.

Jaidev: But Zopa, I believe, can make a bigger mark, but is not there yet. So in that sense a comparison is hard, but if I still had to go ahead and make it, I would say that the similarities come from some of the values and how we manage the business. So I talked a little bit about prudence and risk management, I think that's something that I learned a lot in Capital One and that's where I saw the same at Zopa that struck a chord for me.

The second is really relying on data to make decisions and investing not just in building and collecting the data, but actually having the right talent to be able to use that data and create insight. If I were to take that further, I think there is a common belief at Zopa and Capital One that at the end of the day the only source of our competitive advantage is in our talent. There's that commitment to really find the best talent and letting them do great things once they are in. So those I would think would be the key commonalities that I can see in the cultures.

The fact that Zopa is smaller and a more agile and nimble company, I think, enables us to do things differently than some of the bigger organizations including Capital One. I think the place where I feel we do a tremendous job is in the way we can put together people from very various disciplines so data scientists, analysts, marketers, compliance specialists and having them all work together in what we call tribes or cross-functional teams is something that...we have taken that idea of cross-functionality to the next level.

All these people actually really report to the same person so....a lot of people talk about cross functional teams, but retain their individual reporting lines which is what we have done is have them work together, which I think has enabled us to deliver things at speed, but also in a fairly controlled fashion which I think stands out for us in terms of the extent of the cross functional collaboration we are able to create.

Peter: Interesting.

Jaidev: And that I think today is easier, when we are the size we are and it's something we're very keen to retain as we continue to grow.

Peter: Right, that will be a challenge I'm sure if you get to the size of Capital One. (laughs) Anyway, I want to spend a bit of time on the announcement that you made a few months ago now, your decision to pursue a banking license. So first, I've got several questions here, but the first question I want to pose to you because there has certainly been some negative press, there's been some positive press around this decision so I'm curious to know like inside the company or from your perspective, how do you think it's changed the brand, the Zopa brand since you made the announcement?

Jaidev: I'll take the answer in terms of how consumers perceive us as well as how internally we feel about the company.

Peter: Right.

Jaidev: So our consumers perceive us...I think I haven't seen any difference. I think the level of trust, the level of advocacy continues to remain. In fact, we received a lot of both positive feedback and anticipation from our customers saying...oh, when would it be and we would love to kind use some of the additional products that will come out.

Peter: Right.

Jaidev: In fact, one of the reasons that we went down the path, before we made the decision was actually to talk to consumers and see if they would have the demand for the other products that we could launch as a part of a bank and when we heard there was only positive feedback, it really helped us make that decision. So from a customer's standpoint, I don't see that there has been any difference.

I think internally, the decision has been incredibly well received and has created a ton of excitement and energy. Because If we go back to why we did this, I think our main motivation was to be able to serve our customers in a more broader fashion, more of their needs. We were doing, effectively, loans and we wanted to kind of meet more flexible needs of credit, credit in offline spaces and so on and so forth and we felt that was best delivered through a balance sheet model in the form of a bank and us taking that step has effectively unleashed, if you will, a ton of creativity in terms of how we can apply our skills in different places and meet different needs of consumers and that's been incredibly exciting for the employees.

Peter: Right, because you really have a blank slate. You can create this organization any way you want, I mean, within regulatory guidelines, of course.

Jaidev: Yes, yes.

Peter: Okay, so like I'm curious because I had Mike Cagney, the CEO of SoFi on a couple of months ago and we talked a little bit about that because they're obviously also pursuing the bank path. I'm curious to know, what SoFi wants is for their customers to really use SoFi for all of their financial needs and you can't do that without some kind of deposit taking facility…they have to get their payroll deposited somewhere and I think what SoFi would argue is that they want everything to be inside SoFi. Is that the same thinking, like is deposit taking the real attraction here? I'm just trying to get at, you've talked about other lending products sure, but do you want your customers to be 100% Zopa-centric when it comes to financial services?

Jaidev: No, I don't think so. In fact, I feel where regulation is going and where technology is going and where consumer preference is going, I definitely do believe that customers do want not just a trusted provider to help them find the right choices, but the trusted provider doesn't have to actually provide all the products.

Peter: Right.

Jaidev: If you look at what is expected to happen in Europe and the UK in 2018, around forcing banks to open up their data through open API's and so on, I do feel that some of the fundamental highly complicated banking products will tend to become utilities and current accounts for me is one of them. So today customers hate switching current accounts, it's a hard thing for them to switch and banks don't necessarily make it easy either right (laughs), but in a world where you could access your current account through anybody else's interface...thus people who make better interfaces and will guide you better can actually talk to the bank.

