



PODCAST TRANSCRIPTION SESSION NO. 176/ANIL STOCKER

Welcome to the Lend Academy Podcast, Episode No. 176. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

Today's show is sponsored by LendIt Fintech Europe 2018, Europe's leading event for innovation in financial services. It's coming up very shortly on the 19th and 20th of November in London at the Business Design Centre. It's not too late to get a ticket as we're recording this. You can go to lendit.com to find out more.

Peter Renton: Today on the show, I'm delighted to welcome Anil Stocker, he is the CEO and Co-Founder of MarketInvoice. Now MarketInvoice has been around for quite a few years, they have really become the leader certainly in the UK, and potentially even globally, in online invoice finance space, but they certainly have aspirations far beyond that.

We get into that in some detail on the show, we talk about their approach to underwriting and we spend quite a bit of time going in depth on their new partnership with Barclays, fascinating conversation there about that, where they've got quite a deep partnership with Barclays providing invoice finance to the million small business customers that Barclays retail bank has in the UK. It was a fascinating conversation, I hope you enjoy the show.

Welcome to the podcast, Anil!

Anil Stocker: Hi, Peter.

Peter: Okay, so I like to get these things started by giving the listeners a little bit of background about yourself and sort of what you did before you started MarketInvoice.

Anil: Sure, so my name is Anil, and I came over to the UK, went to school and studied economics and actually met my future co-founders at university. I first started working in a big investment bank, I joined Lehman Brothers back in 2006 working in a private equity fund, investing in companies and that's where I kind of got to grips a little bit with cash flow and financial requirements from growing businesses and then went to another kind of smaller private equity shop. Started in 2010, to kind of looked around and wanted to start a business and that's when I kind of started to think about fintech and what I could do as an entrepreneur.

Peter: Okay, so what was sort of the catalyst, what was the idea that led to the founding of MarketInvoice?

Anil: Yeah, look it really came from spending a lot of time with small businesses. I think I had a bunch of ideas. One of them was to kind of start investing in small businesses in particular sectors here and I probably met about 50 businesses and they all kind of were telling me a little bit about their troubles of scaling, the need for cash, the difficulty of doing business with the banks if you were a small business.



So it was really kind of born out of that experience of talking to them and probing around what the problems were that I started to think about what I could do. What's interesting is many of the businesses wanted access to capital, not necessarily equity investment. They wanted debt finance, they were struggling to understand invoice finance. They had ambitious plans and they wanted to grow, but they just felt frustrated that the lack of funding was holding them back.

At a kind of macro level finance I felt was on the precipice of change, the big banks were being distracted by other regulatory issues, and fixing themselves inside and I felt that technology would change finance just like it has changed many other sectors so that's when we started writing the business plan of MarketInvoice and trying to make a difference.

Peter: So why specifically invoice finance, why did you start with that? I mean, you could have done...obviously, Funding Circle was already I think just getting going around that time. Why invoice financing, and why not just do regular loans or what was the reason?

Anil: Yeah, look invoice finance was a slightly less well understood segment of the market, it was very manual, there was a lot of paperwork that was quite complex to get set up so we just felt like the pain was being felt a lot by small businesses. We also figured that if we could make this easier to use, a lot of small businesses would find invoice finance extremely powerful because for many businesses their only assets that they have are their invoices, the work that they've completed and waiting to collect cash on.

And then from an investor perspective, because, you know, we wanted to do a marketplace where high net worth would fund these invoices, we felt that from an investor perspective it was quite nice to have knowledge that this company was going to receive cash in the future against an invoice so it is secured lending. So that enabled us to de-risk it somewhat from just an unsecured loan so we thought that could be a unique way for us to make a name for ourselves in this space.

Peter: Right. So when you sort of did your due diligence and looked around at the invoice finance space in the UK, I mean, what did see...I mean, who are the major players? Like in the US it's a very fragmented market, what's it like in the UK?

