Welcome to the Fintech One-on-One Podcast, formerly the Lend Academy Podcast, Episode No. 292. This is your host, Peter Renton, Chairman and Co-Founder 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'm delighted to welcome back Ken Rees, he is the CEO and Co-Founder of Covered Care and he's also the author of the new book "Teetering" which we get into in some depth. We also talk about his new company, Covered Care, which is really providing financing for elective medical through the medical provider, really interesting company, got some very interesting ways of underwriting and operating which we talk about.

We also get Ken's perspective on this underserved population that he calls "tightropers," that's from his book and we talk about their challenges and what really can be done to help them. It was a really fascinating episode, hope you enjoy the show.

Welcome back to the podcast, Ken!

Ken Rees: Thanks, Peter.

Peter: So, let's just kick things off. When we had you last on the show when you were the CEO of Elevate and so we'd love to get the listeners caught up, you know, what you've been doing the last few years.

Ken: Well, you know, I took Elevate public in 2017 and that I think would be a great example of be careful what you ask for. Being a CEO of a public company is a very different thing from the fast-paced entrepreneurial world that I was used to before, you know, always been an innovator and boy, you start to slow things down quite a bit as a public company CEO. So, I stepped down with the recognition that there's more innovation needed in the space, in particular, the space than I'm passionate about which is serving non-prime consumers in the US and nationally as well.

Peter: So then, maybe we could talk about the genesis of your new venture, it's called Covered Care, what was the founding story there, why did you decide to start it?

Ken: So, we all know that non-prime Americans still suffer from four options, you know. The fintech community and the world of fintech innovation has been tremendously productive to provide better and better solutions for prime customers, but it really hasn't had the big impact on the broader US, you know, sort of economic situation which is defined by income instability and lack of savings. So, as I began to understand or think about what I want to do next, it was really...I knew it was going to be about providing a new and better solution for Americans and get them the credit they need and what we identified.

The big, obvious opportunity was around patient financing so consumers that need healthcare, whether it's elective healthcare like lasik or getting their teeth straightened or general dentistry. What we realized was there's great prime solutions, you have bank companies Care Credit and Affirm or an Ally, but then you've also got fintechs like Affirm and GreenSky that have really like come in and provided great patient financing solutions.

But, if you don't have at least a 640 credit score, they'll typically decline you. And so, over half the people that need patient financing don't get it and the numbers are fantastic. The numbers, you know, $400 Billion in out-of-pocket healthcare spend annually for Americans, obviously, a large percentage of that coming from financing and about half of that being difficult to provide because customers don't have the credit scores that the prime finances are looking for.

So, what we decided to do, let's find a way to have low rates, let's find a way to have an easy application process that fits in seamlessly with what the healthcare providers are doing in their offices and let's make sure we approve almost everybody. So, that's what we've done, growing very quickly right now, we've got a $100 Million line from Fortress, another $100 Million line that we just landed and we're seeing terrific growth as we......you know, north of 85% approval rates on customers that everybody else is declining.

Peter: So, what are the options, like before you started Covered Care, for those.....if you've got a less than 640 FICO and you've got a dental emergency and it's going to cost you $2,500, what have been the options for people?

Ken: Well, a lot of people are just told, sorry, you're going to have to leave the office and come back when you found some money, you know, go find a payday loan or a title loan or something like that to get their teeth fixed. I mean, it's really a pretty horrific situation. Some healthcare providers have stepped in and offered in-house patient financing, they just keep these loans on their books, but, you know, healthcare professionals don't know how to underwrite, they're not in the business of collecting on their customers so that was a bad situation for them.

So, we've been really able to come in and in a lot of ways we're providing to all of the three components here in my mind, the customers themselves because they can get approved right away with rates that are less than credit card rates and very flexible terms that are paid out over time. The healthcare providers don't have to do any sort of in-house financing programs, they can get their customers approved and they can grow their businesses because at least one of our larger accounts generating about 30% of their overall traffic comes from our financing program so we are a big piece of their growth story.

