



PODCAST TRANSCRIPTION SESSION NO. 221 - MARTINS SULTE

This episode, No. 221, of the Lend Academy podcast was recorded at LendIt Fintech Europe 2019. It was recorded live onstage, there is also an accompanying video, but we have what follows the audio from that conversation.

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Peter Renton: Okay, welcome everybody. We are here for a special LendIt Fintech Europe 2019 edition of the Lend Academy podcast, and it's my pleasure to welcome Martins Sulte from Mintos to the show. Maybe we can get started, Martins, by....why don't you just give us a little bit of background about yourself and what you've done so far in your career.

Martins Sulte: Sure. So, I'm originally from Latvia. Basically, my previous career before Mintos was mostly, if not like....everything was related to finance so I spent my time in investment banking for a good six years. Then after investment banking, I actually decided to pursue my MBA and did MBA at INSEAD in Singapore and in Paris, they have two campuses, and then after INSEAD basically decided to take a plunge in entrepreneurship and start Mintos, that's very short.

Peter: Okay. So you went straight from university straight to your masters, right, and then straight into starting this company.

Martins: After my MBA, yeah, so straight from MBA. And then before MBA, basically when I was looking for a loan to finance my studies was my first exposure to P2P.

Peter: Right:

Martins: I actually got the student loan from Prodigy Finance to fund my studies at INSEAD so there was some connection also already before INSEAD to the P2P concept.

Peter: Right, interesting, interesting. So, you came at it from the borrower side originally. So, what was the idea....were you looking to start like something in financial services, or what was the idea that really led to Mintos?

Martins: I think I was looking...after MBA, after my masters, I was looking what to do next and I knew already before INSEAD that I wanted to take a plunge in entrepreneurship and then after INSEAD I was just looking where could add the most value, what kind of interest me and then just combine the two things. So, I had my background in finance, so I spent like time in investment banking, did the CFA, studied undergrad in business and economics, had a kind of finance background and then just like my love for tech. So, I'm not like technical, I cannot actually write a code, but I've always been passionate about technology.

And then, I think, after INSEAD, just was looking at the space, what's happening in financial technology, financial services and that coincided with the advent of peer-to-peer lending at that



time which was like early 2014. I still remember coming actually to the first LendIt in 2014 in Europe and then that's also, of course, other players kind of scaling up and was just looking at the space. I think what made me kind of thinking is the whole concept of having like very many different platforms, each of them kind of originating different loans and then as an investor if I want to invest, I have to go to each and every platform to get kind of exposure to this asset class.

That kind of didn't make sense to me, I thought there should be a better way actually and that's how the idea about Mintos came about as a marketplace for investments of loans where there are many different loan originators, and as an investor I can come to one marketplace and find a lot of different loans from many different loan originators.

Peter: Right, right. So then, your platform has become a bit of a phenomenon, I would say, in Europe where you are now originating. I've been following your history and just seeing how.....eventually, you started to keep growing and it seems like it's taken off like a rocket ship. You're doing more loans than like Zopa and Funding Circle combined, sort of thing.

So, tell us...maybe we just step back, I'm curious to maybe get a sense because you're based in Latvia, right, so then what is it...I'm curious about what the environment is like in Latvia, like do you have all your developers there, is your whole team there, do you have other offices? Tell us a little bit about that.

Martins: Sure. So, basically, how you should look at that, Latvia is where are based out of so most of the team sits in Latvia and we have offices in Berlin, in Warsaw, in Vilnius, in addition to Latvia but most of the people sit in Latvia, but businesswise, like 95% of the business we do outside of Latvia. That's basically...when I was looking to set up the company....so we had a clear choice, either to start in London, or start in Latvia.

But at that moment, it definitely felt and I think it was a good decision to start in Latvia because I had all the kind of network available, the capital there and just seemed right to start out of Latvia. Today, it's definitely like a competitive advantage for us that we are based out of Latvia because the cost base for us is rather low, but it will allow you.....which we can build as the same what you can build from Western Europe.

