

PITCHIT FINTECH STARTUPS PODCAST NO. 8—SOHAIB ZAHID

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Todd Anderson: On Episode 8, we talk with Sohaib Zahid, Co-Founder and CEO of Railz. Railz are on a mission to provide an accounting Data as a Service API for everyone to benefit for having real-time accounting data, you know, data is the real key. Sohaib mentioned, right from the start, when we started our conversation that it's a data problem so connecting fintechs and lenders to the right data can help a whole host of banking functions operate more efficiently. You know, I really enjoyed this conversation as we delve into a lot of these data issues, we also talk about the hybrid work model and some cricket for good measure. Now on to my conversation with Sohaib, I hope you enjoy the show.

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Welcome to the podcast, Sohaib, how are you?

Sohaib Zahid: I'm well, how are you?

Todd: I'm doing well. So, thanks for joining me here. You know, for the audience's sake, can you kind of give a little bit of background on kind of where you've been in terms of your career, you know, kind of before you got to this moment and starting Railz just so they can have a little bit of understanding of what your background has been to date.

Sohaib: Absolutely. So, my background has been a little unconventional in terms of entering the financial world. I come from health, started my career in health and went to medical school and dropped out in the last year to start a company in the mobility sector, as I mentioned, as part of my PC program. Built Vanhawks Valour, so Vanhawks was the company, Valour was our by-product which had a lot of sensors in it and it was primarily a big data company and we were trying to learn from riders who know the city and ride in cities like New York, San Francisco, Toronto and what we were trying to do was collect that data from the riders and create smarter, safer riding algorithms and present them back to the rider through a beautiful interface on the bike for better navigation.

We sold that company to our manufacturing partner here in Ontario, Warren Industries, and then I built another company and that was again a big data point for us, building firewalls for emerging markets

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and we learned that hardware is hard and there's not all that money being made so we built a software for it on the distribution side as well as managing the capacity and the storage. Sold that as well to a partner in the Far East and then Railz really spearhead when I was working at my last company, PartnerStack. They're in the partner resource management space primarily building software to distribute to software writers online, dot com, referral partnerships, affiliate system integrators and I was tasked by the founders to build this white label marketplace where we can develop software to be sold and make it really easy for them to provision and that's when I started looking at the first APIs and started work with the product teams.

Started to peel the onion layer by layer. When I started to work with companies who are in the Intuit ecosystem.....Intuit happened to be the largest customer that we were serving. I was trying to convince then more often it was like, hey, can you make Intuit APIs better for data and I really could not understand what they were trying to say because Intuit has really good APIs to plug in and pull data. The more I talked to them, I realized that ...hold on second, it's not an API problem, it's not a pregnant patient problem that Plaid solved, it's a big data problem.

And the problem is this these accounting systems are highly customizable by the small/medium enterprises. And because they are really highly customizable, businesses loved it, but it creates a problem for someone who wants to have access to that data because the problem is the permutations are 30 million times for these businesses and once you started to move out of that big box and we went to the other systems, you know, beefing accounting standards, accountants and bookkeepers, it's a very difficult data set to work with.

So, it was a big data problem and I have somewhat of a personal story. My Mom actually used to have a laser clinic, small business and she went through a very difficult time in securing a loan for her small business, that was back in 2008. And then, 2009 recession hit, she lost the business, her house was on collateral and she almost lost it and it was a very difficult process for her to get a loan which gave me an understanding that, you know, small/medium business still don't have access to better products, better application, it's still not easy.

That drove the whole story of building a better data company to enable other companies to build better solutions for small/medium enterprises and that's when I met Derek who was my Co-Founder back in January of 2020. He was building a company called Corl which was a top line revenue financing company and when we started to jam on....hey, the technology that he built as part of Corl can actually be applied across different domain starting from Lending as a Service, people who are building lending applications or FBNA applications or credit finance applications, lender on-boarding, any financial application in the business sector kind of building on top of this technology and that's when we started talking about Plaid for accounting.

The reason why we use the word Plaid was because we wanted to be developer first, a product by developers for developers, we can actually build your solution on top of us, really in a matter of hours, not in days or weeks and that's how Railz started.

So, I'm definitely an outsider in the industry, but I think there's an advantage to being an outsider, it gives you different plans, different perspective, sometimes you have more blind spots by being from the industry. I think as an outsider, you bring in a different fresh perspective similar to what....and I don't compare myself to any these in any initial performance, just saying that outside of this hub have done something great in the industry similar to what Brian Chen did in the hospitality space and it really changed the landscape by building Airbnb. Elon Musk was not from the automotive space and he built a big company to rival the big boys, similar to that, we've seen Steve Jobs build Apple from the user experience lens so it's just a different perspective you have as an outsider. So, that's my story and my rant on what started Railz.