And then, we also work well with the prime providers because they, of course, get beaten up all the time, "why aren't you approving more customers?" And by partnering with them, you know, like Care Credit and GreenSky and others, we can help them be able to make sure that there's a full A to Z credit solution in the healthcare clients that they serve. So, it's really been a nice product to sell because we're not really competing against many people. Providers that are doing it aren't, you know, using the kind of technology and analytics that we use, they're not looking for the kind of high approval rate programs and oftentimes their APRs are quite a bit higher than ours.

Peter: Right, right. So then, how does it work? Is this a consumer-facing product, you're going through the medical practices themselves or is there a combo?

Ken: Yeah. We work through the medical providers. So, in one case we have a....there's a telehealth provider, actually a fantastic company called Bite, one of the fastest growing companies in the US and that just sold their business for a billion dollars. They send the customers directly to us from their call center, it only takes a couple of minutes to get approved by us, we take a small down payment, set the customer up, they sign an agreement and then we fund the healthcare provider directly so very seamlessly integrated into their offerings. We, of course, pay them back saying, yes, the customer is approved, you can go ahead with the service. And in branch locations there are similar situations where it's interfaced directly from a branch system into ours.

Peter: So, you're not .....like are you putting in technology into the practice themselves or is this just a web-based thing, I mean, it sounds like there's, you know, a call center as well, what's the technology you're using?

Ken: One of the things in the healthcare world, there's so many different variants of different types of technologies so we have everything from a full API integration offering and that's what big telehealth providers do, they just ping us with the customer PII, sets up a pre-populated landing page, the customer basically pushes one button to say, I want this credit. They then give us a payment instrument or down payment and they e-sign the credit docs, we send back by API the authorization to fund that customer's healthcare procedure so that's all fully automated within branch locations.

Typically, we have a branch portal that the branch staff can use to do essentially the same thing, initiate that transaction. We then ping the customer directly with a text and email and they fill out the application and then, again, we send the authorization back to the healthcare practitioner.

So, there's no paperwork required, just takes a minute or two and it's all integrated into the healthcare provider, either through API or through this branch portal.

Peter: Right. And then, are you also working with like the high deductible crowd where they've got a procedure, like just get the name of a doctor, are you working with that as well or is it really more of the dental elective type place?

Ken: Right now, it's primarily elective so four target verticals are dental, audiology/hearing aids, ophthalmology like lasik and the med spa arena as well.

Peter: Okay.

Ken: We think this is a ...I mean, we internally look at a company like Affirm and say, wow, Affirm figured out how to serve a whole lot of different industries, but, you know, they're serving just the top end of all the customers in all these industries and we sort of feel that this company is, ultimately, an Affirm for the rest of us. So, as we learn more about the elective health care procedures while moving to broader healthcare and eventually outside of healthcare as well.

Peter: Okay. So, let's talk about the loans themselves, what's the typical dollar amounts, interest rates, loan terms, that sort of thing.

Ken: Yeah. So, the loan terms are all sub-credit card rates, we cap out at 20%, but we have plenty of customers that we've worked with to have a sub-10% APR as well, typically about a two-year repayment term and typically we get somewhere between a 5 and 15% down payment as well. So, these are very much market rate credits, very flexible for the consumer, but we do things, of course, from our perspective.

We're serving non-prime customers and our customers are defined by income instability and lack of savings so we build a lot of flexibility into how the customers can push out payments, you know, restructure their loans over time and that's one of the things that prime lenders and people that have a more traditional experience in credit don't get. This is a customer that will pay their loan, but it might take a little longer and it may be a little bit more bunched up where they can pay let's say around tax time they can pay extra. In other parts of the year, maybe they've got a reduction in income, they may not be able to pay as much so one of the things we have really built into our platforms because that's where flexibility for payment....it's essential for preserving the underserved consumers in the US.

Peter: Right, right and maybe that's part of it. I want to dig in....you said that you approve around 85% of your customers, these are non-prime customers and you say you top out at 20%. I'm sure there are some listeners that are thinking, hang on, this doesn't really add up, it's an unsecured loan. Tell us a little bit about the technology, the data, underwriting, how are you able to offer these loans at such low rates?

