

LendIt Fintech



Welcome to the Fintech One-on-One Podcast, formerly the Lend Academy Podcast, Episode No. 293. This is your host, Peter Renton, Co-Founder and Chairman of LendIt Fintech.

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Today's episode is brought to you by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. LendIt's flagship event is happening online this year on April 27th to 29th featuring many of the biggest names in fintech. We'll have the CEOs of Afterpay, Figure, Brex, Varo, Dave, Finicity, just to name a few, as well as many leaders from traditional finance. LendIt's 2020 event was also held online with many people saying it was the best virtual event they'd ever attended. LendIt is setting the bar even higher in 2021, so join the fintech community at LendIt Fintech USA where you'll meet the people who matter, learn from the experts and get business done. Sign-up today at lendit.com/usa

Peter Renton: Today on the show, I am delighted to welcome Atif Siddiqi, he is the Founder and CEO of Branch. Now, Branch is a really interesting company. I got to know them as an Earned Wage Access- type company, but they're doing a lot more than that these days which we get into in some depth on the show. They're really focused on employer to employee payments and everything that that might involve, including Earned Wage Access.

There's many other things, they have a digital wallet, a debit card and that sort of thing that really help with that employer/employee relationship and making it digital and helping people who don't have a bank account and lots of things so we talk about that. We also talk about the whole payroll system that we have today and we talk about embedded finance, we talk about financial literacy, regulation and much more. It was a fascinating interview, we hope you enjoy the show.

Welcome to the podcast, Atif!

Atif Siddiqi: Thanks for having me.

Peter: My pleasure. So, let's get started by giving the listeners a little bit of background. You've had an interesting career before Branch, why don't you give the listeners some of the highlights.

Atif: Definitely. You know, I've worked in and out of startups and product base roles before Branch and I found myself as an Entrepreneur in Residence at Idealab. For the listeners who don't know Idealab, it's a technology incubator studio in Pasadena, California and that's where Branch was started. I started Branch really just drawing from my own experiences working as an hourly worker many decades ago (Peter laughs), but the idea behind Branch was really how do we help hourly employees grow financially.

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And so when we set out to solve this problem, initially, we landed on a use case of helping them earn additional income by picking up available shifts at their employer. I think about, you know, halfway through that journey, we just kept on packing what's the real problem our end users are facing and that's when we discovered sort of a slew of financial challenges they were facing. You know, they were looking for more income because their income was very volatile, it was very variable each week as their hours fluctuated.

In addition to that, they had little or no access to credit, no savings and looking at our relationship we have with their employer, you know, we were connected to a lot of interesting employment data about these users that we felt that we could provide them more fairly priced, transparent financial services by leveraging that data and that's where you find Branch today. It's an employer-led financial services available to employees.

Peter: So then, I read somewhere that you actually started out as a messaging app, I mean, what was the thinking behind that?

Atif: Yeah. So, when you looked at this idea, again, what we initially sought out was to pick up additional shifts. A big part of that was coordinating shift swapping with other employees. There was a level of, you know, coordination that we needed to take place so we created Branch as a sort of workplace network where you can kind of negotiate these trades or swaps, if you will, with other employees. So, that's where the whole messaging component came and we since then dropped messaging once we kind of made a movement to financial services.

Peter: Right, right. And we'll get into... I know you've got a suite of offerings which we'll get into in just a minute, but I want to maybe just set the stage for the conversation and talk about hourly workers. They obviously have more options than they've had in the past when it comes to technology and financial services, that sort of thing, but what do you say is the...what do they need most today?

Atif: Yeah. I think what workers are really looking for today is flexibility when it comes to their work and their financial lives and really just ways to find greater financial stability. You know, ultimately, they also wanted technology that's focused on their needs and that was just really easy to use and so, at Branch, this allowed us to really focus on addressing their financial needs through wage tracking, through Earned Wage Access which I am sure we will get into and eventually, better financial services which included fee per banking and a debit card they can use.

Peter: Yeah. Let's talk about Earned Wage Access because it seems like you made a name for yourself in that space, I know you're doing a lot more so explain how your particular version of Earned Wage Access works.

