



PODCAST TRANSCRIPTION SESSION NO. 214 - SAFWAN SHAH

Welcome to the Lend Academy Podcast, Episode No. 214, this is your host, Peter Renton, Founder of Lend Academy and Co-Founder of the LendIt Fintech Conference.

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Today's episode is sponsored by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. It's happening on May 13th and 14th, 2020, at the Javits Center in New York. Lending and banking are converging and LendIt Fintech immerses you in the most important trends of the day. Meet the people who matter, learn from the experts and get business done. LendIt Fintech, lending and banking connected. Go to lendit.com/usa to register.

Peter Renton: Today on the show, I'm delighted to welcome Safwan Shah, he is the CEO and founder of PayActiv. Now PayActiv, I think, are a very interesting company, they are a mission-driven company and we get into their mission in some depth in the show, but basically what it's all about is earned wage access. This is where workers can get access to the money, the income they have already earned.

PayActiv has a system, they work with employers to enable that, to make that happen. Safwan talks about the early days of the company, how difficult it was to kind of get traction and why it's suddenly becoming a hot topic. We also talk about the regulatory initiatives that they have taken and how the regulators feel about this and we also look at the many other services they're offering to really providing a full suite of products to encourage financial wellness. It was a fascinating interview, I hope you enjoy the show,

Welcome to the podcast, Safwan!

Safwan Shah: Thank you, thank you, Peter, for inviting me.

Peter: My pleasure. So, I like to get these things started by starting on background and sort of talking a little bit about what you've done in your career to date before you started PayActiv.

Safwan: Like most careers that are more than 20 years long, there are a lot of things one has done, but I will specify/highlight a couple of things. Right before PayActiv, I wasn't doing anything, I'd taken some time off after the sale of my previous payments and fintech company called Infonox.

By training, I'm an engineer, I guess payments expert by experience, been in fintech since 1999/2000, almost 20 years. By education, my Ph.D. was in aerospace engineering and I shouldn't be judged on that (Peter laughs), my masters was in computer engineering and my undergrad was in electrical engineering, a reflection of the confusion at that stage of my life. That's a summary of my background, I'm an engineer by training, basically.



Peter: Okay, okay. So, you're an engineer by training, but you've decided to start this company that is...it's somewhat unique because I know you started it at a time where I don't think anybody else was really doing much in the way of, you know, this sort of earned income access. Tell us a little bit about...what was the idea that led to the founding of PayActiv?

Safwan: To me, it was an idea that came during a phase in my life where I wasn't doing anything so I had a lot of time to think and, you know, when you have a lot of time to think, you do think about the human condition and what's going on. One of the thoughts that kept occurring to me and I'm talking ten years ago was why is it that the richest country in the world has such a large pool of people living paycheck to paycheck. That term hadn't yet been coined, we were in the post 2009 time frame and I just was kind of wondering what's going on here, what are the underlying issues here and it is in that situation that this idea of PayActiv first struck me.

The question I ask is why is the richest country in the world...why does it have so many lower income people, cash-strapped and then it finally dawned that it could be related to, you know, of course, the divergence of wages and productivity, but that again wasn't very clear. Credit was getting tighter and if you recall, ten years ago, nine years ago, eight years ago, we've seen this sort of tightening of credit. When there is no credit and there is a growth of debit, I could see that one thing that the world had missed was the sort of timing of pay when it comes to how people are paid.

To me, that was a big blind spot that nobody thought about because all credit/most credit takes your income/expected income as one of the big variables. However, many people, during that pay period, during that two-week pay period, were leaning on, they could get money from payday lenders/online lenders and many people were paying late fees and overdraft fees and those statistics were coming out.

So, it suddenly dawned that we have missed one thing, which is the timing of pay. The money is literally sitting there with the employers and the employees at the same time when they need \$100 or \$200 are absorbing overdrafts, deficits and late fees to make ends meet. So, the answer was somehow unlock that money which is stuck there because it's not helping the employer per se with a very low interest rate environment so why don't we get that money unlocked and that was the genesis of the idea.

Peter: Okay, okay. How big of a problem is this, like do you have any stats on the fact that workers don't get access to their pay, I mean, how much that really costs them, on average?