Todd: It wouldn't be bad if you became as big as one of the names you mentioned. So, for the listeners, what is the Railz, you know, product set right now and kind of who are your core customers.

Sohaib: Right. So, Railz is basically an API, what we do is we help you pull data out of the accounting system, normalize it, sanitize it, standardize it and that's our moat because it's such a massively complex data set coming out, like I said. Our customers happen to be fintechs of the world which are building new financial applications for lending, credit card issuing, cash management, bill pay and the big banks.

We just make it really easy for them to access this data set. On top of that, we also provide you analytics from different perspectives so you get access to different liquidity ratios, accounting and financial ratios, probability of default, we also compliment that and provide feature forecasting, benchmarking as well and defaults. So, in addition to giving you a really clean data set, we give you tools to make sense of this data set and different fintechs and banks are building their applications on top of Railz.

Todd: In terms of the kind of normalizing the data, you mentioned in your initial comments about, I think it's 30 million different combinations or permutations of the data, how did you come to the kind of this is where the normalized.....is it kind of it comes from all these different things and you guys kind of find the pieces that are common across the different accounting platforms. Talk a little bit about kind of the normalization part because you mentioned how customizable it is in terms of how a small business might use the accounting data, how complicated is that to normalize that data when it's coming out.

Sohaib: Pretty complicated and we have the largest data science and data engineering team and we truly believe that we are an extension of your in-house data science, like 90% of our team is engineers and 10 percent happen to be on the revenue side which gives you quite a bit about how obsessive we are about it. Now, in terms of normalization, an easy way to say this, we just make it easy for our banking partners and financial institutions to only map it against Railz.

They don't have to worry about the platforms, like Xero, NetSuites of the world, they just map it against Railz and our format and regardless of which accounting platform or businesses using that accounting package the data is coming from, you just happen to interact with Railz, get access to that universal format and understand it. Our banking partners also do their mapping against Railz, if there is one

request that they have that is different from other partners, we do that. Ultimately, we just make it really easy for them to understand this data set coming from millions of different businesses.

Todd: How many different accounting providers out there....yeah, I mean, the obvious ones are Intuit, there's a few others that I think are pretty popular, but are we talking about like hundreds of these different, you know, potential sources or kind of 10 to 12?

Sohaib: Yeah. There are literally 300 accounting packages in North America that you can plug into, but then you can sort of segment these very wisely in terms of who you want to go after and whose using it. So, if we're just talking about the small/medium enterprises, the mom & pop shops and businesses who are like zero to \$10 Million ARR, they are very well covered by the BigBox, the Zero, the FreshBook, the Waves of the world. I want to start to graduate from the \$10 Million to the \$20 Million ARR then you start scaling, a bit more QuickBooks, the NetSuites, the OfficeDynamics, the 365 Dynamics of the world.

Once you start to graduate beyond the \$20 Million, you still see the see the NetSuites, the Sages of the world, but then you start to see the SAPs of the world. And then, there are like industries like that as well like, for example, the construction industry and then you have different accesses for the automotive business, different for shipping or so on and so forth, but plugging into 20-odd accounting systems, you do get access to like 90% accounts and then the remaining 10% accounts from the remaining....you know, 300 or 290 packages. Again, it's not a problem of fragmentation into the system, it's really a problem of big data that's coming out of pieces.

Todd: Now, do you guys have to form partnerships with each of the accounting platforms to essentially get their data or, you know, you plug into the API, like you mentioned earlier, they have APIs andhow does that work in terms of the data coming through Railz?

Sohaib: Yes. Some of these accounting packages actually have public key facing APIs for developers to build on top so you can do so. What we're doing is we're making them even easier and better so you can plug in by normalization and start to pull the data out, but you still won't get clean data, you'll get what we call a "data moment." So, you plug Railz in there like a refinery, you know, we process the crude oil and the high octane gas for you so we're a refinery in the gas example. And then, there's the accounting practice where you don't to make partnerships with them because they are behind the firewall, they are behind the silo so you can't access them. We do have some exclusive partnerships in some of these bigger accounting packages which we will be announcing in the coming weeks and months.

Todd: When I hear you talk about it, the thing I think of most is, you know, kind of the open banking type financial ecosystem so I'm just kind of curious as someone who is obviously working in the space, where are we on that open banking journey today. In Europe, you have kind of the government or regulatory mandated version of it, in the US, it's very much individual institution, individual fintech or data provider, you know, are we kind of early stages of the open banking journey, do you guys consider yourselves kind of part of the open banking universe. The way I see it is we're on our path to

kind of that open banking/open finance universe or just not that close to it, we're still very much early on.