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Atif: Yeah. You know, part of the belief behind Earned Wage Access, you know, is that we can help accelerate payments to employees that have already earned as a way to help them grow financially so you're not getting it fees all square. And so, the way we approach the solution is by working directly with their employer and by doing so, we can get their official time and attendance records so we know when they showed up to work. We can get the amount that they were supposed to get paid either on an hourly basis so we can calculate exactly how much was earned and with those two pieces of data we really can give up to about 50% of their wages that they've earned ahead of their pay cycle.

And I think the important thing is that, you know, we're able to do this, push those funds to these employees for free. In fact, we were the first provider in the space to do this for free because we really wanted to align our interest and our business model, quite frankly, to the interest of the user and so we push it all to the digital wallet where they can use the funds on our debit card or push it out to, you know, another institution.

The other important piece to call out to is that, you know, the way we collect funds back, of anything that was advanced to the employee, is through a payroll deduction and so the employers simply make a deduction on employee's paycheck, it's very transparent to the employee and we get repaid that way.

Peter: Right, right, okay, So then, I presume you have like....you've got to have some sort of connection to the employer, right. Is it like a direct API access where it's real-time or how does it work?

Atif: Yeah. Initially when we started off, it was a series of files that would get processed back and forth. But, recently, you know, we've announced the launch of our Employers Payment Platform and have really taken a platform approach to this. And so, have opened up our APIs so that we can hook directly into the systems of record to gather the information, also process deductions andyou know, I think one of the things that's unique is the way we've approached this through a platform is we that can also embed part of our offering into other applications.

So, you know, say you're an on-demand delivery company and you have the application that your workers interact with fairly frequently, they pick out shifts and they deliver items so we can set right there in that application if you wanted to access, for example, an advance, things like that. So, we can do that through open APIs and also, recently, we've created a very "low code no code" widget so if you don't want to take a harder technical approach, you can also just embed it into the other applications using these widgets that we've created.

Peter: Right, interesting, that's super interesting. So then, as far as Earned Wage Access, do you charge the employer then if you're putting that program in place. Obviously, you said you're not charging the employee at all, so what's the revenue model for Earned Wage Access?

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Atif: Yeah. So, the great thing about our solution and kind of what we've created with this digital wallet is it's free to not only the employee, but also the employer. We make money anytime the employee uses our debit card, we make interchange revenue from the merchant so they go out and spend at Starbucks, Starbucks pays us a small fee as part of the interchange revenue.

You know, in addition to that, we do also have a small fee if the employee does a debit card to debit card transfer, very similar to, you know, Venmo wallet or CashApp wallet, but we also provide an ACH option for free if they want to wait a couple of days to transfer to another external bank account.

Peter: Okay, okay, that's interesting. So then, I'm curious, I'm looking at your website over here and you really lead with, you know, employer to employee payments and, obviously, that's primarily wages, but it's also going to be reimbursements, that sort of thing and then you talk about accelerating pay and digital banking to empower the workers. So, it seems to me that you go-to-market these days is this more broader digital banking/digital wallet offering, is that fair to say?

Atif: Yeah. I think, you know, we've really looked at, again, ways to help employees improve financially, rather holistically and, you know, one of the things we found were a lot of these employees were paying just all kinds of fees to their existing instant banking institutions, be it in the form of overdraft fees, monthly minimum fees, and so we felt that if we can eliminate that, that's putting money back in the hands of the employees that they can use.

And so, we've created...really at the core of the product is our wallet that is effectively a fee free checking account that comes with the debit card that they can use as a way to do that. The other thing I mentioned earlier with that, the great thing about the wallet is it allows us to push money to that wallet for free.

Peter: Right, right. So then, you said a basically free checking account, does that mean employees can actually get their pay into a branch wallet directly?

Atif: Yeah. And I would say, you know, one of the growing use cases we see from employers is the need to remove paper checks, right.

Peter: Right.

Atif: Imagine, in some of the industries we work in like quick service restaurants and retail, there's still a significant portion of their employee population that's still receiving paper checks and then they go to a Walmart or a Kroger and spend money to go deposit it. And so what we do is we can remove that cost from the employer, but also a way better experience for the employee by getting their direct deposit directly into a Branch account.