Safwan: So, one can safely assume that when you are short of \$20,50,80,100 between paychecks and you are paycheck to paycheck which means you do not have a buffer or savings and you do not have credit, so a small deficit can lead to an overdraft. An overdraft is typically \$35. The published stats in the US are \$35 billion in fees are charged in overdrafts every year so that's one number.



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Another number is the sort of payday lending industry. If you're kind of desperate, you end up leaning on a payday loan which is \$200/300, has a high fee to it. That number in fees is about \$6 to 7 billion a year. Late fees is another \$15 billion a year, a low balance fee charged by banks is about \$5/6 billion a year. When you aggregate these numbers and the Center for Financial Services Innovation (CFSI), now called Financial Health Network, they published every year this data and the number in 2018 was \$173 billion in alternative financial services. I've already related a few of those numbers like overdrafts, etc.

So now, on a working population of about 150 million people in the US with more than 50% cash-strapped, financially stressed, paycheck to paycheck. We're really talking about 75 million people paying about \$150 billion a year or more in various types of fees. That's \$2,000 per person per year, loss of income, right, or reduction in purchasing power because if you are making \$3,000/\$4,000 a month and one overdraft is \$35, one late fee is \$30/40/50 depending, if it's your landlord who is charging you, it could be \$60.

That's a pretty large sum of money and the bills are always as you know, Peter, they come everyday while paychecks are batch processed, they come every two weeks or every month or every week. So, this misalignment leads to serious reduction in purchasing power and accumulating of financial stress. So, it's really about \$200 a month literally going to waste.

Peter: Right, right, I've heard that many times. It's very expensive to be poor because you pay all those fees. So, anyway I'm curious about the timing because...like you started this company, it looks like, in 2012 and I know we've had you speak at LendIt a couple of times now, but it seems like this year...I know there are some regulatory things we will talk about in a little bit, but it feels like in the last 12 months there's been a lot more attention paid to this space, why do you think that is?

Safwan: I think it takes time for the industry to realize, you know, this is the way it is typically, you go slowly for a little while and then suddenly, people understand, particularly in the case of PayActiv because our model is business to business and businesses are thoughtful buyers, [inaudible]. So for the first two/three years, if I really look at the...in hindsight for PayActiv, we went live with our first customer, first business in 2013.

I actually sat on the idea for two years before just thinking, how do we kind of navigate through the various behavior and other challenges we might face in doing a product like this, but I was convinced that businesses were the way to go to it. So, when we started in 2013, it wasn't that, you know, some business was looking for earned wage access. The term hadn't been coined.

What they knew they were doing is they were giving advances to their employees who were in an emergency and employers and HR would have programs to help their employees. We arrived in that kind of marketer environment with a particular customer. The customer actually was in New Jersey and kind of said, you know, I bring money every week to give advances to my employees, this could be an interesting way for me to not do that.

Peter: Right, right.



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Safwan: So we said, okay, and that's how we started and it wasn't easy. It took the next two years, we had, you know, just a handful of businesses, various parts of the country, but all very sort of cutting edge, thoughtful, visionary HR leaders and payroll leaders who chose us. So it was a long journey in the first two/three years and somewhere around 2015/2016, The New York Times wrote an article about us and I remember, that was kind of a watershed event in some ways.

And then just a few weeks before that, I had spoken at Finovate, one of the fintech conferences and we were awarded Best of Show. People walked up to me and said, what is this? Next week, Barron's had an article about us and Barron's doesn't target, you know...it's a very specialized publication. They kind of got to the bottom line that this is a change in the velocity of money...

Peter: Right.

Safwan: ...money moves faster and then, you know, for the next, I would say, 2016/2017 were very fast growth periods and everybody was interested of what were we seeing in the data.

At that time Baton Rouge General Hospital was using us for a little while and in 2017, we compiled all the data for about 20 odd companies over 18 months and shared it with some researchers at Harvard Kennedy School. They published, they analyzed the data and, boom, they discovered something which was very big and that was that the employer that was offering the service was...they had reduced their turnover by 20/30/40% and that was the eureka moment that it's good for the employer and we knew it was good for the employees, but for the employers, suddenly, there was a huge business case.

Peter: Right, that's really interesting. You know, as I said, it's a benefit that people, really, really value. So, let's dig in, I want to just find out about how the system works. You said, you really are a business-to-business company so just talk us through how your system works.