Ken: You know, Peter, in my experience...I've got 20 years of experience in non-prime financial services in the US and in the UK. My last company, I served 2.5 million Americans with over $8 Million worth of credit and that was a very tough situation because we were pushing money to them for whatever needs they had directly into their bank account. This business has a lot of things going for it, one is there's just really not a lot of true intent to defraud you, I mean, not a whole lot of people are trying to fix their teeth in a fraudulent fashion (laughs)......

Peter: Right.
Ken: ....they're actually using services so that's a big, big plus. The other plus is, you know, we are able to get multiple payment instruments so we're doing some things I was never able to do before. We underwrite both the customer and the payment instruments that they provide so we're really able to provide interesting things. One thing to mention, you know, my partner is Tim Ranney who founded and grew Clarity Credit, the number one subprime credit bureau which was sold to Experian so the two of us have spent the last 20 years doing nothing but serving and underwriting and understanding non-prime consumers.

We've got a pretty unique and successful perspective around how to do that and not just in a way that we're just looking to skim off the cream, what we think the real need is to find ways to underwrite almost everybody. So, the way we've made that work economically yes, there's the APR to the customers, there is the down payment and some level of evaluation of credit instruments in that and then there's also a discount to the healthcare provider so there's a small discount as well. So, you add those things up and we have found a way to make that work with that sort of high approval rate.

Peter: Yeah. I mean, that's truly interesting. We've had Tim on the show before, he created a pretty amazing company, I know that Experian has it now so the thing that I remember from him is he's always looking for past trade credits that may not have been picked up by traditional credit bureaus. I presume that is part of your strategy here, is that correct?

Ken: Absolutely. I mean, the problem a lot of lenders have is even if they know how to underwrite deeper, their finance lines force them cut off at a, you know, predetermined FICO bands. We made it clear when working with first Fortress and then the most recent financing lines that we're going to underwrite all the way down. In fact, you know, we do about ...10 to 15% of our customers that we're underwriting today are completely unscorable and actually performed great.

To give you a sense of the type of customers that we're serving, our biggest component, about 40+% of our customers have a 500 to 599 credit score so we're definitely serving, you know, the deep non-prime. Actually, almost 20% are sub-500 so we're definitely looking at that very deep level. And so, you're exactly right, yes, we use traditional credit information, but we're constantly, you know, digging into the type of information that Clarity collected on credit attributes that wouldn't be typically collected by the Big Three and then also other things that we can determine including, as I mentioned, things like payment instruments that they're providing to help us get that little bit more insight into the customers.

Peter: So, when did you write your first loan? It's a fairly new company, right?

Ken: Yeah. We actually initially launched just before the pandemic......

Peter: Hah!

Ken: ....in February which was.....

Peter: Interesting time.
Ken: Yes. It takes me back to the first company I launched right after 9/11. So I, obviously, have a terrible history of picking times and it was fascinating because we were going direct to consumer at that point, saw the market demand for traditional credit really dry up quickly and we quickly pivoted into the world of patient financing because that market....actually, the demand went up because now, more than ever, every healthcare provider understands every patient is critical. You can't let patients come in and then not be able to provide that service to them so it ended up being actually great for us. We were live in August in the first healthcare practices and growing since then.

Peter: Right. That's probably good because you....obviously, all elective procedures were....from March through May, there was really nothing happening, right, so you spend that time building up a business and then there's been a big backlog because everyone was really ready to get going.

Ken: That's right. Actually, our biggest client was, as I mentioned, into telehealth finance and they were doing teeth straightening. What they found was now, people were staying at home, they were on Zoom calls seeing that their teeth were not good (Peter laughs) and their demand skyrocketed. So, their demand helped our demand and now that COVID is hopefully looking like it's in the rearview mirror. We're now seeing tremendous demand from the brick and mortar healthcare providers which, as you said, have been in many cases shuttered for months and eager to start serving their customers again.

Peter: Right, right, I imagine. So, how are you getting the word out, you know, it sounds like you're focusing on the providers, the healthcare providers, but how are you getting the word out there?