Sohaib: I think companies like Plaid paved the path much earlier to get access to these data from user permission side and they started to screen scrape the bank accounts, it showed the world that there is real value in this data set and a new generation of companies are building (inaudible). So, from that perspective, we're not entirely into this. We have understood and realized what the potential is, but the idea is can we entice the silos, the repositories of these data sets to open up in a way that it's more secure. I think we're there with the PSD2 and the open banking space right now.

I think the talk has to be bigger, not just banking, it has to be around open finance, the word that you used here because businesses do care not only about the bank, but their data is siloed in multiple repositories, whether it's the payroll repository or the POS or the e-commerce repository. How do they get access to that data to build better applications and help our technology partners and accounting happens to be the common denominator.

So, there is going to be a push for open finance and accounting data is going to be part of that so open accounting becomes a vital key for businesses, but I think we're on the right track in terms of moving towards a better standard and open banking access to the banking data. It's not too early, there's a real revolution happening.

Todd: I'm curious, what's the...I guess, some of the biggest issues with data today...yeah, I've heard a lot of people that work in the data space saying garbage in, garbage out. You know, as someone that has called this a data problem, what arefrom your perspective, what are some of the biggest issues that you guys find with data today?

Sohaib: Yeah. So, at the start of it is access to the data, you still don't have access to full data set today. There are still problems that we see with Plaid, or Yodlee or Amex and others getting access to different banking data, if it's cleaner, if it's not, if it's normalized or not that's the first one. There's still a challenge that I think technology partners are solving it. The second one that you talked about, garbage in garbage out, depends on what data repository you're tapping into. If you're tapping into the banking data repository then it's really coming from a transaction which is done and noted and nobody can just go in and change the bank transaction whereas accounting systems have a bigI mean, in accounting you can just go in and start to change, you know, there's a term in the industry called cook the books for whatever reason so.....

Todd: Not associated with something very good. (laughs)

Sohaib: (laughs) Yeah. So, for that reason the garbage in garbage out is a problem and at Railz we fully recognize that and we're solving that by multiple different ways. One of the things that we do is we do a version history because businesses don't close their books in this accounting system, anybody can go back and do any change that they want, Railz doesn't require that. So, we do a 24-hour standard then we're getting access to some of the other data sources to overlay on top and do a sign

in check so something that's called Railz Accounting Accuracy Score, but it's really fidelity/vanity checks for these data to really tell a customer, you know, is this really garbage in garbage out.

Another measure to find the data set, we are also breaking on reconstructing the financial statements using our own algorithm. So, we pull all the data out, we deconstruct and reconstruct from the ground up so we can have a little bit more points in terms of, you know, if the data has high value but that's a problem with data and we happen to be a machine learning data science team at the core and we're up for the challenge and real success primarily to solve that.

Todd: Now, tricky question, but, you know, we hear a lot of people, whether it's in lending or all across the financial services space, about alternative data, you know, what is alternative data, is it cash flow for cash flow underwriting, is social media data, you know, kind of when do you guys think or from your data perspective, when alternative data just becomes data and we're not talking....I mean, will we ever reach that point because conceivably other data sources and feeds can potentially come up in the future, but just kind of curious with the sources and everything out there today, do we reach a point where alternative data....it all just becomes data?

Sohaib: Definitely, there is going to be a point that alternative data is not just data and you need access to that, we're just scratching the tip of the iceberg. I think when the FICO score was developed, you know, it was more of a standardization of process. How do we value customers' worthiness, can we just look at the FICO score and say, hey, we can really give a credit card or loan to someone who is above X or Y score.

Either it is going to be an evolution of the FICO score or alternative data is being fed into and it's a new enhanced FICO score because, you know, you have an inside to all the repositories which are more granular and give a better insight into a consumer or a business or is there going to be a new company who is just going to be the next FICO which is actually building a better scoring standardized system plugging into all these data sets and doing all sorts of analytics, you know, giving you output but which is more dependable than what otherwise is available. When that happens, we will reach a point where alternative data just becomes data.

Todd: I'm curious, you mentioned being 90% data scientist and kind of engineering and data-focused, any thought to kind of just saying hey, we got all these data, why not build another business on top of it like a lending business or, you know, something else, for example. Just kind of curious if that crosses your mind or if it's hey, this is like you said this is our moat, this is who we are and this is what we want to provide to the customers.