Customers will not care whether they have a HSBC current account or a NatWest current account because they will talk to someone whom they trust to actually operate the current account on their behalf. An analogy I think of is of MasterCard and Visa...I mean, I really don't care if I'm carrying a MasterCard or a Visa. They do something very complicated (Peter laughs), they do it really well, but I'm really talking to the issuer.

Peter: Right.

Jaidev: And I see the same thing happening with stuff like current accounts where there will be complicated infrastructure which always works, which will be slower to more change, which will be provided by a series of players, but then they will be looked upon as utilities and probably regulated as utilities and you will have trusted providers, providers who have the trust of customers who are providing an integrated view of financial services for the customer and doing the hard work by actually capturing all the API information and presenting to the customer that is far more easy and understandable. I think that's where we want to go.

Peter: Right.

Jaidev: There are some products and when we look at our skills, what we think we do very well is unsecured consumer lending.

Peter: Right.

Jaidev: So we want to be...we think we can provide great products in that space and so we want to do that. We also think that for some of that, particularly revolving credit, the best way to fund that is through deposits so we do want to do term deposits so not current accounts but term deposits. But beyond that, we want to be able to continue to leverage the great trust that we've built with our customers and actually be the best place for money for them.

Peter: Right, so you can see a time where someone would log into their Zopa account like they do today, but instead of just seeing their Zopa investments, they could see their check accounts, it might be at HSBC, it might be Santander or whatever, but it is all going to be sort of available through the Zopa interface.

Jaidev: Yes, and that's what the regulatory changes around PSD2 and open banking will enable it. I think going back to the point you raised which is incredibly exciting for me which is that we are creating this business from scratch, in some ways. We have a peer to peer business business but the retail banking products will be from scratch and I think that gives us the opportunity to create businesses and pricing strategies where we consistently have a win-win attitude with our customers where we win when the customers win and that is hard for the banks today to do.

For example, if you look at the credit card market...the credit card market today, most of the new origination is done through incredibly long, 0% teasers. The length of that today is I think 42 or a 43 month cycle. Every time I say it somebody says it has gone another month now, that's three and a half years, right?

Peter: Right.

Jaidev: And so the only way issuers are hoping to make money is that people forget to switch, or cannot switch after that.

Peter: Right.

Jaidev: When you have a business like that it's really hard for....when you are presented with an integrated view to the consumer to say, hey, by the way, your 0% is expiring, this might be a chance for you to consolidate because your business model is not geared towards that.

Peter: Yeah…the interests are not aligned.

Jaidev: Exactly. As we are designing products we want to make sure that we do not have products that put us at odds with our customer. Thus, we are able to actually present to them what is best for them and we will win through that and that's why we think we will have a good chance of creating…being that trusted provider than being the best place for money for consumers.

Peter: Right, okay. So then are you initially going to be focused on cross selling this obviously to your Zopa investors and borrowers even for that matter, depending on what their needs are or is this going to be focused on bringing new people into the Zopa brand?

Jaidev: So I think where we are, we have a customer base of about 300,000 customers that have used Zopa which is a good base, but I think when you look at 60 million or 45 million adults in the UK, there is a lot more to go. So I want to continue growing by focusing on the same type of customers, but there are a lot more to be had. So I think a major part of growth will have to be new customers just given the number of customers we have. That said, we also think that because we have this customer base, particularly for certain types of products, our customer base will provide a valuable almost first route of mark to market and the places where I think they will be very useful would be for taking deposits.

Peter: Right.

Jaidev: We'll talk to our lenders, we've got about 60,000 lenders, a lot of lenders have said that they think of their money in two different parts. One is savings which is really they want FSCS guarantee, same as FDIC guaranteed deposits and the other is investment which is what we get. The savings part typically tends to be much greater than the investment part and I think we will get a lot of early depositors…would be our lenders because they're going to say that okay, I can put some money in the other part.

Similarly, if I think of credit cards it's another place where I think a lot of our initial customers will be our existing loan takers. If I think of other products, be that personal loans or auto finance or point of sale finance, there we will continue to want to grow and add new customers because that's where I think our market share is still small and there is a lot of headroom for us to grow there so that's the way we kind of think about it.

Peter: So just a couple of questions on the bank. Are you planning on having this be....obviously, it's a separate entity, but is it going to be physically separate? Are they going to be here in the Zopa office, is there going to be a Zopa bank office that is in the city somewhere, what are you....

Jaidev: We will have the same offices. It'll be two different entities, we'll have the same offices. The plan is that the bank will be the more regulated entity as permitted by regulation and making sure that there's no conflict of interest, the bank should do most of the activities and that allows the regulator and the customers are more comforted that most of what is happening is happening within the regulated entity, we do not want to create regulatory arbitrage.