Peter: That's part of the Euro zone, is that right (cross talking)

Martins: It doesn't matter these days where you start from and from day one, it was global ambition. So, my ambition was always, hey, that we're going to build a global marketplace or then we just don't do anything.

Peter: Right. So then maybe let us.....you aren't just focused on Europe today, you're focused....I saw an announcement, I think, yesterday that you're starting out in Kenya, I think it was, and I know you've got Mexican platforms, so maybe.....how many platforms do you have and how many countries did that come from



Martins: Yeah. I'm just going to step back a bit and explain how we actually operate. The marketplace, it's a two-sided marketplace. On one side, we have the loan supply and loan supply is brought to the marketplace by loan originators. Those are separate companies like they'll be focused on alternative lending companies, all of them are balance sheet lenders, or used to be balance sheet lenders and they are using the Mintos marketplace basically to sell the loans they originate so that's the loan supply side of the marketplace.

Another side of the marketplace is investors and on that side we have retail investors who are then coming to the marketplace and buying the loan parts of the loans which are originated by different lending companies. What it means, we as Mintos, we don't touch the borrowers so we never see the borrowers so we don't do the credit scoring of the borrowers, that's done by the loan originators. If you look at the loan originators, we also call them lending companies, today we have 67 different lending companies from 31 different countries and that's what we, I think, bring to the table for any investor is like unmatched supply of loans, right.

Investors can invest in different loan types, on consumer loans, on business loans, invoice financing, agricultural loans, car loans, you name it. It's different countries so today, we have 31 different countries, anything from what you mentioned like Kenya, South Africa, Zambia, Botswana in Africa to Colombia and Mexico in Latin America and then Vietnam, Indonesia and the Philippines in Southeast Asia and then everything in between, in Europe, a lot of countries and also Central Asia, Kazakhstan and Armenia and those countries as well.

Peter: So then, given that, it's such a broad spectrum of countries, how do you vet these companies. As I imagine, like anything, there's going to be well established players who are very trustworthy, there will be others that are newer and it's harder to know whether they're trustworthy. So, what sort of process do you go through to allow like a lending originator on your platform?

Martins: So, basically, they're going to go through the due diligence process with us and, obviously, there's like different loan originators from our marketplace. There are players that have been around since actually 1999, they've been lending as a balance sheet lender for like 20 plus years, right. And then there are players which are now just popping up, especially in Southeast Asia where there's a lot of activity which are just entering the market.

Irrespective of how much experience they have, the process is the same so what we're going to look at is first and foremost, of course, the loan performance. So, we have to see that the loans are performing, that they understand how to originate like quality asset. That's going to involve looking at the cohorts like the network, what they have, having minimum portfolios of loan book and so forth so there's obviously some threshold there.

Then we're going to go and do our checks on management, for sure we're going to do checks on the position in the market, we're going to check regulatory environment, like a whole bunch of things basically before we are comfortable to connect our loan originators to our marketplace. And that ends up, but, usually, we're going to connect only the top players in the



respective markets to Mintos marketplace. So, depending on the market, it's going to either among the top five players, among the top ten, maybe top 20 players, depends on how big a market it is and those loans are the ones which we are working with today.

Peter: So, do your people actually physically go and visit these originators in their offices?

Martins: Yeah, yeah, for sure. So, basically, we have the whole sales team show up, that's the first context. So, we travel a lot to all the countries then we have a risk team, a separate risk team. The only thing that they do is like getting all the loan originators and then following and monitoring them and, of course, like visiting them which is one part of kind of due diligence.

Like now, when we are already a established player, we also can do a lot of reference checks in the market, so if you know the market.....for instance, now we launched Kenya, another, we had already before so we can ask the market players as well like any reference about the players. So, there's a lot of things which go in before we connect the loan originator to Mintos.

Peter: Right. So, once an originator joins your platform....and, obviously, they have a very good insight, a real time inside into how they're doing, I mean, have you had instances where an originator comes on to your platform, have not performed like you would expect and you kicked them off?

Martins: Yeah.

Peter: That happens, so what are the parameters there, what would cause that?

