Welcome to the Lend Academy podcast, Episode No. 160. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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Today's show is sponsored by LendIt Fintech Europe 2018, Europe’s leading event for innovation in financial services. It's coming up on the 19th and 20th of November in London at the Business Design Centre. We've recently opened registration as well as speaker applications. You can find out more by going to lendit.com/europe.

**Peter Renton:** Today on the show, I am delighted to welcome Cecilia Frew, she is a Senior Vice-President and the Head of North America Push Payments for Visa Direct, which is obviously part of Visa. Now what Visa Direct does is they're really bringing real-time disbursements to the lending space. This is something that hasn't been possible really until very recently so I wanted to get Cecilia on the show to talk about how they're doing that, what some of the use cases are and how the whole system works. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Cecilia!

**Cecilia Frew:** Thank you and thank you for having me.

**Peter:** Okay, so I like to get these things started by giving the listeners a little bit of background about yourself. So can you tell us what you've done in your career to date?

**Cecilia:** Sure, of course. So Cecilia Frew, I manage our Visa Direct real-time push payment product for North America at Visa and I had been at Visa for about four years before leading the push payment effort...I was leading prepaid for the US. Before that, I was actually in banking for about eight years and did a whole bunch of different things ranging from corporate banking strategy and treasury management to small business debit card and consumer prepaid management. I also spent some time right after the financial crisis managing a distressed home equity portfolio which was pretty significant, about $18 billion in distressed assets, which was quite an interesting time to be in that field.

**Peter:** I'm sure.

**Cecilia:** Before that, was at McKinsey and Company, did my own consulting for a while and way before that was at Kodak, Eastman Kodak, if you remember them, doing sales. That was my very first job out of college, doing sales for Kodak.

**Peter:** Okay, that was probably while they were still going well…

**Cecilia:** Exactly.
Peter: …a better time than more recently. Anyway, so I want to just get straight into push payments and I’d like you to explain what it is and what it is that Visa Direct does because I know that it’s not obvious to many people. It wasn’t obvious to me until we started chatting so I’d like you to explain to everybody, what is push payments?

Cecilia: Yes, absolutely and it is counterintuitive so it does take a little bit of time to reacclimate your brain to basically what consists of a reversal of the flow in what we traditionally think of with the card networks. So the way I like to describe it is…so imagine you go into a store and you want to buy a sweater and you hand the merchant your card or you tap it or whatever happens nowadays in terms of the card technology, but essentially what’s going to happen is that merchant is going to take your card number and pull the funds from you.

If that is from a debit card, it’s going to come right out of your bank account and so in that regard it’s helpful to think of the debit card number as another access point to the bank account. Now imagine I change my mind, I take that same sweater back and I want to return it. Again, I hand the merchant my card, again he uses my card number, but this time he reverses the flow and pushes the money back to me. The money doesn’t sit on my debit card, it goes back into my bank account.

Peter: Right.

Cecilia: And so that’s why you’ll hear us refer to this as…a lot of times we’ll use the term push to debit, but what we really mean is push to bank account with your debit card. And so it’s that push, that credit back into the bank account, really that’s what we’re talking about. Now what’s interesting is that the merchandise return, which is what that is has been around for forever, but it is inherently linked to the purchase transaction and so a lot of the data resides in that purchase transaction.

So on it’s own, it can’t stand on it’s own, the data is not good enough, the tracking is not good enough because the purchase was the original transaction and so what we needed was an original credit transaction as opposed to that original debit transaction. So the original credit transaction you’ll often hear us call it an OCT is…think of it to some extent as a souped up merchandise return, that’s it.

You know, they use the card number, they push the money back into your bank account, but in the new transaction it’s a much more robust set of data around who’s sending the money, where the money is coming from, where the receiver is, that allows the bank issuers to risk rate and approve those transactions, and most importantly, to post them immediately, make the funds available immediately and so that is the big difference.

You guys probably all know if you’ve ever done a return with your debit card sometimes it kind of goes pending, it might not hit for a couple of days. That is not the case for an OCT or Visa Direct, the funds must be made available within 30 minutes, available meaning you can literally go to the ATM and get the cash out.
Peter: Okay, interesting. Is that the same technology that Venmo and Zelle are using or is that different?