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In addition to that too, you know, just looking outside of Earned Wage Access you can track deposits, but, you know, a growing use case for us is it's also been digital tips. You know, one the things that we saw, probably I would say post pandemic, is that there just was not a lot of cash at the end of the day to tip out employees and so employees were having to wait for their paychecks to receive those tips or you would have managers scrambling to an ATM after the shift to get

Peter: Oh, Jeez.

Atif:it's actually what happens so, you know, we actually started working with a lot of Domino's franchisees to launch this solution where they provide us the data, how much the employee needed to tip out and we can push that instantly to their branch wallet as soon as that shift is complete and have access to that money instantly.

Peter: Right, right, that's interesting. I can see that cash-based businesses are.....you know, there's a lot of resistance to that kind of thing now and it makes sense to have it digitally, that's for sure. So, are there other kinds of services for employers that you haven't mentioned yet that you're also offering?

Atif: Yeah. In addition to the tips, there's also reimbursement of expenses, you know, especially if you're a delivery driver, you're getting reimbursed for your mileage expenses, we can push that. You know, going back to this idea of paper check replacement, one of the areas we've seen, the wallet and our banking offering is really strong too, is really just offering an alternative to fee laden pay cards so kind of the solution...if they are sending a paper check for like an unbanked employees that they are providing them a Pay Card and these Pay Cards they're tied into the payroll system, but, typically they have all sorts of fees, not just for the employer but also for the employee. And so, we're able to walk-into an employer, really offer Branches as an alternative that really just provides their employees with this modern banking solution that really consumers have come to expect.

Peter: So, the Pay Card...like you're talking about your own debit card and digital wallet, right, as a replacement for their Pay Card?

Atif: That's correct, yeah. You know, some of the unique things that we've done with our employer payment platform is have the seamlessly integrated into their payroll system. So, you know, one of the recent payroll companies we announced we're working with is Rippling, fast growing payroll company and they have this need, their customer were demanding, you know, Pay Cards solve so they turned to our solution and because we can embed our offering directly into the payroll administrator's interface in the Rippling platform so that when an employee joins first day, they don't have a bank account, they can spin up a Branch bank account from the

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Rippling interface, give the employee a card and know that their direct deposit will be deposited in as soon as their first payroll runs.

Peter: Right, that's a great service. I can see that from the people who don't have a bank account. So then, how are you managing this? Obviously, you must be working with bank partners to do this, can you just share a little bit about how you've gone about that?

Atif: Yeah. You know, our bank partner is evolving in Evolve Bank & Trust, great partners for us and, yeah, it's a typical banking relationship like most fintechs have. In addition to that, our debit card issuer is Marqeta; they both have been great partners for us.

Peter: Okay. So then, I want to go back and talk a little bit about the.....you mentioned Domino's and I want to talk about this sort of embedded finance piece that I find just endlessly fascinating. Clearly, you are sort of on the cutting edge here, what do you see as....I mean, is this sort of the way of the future where you're not going to have like this full stack kind of partnership with an employer that might just take little bits and pieces and bolting it into their own offerings. I mean, maybe talk about how you see that playing out.

Atif: Yeah. You know, it's definitely what you said where they're looking for a payments capabilities, but maybe core to their DNA is not a payments company and so they are looking for partners like Branch that are able to take our offering and embedded it into their solutions, especially if it's...more of the things we're seeing in the trend is they already have an application that their employees interact with frequently, it makes a lot of sense.

It's a very frictionless, seamless experience for the employee, you know, you get good adoption in the use case or problem that you're trying to solve. So, we see this a lot, especially in 1099 companies or companies in sort of the on-demand, space where, you know, they have an application that their workers are already interacting with and they want to unlock capabilities like providing faster payments, Earned Wage Access and so they want this idea of a wallet embedded into their own solution where they can seamlessly push that money for free to the employee, you know, right after they complete a job or a gig.

Peter: Right, right. So, do you think.....I mean, I've asked this previous guests and I would love to get your take on.....I mean, we seem to be in this transition period where for the last decades, many, many decades, we've always been on this fixed pay cycle, whether it's every two weeks, twice a month or monthly or weekly, and that has been fixed and that's the way you get paid.