Martins: Yeah, so those cases.....there are only very few of the loans which would want to be on the marketplace we accept.

Peter: Right.

Martins: So, in total, we have a relationship with like 1,000 loan originators across the globe. Of those, we have connected only 70, right.

Peter: Right:

Martins: So, maybe it's still in the process, there's plenty of those which we have sort of refused and just like a lot of players out there open to lending space. Those which have connected to Mintos and reached....either themselves have decided to stop using Mintos, or we have kind of mutually decided on that, the reason is usually either they are kind of too small, or the loan performance is not up to the kind of quality which we would want to see and originate.

Peter: Right, right, okay, it's super fascinating, I think. Full disclosure, actually I signed up for an account at Mintos just a couple of weeks ago and I have transferred in \$2,500 transferred into Euros so I could invest across the Euro zone and I noticed that you grade every loan, but, certainly, there's a lot of loans that I graded. So, does that mean you're adding on your underwriting, or what goes into that loan grade?



Martins: So, the loan grading and credit scoring is done by the loan originator, so each loan originator have their own approach how they actually look at the credit scoring and underwriting, and if they have a loan grade, those are shown on the marketplace for Mintos, so we don't go into each and every borrower. So, in total investors have funded, so far, 3.5 Billion Euros worth of loans and if you translate to number of loans, it's 16 million loans.

Peter: 16 million loans.

Martins: 16, 1-6 million loans.

Peter: Wow!

Martins: Some of them, of course, are very small so in Kenya the loan is about 50 Euros and is already considered like a pretty big loan, right. But, when we look at the grading of the specific borrower, that's not what we touch, that's what we leave to the loan originator. What we do though is, actually, we go in, we check that the loan originator understands what they do, they understand how to credit score, how to underwrite and how to credit score the borrower.

And then, basically, what we do to help investors make judgment because there's a lot of kind of moments that we assign Mintos ratings to the loan originators. It shows them how good the quality loans they can originate, how financially stable they are and like general position in the marketplace, so that's what we do. Based on supply side, we much, much more look at the kind of loan originator as a whole, instead of like a specific loan which is originated by them.

Peter: Okay, okay. So, I imagine, you've got these 70 plus originators, what are the different verticals that you're offering? Obviously, you've got consumer, but maybe just run us through the different types of lenders that are coming.

Martins: Basically, you can think of it....as long as it's a loan, it can be funded in the marketplace. So, we have everything from very short term consumer loans, installment-based consumer loans, consumer loans which are basically car loans to buy a car, mortgage loans which are basically real estate, then we have on the small business loans invoice financing, we do have agricultural loans, we do have VAT loans.

As long as it's a loan, it can be funded on the marketplace, and that's what, I guess, we bring to the table. As an investor, I can't come to Mintos.... like super diversified loan offerings and I can pick and choose subject to my preference, what I feel I would want to invest in, and we facilitate ten different currencies so, also, investors can come and invest in different currencies.

Peter: Right, right.

Martins: That's also what is the kind of basically the value of building one marketplace for many, many different loans.



Peter: Right, right, yeah, that's interesting. I notice....just to share with the listeners, I actually invested...I used your Auto Invest tool and I think within like two days it was all invested and it was across, I think, 35 originators and...I only did \$2,500 which is like 2,200 or something Euros, but I was in well over 100 loans.

Martins: Investors can start small, the minimum they can invest....they are investing in fractions of loans so the minimum they can invest is 10 Euros, or the equivalent in any other currency which means that even if it's a few hundreds, or a few thousands of Euros, you can build a pretty diversified portfolio. And the tools like Auto Invest, or Invest and Access which is an even easier tool allows you to build a diversified portfolio pretty easily so you don't have to go and pick and choose yourself manually.

Peter: Right, right. So, let's talk about the investors, maybe you could give us a little bit of a profile. Who are the typical investors that is coming to Mintos?

Martins: So, when you said typical so perhaps you are at the stage when like typical is not a good way to look at it because it's very diverse, but still if you look at the typical I would say that all of them are retail investors. We have only very few which we might call institutional investors so they are very small so we focus on retail investors.

