

LendIt Fintech



Welcome to the Fintech One-on-One Podcast, Episode No. 306. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Before we start this episode, I want to tell you about a brand new event from LendIt Fintech. Fintech Nexus, the Dealmaker Summit, will be the first major in-person fintech event of the past 18 months, a hand-curated audience of venture capitalists, bankers, fintechs and debt investors will be meeting face-to-face at an event 100% focused on doing deals. It will be happening in Miami on September 1st and 2nd. You can apply to join and find out more at lendit.com.

Peter Renton: Today on the show, we are talking freelancers, specifically, banking for freelancers. I'm delighted to welcome Lilac Bar David, she is the CEO and Co-Founder of Lili, that's L-I-L-I. Lili is a new digital bank built specifically for the freelance market and I wanted to get her on the show because it's time to get some decent traction and it's a massive market that has been certainly underserved for a long, long time and Lili is trying to change that, that's their whole purpose.

We get into what really are the unique challenges of freelancers today, we talk about why she decided to start a digital bank focused on this market, we talk about the different products they have, how the freelancers are using them, what's sort of the most popular feature that the freelancers are really spending time on, we talk about the impact the pandemic has had. We talk about their recent fund raise, they closed a sizable Series B pretty recently, they're focused on educational content and her vision for the future of Lili. It was a fascinating episode, we hope you enjoy the show.

Welcome to the podcast, Lilac!

Lilac Bar David: Hi, thank you for having me.

Peter: My pleasure. So, I want to get started by giving the listeners a little bit of background. This is not your first rodeo, why don't you tell the listeners what you've done, just the highlights in your career to date.

Lilac: I've been doing banking and payments for over the last 20 years. My founder and I were looking for an opportunity to solve new pain points, we were looking to create something that would actually make a difference within the US markets and we narrowed it down to the freelance economy because freelancers are currently underserved by the industry and that is how we came up with Lili.

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Peter: Okay, okay. So, can we just go back and talk about your previous company called Pepper which, I believe, is still going in Israel. Tell us a little bit about that and what you learned from that experience.

Lilac: So, Pepper is a neobank very focused on millennial experience. When we built that we wanted to change the experience millennials are having in regards to banking payments and investments... was a huge, huge opportunity for us to make a difference within the local market and we've learned so much from that specific experience. When we are looking at millennials and GenZ in regards to their expectations from a banking experience, those are really very similar to other aspects of digital within their day-to-day life so we tried to create that experience that actually will be very similar to the lifestyles that they are adapting into right now.

Peter: So, that was for the Israeli market, right, so why did you decide to move to the US and really attack this market?

Lilac: I think the Israeli market is amazing and it's very entrepreneurial, but it is also very small, really if you want to make a difference, if you want to create an impact, it has to be about the larger markets. I mean, the US is one of the largest ones out there and we were looking for a segment that is big and growing and changing and the intersection between the finance economy and the online economy was really, really interesting to us. We were looking at the trends of the new generation and the future of work and we implemented a lot of the know-hows that we gained from the Pepper experience into the overall products that we have built at Lili.

Peter: Right. When you look at the freelance market and, obviously, it's a growing market, it's a big market, what do you think is misunderstood or what do you think that traditional banks aren't really serving this market well and the digital banks are not really focused on it? What do you think that people don't get about the freelancer market?

Lilac: I think, first, it's about defining the freelance economy as a category, it's not a consumer banking experience, it's not a business banking experience. It's a new defined category which means that this is a freelance banking experience which means that it specifically fits the segment that is balancing work and life that are also consumer and managing a small business. For them, it's not just about the banking so they're looking for an all-in-one experience that will try to tackle each and every single challenge that they are facing in managing their day-to-day business and figuring out all in one app.

So, when we were looking at our product that we are offering at Lili, it was about combining the banking services with all of the other challenges; like real-time expense tracking, the tax rules, financial insights, wanted to be in a position that we can actually help them save money and save time and figure out how do we better serve them with all of their specific pain points, not just the finance one to make them focus on just their business and we can do the rest.