Cecilia: That is exactly...so if you think about Venmo, in particular, let’s use them as an example. So Venmo traditionally, has been a...if you want to send...so let’s say I want to send money to you and what I would do is I would download the Venmo app, I would load my debit card and I would send it to you, you would get a text that says, so and so sent you money, come get it. At that point, Venmo would leave it in your Venmo account, right, and if you wanted the money actually in your bank account you would have to give them your routing and transit number and they would do a slow ACH to your bank.

So what Venmo did...this is probably about seven or eight months ago now, is they added Visa Direct as an option for instant cash out and for...you can still choose to do ACH slow and that’s free or we can use the same card that you already have in your Venmo account and deposit the money into your bank account instantly for a 25 cent fee, by the way. So there is a small fee, but pretty reasonable to have the money back into your bank account.

Peter: So this relies on an actual debit card...we all have a debit card, our ATM card is a debit card so that is what you’re using to really push the money directly to the bank account?

Cecilia: That’s it, that’s it, think about...like if I take my debit card to an ATM to make a deposit. So I’m a small business and I’ve got checks and cash I want to deposit, I put my card in and they’re going to use that debit card number to access my bank account and post that deposit. Same exact thing, same exact thing here.

Peter: Right, right. Okay, so then I know you were at LendIt speaking earlier this year about push payments and I will link to that session in the show notes, but if you could maybe articulate what the use cases of this technology is for the lending space.

Cecilia: Yes, absolutely. So I absolutely love how this has emerged as a leading use case actually for our Visa Direct push to card solution. So it’s interesting the evolution in the US...so first of all, the Visa Direct transaction, the OCT, has been around for quite a while, probably ten years or so now, and it got a little bit of traction in the rest of the world, but not in the US.

The reason is because it’s a new transaction, this souped up merchandise return, it required the issuers to do some technology builds and when it first came out there was not a lot of use cases, there wasn’t a lot of need and so not all the issuers actually did the implementation. And so it wasn’t until a couple of years ago where all of that changed with faster payments, P2P, in particular was a disruptor, so P2P was really our first use case but then very quickly we saw a desire for businesses to be able to want to disburse money instantly to either their customer of their small business partner.

A really good example of this would be Uber and Lyft so today if I’m an Uber driver I have the Uber driver app and in the old days it used to be I would have to wait until Tuesday to get an ACH for my prior week’s driving. Now what they say is you can still wait for that ACH or if you
need some of that money, go ahead and for a small fee, I think it's 50 cents, you can withdraw the money from your Uber account and have it immediately deposited. As you can imagine, for someone doing Uber or Lyft they're trying to make ends meet, they're trying to get some extra cash and so being able to access their money at night or on the weekends or on holidays was pretty important.

So we see a lot of what I think of as a faster settlement. You see what I mean by that, it's their money, it's at Uber, they don't have it in their bank account and so what they're really looking to do is use their debit card. Now in a lot of cases those are small businesses so that was kind of the first time where we're like, you know, small businesses and cash flow...small businesses have debit cards and we can talk a little about the stats on that and so yeah, Uber, you get a mix of small businesses and just traditional consumers.

So then what happened is we started talking to lenders, small business lenders in particular, and what we would in the banking world would call alt lenders. OnDeck, in particular, who is now piloting on our system and what they said was okay, we now have the ability to take a small business customer and using all of their data they give us we can underwrite and that's awesome, but it still takes days to get them the money.

Peter: Right.

Cecilia: You know, and so that's actually not that helpful. So they said we want to add the ability to push the loan disbursement to the small business in real-time. Now imagine a scenario where I am a small business, it's Saturday morning because that's when I kind of do my financials because during the week it got crazy. Saturday morning with my cup of coffee and I'm doing my loan application to OnDeck. If they can say you're approved and then they say, and by the way, we can get you the funds right now, just give us your small business debit card. I enter that and boom, the money is in my account. So you can see how absolutely powerful...

