LEND ACADEMY

**PODCAST TRANSCRIPTION SESSION NO. 127-Charles Egly**

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**Peter Renton:** Today on the show, I'm delighted to welcome Charles Egly, he is the CEO and Co-Founder of Younited Credit. Now Younited Credit are based in Paris, they've been around for many years and they're actually the largest online lender in Continental Europe. They've built a great business where they're not just operating in France now, they're also operating in Italy as well as Spain. So we talk a little bit about that, we talk about the business model, what makes them unique, how they've been able to grow their business, what it's been like to expand beyond their home country and some of the differences between France and these other countries. We also talk about the future and where he sees his business going. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Charles.

**Charles Egly:** Thank you, Peter.

**Peter:** Okay, so let's get started. I like to get these things kicked off with giving the listeners a little bit of background about yourself and what you've done in your career before you started Younited Credit.

**Charles:** Okay, so in a few words, before I co-founded Younited Credit, I worked at BNP Paribas investment banking during seven years, first as an analyst in the private equity department, then as a product developer in the asset management department in Hong Kong and during the four last years as a credit derivative structure in the fixed income department.

**Peter:** Okay, it sounds like you went from there to founding Younited Credit, what was the story behind that? Why did you decide to go and leave a large bank and go and create a startup in a fairly new area at that stage because we're talking like back in 2009. What was the story behind that?

**Charles:** So very simply, I had to pay my taxes, I had the savings to pay for them, but I did not want to use it so for me it was easier to apply for short term credit so I quickly applied for it and I got a revolving credit with a 4% APR so I took it. But after a few weeks I realized that the rate was very high and my return on my savings in parallel was very low so basically I began to


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study the models that existed in the US and in the UK so I discovered this platform opportunity and I decided to partner with my partner and to launch Younited Credit.

**Peter:** Okay, I want to give the listeners a little bit of sense of what the banking industry is like. I mean we talk about other countries like here in the US where the banks in the financial crisis pretty much exited the personal loan business. It sounds like in France there was a personal loan business with banks, but it was just expensive. What was the banking system like then and did you see the opportunity just on pricing or was it something else?

**Charles:** So just to give you a bit of a background, so the French market is the third in Europe in terms of outstanding assets. The UK and Germany are the biggest so the French one is the third. It's more than 150 billion euro of outstanding loans so I'm just talking about consumer loans, of course.

The issue with the French market is that it's very concentrated so you have four major banks that have the majority of the market and those four major banks in France are also the leaders in Continental Europe so it's a very concentrated and a very competitive market that we have in France. However, in terms of risk pricing and user experience they are not that good so we thought that there was a big opportunity to disrupt the market.

**Peter:** Okay, so my understanding is that in France if you're going to do a consumer lending business you need to have a banking license. So did you have to obtain this banking license before you started operating? Tell us about that process.

**Charles:** Yeah, exactly. If you want to operate a market lending platform, you need to have a banking license so I mean for us, it was a very long road. It took us two years to negotiate with the regulators and to obtain our credit institution license, but of course, it's a huge asset that we have now because we can passport this license in all European countries.

**Peter:** Right.

**Charles:** So of course it took us two years at the very beginning, but now it's very easy to duplicate the model and to launch our platform in all European countries.

**Peter:** Right, I want to stick with your French business for right now. I want to talk a little bit about who the typical borrowers are that come to your platform and what are they using the money for?

**Charles:** One third of them apply for loans to buy vehicles so mostly second hand cars, another third apply for house improvements/house refurbishment and the last third is for treasury cash needs.

**Peter:** Okay, and how are your loans comparable to the banks, I mean, what is the typical pricing and loan terms you are offering?


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**Charles:** We offer loans ranging from 1,000 euro to 40,000 euro, maturities range from 2 years to 6 years and the APR that we propose are on average between 50 and 100 bps below the market average.

**Peter:** So you're saying below the banks?

**Charles:** Below credit institutions, banks and the market average so basically, we are among the most competitive lenders.