Peter: Sure.

Jaidev: That's not why we are going to be launching the bank. And the other thing that's very important is that...as I have said before, the thing that attracted me to Zopa and one of things we have the strongest advantage in is the culture and we want to make sure that the same culture permeates both entities and that can be best done by having this all together so that we will be together.

We will of course want to make sure that both entities' interests are well taken care of. That will mean having two different boards, that will mean having risk management, compliance probably duplicated on either side and to make sure that neither the peer to peer investor or borrower nor the bank depositor or borrower is advantaged or disadvantaged and all are treated fairly. We'll have some duplication of those functions, but the intent would be to keep it all together and have the same culture...

Peter: Okay.

Jaidev: ...and have people actually move across from one entity to the other.

Peter: Right, so we talked about SoFi earlier and I'm just curious to hear your perspective on...just the reality of the significant peer to peer lending platforms, Zopa obviously has quite a decent scale when it comes to your competitors today so I want to just get your sense on whether you think that other companies in the peer to peer lending space are going to move in the same direction as you? I feel like...we obviously have SoFi in the US and I'm wondering if you think...obviously you're at scale and you can't do this really if you're a startup or it's a lot more difficult, put it that way, but do you think this is a way that other companies that are your peers will inevitably go this same route?

Jaidev: That's a conversation I often have with Samir [of Funding Circle] who is a dear friend and where we clearly have opposing views on this....

Peter: Yes, he has strong views on this.

Jaidev: ...so, you know, when I look at what's happening in the US, I feel that a lot of platforms are beginning, in one way or the other, putting more skin in the game, either through risk retention or having lenders who have significant equity and so on. So there is some migration towards....from being kind of pure platform to more hybrid models, if you will, and there are different natures of hybrid models that people have taken.

For us, and I think this is also something that we have in common with SoFi, is that we want to create a less volatile, low risk and thus relatively lower return portfolio. When we look at how to fund that, I think we have done a great job of finding investors, both retail and institutional, where we have been able to convince them about the low risk nature of our offering and thus, their accepting a relatively lower return.

We've been able to do that even with securitization where the first securitization that was done by P2PGI of Zopa loans where we talked to the rating agencies. We got great ratings and today if you look at the spreads on the senior tranche they've got LIBOR +110/120 so, again, talks about the lower risk nature of our offering.

Now when we thought about doing things like credit cards which are not easily funded from a peer to peer model. We always believed...wanting to find the stickiest source of capital. That's reflected in our peer to peer business where a lot of it is funded through individual investors whom we believe are more sticky than institutional investors and even the institutional investors we have are either banks or funds with very narrow mandates like P2PGI, they can only do peer to peer and thus we think are more sticky than hedge funds with wider mandates.

And when we thought about...right, if we want to do credit cards what is the stickiest source of funding, you're going to naturally come to the answer, deposit funded. That's why for us it was maybe a more obvious thing to do than probably for other platforms, but I do feel that more platforms, not all, but more platforms will end up with some version of retaining risk on their balance sheet.

Peter: Right, right. So I just want to switch gears a little bit and talk about your core consumer lending business. I'd like if you can you give us an update on that, I mean, it sounds like you've had like an over supply of investors, you have a waiting list now, you shut down I think for a little bit to new investors, give us an update on that business.

Jaidev: So in terms of the new loans we are doing and borrowers we are attracting, I think we are continuing to grow, having very healthy growth rates on that side. Just to give you some numbers, last year, we did about £700 million of loans; in the first quarter of this year, we'll do almost do £250 million so that's almost…that is a run rate of just about a billion pounds. So that business is continuing to grow at a very steady growth rate which we like.

What has also happened on the other side is particularly post Brexit, Bank of England reduced rates and that created a far higher demand for assets than before. So just to, again, give you some numbers, the amount of new retail money coming into our platform if I compare last January to this January is more than double.

Peter: Wow!

Jaidev: And that I imagine, some of it is driven by, of course, lower rates from Bank of England which does mean that a lot of banks have reduced rates on their propositions, but some of it is also driven by the fact that we have continued to maintain our track record of delivering consistent return as well as innovating on the product side for our retail lenders and their experience. But all that has meant that, you know, that side of the business has grown far more rapidly today.

Peter: Right, makes sense.

Jaidev: And I think I'd rather be in that position (laughs).

Peter: (laughs) I think a lot of US platforms would die to be in that position.

Jaidev: And I think, you know, as a company we have had the philosophy that we want to treat our existing customers well first, before wanting to add new customers. I think that's usually…that's not a philosophy often seen in financial services and we take pride in that...the fact that our existing customers should get a stronger preference.