Sohaib: Yeah. So, dilution of focus is what kills early stage companies. We are focused on what we're very good at. Now, having said that, when Jeff Bezos started to sell books online, he didn't think of hey, I will be building the Internet infrastructure and now we're building AWS or we'll be building Alexa so, you know, as you grow as a business you do branch out. There are going to be natural progressions of yourself that become the core of your business. I think Amazon has done

tremendously in terms of going into a lot of different businesses and having a very strong foothold, but I think there are things that have not changed at all, even if the company is a behemoth.

The thing that hasn't changed for them is, you know, there's still customer-obsessed, they're still the largest marketplace for us to choose from, there are things that haven't changed for them. So, similar to them, at the core of Railz there's always going to be a data company, we will make sure that we are the single source of truth for small/medium enterprises. Now, are there going to be national extensions that are going to be built on top of Railz which is really going to be big businesses. Absolutely, there will be, we're just not there yet.

Todd: I want to shift a little bit, you mentioned you and your Co-Founder...kind of January 2020 that you basically were, at least coming up with the idea and soon ready to launch. Obviously, we know what happened a few short months later with the pandemic. Just kind of curious, building a business in the last year, how's that been, you know, what are some of the challenges associated with that? I mean, I presume that most of your teams probably work from home, you mentioned your in Canada, I know that, Canada is probably not as open as some places in the US yet so just kind of curious how that's been, you know, growing the company during the pandemic considering you've had other companies before so you built them, obviously, in more of a normalized environment.

Sohaib: Absolutely. I think when we were starting the company, Derek and I had an idea that we are going to build a distributed company pre-pandemic as well.

Todd: Interesting.

Sohaib: But, the world was not normal and that's what make things hard. So, if you're building a distributed company in a normal world, you also have a normal life, be able to go out and, you know, eat and go to gym and carrying on the normal activities that we do. We were not able to do any of that so that just added so much more stress in terms of building the company remotely. In addition to that, I also became a father during the pandemic so that was hard as well. So, being a father would appear...as a matter of fact, I think it's definitely a hundred times more hard for the mothers than it is for the fathers, but it was, nonetheless, still hard.

Todd: I have a two-year old so I can certainly sympathize. (both laugh)

Sohaib: So, things are different from the perspective that things were not normal, but we were fully prepared to build a company remotely and we went into that mindset to do that. Building a remote company is more efficient, we have seen that in terms of (inaudible) and they've done a tremendous job. You can tap into mobile talent pool rather than just a local talent pool and we don't need an office to build APIs, we just need a laptop and a table and we can build.

The hard part has been building a great company culture because some people were coming onboard, they're not coming from other remote companies, they're coming from companies which actually had offices. We have lost offers on very competitive candidates who said that, I have had Covid fatigue, I

want to go back in the office, I don't want to work from home anymore because I've been home for the longest time so that's not in our favor. That can be a challenge.

Todd: Any thought of potentially having an office like even, you know, maybe it's not an office obviously staffed with 30 people, but any thought to having some place that people can go if, for example, you had five or six people in New York or five or six people in San Francisco. Is there a thinking that maybe someday in the future you'll become more of a hybrid version?

Sohaib: I think the companies who actually were forced to go remote, they've realized that working remote is highly efficient, but because they're tied back in the office they're thinking of a hybrid model. Derek and I truly believe that hybrid models will not work, you are either in an office or you are from a remote company so you need to be either/or, but having said that, we do believe in building hubs where we can be plus minus three hours around when we hire new team members.

There is another approach which I do like, every now often, a team member would want to go out, you know, leave that home office and people typically think of Starbucks, they end up going to go to a coffee shop and sit there and work which I think is not productive. So, if there is a way that we can give a pass to our team members and say hey, please don't go and work in a coffee shop if you want to leave your home office and work out from somewhere else. Here's a pass to a common shared office space in the city, just go in and work from there as an individual, but, otherwise we have no plans on opening up an office in the near future.

Todd: You know, kind of curious, you guys recently raised a round of capital. Right now, fintech is clearly pretty hot, seems like any idea can get funded. What are your thoughts or kind of your experience in raising capital, there's the perception that it's easy, especially now with such a hot market. Clearly, that perception is not fully reality, but just kind of curious how that was for your guys and, you know, kind of anything that you've learned or that maybe you can tell us about because there's a lot of other founders that listen to the podcast and who are kind of going through or potentially going to go through a fundraising.