We've seen it in the gig economy, I know that there are Uber drivers out there that are getting paid multiple times a day and it just seems to me that anybody should be able to choose when they get paid. I mean, it feels like the software to do that is pretty trivial, relatively speaking, so to make it happen on-demand, what are your thoughts on this? It seems that we're almost there to be able to say everyone gets paid on-demand, how do you see that playing out?

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Atif: Yeah. I think there's a couple of components to this like what would accelerate I guess adoption, if you will, of on-demand pay. One is just, you know, we work for the employers, a lot of what we do is educating them on how the system works or how it does not change their payroll process, right, it's a big concern that might come up.

The other is how it's actually beneficial for employees. You know, oftentimes employers might think that it'll put them in a worse financial situation, if you will, by receiving their pay on a daily basis as opposed to waiting maybe a week or two weeks, and what we found is that it is actually empowering workers and it allows them to make better decisions financially so they don't have to decide between, you know, paying a late fee on a bill or juggling another fee like an overdraft fee on one end and so there is that component to it too.

There's also this idea I think of really making.... kind of along the same lines of, you know, not changing the payroll process is really just making it easy, it goes back to the embedding, easy to consume and embed into the existing applications and so things like having open APIs, these widgets that I just discussed all make that a reality to not change a whole lot and just create a frictionless experience.

Peter: Do you think then we're still going to stick with this fixed kind of pay period where everything kind of gets processed and taxes go out and 401k's and what have you, but people still take their net pay and they will be able to earn that whenever?

Atif: Yeah. I do think there is a lot of sort of related infrastructure in place even beyond pay, you mentioned taxes and some of the other...and so, you know, ultimately, if there's something easy to consume doesn't change up a lot of the process that, you know, it can offer a good....solve their...would accelerate their move to an on-demand payroll.

Peter: Right, right, okay. So, I'd love to get your take on the regulatory landscape, shall we say. I mean, there was some movement around Earned Wage Access last year, I mean, it sounds like the CFPB basically issued, I'm not exactly sure what they call it, a ruling or whatever that....an employer-based approach to Earned Wage Access is really the right way to go, it sounds like that's what your approach is well, but tell us a little bit about how you're engaging in Washington and what are you seeing there that's really impacting your business.

Atif: Yeah. You know, we're engaging with regulators including the CFPB there to ensure the products that we're creating are working to the interest of our users, first and foremost. Yeah, with regards to the advisory opinion, I think we're excited that it aligns well within our model which, you know, we had established well a year before the opinion was published. And, quite frankly, it brings a lot of like clarity to the Earned Wage Access space, in particular, how employer-based advances are interpreted from a legal perspective so we welcome clarity from regulators like that.

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You know, I think one of the things that align well with our ethos here at Branch was the call out for the fee-free approach to Early Wage Access, you know, not having employees pay to just access their own wages. The other is the employer-based model and also using deductions to facilitate the repayment and making sure that, you know, the calculations are based upon time actually worked to ensure providing just wages there. But, yeah, I think the move for regulators to take an interest to the positive for the space and hopefully, just brings more clarity so employers are debating if they should offer this given some more guidance.

Peter: Right, right, right. And I want to talk about financial literacy and education. You know, I think I read somewhere that you have some programs on that. It's a hard space because what most people don't want to learn about is finance, they want to be financially stable, but they don't really want to learn about finance so how are you approaching that?

Atif: Yeah. I think for us, first and foremost, it's just making it clear on fees that employees are receiving at other financial services that they might be using and just being transparent about that. You know, the other part is providing content to our users that they're interested in and so some of the content that's been really resonating with our users is around building credit.

You know, as I mentioned earlier, most of these users have little or no access to credit so they want to figure out ways they can build traditional credit to get access to other mainstream financial products. The others are debt reduction, I mean, always looking for ways for this and finally, boosting savings or putting money aside and getting into the habit of that. You know, we look at some of our content too as a way to inform our product road map, you know, the content that they're reading and that's resonating really informs about other products and services around financial wellness that we're looking to offer.

Peter: Right, right. You mentioned credit there and obviously, Earned Wage Access is not really a credit product because it's accessing your own receivable basically, are you thinking about offering a credit product or what are your thoughts on... the population that is using Branch obviously have credit needs. So, how are you thinking about that?