So, your retail investors can be anybody who is investing, just maybe starting to invest, they're investing like few tens of Euros up to people who are investing in like a couple of millions of Euros on Mintos. On average investors outstanding have invested...outstanding is about 5,000 Euros which is invested through us. They're going to be your people in very late 20's or early 30's up to like mid-40's, maybe 50's.

Basically, they're digitally savvy people which are starting to accumulate the capital and which are kind of comfortable with managing those digitally, so that's basically how we see our clients. In total, we have today 190,000 retail investors, still growing around like 8/10% month over month, so I would say that it's only like now kind of starting that we are really opening up the asset class to retail investors.

Peter: Right, and as far as geography...I mean, obviously, I'm based in the US and was able to invest. Tell us, where in the world can you invest?

Martins: It's predominantly.....these days it's from Europe because also the loan supplies are in Euros, we accept also investments from other countries, but then it depends where they have the kind of bank accounts, also from the US we can accept, but.....

Peter: Do you have many US investors?

Martins: We are not focusing on these because there's no US kind of denominated loans, so we're not focusing on them.



Peter: Yeah, yeah, fair enough, and it doesn't sound like you need to given the volume. We just heard earlier today, someone talked about the cost of acquiring retail investors here in the UK was quite cost prohibitive and so you see a lot of them have moved away from retail and doing more institutional.

Now, you have stayed with retail and you built a sizable business, what I'm really curious about is when you got started and you seem like you went over this hump and started to take off like a rocket ship....when you got started, I presume you were advertising for investors. Tell us how you've acquired investors and how that's evolved.

Martins: It's actually...initially, it was the other way around, so, initially we did...most investors came through word of mouth, either through referrals or through affiliate networks and so forth, so word of mouth was a big driver and only in the last, I would say, six months or so we have started to invest in investor acquisition. And, I think, actually, back to your point about like typical...good question, what is typical like P2P platform these days, but they definitely shifted from retail to institutional, but the problem was because the originations were going faster than actually they could acquire retail investors.

But, how we solved that is actually....basically, the problem was that it was very hard to get kind of a decent amount of retail investors. It sounds that there would be sufficient retail investors so that you can actually fund a lot of loans and that's what we have solved today. Any loan originator which connects to Mintos, they get access to 190,000 investors from day one, so basically get like instant liquidity from day one and was kind of, I think, the problem for other players that they actually could not scale up the retail investors side, as far as they would actually originating.

Having said that, I still think that retail is like fantastic, retail investors is definitely fantastic and the funding source and that's what we see, loan originators very much valuing today, but they actually can connect to us and they get access to 190,000 investors from day one.

Peter: So, you could almost become like the de facto retail arm for all these platforms.

Martins: That's a very fair point, so what I see is that most of the loan originators build a very diversified funding source. They have warehouse lines, they have whatever direct funds investing, somebody maybe have a public fund or like directly institutional and they also want to have retail investors.

But, for them to build the retail investors side themselves as a platform...actually, in most of the cases, it doesn't make sense and that was also the initial idea of Mintos that if you look at the loan originator side, it doesn't make sense that you have your different platforms competing for the same investors and trying to get them on the platform and then as an investor they have to go and actually from one platform to another....and like many different platforms is kind of repeating the same things which doesn't make sense. So, much better to just come to just one marketplace, see all the same loan originators and invest in one kind of gateway.



Peter: Right. So, how do you balance out the platform? Like any of the peer-to-peer companies, you've got your supply of investor capital, you've got your borrowers and you have a bit more control over it because don't just rely on one source of borrowers, but still....I mean, do you find like....what do you have an excess of, is there excess investor money looking for capital, is every loan funded, or some of the loans are not getting funded, how's the balance?

Martins: I would say, today, actually we would much rather call it as a marketplace for investments and loans because we technically are not p-to-p lenders. So, marketplace for investments and loans, but that's still the same dynamics which is investor demand and loan supply and as a two-sided marketplace it's never in balance.