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Peter: So, maybe you can just describe what are the products that you are offering?

Lilac: From my point of view, it was about making sure that we give them the best banking experience that we can offer, but also in addition to that, offer as many business tools as we can. First, it's from a banking point of view where they open a checking account with no account fees and no minimum balance requirements and they can have access to a network of free ATMs, they can get early access to direct deposits up to two days earlier. So, from a banking point of view, they do have all of those different features that are available for them to manage their finances. But, I think from a business point of view, we offer better experience in regard to tracking your expenses so it's all happening in real-time.

Whenever you swipe a transaction, we pre-categorize it to the specific IRS category so the only thing you have to do is swipe right or left, whether it's a business expense or a personal expense and once you do that everything else put in that perspective we generate your expense reports, we generate financial insights in regards to that so you always know where you stand with your expenses and you are maximizing your deductibles.

We're actually saving up to 60 hours and \$1,700 per year for a freelancer which is a lot of money and a lot of time. We also offer a tax savings tool which I feel makes a lot of sense for them so whenever an income hits the account, we automatically set aside a percentage of that income that was pre-defined together in a tax bucket so you will have enough money saved for taxes when the time comes and you will always know your true balance.

Peter: Right.

Lilac: All of those different features are in place to help them better manage their business and just stay focused on what they love to do,

Peter: The taxation issue is a real problem because a lot of freelancers when they first get going, they don't really think about it and suddenly, come April 15 they have a big bill they have to pay. So, are people using this for their business and personal lives? You said, you swipe left for business, right for personal, are you finding that people are using this account just as much for personal expenses as they are for business? So, how does it work there?

Lilac: Yeah. Actually, when we are looking at the usage data that we have until today, almost 50% of the transactions are life so personal and the other 50 are business, work. I feel like it's because those small businesses are actually a one-operation show, they are managing everything, marketing, invoicing, payments and getting their service or product out there and so on.

So, from their point of view, it's just one individual managing everything, it makes a lot of sense for them just to have the separation between business and personal in just one account. They

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don't have to open two different accounts which just creates more pain points. It might save time for accountants, but it creates a lot of hassle for the freelancers themselves.

Peter: So, all those different things that you mentioned, what features do your freelance customers appreciate the most?

Lilac: I think they love the taxes so in regards to expenses, whenever they swipe the card, they categorize the transaction, they get a push notification. Somebody actually described it as it's like dating my expenses within the app. They like the fact that they can save money, so maximizing their deductions. There are a lot of freelancers not keeping track of receipts which you don't have to by using Lili and not maximizing their deduction. I think the statistics is actually 70% of freelancers are actually overpaying their taxes.

Peter: Interesting.

Lilac: So, with Lili, that's solvable. The second feature that they all love is about taxes because you don't want to be in a situation that you do not put aside the money for the taxes and then you have to break savings accounts, take a loan to pay your taxes and so on. You want to be in control of your finances.

Peter: So, can you tell us a little bit about the demographic of the customer base. You said, with Pepper you were focused on millennials, you're focused on freelancers, I imagine there's a bit of crossover, but what is the actual demographic?

Lilac: So, a lot of our account holders are millennials and Gen-Z because that age group is actually performing freelancers on a day-to-day basis, but if you're looking at our demographics, it's actually everything you can think about from a programmer, an e-commerce shop owner, a beauty salon, a fitness instructor, a construction guy, drivers, delivery, dog walkers.

The freelance economy is actually now crossing a lot of different segments and we are live in all 50 states, we have consumers from all across so it's definitely people that are more focused on freelance as a position for their main income, but we also have side hustlers because the pain point of managing the business is there even if you are doing that on top of a nine to five position or doing that as a 100% income. So, I feel like if we're to look in at the different challenges that they're facing, they all look for a single solution to just manage it all in one.

Peter: When did you launch Lili?

Lilac: January 2020.