Peter: I just want to clarify, so that can happen outside of business hours, that can happen at anytime on the weekend or whatever, is it?

Cecilia: That is the most important part to this because unlike ACH or even same day ACH, Visa is not batched.

Peter: Right.

Cecilia: In real-time, 24/7, 365 and so it doesn't matter if it's Labor Day, it doesn't matter if it's two in the morning, Visa is up and ready for business. So it was interesting...I don't know, earlier in the week if you saw, there was an article by the Kabbage CEO where he did some work basically kind of investigating when people actually pulled their funds and I think it was something, it was either 20 or 30% of all their funds were being asked for to be distributed off hours, so whether that was at night or on weekends or holidays.
So even a same day ACH, which can be very useful, by the way, and by the way, sometimes these things can live next to each other, it doesn't have to be either or, you know, you can offer choices depending on the scenario, but you can see how important it would be to give access to the money anytime and what a competitive differentiator that was going to be for Kabbage.

**Peter:** Right, right, that makes sense. I mean, for any of those online lenders particularly the ones that are automated. OnDeck does a lot of automation, Kabbage does a lot of automation, you know, to have that...the customer satisfaction for someone applying for a loan let's say 10:00 am and by 10:30 the money is sitting in their account. That's not what we're used to.

**Cecilia:** Yeah, exactly and you know, one of the things when we're talking to lenders about the service...there is an interesting nuance for lending which is the fees that are charged, either to the consumer or small business. So you know, there's a lot of sensitivity, especially in the consumer space, around APRs. If you take every single fee and you add it into the APR all of it starts to look pretty bad. So we talked about Uber, we talked about Venmo, they're each charging a small fee to the receiver of that money.

In the lending space, we don't expect the lender to charge a fee and so instead that's just an additional service that the lender provides and it's in order to maintain the APRs where we need them. Now the good news is the economics of sending are completely different than a card transaction so you can think of it as, you know, it's less than a dollar all in, including interchanged so it's very affordable. It's not an ACH, you know an ACH might be 25 to 50 cents, but it's getting there and for the additional customer benefit it's probably very worth it.

**Peter:** Yeah, I mean, that's very little to pay for...I mean, right now, it's still...people aren't expecting this so customer satisfaction must go through the roof I imagine for that so that's really interesting. I want to ask about how the process works because I know when OnDeck sort of announced this product, this partnership with Visa Direct there was also Ingo Money involved and I'm not sure exactly how all the pieces fit. So can you explain to the listeners how the pieces fit in with OnDeck, Ingo Money and Visa Direct?

**Cecilia:** Yes, absolutely. So that's a great question so thank you for asking it and giving me the chance to explain because I think there is some confusion on how all the pieces fit together. So if we step back and we ask, what is Visa, what role does Visa play in the payments ecosystem? We are a network, we're a platform, we're the rails that people use to create services for their customers.

And the best example of that is let's say a merchant uses and acquires a processor to connect to Visa to do purchase transactions and so think about this as, in this case, OnDeck is acting as the merchant in our traditional 4-party model language and Ingo is the processor and so Ingo connects to us directly and then they go out and they work to create solutions, unique solutions for each of their customers and bring them onboard. So OnDeck doesn't connect to us directly, they connect through a processor which is very similar to our traditional purchase model.
Peter: Right, okay, okay, now I understand, thank you. Okay, so then I'm curious about the whole piece around how this technology works and...you know, there's so much talk about data privacy and identity verification and all this sort of thing, tell us about the steps that you guys take that will...I mean, obviously you've got someone who's got a debit card, how are you verifying that they are who they say they are because I imagine that's a...obviously, OnDeck will do their own piece, where does KYC and identity verification kind of fit in with all of this?

Cecilia: Yes, absolutely, so I would say there's three elements here. The first one, which we don't have to worry about really at all, is the original KYC that the bank who issued that bank account and that debit card did with the small business, and we can pretty much all rely that that business has had proper KYC and that debit card is legitimate. So what we do have to worry though about is one, compromising that small business' information or their card number which we don't want to do or two, preventing fraud.