Safwan: So, we work with employers, we utilize already earned hours so let's say, Company ABC will decide to deploy PayActiv as a financial wellness benefit so we are a financial wellness benefit and they offer it to their employees. The employer offers it to their own employees, we are in agreement with the business and there are three types of guard rails in it.

First, we use the hours already worked so it's not money that is not yet earned, it is earned money. The first guard rail is a portion of the earned money so it could be 30/40/50/60/70% of already earned hours so if you work 50 hours, you can get 20 hours. That's one guard rail which is on how much of the money you've already earned you can access.

The second guard rail is around the frequency of access so you can do it every day as long as you've earned it, you can do it. So what we've discovered over the last few years of doing this is that the need is more, not ad hoc, but it's a timely need, it's not like clockwork every day people need money. They need it once, twice, three times during the pay period, but it can occur in a random way. Imagine, you're on a tight rope which is 10 feet long, you don't know when exactly you will feel you're about to fall off, so life for cash-strapped, financially distressed people with



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no savings, it's like on a tight rope. So, whenever you feel unstable that's when you need money so that's the second thing we provide.

We provide them sufficient frequency of access, two/three/four times, but they can get it. We've removed this issue that every time they access, they have to pay a fee. It's not like that, it's more like Netflix, once you've paid your \$5 bi-weekly fee, you can use it multiple times so that's another guard rail.

Finally, the entire model is not just about accessing money. Very early on, we discovered that people when you ask them, why did they take, you know, 50% of their already earned wages, whether it's \$100/200, they said they needed to pay a bill, or they needed to deal with something, a car repair, a daycare expense. So, what we did was we connected BillPay into our app and we kind of broke it down into four/five things.

First one was Get, Get means you can get money, you can take your hours, turn them into cash so we made time fungible and you could apply that money and PayActiv would take care of it, we could pay all your bills. So we connect into the BillPay system just like a bank. Another thing we did was some people had bank accounts, some people have pre-paid cards, some people have different needs, some even needed cash immediately so we solved all of them. For somebody who has a bank account we'll ACH the money same day, next day. For somebody who has a pre-paid card, any card, Visa, Mastercard, debit card, we would instantly load money on it using things like Visa Direct and things like that.

We also launched our own Visa card so we are program managers of our own card, but we don't mandate to use one card or the other, whatever method they want the access, the format they want it, we would move money, whether it's through a bank, through a card. A lot of people...Peter, not surprised, right, don't even have bank accounts. The dilemma in the US these days is financial exclusion so many people who can't maintain a bank account for them, we deliver it with Walmart, they just get a PIN number, they can go to a Walmart store and pick it up in cash 24/7.

Peter: Yeah, yeah, I saw that, that is a really great innovation, I think for that population. So then maybe tell us a little bit about who these people are. I mean, you mentioned the 75 million people who live paycheck to paycheck, are we talking about the minimum wage worker or someone earning \$40,000/50,000 a year, who is the typical user of PayActiv?

Safwan: So it's a great question. Over the years, we've formed a very a good idea of who they are. They range all the way from about \$75,000 to 80,000 a year down to \$25,000, \$30,000. The poverty line in the US is around \$26,000/\$28,000 a year, okay, so our users are, I wouldn't say, evenly distributed between \$30,000 to let's say \$75,000.

They are mostly in the...you know, up to \$60,000 a year, \$5,000 a month so the first fallacy that existed that these are desperate people, that is not accurate. These are regular people who just don't have savings and they're living paycheck to paycheck and a small discrepancy/misalignment, a \$50 gap, can cause them to get into very, very difficult situations



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fee traps, debt traps, etc. So, I would say somewhere between the \$15.00 to \$25.00 per hour range is the evenly distributed user base.

Peter: Okay, so then I'm curious about the...when you're selling this to an employer, obviously, you said that the retention rate becomes better for the employer, where are you finding pushback? Do employers think their employees don't need this, I mean, what's the pushback you get?

Safwan: So, the pushback is...I always joke about it in some ways that I used to have a big whiteboard in my office called 50 shades of no (Peter laughs) and over the years, the 50 shades of no has become much less. The biggest pushback in the early days was just the fact that this was something new. One reaction was...and you can say it's rooted in paternalism; one reaction was, I didn't grow up like this, waiting to get paid is very good, it builds character if somebody takes money between paychecks.