Anil: So in the UK, the big banks control the majority of the market, they have 60 to 70%, there are also independent factoring companies that account for the rest. The big banks tend to focus more on the larger end of the market which leaves a little bit of a hole at the smaller end and some of the independent factoring companies approach that segment. That's why we wanted to start at the smaller end and figure out a product that could be used by the smallest of businesses. We felt that if we helped the smallest of businesses as they grow they would come back to us and feel allegiance to us.

Peter: Right, right. And so maybe you can take us through the offerings. I see on your website here you can actually finance individual invoices, you can finance like all of your invoices, you can get funding against contracts, what have you. So tell us what you started with, what was the very first product and how has that evolved over time?



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Anil: Our first product was the single invoice finance product. So let's say you're a media company, you're doing work with Sony, you have a hundred thousand pound invoice, you're waiting 90 days for it to get paid, the business could bring that invoice to MarketInvoice, you could apply online, get a decision within 24 hours and borrow let's say 80% of that invoice face value up front. They still get the remaining payment at the end when they get paid so this kind of on demand, pay as we go, single invoice product was really perfect for small businesses that were looking to grow, that didn't have a big enough overdraft, that couldn't get any debt finance and this was a neat tool for them to top up the amount of money that they could loan with us.

What we found was that when a company starts to use us once, they would then use us repeatedly. So from there, we saw that many businesses were starting to use us repeatedly were growing, were getting larger, they started to have the need for a more permanent solution and that's when we introduced the invoice finance subscription.

So we built some technology that integrates with a company's accountancy platform, pulls data and gives them a permanent balance so they can download a certain amount of money against total stock and invoices. That also makes it more secure, makes it a lower APR product so it's quite nice for businesses to start with single invoice and then graduate on to the subscription.

As we've been working and funding companies in different sectors, we also identified that some of the more newer industries like software companies, they had these contracts that were one year/two years in duration that would get a monthly payment so that's when we developed our contract finance offering where they could accelerate payments of that contract up into one upfront payment. So let's say you're a company and you've got a database and you're getting paid every month, you can take 12 months of those payments and get financed against that and that lends itself well to technology businesses.

Peter: So those three products...I mean, what is sort of the volume that you do...how is it sort of split between those three products?

Anil: So we've obviously had a lot more years of track record with the single invoice finance product so we're probably about 60% still single invoice, about 40% subscription and we would count the contract finance within the subscription, but we expect the real vector of growth to come from the subscription finance product because those tend to be larger businesses that have a more permanent need for capital. So what it's evolving into is that the single invoice is kind of the entry product and then companies graduate on to subscription.

Peter: Right, right, got it. So you must sort of have a pretty tight kind of connection to the accounting software for these small businesses, I expect, because I'm just wondering about... you can't sort of email in a PDF of an invoice or maybe you can, I don't know, you tell me, but it's pretty easy obviously to create a fake invoice. How do you work with that, I mean, how do you sort of verify that everything is correct, do you have to interface into the accounting software for everybody even if it's just a single invoice?



Anil: No, so if you're using single invoice you can manually upload invoices and many companies do that. We are doing extensive checks on the borrowers as they apply to us so we look at the business, we calculate the credit score of the business, of the borrower, we take public information as well as financial information, we do fraud checks, we approve the borrower, we're then performing the verification of invoices through various means. We're able to verify that invoices have been received by end customers, we look at the quality of the end customers and we are then able to release funding on a risk-based approach so every transaction is placed into a different risk category and we have different advance rates and different fees. Now if you're using the subscription product, you do need to integrate your accountancy package because that's a tighter relationship...

Peter: Right.

Anil: These companies are drawing down funding, sometimes every day, every week, so one way that we monitor the business's performance is through their banking data and their accountancy platform so that enables us to automate a lot of the work that was being done manually with manual reconciliations by banks.