Ken: You never want to discount the sales process, but basically the sales process...so you walk in and say we can approve 85 to 90% of your declines and the customers will be treated very fairly with an APR that's less than a credit card rate and the discount that you'd be charged for the service is going to be less than you pay for insurance. So, it's been pretty straightforward and we're really focused on the large providers right now.

Of course, we're at the stage of our development, you know, the temptation is always to extend a little bit too fast and I think we have the discipline to do this in the way that as we go from vertical to vertical, we can understand the unique needs to really build out a platform that supports the scale this business should see. I imagine, we look at this and then we see how the public health care spends in this country, $400 Billion. This is a very, very large need and we need to be built up to serve that kind of demand ultimately.

Peter: Right, right. Okay, I want to switch gears completely now and talk about your new book which you were kind enough to send me which was sort of a catalyst for our conversation today called "Teetering" and I'll also link to it in the show notes. First question is, maybe we sort of step back and say, what's the book about and then also say why write this book now?

Ken: Well, I will make the shameless plug that it was the number one hot new release in financial services, according to Amazon a couple of weeks ago.

Peter: Okay, okay.

Ken: You know, the problem is everybody likes to talk about the challenges facing Americans today. I mean, whether investors or entrepreneurs or policy makers, everybody understands the things they've heard of about Americans having less than $400 in savings in case of emergency, but they don't really understand the custom. So, what I saw in all of these conversations were a lot of false narratives and so the focus really was about trying to provide true insights into the issues that drive financial instability in this country and what all of us can do to make a difference, whether we're entrepreneurs or investors or we're in Congress.

We need to wake up to the fact that the US is very different from where it was, I mean, I actually got started in this business because of an odd conversation I had in a branch back when I was a consultant. The branch manager kept on complaining about the lobby trash and how that was a big problem and I finally realized he wasn't talking about garbage, he was talking about people that were cashing checks in these branches and he called them lobby trash.

It made me realize that people in traditional institutions that used to serve average Americans were pushing people out of the financial systems and, you know, I began to write a book, saw that happening in education, healthcare and other things as well. What I do in the book is highlight a lot of the stories, we used a lot of original research from the Center for the New Middle Class, which is the research institute I established in my last company, to get these facts out there, get the insights from actual customers and hopefully what this will do is give entrepreneurs, investors and policy makers a bit of a roadmap for how they can make a difference and in the case of the fintech community, how they can hopefully build some big and profitable businesses.

Peter: Right, right. As I was reading it over the weekend, it struck me it's not really written for the people, the subject of the book, it seems like, it's written for the other folks you said. Was that your intention all along?

Ken: Absolutely. This was meant to give a voice to the people that everybody talks about. There's sort of a really interesting thing I've heard a lot, there's this, if only they. I talked to a friend of mine, a very conservative guy and he would say, if only they saved more, there wouldn't be a problem and I perhaps sort of explained well, you know, that's easier said than done, right.

And then if I talked to my friends on the left, they're like. if only the government put in place, you know, minimum wage increases or unit protections and, again, that isn't getting the answer either because those things typically accelerate the problem. I mean, the reason we have such a hollowed out middle class is really because the impact....technology disruptions and automation and globalization and the more you increase the cost of labor, the more you create more incentives to accelerate disruption and outsourcing and things like that. I am hoping this book can begin to provide a new narrative and a new insight so that people think about what we can do, you know, again, in the private sector and from a policy perspective.

What I talked about is flatten the curve of income disruptions for average Americans that has an impact in the way we build financial services and has an impact in the way that we think about legislation to help people get through the financial upheavals that, you know, we saw in COVID 19, but are only going to accelerate going forward.

Peter: Right, right. And I know you call these people "tightropers" so maybe just talk a little bit.....defining them and just spend a minute or so just making sure that we all know who you're talking about here.