So that used to be the pushback and today also, the pushback...in many cases it's paternalistic, that it's a change from what employers are used to, but there is really no major pushback, other than the realization in most employers that it's not just about access to money. It is timely access to money and it is all the other services that go with it.

The pushback now is more like, what else do you do, how is it financial wellness and what are the other services and that's where we are growing as well. Now we offer Uber and loading Amazon Cash and things like that, savings programs, budgeting. So, it's really reimagination of what lower income workers need and when you say that to the employer, they see the value of this. It's not just I make payroll faster, that still has pushback.

Peter: Got it, got it. So then, where do you make money? You talked about this \$5 per payroll fee the end user pays, does the company pay something as well? How do the finances work?

Safwan: So, the companies do pay, if they choose to, they don't have to. In order to bring this service in operation, there is no upfront or set-up cost to a business, there's no cost to the business. PayActiv does all the heavy lifting.

We are already partners with ADP, the largest payroll company in the country, we are partners with all the major payroll companies, either through APIs or through various types of file and other exchange mechanisms. We are also connected into all time and attendance systems, even big ones like Kronos so we work with the entire set of payroll companies, entire set of time and attendance companies and those two, we take care of those expenses, the employer has no cost to pay us.

Once we go live in a business, the employer can choose to pay the \$5 fee or half of it because that fee is only applied if you use it, you know, unlike most subscription services, if you don't use PayActiv in a particular pay period, you don't pay.



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Peter: Okay, okay, that makes sense, that makes sense. So, I want to switch gears a little bit and talk about regulation. I've read that there's a bill in the state of California right now that's working its way through talking about regulating what you're doing and there's also other states jumping on board and looking into what you're doing. Tell us a little bit about how you're engaging with the regulators and what their activities mean for you.

Safwan: Yes, so the bill in California is called SB-472. I don't know if you're aware of that, PayActiv is the original sponsor of the bill.

Peter: Okay, I wasn't aware.

Safwan: California is unique, California companies can sponsor the bill and then a particular senator or somebody can then introduce it to the senate.

Peter: Right.

Safwan: So SB-472 is actually a landmark bill, it covers all the aspects of earned wage access types of service. All the stakeholders have been involved so different companies, a dozen companies have contributed after it was originally brought in and there are three key elements to it.

First, the overarching reason to have a bill is to bring clarity in the industry because this is a transaction or a transaction type which was unknown. You can say that in this day and age something got invented which no one knew existed before, particularly in an industry where lending and products like that are very well understood, it's kind of like a "loanless" loan. So, in the bill there are three types of caps to protect the consumer which are, in some ways, inspired by the PayActiv model, but not necessarily.

For instance, we have even more conservative metrics, for instance, the amount you can access so it's 50% of your earned wages. The fee that you can charge, the bill mandates the fee which is less than \$15 a month maximum and the frequency of transactions that you can do because they also want to avoid the addiction type of issues which can happen when people use this type of system. So, the bill is very landmark, I think our motivation to be involved in it was to bring clarity.

There is a fundamental challenge being faced by low income people. The biggest issue right now is that, you know, we have three variables when it comes to wages. One is the level of salary, how much you're paid and that's not something businesses can do much about, fintech businesses, a business can choose to pay more or less, but I can't do anything about that.

The second variable is the structure of pay or how you're paid, taxation, or variable compensation. Again, a company in fintech can't do anything, but the timing of pay is a definite variable which has not been used when you are paid. So, this bill actually brings clarity around how these people...if people access a certain amount of money between paychecks, when is it not a loan? That's the key question, at what point does it become a loan, given this transaction



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is non-recourse. So, for instance, if somebody accesses the money and for some reason that money does not come back to the provider then there's no recourse.

Secondly, the fee that is charged has no connection to the amount that is accessed so you pay \$5 not for the actual amount you accessed, it's for a service. So there are all kinds of things which require clarification and California is leading the charge and we are very hopeful that this bill will become the law very soon.

Peter: Okay, okay. Good luck on that one because I know states move quicker than the federal government and, hopefully, that does move through in other states, take California's lead. Anyway, just moving along, I want to ask you about...you've been a B Corporation for a while and we were just talking before we started about a Public Benefits Corporation so tell us what that means and why you've taken that route.