Atif: Yeah. We do know some of these population too, is just credit invisible, right, they don't have a credit score, be it a new employee entering the workforce for the first time, an immigrant that, you know, maybe recently migrated to the United States and doesn't have credit years. So, it's very top of mind for us, not so much about the capital that they may need for credit, but what credit actually is important for them, getting access to other mainstream products.

I mean, you know, credit scores is the difference between putting three months of rent deposit down as opposed to nothing, right, when you're renting, but it's about having to front a big deposit for your cell phone plan. So, we understand the need there and so we're figuring out

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ways to do that in a secure and responsible way, right, that, again, is aligned with the interest of our users and doesn't put them into any bad financial situation there.

Peter: Right, right, yeah, okay, that makes sense. So, when I look at your company it feels like to me you're really a B2B company, but obviously a strong relationship with your end users, your consumers here, how are you getting the word out? Is this really.....are you focusing on B2B as a way to expand the business?

Atif: Yeah, we are. And, you know, what we've been able to do to get in front of the employers is really leverage the amazing partners we work with. I mentioned, we work with Rippling as a payroll partner, but others that we work with are like UKG, Servant Systems which is a big point-of-sales, credit service restaurants, ProPoint Solutions which is a salon point-of-sales system, Einstein HR, a payroll company, but really our partners are doing a lot of the education to their own customer base, it's delivering a lot of additional value to their customers. So, it's been a nice way to, yeah, get in front of the employers without a lot of lift done on our end individually.

Peter: What's the process Like because, obviously, you're also going to have people who move from employer to employer and say, I had my Branch deal with my last employer, I want the same deal, can you make sure you could get that? What's involved in a new employer coming on?

Atif: Yeah. Well, yeah, that is, hopefully, a goal one day when we have enough employees out there in the world that they're demanding Branch from their employer, but, yeah, in terms of the process for employers, if they're interested, you know, there's a consultation with our sales team and then really honing in on the problem they're trying to solve, right. From there, it's looking up into the data points that we need to solve that problem, be it a payroll system, a work force standard system, a point-of-sales system.

Peter: Okay, fair enough. So then, can you give us some sense of the scale you guys are at today, I mean, how long have you been going and where are you at today?

Atif: Yeah. I would say we launched our financial services back in 2019, on the platform today hundreds of thousands of employees, several hundred companies and then really probably over the last year or so been expanding our partners from that footprint considerably. So, now we have exciting partners that are signing on, but the industries that we're strong in are quick service restaurants, manufacturing, call centers, we work for the large call centers and continue to work on global solutions and also expanding into health care, as I mentioned, on-demand sort of 1099 companies.

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Peter: Right, right, interesting, okay. So then, last question before we wrap, you've got this really solid base, it feels like to me, a core set of offerings that are really helpful, but what's your vision for Branch. I mean, where do you hope to kind of take this company?

Atif: Hey, you know, when we look at sort of our B2B focus, we look to ourselves to become a leader in employer-based financial services and probably more important, create a product that our customers want and our customers include the employees, you know, employers, includes partners and to do that I think it's consistently innovating and delivering value to all these constituents.

Peter: Okay. Well, Atif, we'll have to leave it there. I really appreciate your coming on the show today and best of luck to you.

Atif: Thank you, Peter, thanks for having me.

Peter: Okay. See you.

You know, the way I see it, Branch is taking advantage of this trend. I believe this is a real secular trend that we're seeing here in finance, that is, employers taking more responsibility for their employees' financial health. A primary way to do that is to offer a suite of services that really help, like what we just talked about in this interview, not just providing maybe health insurance and retirement planning and obviously on pay, but providing more ways to sort of manage your finances. Obviously, the Earned Wage Access is one piece, but there's many other things and I think we're going to seereally this decade, we're going to go from having it be just sort of a peripheral thing to being absolute table stakes where every single major employer is going to have a suite of financial wellness kind of products and options for employees that will help them in their financial lives.

I think there's all sorts of studies that have been done that are....you know, a financially health employee is a more productive one, when people aren't stressing about money, they can more focus on their work. I think employers now realize the responsibility they have is far more than just providing a pay check, it's really providing the tools to help people with their financial lives.

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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