Ken: It's very much average Americans, When we look back, 30/40 years, US had a great thriving working class and middle class defined by stability and the expectation of income growth. Now, however, all that's been hollowed out because, as I mentioned, technology, disruptions and automation and then now AI which is leading to more and more job loss and job instability, more than anything else. And then, of course, outsourcing and globalization had a role as well so now, we've got north of 100 million American adults that are living paycheck to paycheck, they're working, many of them supporting families, you know, house owners.

This is very much the core of the US but as opposed to the core average American having an expectation that they're going to be able to build up savings towards retirement. We have the average American living on a financial tightrope, always at risk of something hitting them, an unexpected expense or a change in income that will leave them in a rough position, either having to drain whatever little savings they have, having to go to a high cost lender or having to sell possessions and it's something that is.....you know, I've seen over the past 20 years serving them. This has become more and more mainstream.

You know, when I started my first business in 2001, I was serving kind of an outlier customer base and now I think we've all realized this is the new reality in the US. Between the Great Recession and COVID 19, I think we've all realized that this can impact a broad set of this country very quickly and we've got to be more aware of it and we've all got to kind of re-position ourselves to deal with the fact that we live in a fast moving, unstable country now.

Peter: Right, yeah. It's interesting to me reading your book, it struck me that....you talk about this, there's no real killer app yet for this population. I mean, there's companies like Chime and Dave, MoneyLion, your old company, Elevate and others that are serving this population to some extent, but there's no one place that has just dominated this group, why do you think that is?

Ken: It is hard, I mean, you know, when you're trying to find financial products for a customer that you can almost guarantee will have some sort of financial hiccup between when you begin serving them and, you know, when they're sort of finished with the product, that's a head scratcher to most people, but I also think that's exciting. These are the kind of markets that create really dominant leaders when people figure it out and I think you're right, you know, the rise of the alt-bank has been really interesting. This is definitely...you know, companies that understand the fact that traditional players don't get it and there's clearly a demand for a new type of financial institution.

I think the other things that are going on that are really interesting is what my friend, Ron Suber, who helped me with some of the thinking around the book, talks about the shift from debt to equity. When you have companies like Hometap that are basically, you know, taking an equity stake in a house with you as opposed to it being just a mortgage or a rise of income share agreements, you know, ISAs, where people are taking an equity investment in the person going to college as opposed to just saddling them with more and more debt. I think that's the sort of thing we are going to see over time, the soft of innovation that the challenger banks are just getting started. They will be doing more interesting things than really just providing a checking account and I think some of the shifts from debt to equity have a lot of interesting upside for the future, I think.

Peter: Right, right. You also talk about the government's role, you spent a chapter saying what they could do. They will be helpful, what they could do would be harmful and, you know, given the fact that we have a Democratic administration and Congress, at least for the next two years, they'll want to be trying to be helpful, they will err on the side of trying, anyway, but maybe you could just sort of sketch out what are some of the things that you think the government should be doing to help these tightropers.

Ken: As I said a little bit earlier, this concept of flattening the curve that we've all learned with COVID is exactly the way we need to be thinking about income instability. So, you know, there's this...split the policy prescriptives that we're currently seeing come out of Congress and the Executive wing into things that are sort of looking back and trying to artificially increase stability like increasing the minimum wage and union protections and things like that. I ultimately don't think those are going to be a positive, if anything, as I said, I think they're going to increase income instability because it's going to provide more and more incentives for employers to find ways to automate or outsource.

So, we're going to end up with some customers making more money, but net net more unemployment, more upheavals. I think the things that the current executive orders are doing right though are things like extending unemployment benefits clearly makes sense. If you're going to have more people that are going to have to migrate between jobs, let's find a way to just smooth that process for them so protections against evictions make a lot of sense, protections against aggressive creditors makes sense. I think one of the areas we haven't focused on, as a country, is helping people with tuition support for re-training. That makes to me a whole lot more sense than forgiving student debt, particularly in a lot of cases for people that haven't gotten the full benefit of that student debt.