Peter: Right, you've got an interesting product, it's not like....with a small business loan you're underwriting the borrower. Here, you underwrite the borrower, the vendor and the actual transaction itself because, obviously, there could be...someone could say that it's...there could be a real invoice out there, but the amounts might be different. So you mentioned just briefly that you validate the transaction, but like how do you do that?

Anil: There's a number of different ways. Obviously the first transaction is the riskiest one because the company doesn't have a track record.

Peter: Right.

Anil: So we have various e-mail based ways, online...you know, some companies have online portals that they log into. For large transactions we might even do a telephone based verification as well so the first transaction is the riskiest, then as the company starts to build track record we see payments flowing into their bank account. We're able to sort of derive patterns and understand what's the funding need of this company and if there's anything out of the ordinary we might re-verify so it's really a risk-based approach we take.

Peter: Okay, fair enough. I know you guys have been around for a while now and you really are one of the leaders in this space, certainly in the online area. How are you finding new deals? Are you finding that you have...you get a lot of referrals, what are the typical sources to find new customers?

Anil: Businesses find us directly so we get a lot of organic referrals from entrepreneurs that have used us and talk about us, we've built a little bit of a brand here in the UK, we've done some advertising, we go to relevant events and kind of do customer case studies so companies hear about us and apply. We work with other referrals so we work with the accounting



community, we work with financial brokers who pass us opportunities to look at to be funded. And now, we're really trying to start to make deeper connections in certain industries where we know that the underlying customer base is very well suited to our product. And finally, strategic partnerships are a big area of interest for us right now, you know, partnering with banks, partnering with financial institutions, partnering with accountancy, software providers, that's perhaps the next phase of how we can really scale this.

Peter: Right, right. And then what about moving on to the other side of the equation here on the investors. I know you guys are members of the P2PFA, you have a peer-to-peer element, I'm curious about...you said you started off with high net worth individuals, I presume you have institutions as well, I mean, how's that mix? Tell us a little bit about the investor side.

Anil: Yes, we started off with high net worth investors, but as we've developed, we have moved that funding mix to be more coming from institutions and within those institutions we now have banks deploying funding on the platform, so we have three/four banks, they understand the asset class, they can give us more scalable lines, they have lower return expectations than the high net worth community. So we've now pivoted more to having 70% from institutions and 30% from high net worths so yeah, we see the future really coming and scaling through institutional arrangements.

Peter: Right, right, that makes sense. So then what are the interest rates here, like tell us a little bit about the interest rates you're charging. Obviously, these are pretty short term, the durations, I imagine, 30, 45 days or something. What are the returns that you're providing and what is the sort of the cost to the customer?

Anil: Yes, so as you say, it's a great asset class for investors, it's short durations, it's secured and it's yielding, blended across all of the products, probably 5 to 6%, between 4 and 6%, in terms of annual return. It depends a little bit on your mix so if you're funding single invoices you might get slightly higher yield and if you're funding the subscriptions which are a lower risk product then you will get slightly less than the range that I mentioned.

So you know, blended, we're trying to get out 4 to 5% or so for investors which is really quite a good return given the short duration nature of the asset class. You know, funds are not locked up for many years, you know, investors can scale in and out, they can tweak their mandate to exclude certain sectors or certain geographies or they could put limits on total amounts that they would like to have deployed against a single borrower or even against a debtor, right, so if you want a max exposure to Amazon. It makes you not reach that, our system makes it very easy for you to control that. So it's a pretty attractive proposition for investors.

Peter: Right, right. One of the great things about the UK platforms is you guys put a lot of information online for investors and I'm just on your statistics page right now and I see you're just under 3 billion pounds of total originations as of this recording. I'm looking through and you've really had...2018, you've had a great year, so far, as far as loan volume goes, looks like



you're going to be close to double, probably more than double by the end of the year it looks like, so you've really ramped things up. I mean, what's driving your growth this year?