So someone takes that small business card number and uses it to their advantage or, you know, a small business might...you know, let's say the lender might want to push to one account, but the small business wants to push to a different account so we want to make sure that there's no fraud or misuse in the system.

So on the piece around privacy and security, the great news is that Visa Direct runs on the exact same platform rules and operating regulations as all card transactions so the card and the client information all needs to be protected. There needs to be PCI compliance, you know, all of that good stuff around protecting the cardholder.

We are actually also working on tokenization so you'll be able to tokenize if you want to hold the card and do repeat transactions, but you don't want to hold the actual card number, you can tokenize it. So that is where, quite often, your processor comes in so Ingo, in this case, is helping ensure that there's PCI compliance and all of that information is protected so that's where the merchants or the OnDecks' or lenders can rely on their partner to help.

And then on the second part around fraud...so this is something we are always working on. Visa, as you may know, has been developing fraud detection and risk tools for years and we have an unbelievable suite of products that can come into play from very simple AVS checks to more sophisticated 3D authentication or geolocation or alerts; there's all kinds of services that you can overlay to make sure that the cardholder is who they say they are. And again, this is where your processor would come in and help layer in all of those solutions into their product for you.

Peter: Right, right. Okay, so you mentioned that there has been use cases in the small business lending space, I'm just wondering about consumer lending because to me it doesn't sound like this is very expensive. I mean, in the whole scheme of things if a company is making say $500 in revenue from a particular loan, whether it's a consumer loan or a small business loan, this extra 50 cents or a dollar, or whatever it is, it's not a very big expense. It feels like to me everyone should use this, I mean, it's like the whole ACH system is 40 plus years old and I think
people would appreciate having this instant...getting their money instantly, so are you working with consumer lenders as well?

**Cecilia:** We are.

**Peter:** Okay.

**Cecilia:** Yeah, no, we absolutely are. So the value proposition is very similar for consumer lenders and the good news is consumers have a higher likelihood of actually having a debit card.

**Peter:** Right.

**Cecilia:** Small businesses, we did some research, I think it's something like 70% of all small business owners do have a debit card and of those that don't, another 80% would be willing to go get one for this purpose so that's really good news and on the consumer side, you know, we've got great debit card penetration. The consumer always has their debit card in their pocket so yes, absolutely, we have a lot of interest from the consumer lenders.

The interesting part there is there's just a very big network of lenders out there and so it takes time to reach them all, to help them understand what the value proposition is, that they should engage with us on this and so we've had lots of very positive feedback and I am quite certain in the upcoming months we will hear an announcement about a consumer lender using Visa Direct. (laughs)

**Peter:** Okay, we'll wait for that. (Cecilia laughs) So like what are the limits here, I mean, you probably can't move $1 million in this program, right. What is the maximum amount of money that you can move at one time?

**Cecilia:** Yes, absolutely. So this is a great question and one that I want everyone to be thinking about. So when I first took over Visa Direct here in the US/North America about three years ago, we had a single transaction limit of $2,500 which wasn't very good. For P2P, maybe it's okay because that was really the first use case contemplated, but we said, you know, for these business disbursements or, you know, in this case lending, you need something more than that so we increased the transaction limit. We actually increased P2P as well so we increased P2P transaction limits to $10,000 and we increased a business disbursement to $50,000.

**Peter:** Okay.

**Cecilia:** Yeah, so it's pretty big, it's pretty big. Now one of the things that I always give the caveat on is that that's the Visa system limit. We continue to work with the issuers in terms of...you know, they haven't seen a lot of this yet. They've seen a lot of P2P, they're all very comfortable with the transaction size which is typically smaller, but as we launch new use cases, in this case small business lending or insurance payouts that have a higher ticket, you...
can think of it as a higher dollar transaction, sometimes it gets caught up in the bank's risk systems.

So we are working with our issuers very closely to help them understand what they're getting and give them an understanding of, you know, please approve these transactions, don't bounce them back because you don't know what they are.