So, I think if we can reorient around this, you know, core concept of income instability as being the driver of these sort of financial challenges facing so many Americans, it changes the way we think about the legislation and changes the way that we think about the best way to support people. I mean, Americans are incredibly resilient, that's one of the things that I try to show in stories that I tell in the book "Teetering" is because they get it, you know, nobody is complaining, nobody has a "woe is me" attitude. You, definitely, get a sense of people taking ownership for the decisions they've made in their life, wanting to be able to move on when life changes, but they just need a helping hand and that's really what I think we need to be focused on.

Peter: Right, right. Okay, we're just about out of time, but one more question before I let you go. I really want to get your sense, you know, it feels to me we're at an inflection point and I would love to get your perspective on this. We are at this point where the tools now are available, the data is more prevalent, we have this opportunity to really serve these "tightropers" as you call them in a much better way than we ever have before. Obviously, your own company is really focusing on this, but big picture then, do you feel like in reality this problem will be just as big at the end of this decade than it is now or will we really make serious headway?

Ken: You're exactly right, the market here has never been bigger, right, and I think there's more awareness of that than before and also the tools to serve that market has never been better between Plaid having, you know, online access to customers' transactions, I mean, the sort of things that we can do to provide deep insights into how the customers are managing their financial life and helping them do this has never been better.

But, you know, one of the challenges....you know, entrepreneurs tend to build products for themselves, one of my favorite ones is the...I hear over the years there's always a new entrepreneur that's found a way to serve the underserved, but when you dig into what they're trying to do, it's actually somebody who just graduated from Harvard, doesn't have a job yet and needs credit until that happens, anybody can do that.

I mean, that's really not the kind of market we're serving so I think it's going to take a bit more humility to step back and understand, you know, who these underserved consumers are, but the market's never been bigger and that's a great thing about the fintech community. It's incredibly, you know, resilient, it's incredibly innovative and I think as some of these new tools, and I continue to think about Plaid and others, we will get there.

I refer to the Tolstoy effect in terms of serving the underserved where Tolstoy had that great line when he says, you know, all happy families are the same, all unhappy families are unhappy for a different reason and that's sort of like serving prime and non-prime customers, right. All prime customers are the same, they've got lots of credit history and a lot of stability, but in the world I serve and this world of 100 million American adults, it's all very different.

And I think there's a lot of different market opportunities to serve people who are new to the country versus people that maybe are overextended and recently went through let's say a one-time upheaval in their life, let's say a divorce or having a child or sending a child to college, getting them through that one-time disruption versus other people that are gig workers and really sort of managing lots of different income flows all at the same time.

So, I don't actually think of it as a single opportunity, I think the smart entrepreneurs are going to be the ones who are going to look at this as lots of different, very targeted opportunities and build killer programs and killer offerings to serve this unique, different types of needs in the non-prime space.

Peter: Okay. We'll have to leave it there, Ken, I hope you're right. I think it's a fascinating time to be in fintech and a fascinating time to see all these new innovative offerings like your own that are coming to bear here. So, best of luck and thanks again for coming on the show, Ken.

Ken: Thanks, Peter, really enjoyed it.

Peter: Okay, see you.

You know, I agree, I think we're at an inflection point right now where I think......I've had multiple conversations, probably five/six conversations, just in the last three months alone with entrepreneurs who are looking to serve this community that Ken talks about here, these "tightropers," in new and innovative ways, in ways that reduce cost and I think that's really....the fact that Ken and Covered Care are providing these people with really very reasonable rates for that population remains to be seen how successful they can be long term.

But, the fact that Ken and Tim Ranney, very experienced people, serving this population, they know how to price these loans and I'm confident that they've really hit on something here that's going to make a tremendous difference. This is what people are pushing for and we want to be able to...you know, it's expensive to be poor, we want to be able to get these people services and credit especially that is much cheaper than what it has been historically.

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

Today's episode was 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 will have the CEOs of Afterpay, Figure, Brex, Varo, Dave, Finicity, just to name a few, as well as many leaders from traditional finance. After a successful virtual event in 2020, LendIt is setting the bar even higher in 2021. So, join the fintech community at LendIt Fintech USA where you will meet the people who matter, learn from the experts and get business done. Sign up today at lendit.com/usa

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