Anil: So that's really coming from our subscription product so, you know, companies that get on to the subscriptions, they really tend to stick around. When we look at the data from the banks, invoice finance users stay for on average five years using this product. So when we get a customer and they start to use our subscription, start to download cash every month then it starts to layer. As we get more customers, we get more volume building so that's why we're quite excited at the moment that we can really scale this out and become a very big player in this market in the UK which is large. There's like 20/25 billion outstanding in invoice finance in the UK, it's one of the biggest markets in the world.

I guess the other reason is that people are gaining more awareness of invoice finance as a product. It used to be viewed as a kind of a niche product, it used to be viewed as like a funding product of last resort, but business owners now, especially the younger generation, really understand that they can unlock this cash on their invoices.

In a recessionary environment or in an uncertain environment, banks and other financial institutions are telling their customers more about asset-backed lending because they don't want to be in the unsecured space, they want to be lending against assets such as invoices so there's great awareness, the market is generally growing as well which is adding to it. When people start to shop around they will usually find us and so we're getting a lot of interest right now.

Peter: Right, right, okay, makes sense. So I want to switch gears and talk a little bit about the big deal that you announced here with Barclays just a couple of months ago so the first question on it is when did you start talking to Barclays? It sounds like from what I've read, they approached you so tell us sort of how this all began.

Anil: Yes, so it's interesting because Barclays here in the UK ring fenced part of their bank, so they separated out their corporate bank from their small business and retail bank. This retail bank called Barclays UK has about 1 million business customers that have bank accounts with them and their product team at Barclays reviewed their product set, reviewed the applications that they were getting and they did not have an invoice financing solution that was fit for purpose. They had an invoice finance product that was very well suited to large corporates, but nothing that really met the mark in terms of experience, speed and support for small businesses like businesses turning over less than 10 million.

And then they went on, I guess, this soul searching, should we build it ourselves, should we partner and I think they kind of realized that, hey, actually, we're not just looking for bits of software, we're actually looking for culture, DNA and innovation of trying to make our products more digital and that's when they did a review of the market and they approached us and we sat down and spoke with them and it was one of these great meetings where we really had a meeting of the minds.



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They liked our approach, we said that not only do we have technology, we also have great people who are on the phone helping customers, we have a great brand and so they were not looking...important, they were not just looking for like a software provider, they were looking for a true company they could partner with and for us to be a catalyst for change within their finance products which is why this is such an exciting partnership and they worked extremely fast for a bank.

I think we had an initial meeting, we had two or three months sizing up the opportunity and then when they said they want to go...it took about seven months from beginning to end to get the agreement signed and then we've already launched a pilot, already getting leads through the door and I've been really impressed with how they work.

I don't think it's just Barclays, I think many banks right now are thinking about their future, they're thinking about their product set, how they're going to compete, how they're going to retain customers and it's a very good time for fintech and banks to be talking.

Peter: Right, right. We're seeing that globally, certainly in the US there's a lot of activity between fintechs and banks and I think it's only going to become more so. So that sounds like it was less than 12 months from first conversation to launch of the pilot, it sounds like.

Anil: Yeah, well I guess from first conversation to launch the pilot was about 12 months.

Peter: Okay.

Anil: From the time that they actually decided we want to do this, it was less than 12 months.

Peter: Right, so then just describe how it works exactly because I read that they've taken an equity piece in your company so I presume that's like a separate piece because what you're doing, it sounds like, is providing these million small business customers with an opportunity for them to finance their invoices, but did you create like a white label site that sits on Barclays.com, just tell us how it works.

Anil: So the proposition is completely co-branded so it's not white labeled, it's a partnership and how the partnership works is that Barclays has thousands of relationship managers and staff that handle queries around finance from their customers and we have been embarking on a program of training around how these relationship managers and call center staff can qualify opportunities for invoice finance.

They then push them into our system, they do this online through a portal and that comes into our system and our sales team or our business specialists get on the phone and explain our product in a little bit more detail and then they come through on to the online application form. So it's kind of a hand-off from the Barclays point person to a MarketInvoice point person. That's kind of stage one, that's kind of the phase that we're in, we're also starting to do joint marketing in the next year to kind of educate the base on invoice finance and that this is now an option at Barclays.