**Peter:** Okay, so then what about on the investor side of the business because I know when we chatted before about...you have a fairly unique structure when it comes to peer to peer lending platforms. First thing maybe, let's just talk about who are the investors that are coming to your platform.

**Charles:** The biggest part of the money comes, of course, from institutional investors so basically insurance companies, small European banks, asset managers, small French pension funds and family offices. Of course, we have some retail investors but they are qualified retail investors, but as of today, it's mostly institutional money.

**Peter:** Okay, how are you structuring your investor offerings? My understanding is that you have these separate SPVs, Special Purpose Vehicles that you're offering for the different risk levels, the loan grades that you offer. Can you just tell us a little bit about how you're structuring that?

**Charles:** Exactly, so in France as of today, we have three SPVs so one for the A borrower category, another one for the B and another one for the C. For Italy, we have one single SPV with A, B and C and for Spain, we also have one single SPV with A, B, C. The idea for France is to create also a single SPV so that we have one SPV per country.

**Peter:** Okay, but right now you've split it up into three, but you're planning on changing that in the near future, is that correct?

**Charles:** Exactly, exactly.

**Peter:** I'm curious about...like I just want to find out about your business model. We know about how the typical platform business models are where you take an origination fee and also a servicing fee on the investor side, is that how it works with you guys, or how is it exactly you guys make money?

**Charles:** Yeah, definitely. On average, we have a borrower approved fee that we charge upfront of 4% of the loan amount. On top of that, we also distribute optional insurance, job loss insurance, death insurance and as a distributor we share revenues with the insurer which is Metlife and we also have a management fee within the SPV. So those are the three items of our net income.


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**Peter:** That's interesting, I wasn't aware of the insurance piece. So when someone takes out a loan, is it right at that moment then you say...hey, you've taken out this 30,000 euro loan, you should get some sort of job loss insurance or life insurance. You're doing that at that same time?

**Charles:** Exactly, exactly, because this is how the French, the Italian and the Spanish market are structured so in those countries consumers really like to have the option to take insurance, but it's optional, it's not mandatory at all. In France, it's mandatory for mortgage, but for consumer loans it's just optional.

**Peter:** Right, okay that makes sense. I just want to go back to the three SPVs, can you give us a sense on the historical yields or the returns to investors that we're talking about with the A SPV, B and C?

**Charles:** So basically it ranges from 2 to 4% so 2% for the A and 3 to 4% for the B and the C. Of course, there is a bit of volatility, but the idea is really to target on average 3%.

**Peter:** Okay, that's a lot lower than the US, it's even lower than the UK. Investors obviously don't have....that meets their expectations, I take it. Investors have lower expectations when it comes to yield in France than they do in other parts of Europe?

**Charles:** Of course, because you know, in Europe for instance, the ECB refinancing rate is -0.4% which is super low, I mean it's even negative and in most European countries the treasury bonds are super low. For instance in France, the 5-year treasury yield is below 0% so really the risk-free assets do not yield anything in Continental Europe that's why the yields that we're offering are super interesting.

**Peter:** Okay, that makes sense. So then who do you view as your competition in France because I know that...when I've been to Paris and met with lots of different marketplace lending platforms everyone else is in the small business space, it seems like and you guys are…it feels like alone in the consumer space. So who do you see as your competitors?

**Charles:** So our competitors are traditional banks and traditional credit institutions so for us the competitors and the competition is very simple. We are fighting again the banks.

**Peter:** Right, that makes sense. So I know that when you launched the company...and excuse my pronunciation here, but it was called Prêt d'Union and you rebranded I think it was 2015 or 2014, you rebranded to Younited Credit. Firstly, what does Prêt d'Union mean in English and why the change of brand?