Safwan: There's a little bit of history or back story to it. When I started PayActiv, I needed motivation or some sort of purpose to do it and the purpose was that this company was meant to make a difference in the lives of cash-strapped, financially stressed people so we had a purpose statement which was to alleviate financial stress for lower income hourly workers by providing them access so it always had a motivation or a purpose. So, we were looking for some way to make that part of our overall...you know, it was in our individual DNA, we wanted it to be in the company DNA as well and we came across B Corps which are B-certified benefit corps.

About four years ago/three and a half years ago, we went ahead and went through the test and got certified with a very high score and basically the certifications says that, you've considered people, profit, community, all those things as important aspects of your business and since the work we do is a lot about social responsibility, etc. it's great for us.

After three years of being a B Corp, the requirement is now you have to go and change your articles of incorporation and actually put it in your articles which means you get board approval full transparency, etc. so we became a Public Benefits Corporation which is how you change your articles of incorporation a few months ago. As a Public Benefits Corporation, now we can again get certified by B Corp. so we are not only a B Corp, but a very mature, multi-year B Corp and now a Public Benefits Corp.

Peter: Okay, okay. So, we're running out of time, but there are a couple of more things I really want to get to. Firstly, can you give us some sense of the scale you're at like what sort of volume of advances are you doing right now?

Safwan: So, we made an announcement last year that we've settled more than a billion dollars and this year, it should be several orders of magnitude more, maybe higher than three.

Peter: Okay.



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Safwan: So, that's a large amount of money which is moving, \$150/200 at a time and the money goes, money comes back so that's a big number. The report that came out from the Aite Group which said that the industry is close to somewhere between \$15 to 18 billion a year right now and it is growing. I would say that we're simply scratching the surface of this industry.

Peter: And you've also recently...I watched your movie, I guess you'd call it, it's like 18/20 minutes long, very professionally produced and you've also written a book which we'll link to both these things in the show notes here. What's the reason for taking this sort of multi media approach to your business?

Safwan: It's all about educating the users, every kind of constituent. This is a fundamental change in how money moves. When you bring timing of pay and, you know, my book is called "It's About Time: How Businesses Can Save the World One Worker at a Time." The video documentary is called "It's About Time" and it's a double entendre because it's about time we did something and it's about the time, the actual time because, Peter, the unit of work is time and time is tracked in databases across the world.

Putting a book out or a video documentary out is to a) highlight that there is a massive issue, a blind spot globally and people during these periods where they are earning but not yet being paid and that drought, cash drought or money drought, they are leaning on a lot of very, very predatory products.

It shapes our society, it shapes their lives, it shapes their children's lives so if you want it and you need it, you should be able to access it. To get that point across to the world, you know, multi media, book, I'll even climb up on a big mountain and yell and scream and say (Peter laughs), please, for God's sake, do something.

Peter: Right, right, okay. So, last question then, what's coming down the track for PayActiv, what are you working on now that we might see in the next six to 12 months?

Safwan: A lot of things, it's all about helping people get money, pay for things on time, plan, save and that's the journey. We are kind of becoming the bank for the underserved, we're not a bank, but we are the bank for the underserved. We are bringing a lot of services, we already have BillPay, we have an amazing savings tool/savings product, we have a pre-paid Visa card, we have Uber directly connected to us.

You can call Uber from the app without having money in the bank just for using your hours, Amazon Cash is connected so it's all about giving access. We want to provide access to affordable financial services at scale and where that journey takes us, I don't know, but we want millions of people to enjoy the benefit of affordable financial services.

Peter: Okay, we'll have to leave it there. It's a noble cause and I wish you all the best, Safwan, and thanks again for coming on the show today.

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



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Peter: Okay, see you.

Safwan: Bye.

Peter: You know, I'm a big fan of the work that Safwan and his team at PayActiv are doing as well as other companies in the industry. I truly believe that earned wage access...I wrote about this on Lend Academy a couple of weeks ago, that earned wage access should be an option for every single employee in this country because this is not a loan, it's not like you're taking something out that you haven't earned.

It's just getting access to what you have already earned and getting access to it in an easy and convenient way. If we're able to do that, I think the payday lending industry, the bank overdraft industry would shrink dramatically and I think companies like PayActiv are really doing a great job at enabling these people who are living paycheck to paycheck, enabling them to get money when they need it.

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

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