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We're also going to be working on a digital journey so as businesses log into their business banking dashboard, they'll see certain widgets and they'll see a MarketInvoice widget which should outline how much funding they could potentially unlock by using MarketInvoice and then they would come through an entirely digital journey as well. So these things are all phased right because you want to get to market quickly...

Peter: Sure.

Anil: ...you want to test and learn.

The second important piece of the partnership is next year that Barclays are doing a lot of work to rely on our credit models for underwriting. It's the first time that they would ever do this, that they would rely on a third party credit model and then they would start to fund their customers coming through this origination channel so they would start to fund their own customers on the platform so it would turn into an origination and funding partnership with Barclays.

Peter: Interesting.

Anil: So it's quite exciting.

Peter: Sure, that's really interesting. So then when do you actually launch...you said you're in pilot mode right now, is there going to be like an actual launch where you basically have...it's all out there to...like is there going to be a big public launch when you sort of move on from the pilot phase?

Anil: Yes, so we announced the partnership in August in the Barclays quarterly results call. It was mentioned by Jes Staley, the CEO of Barclays, and we will then do another big push on the national launch so the pilot is a subset. There's about 120 people that have been trained up in the pilot, they're gathering great data, we're getting our first customers through and then sometime in Q1, date to be confirmed we will do the national launch which we'll scale up by ten times.

As you can imagine, there's quite a lot of preparation work that needs to be done both on our side and their side so as soon as we can launch it we will, we'll kind of do a big splash and tell the world that we're now going to the national launch.

Peter: It sounds like from the way you're talking, it really sounds like, you found this to be a good relationship where, as you said, there was a meeting of the minds and I'm just curious because there's always talk about the culture clash between large banks and fintech companies that have been used to moving fast and being nimble. You can just walk into Canary Wharf and it's a different feel than it is like walking into your offices so how has that been culturally? It sounds like...just tell me what's it like, do you feel like you've had to really work to fit these cultures or has it been more natural?



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Anil: That's a great question, it's something that we've been aware of and debated openly with Barclays since the beginning and the last thing they want to do is stifle us. They want us to challenge them, they want us to come up with ideas, they want us to kind of push the boundaries, but I think that this is only possible if really the senior people at the bank buy into that and really believe in the strategy of embracing partnering with fintechs and making things digital and improving the experience.

What's quite unique, I think, at Barclays is that they've always been a brand that has wanted to adopt technology fast and be at the forefront of the tech revolution. I think they were the bank that rolled out the first ATM, the first credit card so, you know, they have right from the top great engagement from the top of Barclays, from the CEO of Barclays UK down and the core business people are all on top of it and know there will be bumps in the road, there'll be instances where people at the bank will say that's not possible, but so far they've been really good at like then saying, we have to make it work. Our experience so far has been great, they're really putting actions behind their words and we're making really fast progress.

So I'm not going to say that every bank will be like this, but if at the top the culture is one of, we want to embrace the change and we want to work with fintech partners as true equals and really do something new then I think a huge potential is possible. But I think, it's also important for fintechs to realize that when they might be working on a project and if it is slowing down and the appetite is not there sometimes it's better to disengage and not continue it because you don't want to get bogged down in a relationship that's not working.

Even though Barclays might well have an equity stake in MarketInvoice, it will not be a controlling stake, you know, we are an independent company, we have our own business, we have our own brand, we're free to partner with lots of other strategic partners in the future. So we're still going fast, we're still nimble and we have a great partner with Barclays.

Peter: Right, so then I can imagine you've got a million customers, I mean a million potential customers there and I can see you will do like a billion pounds roughly in 2018. It doesn't take long to sort of see how that could scale pretty dramatically with Barclays, but you don't want to have like 75% of your business there so how are you managing that as you scale that up? I'm sure you're very cognizant of the fact that you can't have all your eggs in one basket, but just tell us how you're thinking about that for 2019 and beyond.