Sohaib: There, definitely, are trends in the market and we see those trends year over year where investors like to invest in a certain vertical and just becomes the center of the universe and the nucleus where everybody would want to be. Over the last couple of years, fintech is the nucleus of a lot of investments happening across North America. Having said that, you can still build an amazing consumer product and go and raise money if you have a great market validation and a great team to build and people have the confidence to put money in you. In truth of raising money, is it easy or not?

I still think it comes down to the basic three things; is the team there to execute, is it the right team to invest in, is it a big market opportunity and is it a big problem. You know, you will relatively have an easy time raising, but I also know founders in the space who are trying to build companies but are not able to raise. That just tells me that either they're not able to pinpoint the problem exists, either the market is not big enough and they're trying to create a small niche product or maybe the team is not

strong enough that's able to get the confidence of investors. So, I think the blueprint still remains intact and investors still are cognizant of investing into big ideas, big markets and really amazing players.

Todd: We have a few minutes left here so I wanted to shift to a little fun before we end. A) Do you have a favorite book and B) the last book you read. If you're not a reader then maybe, depending on how you consume information, you know, is there something that you kind of recently you read or is your favorite in the way you consumer information?

Sohaib: Yeah. I do read and I try to find time between my kid and Railz. (laughs)

Todd: It gets harder once the kids are there. (laughs)

Sohaib: To read a book....I can't say that I have an all time favorite book. Recently, a book I read, "A World of Three Zeros: The New Economics of Zero Poverty, Zero Employment and Zero Net Carbon Emissions," by Mohamed Yunus. He is a Nobel Laureate and for anybody who wants to understand how lending or alternative lending can impact, have a massive impact should definitely read it. It's access to capital sometimes just hinders, you know, innovation and poverty across the globe is the same. You know, if someone's living in poverty in North America, their situation or the blueprint is going to be the same as someone living in Bangladesh so giving them access to some capital to pull them out of poverty is very powerful. Dr. Yunus says company Grameen Bank actually happened to do that, you know, and it proves that it's the same in Bangladesh and it's the same in North America so a highly recommended book.

A book that I just enjoy on a leisurely time and I have read it, I don't know, at least ten times and I still enjoy it is "The Alchemist," people who are following their dream. It's just very well written, it's a short read, you can finish it off in a couple of hours as well. It's about life and how to voice things so that's a book that I've read multiple times.

Todd: So, being from Canada do I make an assumption that you are a hockey fan or that you're in Canada now, but do you have a favorite sport or a sport team that you root for?

Sohaib: I do. I'm one of those Canadians who actually don't watch hockey.

Todd: Oh, wow! They didn't kick you out yet? (laughs)

Sohaib: Probably because Maple Leafs have been performing really bad for the last...as long as I remember so lost that confidence. No, I do watch sport, but I'm a cricket fan, I watch cricket.

Todd: Got you. My colleague is a cricket fan.

Sohaib: So, I'm born and raised in Pakistan so naturally I have more attraction towards that because that's the only game which is watched in that country as we were growing up.

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Todd: I still haven't figured cricket out yet so maybe one day. (laughs)

Sohaib: For sure. (laughs)

Todd: And then, final question, biggest inspiration in life?

Sohaib: Ah, biggest inspiration in life, I'm always inspired by the architects, the founders of Rome and how they were able to use the resources that were available at that time. For example, if you take Taj Mahal or the Pyramids, it just blow your mind when you look at the carving....and you go back to how did they build this with the resources they had at hand. It just speaks of either their obsession with that particular product that they were building or just obsession in general that they have to create such a massive product, I still call it a product end of the day.

Todd: Yeah, ultimately, it is.

Sohaib: Absolutely. It just tells us what the human mind is capable of and we can do wonders if we can become more resourceful, widen the resources we have at hand. So, I am inspired by the big wonders of the world, the manmade ones.

Todd: Well, we're going to have to leave it there. Sohaib, I greatly appreciate your joining the show, This episode will be out in the next few weeks so look out for it there. Good luck and hopefully, you guys have some continued success and maybe we'll get you back on sometime in the future. Thanks again.

Sohaib: Thanks a lot, Todd, it was great being on the show.

Todd: Alright, thanks so much.

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You know, I really think we're on that path to open finance and data's the fuel that really will help us drive to get to that reality. In speaking with Sohaib, you get a real good sense, you know, where are we on that journey today and how players like Plaid have really helped the overall data story. The other thing I thought was interesting is that small businesses are finally getting the services, the access to data and really, you know, the overall attention that they deserve for so long, especially those smallest of the small and have essentially been forgotten about and I think that's really changed in this last 18 has helped change that equation. You know, I really enjoyed speaking to Sohaib and appreciate you, the listeners, stopping by again and until next time.

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