Like today, if you would have asked like three months ago, I would say we lacked on the investor side, investor demand was behind, but, today, actually, loan supply is lagging behind. It's never in balance all the time, it's like a balancing act, but the good thing is that all the loans which come on the Mintos marketplace, they are pre-funded by the loan originators, they actually have issued the loan already. So, for them, it's actually....they have other funding sources as well. If it doesn't work on Mintos, they can fund it through their own balance sheet themselves so they are not kind of constrained on that side.

Most of the loans these days, actually, when they come on to Mintos...today, for sure, because the loan supply is lagging behind, they're going to be funded instantly through Auto Invest or Invest and Access product. Most of the investors, actually, I think about 80% of loans get funded through Auto Invest which means that once it appears in the marketplace, it gets funded straightaway.

Peter: Right, right. So, do these platforms have to have like an API connection capability? I imagine, some of these platforms are offline, right, and they don't really.....they wouldn't have the capability to directly connect with you. Do you work with them to be able to build an API connection, how does it work?

Martins: So, we have API connections, so it works only through API connections because of the volume. Having them being offline, actually, doesn't mean that they don't have like back office digitally kind of developed. So, maybe they have offline operations where they acquire borrowers in an offline way, like the same as Oriente which was on stage just now. Basically, they have most of their borrower acquisitions offline, but as a bank everything is online, right, so everything is actually in their system so we just need API connection to their system.

Once the loan is originated, the borrower goes to the same, Oriente for instance, they take the loan at that moment that appears on their system, the API sends to Mintos marketplace and then it appears for Mintos investors to invest in and they can invest through automated tools and, basically, in many cases that can happen. Say you are seated in your home, with a few clicks you have set up your Auto Invest and when the loan is originated it gets funded like immediately.



Peter: Right, right. So then, what about the interest rates of these loans, and maybe you could talk about the interest rates of the loans. I know it's got a verylike a short term invoice financing loan is going to be different from a property-backed three-year loan, or 10-year loan, whatever. So, tell us about the range and the typical returns or the average returns maybe on the platform.

Martins: Average returns, so far, has been around 11% per annum net net for investors in Euro terms, in other currencies it could be higher and then when we look at the kind of borrower.....what borrowers like banks and industries is exactly what you said, it's going to be a wide, wide range so there's going to be from very high single digits with a very low default risk up for a very short period.

Short term loans, it could be like much higher interest than what the borrowers are paying, so it really depends on the loan product because we have so diverse offerings so there's no like good average we could use. It depends on the product, country, loan originator, borrower segment and loan type.

Peter: So, how do you guys make money? Do you make it on both sides, do you take a fee for the platform and a fee from the investor, how do you make money?

Martins: We take a fee from the platform, and then we don't charge anything to investors. On top of it, we provide some services, so, for instance, currency exchange. They we're going to charge some fee, but the main revenue is from the fees in the platform for using the marketplace.

Peter: Right, right, okay. So then, I remember you spoke here last year and you talked about adding a debit card and a bank account, did that come to fruition over the last year, or where are you at with that?

Martins: It's still in progress. Basically, it takes time to get the necessary license and permissions and these days when fintech is fairly kind of up and coming and growing....so, obviously, the regulators also have a lot of work on their table. So, basically, it just takes time for the regulators to look through the applications. As soon as we get the necessary permissions, we will be ready to launch both bank account for European-based investors and also Mintos card for investors.

Peter: And then what about the UK, I read somewhere that you were applying to get authorized in the UK, where are you at on that journey?

Martins: So, the UK for us is just another market. That's one of the markets which we definitely see there is a potential. We actually applied for the necessary permissions already very early in our journey in 2016. It took a while for, actually, the FCA to review that, but this moment, basically.....at that moment we were perhaps a bit too early in our kind of effort in establishing an international kind of operation.



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So, they kind of deemed that we don't have like enough resources and, basically, said to come back later, right. At this moment, if you ask me, we have a lot of opportunities on the table. Well, I said, the UK is the best market to kind of focus on, there's a lot of uncertainty out there.

Peter: Right, give it a year or so.