Anil: Absolutely, we're very excited about the work we're doing with Barclays, but they're not the only partner, right, we have lots of other types of partners that we can work with, be it accountancy or other software companies, other fintechs, other people who are coming on to the market and we also have our standalone business so we have to work hard on all aspects of our business.

Peter: Right.

Anil: It's not just one partnership that we're working on and that's very much our focus in the next few years.



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Peter: Sure, sure. So we're almost out of time, but before I let you go I've got to ask you about...it's on your website so clearly you're not being coy about it, but there's business loans it says available soon and funding up to 100,000 pounds, 12-month term. Obviously, you've put in our website so what is deal with business loans, are you launching that soon, or why have you got it there?

Anil: We're currently testing out a loan proposition and again this is coming from our customers who....many of them have been using invoice finance, but also would like a loan and it really just makes a lot of sense for us to...you know, we know these companies very well, they have a long track record with us, we're seeing their monthly payments in and out, we're really the best place to offer them a loan.

Whereas in the past, we've had to coexist with other banks who might be giving them a loan or an overdraft, we'd like to more and more become a one-stop shop in trying to offer them all the products that they need to run their working capital.

You know, it's not just loans that we're interested in, we're also potentially interested in trade finance, in asset finance; the products that companies need to grow as they evolve their businesses. So we're gathering some data, we're testing it out in 2018. In 2019, we'll probably do a bit more of a sizable push on it and see how it gets taken up by the market.

Peter: It looks like you're not going head-to-head necessarily with Funding Circle because these are shorter term loans. Is that the plan?

Anil: Yes, yes, obviously, there's lots of providers out there, it's not just Funding Circle, I mean there's banks. We want to compete in the same space as banks and we're very much focused on B2B businesses and trading business that get paid on terms so we know the verticals that we like, the companies that use invoice finance and it's really a cross sell and a way of retaining customers for longer and helping them more on their journey.

Peter: Right, right. Okay, you've got a lot on your plate, but when you look to 2019, what are some of the things you're excited about beyond sort of the Barclays partnership, obviously it's going to take up a lot of your time personally, I imagine, but what else are you looking at for 2019?

Anil: 2019 is all about scaling up partnerships, working on some more, looking at our product mix and then behind the scene, a lot of tech and automation and data work to make our processes really tech-driven, really smooth, frictionless and automating some of the back end so it's going to be a very busy year and we're growing the team as well so we're hiring and trying to bring in the best talent so, yes, we've got a lot of things on our plate.

Peter: Okay, well we'll have to leave it there. Best of luck to you, Anil, I really appreciate you coming on the show today.

Anil: Thank you very much, Peter, thank you.



Peter: Okay, see you.

Anil: Bye.

Peter: You know, I think there have been so many important partnerships announced between banks and fintech platforms this year, really in the second half of this year it feels like, There's been a real acceleration of that and I don't know if any are more important than the ones between Barclays and MarketInvoice, Barclays have taken an equity stake.

Clearly they're all in and I really appreciated Anil's comments saying that this is coming from the top down at Barclays, you need to have that buy-in for these partnerships to be successful. They certainly have all of the ingredients to make this a really successful, long term partnership and could be very much something that the whole industry can learn from about how they've put this deal together.

Anyway on that note, I will sign off. The Lend Academy podcast is taking next week off for Thanksgiving, we'll be back in two weeks. I very much appreciate your 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, just a few days away as we record this, at the Business Design Centre in London. Tickets are available at lendit.com/europe and you can also buy tickets at the door.

Anil will be on stage with the Head of Barclays Business Bank, Ian Rand, talking much more about this partnership. If you're listening to this after November 20th, you can actually go to lendit.com/europe, click on the videos, the videos are uploaded within a week or two of the event and you'll be able to watch the video of the conversation between Anil and Ian Rand from Barclays.

(closing music)