So as we looked at the volume we felt that where we are, we can continue serving our existing customers well provided we don't take new money into the platform and we don't want to take new money and have it wait for a long time either which is what we would have had to do for new investors so that's what we put a waiting list on. We do hope that on the borrower side we continue to grow. There are multiple initiatives that we have in the pipeline that will land in Q2 and Q3 and when that happens we'll be able to lift the waiting list.

Peter: Okay, I know we're almost out of time and I've got a couple of more questions I'm curious about like your Plus Product I just saw crossed a year, that's obviously a higher risk product. Do you think that...while obviously it has been successful for you guys, do you think that means that your typical investor now has a higher risk appetite than say a year or two ago? What do you sort of think is the driving force behind the popularity of the Plus Product?

Jaidev: I think we've always had demand from our investors for having more choice in terms of being able to take more risk for more return or being able to take less risk for less return so if you look at our product suite we have got Access which is the lowest risk and we've got Plus which is the highest risk and there's a range of return. I think that choice was something that our investors always wanted.

Now there was one thing which was effectively UK tax law that made products like Plus harder to do before and the intricacy was the basic thing that if you're a retail lender you could not offset your bad debts for tax purposes. What that meant is that you paid tax on your gross interest and then deducted your bad debts so imagine a 10% product with 4% losses, thus you make 6%. You actually pay tax on 10 and not on 6.

Peter: Right, right.

Jaidev: That actually changed, that law the Chancellor changed it mainly for us; by us I mean all of the peer to peer platforms and if you actually lend through a platform, now you could and that law changed in 2016 which was what allowed us to introduce the Plus product. What we didn't want to do is actually put a higher risk product in the Safeguard construct. This was why we had created Safeguard because Safeguard was a way to almost take the losses before I gave you interest and effectively solved the tax problem. So as soon as the tax law went away, we introduced the Plus product and I don't think there has been a change in risk appetite.

Peter: So last question, I have to ask you about this. Your Chairman Giles Andrews has been in the news a lot lately with decision to become...he's also going to be Chairman of MarketInvoice now so does this mean there's going to be more collaboration between Zopa and MarketInvoice? Are you getting into invoice financing, what should we read into this?

Jaidev: Quite the opposite...so I think I'll come to why MarketInvoice and Giles found each other in a second, but the reason Zopa, the board, I, we all felt comfortable with the decision was that we thought there was no overlap between the business at all…

Peter: Right, Right.

Jaidev: Thus there was no possibility of conflict and thus Giles as a Chairman had more time on his hands, could actually help a business we think well of but is at a similar stage that Zopa was at probably a couple of years ago and I think Giles has great experience in driving scale and also, more importantly...I talked about culture and how Zopa has a very customer centric culture. I think Giles has been the driving force of that culture and I believe MarketInvoice found that very attractive and Giles could help them also have a similar culture and that is the motivation from their side, from us it was more of okay, there is no overlap, there is no possibility of conflict and thus he could do that.

Peter: Okay, well on that note we'll finish it off. I really appreciate you coming on the podcast today, Jaidev.

Jaidev: Thank you.

Peter: I just want to go back to something that Jaidev said there. He compared Zopa and SoFi, certainly have low risk borrowers, very high credit type borrowers on their platform. For them it makes sense to offer banking services because that's going to allow them to have a low cost of capital and other advantages that Jaidev talked about.

I also think, and this is something that we've been talking about here at Lend Academy for some time, there's going to be a blurring the lines between an online platform and a traditional bank, particularly when you have the open banking initiative that's happening here in Europe where you're going to basically have access to your financial data. You don't need to rely on your bank's app to see your complete financial picture, you can do it through any third party and I feel like....you know, we've had that to some extent in the US and I think in Europe it's going to be fascinating to see how that plays out.

Whereas I still think you're going to see more platforms get banking licenses, I don't necessarily think Funding Circle will be one of them as Jaidev mentioned, but I think there will be others as the industry gets larger. I think you're going to find the advantage of having a banking license offering particularly when it comes to term deposits I think that's something that's a logical product for an online lending platform, particularly a retail investor platform, to offer.

So before I sign off, I do want to have a special thank you here to Mike Baliman of the London Fintech podcast. The recording today was brought to you courtesy of Mike Baliman's recording equipment and I very much appreciate him being willing to lend those to me for a couple of days while I'm here in London. So special thanks to Mike, the London Fintech podcast. If you haven't listened to it...if you're interested in the fintech scene in London, it really is a must listen. Very much appreciate his accommodating my request here.

Anyway on that note, I will sign off. Thank you very much for listening and I'll catch you next time. Bye.

(closing music)