**Peter:** Right.

**Cecilia:** So there's a bit of an education process for us, but it's getting better every day.

**Peter:** So then are you just focused internally in North America? Obviously, Visa is probably in every country in the world, I'm guessing, so I'm interested about the applications of this for maybe cross border payments at some point so where does it stand? I mean, is this really a US product right now and where does it stand as far as cross border?

**Cecilia:** No, so cross border is absolutely a phenomenal opportunity and so and this is actually one of my favorites. So if you think about cross border and we think about it as cross border remittance which is, you know, P2P, that's me sending money back to my Mom in my home country, or that's a B2C disbursement, a business paying out maybe an app developer in another country. We think that this is a fabulous opportunity, we already see transactions going cross border and it's a big push for us, for Visa globally. I think if you step back and you think about the global reach...so Visa has about 3 billion cards globally.

**Peter:** Wow, okay.

**Cecilia:** Right, I mean, so it's an unbelievable amount of reach and if you think about the notion of being able to push money around the world in real-time, you know, traditionally we think of either like let's say a global ACH or even a Swift or a correspondent banking, those can often take days and can get tied up and lost and it's not always the easiest thing to keep track of.

But the transaction is the exact same around the world and it uses VisaNet around the world so there's no complicated jumping around from bank to bank. It's a very straightforward, reliable transaction so we're very excited about it and there is some really great momentum in the cross border space as well.

**Peter:** Yeah, it sounds like that could be bigger than any of these use cases.

**Cecilia:** I know, right (laughs).

**Peter:** It's still very frustrating, I mean, we are getting there. There are obviously lots of startups and there’s a whole lot of blockchain companies working on this, but you've got a huge advantage in having everything in place right now.

**Cecilia:** Yeah.
Peter: So last question before I let you go, how is this space evolving? I mean, obviously, you've sort of laid out a few different use cases here, but where would you like to see Visa Direct heading? You know, if we talk again in like five years time, is this going to be the ubiquitous payment method everyone is using, I mean, where do you see this going?

Cecilia: So I think, so I'm going to try and predict the future here, but I think this absolutely will be ubiquitous. I think everyone will understand it and it won't be new, I won't have to explain the you can push money into your bank account with your debit card. Everyone will know that, they will have experienced it firsthand which is awesome.

I do think that it will be an interconnected real-time network and I think that there will probably be even some interesting...if you think about...you know, there's a lot of domestic real-time payment schemes in play, Zelle is a good example, we're partnering with Zelle, they're using Visa Direct to reach non-Zelle banks. I would imagine there will be a lot of partnerships in place with the local real-time payment schemes and it will just be part of the, you know, normal operating life.

If possible, what I'd love to see is...you know, we still have trillions of dollars of cash changing hands every day and businesses still write trillions of dollars of checks and there's no reason for it. So I would love to, in five years time, be able to see that reduced by a significant amount and with the benefit to Visa, its partners and the consumers that are the beneficiaries of it.

Peter: Indeed, I'm sure you're right there. I mean, checks are...it's funny, you travel around the world and people are amazed that America still uses checks, because there's many, many countries...in my home country in Australia, no one's written a check that I know for the last decade or more, no one does it anymore and I think we're moving that way.

Anyway, it's been great chatting, Cecilia, I really appreciate your time today.

Cecilia: Yes, thank you very much.

Peter: Okay, see you.

Cecilia: Appreciate it, okay, take care.

Peter: Bye.

So it's kind of crazy that here we are in 2018 that we're still using batch processing to get money moved around. Clearly, those days are numbered, other countries have led the way as I talked about Australia, China, many other countries in the world, in Europe especially, they're moving money around very quickly. The US needs this technology, we need to be able to have instant access to money and I think, obviously, it is going to happen. It's inevitable, it's going to happen in this country and I think companies like Visa have the power and the capability to really deliver on that real-time promise.
Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

Today's show was sponsored by LendIt Fintech Europe 2018, Europe’s leading event for innovation in financial services. It's happening November 19th and 20th at the Business Design Centre in London. Registration is now open as well as speaker applications. Find out more by going to lendit.com/europe.

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