**Charles:** Okay, Prêt d'Union means…Prêt means loan, union it means union, but the thing is the pronunciation is super French, it's very hard you know for other people especially Italians, Spanish, English, American or Germans to pronounce it. Whereas Younited Credit, it's fairly simple and on top of that credit is a noun that is known everywhere so that's why when we


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decided to deploy the platform in other countries, we decided at the same time to rebrand the platform.

**Peter:** Right, okay, that makes sense. So your first country...was it Italy? Can you tell us a little bit…when did you start in Italy and where are you at there?

**Charles:** We started Italy in March 2016 so as of today, we have originated almost 60 million euro in loans in Italy. In Spain, we started in March 2017 and we originated a bit less than 15 million euro in loans.

**Peter:** Okay, what are the differences between the three countries that you're operating in now. Are the yields higher in those two other countries? Obviously, they're not as strong economically as France, I don't know what the treasury rates are in those countries, but are you offering a similar product with a higher yield, or what are the differences?

**Charles:** For instance, the market average APR in Italy is two times higher than in France, in Spain, it's 2.5 times higher. So in those two countries the spread is much wider so, of course, it's easier to price our own loans and to be competitive. France is, of course, one of the most competitive markets in Europe so all other countries are simpler, I would say.

**Peter:** (laughs) Okay, right, so are you trying to focus on Italian investors or are your French investors investing in these other countries? Who's on the other side of it?

**Charles:** So of course, we have a big part of our investors that are French because, of course, we started with France, but we have more and more international lenders. We have, for instance, a Dutch insurance company named Aegon, we have European banks. As of today, we don't have Italian or Spanish institutional investors, but of course, our SPVs can be subscribed by any institutional investor.

**Peter:** Okay, so I want to switch gears a little bit and talk about technology. What's your approach to technology, do you feel like you have an advantage here over the banks? Tell us about your approach to technology in your business.

**Charles:** Okay, so of course, the user experience is super important to be able to attract good quality customers and to disrupt the sector. So, of course, we first invested in our website, mobile site, user experience, but of course there is more than that. We are a profit-driven and data-driven platform because we want to risk price all of our loans and to do risk pricing you're obliged to be super precise in terms of data utilization, underwriting process so we invested a lot in our CRM, in our algorithm.

For instance in France, we are the only one using machine learning and deep learning algorithms to score our applicants so this is very disruptive. On top of that, we also added an algorithm to predict soft fraud as well so we invested a lot in the tech. For instance, out of the 190 employees that we have in the three countries, 60 are developers and data scientists.


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**Peter:** Okay, interesting.

**Charles:** So it's one third of the staff.

**Peter:** Right, right. So just on the data that you're using, are you capturing mainly traditional credit data, are you using alternative data as well? What kinds of data are you feeding into your algorithms?

**Charles:** So in France there is no credit bureau so scoring applicants was a huge challenge when we started so that's why we had to use, I would say, a good mix of conventional data and also unconventional data. For instance, we track the IP address of the applicants, we use also the day in the week and the hour at which the application is made, we also track how many minutes the applicant stays on the website, if he goes to the Q&A, how many minutes he stayed on that page. So we track many things, unconventional data that helps us to better score our applicants.

**Peter:** Interesting, interesting. So I'm curious about the impact of Brexit or if there's been any. I mean, we've talked about it in the UK and it seems like it hasn't had a huge impact there. I'm just curious from your perspective, as you talk to investors are you finding that it's been a good thing for your business because obviously France is in Europe and not leaving the European Union, at least not any time soon, so has there been any impact on your business?

**Charles:** So for Europe, in general, it's not necessarily good news, but for all countries that stay within the European Union it's good news because those countries will be able to attract businesses or opportunities leaving the UK. So it will boost the GDP and decrease, of course, the unemployment rate so I would say for France, Italy and Spain, either it's neutral or it's good.

So overall, it's a good thing, but as a pan European platform, we also studied the opportunity to go to the UK to launch our platform in the UK, however, when it comes to consumer loans the biggest risk is the unemployment rate increase. With Brexit, we see a risk that the unemployment rate in the UK increases a lot so that's why we will not launch our platform in the UK in the coming two years.