Martins: The FCA, the Brexit and all that, so we keep our eyes open and we definitely have the UK on our agenda, but it's most likely not in the immediate future.

Peter: Right. So then, I'm curious about where you are on the profit journey. Are you making profits yet, or whereabouts are you?

Martins: We actually are. So, and that's what I say, it's been a competitive advantage being based out of Latvia. So, we've actually been profitable since early 2017, even with all the growth we have experienced, so now maybe, we are now kind of burning cash because we kind of have more people and expanding much more aggressively in geographies. But, we've been slightly profitable for the last few years and remain slightly profitable on a monthly basis.

Peter: Okay. So, we're almost out of time, but I'm curious....I mean, you've got this amazing platform right now that feels like it's already.....I see the list on p2p-banking.com and you're always, by far, the.....I think you've outdone every single platform on there and wouldn't come up close to what your total is each month.

So, where do you take this, do you want to be the sort of the way the world invests in lending, I mean, are you focusing on building what you're already doing? I feel like you've got this incredible opportunity in front of you and I'd love to know where you would want to take it.

Martins: I think our vision really is to open up the new asset class to really open investments in loans, basically, loans as an investment for the retail investors, so that when people think where to invest, they can simply say I can invest in stocks, I can invest in real estate, commodities, I don't know, maybe some in crypto, or somewhere else and then they think, well, I also can invest in loans.

And so, the retail investors actually have this opportunity on the table so that's what we are working towards. The market is huge, they're not only limited by alternative lending companies originating the loans, so already today, while we are still.....I'm going to focus on the immediate future in the alternative lending space. There's a lot of things happening, already today we have been talking with, for instance, telecom companies, like telecom companies in Africa or in Pakistan, they are one of the biggest originators of loans because they are the ones who have data which can actually credit score the borrower one way or the other.

So, that's like clear, the originator as well for us, just an e-commerce company, it's like e-commerce platforms, they are giving loans to the Americans in the e-commerce site and they also don't want to keep the loans themselves on their balance sheet. So, for them, they also can



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serve as a kind of way to offload the loans and basically fund the loans, or the same banks actually.

There are plenty of banks which don't want to keep small business loans on the balance sheet because they have to manage capital ratios, and, of course, they might want to offload them to the marketplace through the retail investors. So, basically, what I see us actually becoming is a place where retail investors can come and choose from many different loans, be it originated by an alternative lending company, or down the road, by some other players and become basically this marketplace for investments and loans globally.

Peter: Right, one more question I forgot to ask you earlier. How are you regulated, I mean, as I mentioned that's a very important thing for....you know, investors want to feel like their money is safe. So, tell us how you're regulated.

Martins: So, regulation is like two-fold, so we have to look at the side of loan origination so, basically, each and every loan originator they have their own permissions and licenses in their respective countries they operate in so that's where the regulation comes in there. And then, on the other side, it depends on the kind of market we are operating, or we are kind of working in. In most of the countries, actually, in Europe, I would say the regulators are kind of forming their approach, there's no kind of homogenous approach to how to regulate.

So, today, we are based out of Latvia, that's where we are operating from so our service is not considered regulated service, basically, because what we do, we facilitate assignment of loans receivables from loan originators in masses so it's deemed a regulated service today. Having said that, that's definitely going to change and we are pushing for that to change.

Peter: Right.

Martins: Meanwhile, we are applying for electronic money institutional license and investment brokerage license just to have additional kind of certainty there. It's still kind of a work in progress, I think, when it comes to the kind of regulating.

Peter: Okay. So, finally then, last question, how many people across the different offices do you have, what's the total workforce size?

Martins: Today, we are about 150 people, we've been scaling quite a bit, so we started the year with 60 people. Now, we are 150, most likely we're going to end up the year with like 200/220 people and I think it's only now the scaling part is starting for us.

Peter: Right. Well, you've created an amazing organization that is....it's been fascinating to watch how you guys have grown. All the best and thank you very much for coming on the show.

Martins: Thank you, Peter.

Peter: Okay, see you.



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(closing music)