**Peter:** Right, right, that makes sense, that makes sense. So how has the growth been over the last couple of years because like in the United States, there was a well known pull back from investors in 2016, I mean, we've had issues with defaults, we've had the Lending Club issues and there was a general pull back. Obviously we had Brexit in the UK, but have you found that the last couple of years has been steady growth for you, are you being impacted in any way?

**Charles:** Honestly, we did not see any impact on our business, but of course, I mean, we are much smaller than Lending Club. Brexit as well did not impact our model. On top of that, all the investors we have are long term lenders so we don't have any hedge funds so our money is less volatile. So we did not see any impact of what happened in the US which is good news.

**Peter:** Yes, yes, that is good news.



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**Charles:** And also there is a major difference with the UK and the US platforms. We are fully regulated by the ECB and the French regulators so the institutional lenders see us as a more stable platform, I would say.

**Peter:** Right, that makes sense. Speaking of stable platforms, you guys raised a 40 million euro equity round just a few weeks ago, how was that process…I mean, obviously, anytime you raise that amount of money that's not an easy process, but it's been challenging for companies to raise money in recent years and I wanted to see how that round went and what you're going to be using the money for.

**Charles:** So basically, the process took several months so 40 million euro is, of course, a lot of money, but as we are the leader in France and one of the biggest fintechs in Continental Europe there is always money for leading actors. So that's why it was not that difficult to raise that amount of money and also, we have good projects to use that money; European expansion, technology investment, data investment. I mean, the equity story made lots of sense when we saw equity investors to raise that money.

**Peter:** Okay, so where are you on the pathway towards profitability? I mean, are you profitable now, are you going to be profitable shortly, is this going to see you through to profitability, where are you at?

**Charles:** So we're still investing a lot in our growth, I mean, our revenues are still growing each year by 100% so we invest a lot. However, we lose...this year we will lose less money than the previous year with 100% revenue growth. So we should be profitable in a year and a half or two years.

**Peter:** Okay, so you recently, earlier this year, you crossed 500 million euros in total loans issued, how long will you be able to keep up this 100% growth? It gets harder the bigger you get to double every year.

**Charles:** Normally, we should keep this traction to 2020 because we also have lots of growth opportunities with the European expansion so for us it's quite easy to keep up that growth.

**Peter:** Okay, we're almost out of time, but I do want to talk about your expansion, I mean, you're in three countries now, there's obviously many more countries you could go into, what are your plans for continued expansion? Can you share your plans for next year or beyond?

**Charles:** Yeah, the idea is really to build a pan-European platform. Next year we will launch in two new countries. What's really exciting about Europe is that you have a common market with very specific markets as well so you can do lots of best practice sharing among the countries. So this is very exciting, you know, to build a pan-European product because you can pick in each country, you can pick the good practices to build a super nice product so this is very exciting.



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**Peter:** Okay, well we're going to have to leave it there, but I really appreciate you coming on the show today, Charles.

**Charles:** Thanks a lot, Peter, it was a pleasure to exchange with you.

**Peter:** Okay, see you.

**Charles:** Bye

**Peter:** One of the things that our industry has really been lacking, to a large extent, are companies looking to expand beyond their home borders. Now we have Funding Circle obviously as the most famous example; they're in the US, the UK and a couple of countries in Continental Europe, but beyond that we really have not seen this. So Younited Credit is really the largest consumer lender we have globally that's operating in multiple countries and with plans obviously to go beyond that. I feel like the industry, as it matures, needs to have some of these leading companies be cross border.

I mean, all of the major banks and insurance companies in the world operate in multiple countries and I feel like we have lagged behind I think in that area for some time. So I would have thought by now if you had asked me five years ago, I would have thought by now that many US companies would be in multiple countries, but we just haven't seen that. So I am fascinated by what Charles and his team has been able to do at Younited Credit and I certainly wish them all the best as they continue their global expansion.

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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