Peter: January 2020, that's interesting timing then so you had a couple of months before the pandemic hit and then.....

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Lilac: Just before, yes.

Peter: As we all know, millions of people lost their jobs and I know a lot of them turned to freelance work. So, what was that like for you guys, I know you didn't have much history before the pandemic, but what was that like? Have you sort of exceeded what you expect with new account sign ups because freelancing is becoming more popular?

Lilac: Yeah. I think at the beginning it was scary, nobody knew what will be the overall impact of the pandemic and the recession and so on. From a freelance point of view, because of the pandemic and because of the recession a lot of people actually seek independent work, either it's a fulltime or in addition, you know, to diversify their income and so on and the freelance economy actually grew tremendously over 2020 and 2021 and we expect that to be 50% of the population by the end of the year.

So, in just one year we've experienced 1,200% growth in customer acquisition and we felt like the intersection between both the freelance economy and also the fact that people were at home and branches, bank account did not matter anymore because they were not able to go out, they were looking for different digital solutions in regards to finances. I think the trend of becoming a freelancer and the second trend of looking for different digital financial solutions have actually helped us grow within that specific period and I think people that were exposed to the advantages of becoming a freelancer will choose that specific occupation as a way to move forward.

Peter: So, can you give us a sense of what scale you guys are at today?

Lilac: We already have more than 200,000 accounts, we have fast in-growth in that regard. Over the pandemic, a lot of women lost their jobs due to the COVID-19 implications and many of them chose freelance work so a lot of our rapid growth from a customer's base point of view is all of those women signing up to better support their businesses in regards to that.

Peter: So, do you have more women than men on the platform?

Lilac: Yeah. Actually, nearly 60% are women.

Peter: That's really interesting. So, do they still interface with the traditional bank account or are they doing things really just 100% within Lili.

Lilac: More than 50% are actually choosing Lili for primary account, it's a shift. They start with exploring the product, exploring the offering and so on and once they understand the benefit of saving money and saving time, they move from their traditional bank account to Lili as the primary account because the benefits are actually echoing when you use it for your kind of

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spending because we get everything organized, you get the reports, the financial insights so it makes sense that you will use Lili on a daily basis for overall income and expenses.

Peter: So, how are you getting the word out? Do you have partnerships with some of the freelance sites or are you just doing it organically, I mean, what's been your process for awareness for Lili?

Lilac: We actually just recently signed with the Freelance Union to be their go to solution for freelancers, but it is a mixed position so we do direct, we build a brand, we also partner with a lot of those apps and comparison sites and content sites and so on. You know, it's about word-of-mouth in the end because the freelance community is really, really a close community and everybody's looking for good solutions to manage their business and recommendation is a big part of it.

Peter: So then, what's your business model? How are you guys making money?

Lilac: So, whenever you swipe your card, we're making money which is called interchange fees, which is fee that we are getting for transactions from the associations and that's our main source of income, but we are also looking to offer more business tools and more banking solutions so in regards to credit and so on. So, those are all very important within our value proposition, we want to make sure that we are tackling all of the different challenges and making sure that we can offer the best solution for the freelance community.

Peter: So, you don't have a banking license, I presume, so you're partnering with an existing bank. Can you tell us a little bit about that partnership and how you feel about the banking license, going down that route.

Lilac: It is a very interesting question, actually. We do partner, we have an amazing banking partner in Choice Financial Group that's been very supportive of our operation from day one. We are not looking for a license at this stage, I know that there are some challenger banks that chose the license path and others that didn't and there are pros and cons in regards to every direction. I feel like in our position if we choose wisely and you have a good partner, you can scale, you can introduce new products all around, you know, choose wisely on day one and you will not have a lot of issues at the end.

Peter: I'm interested in choosing the partner bank because actually quite a few banks that have focused on fintechs to partner in this way, how is that process?

Lilac: First, it was all the people who wanted to make sure that we are choosing wisely in regards to the partners that we are working with. It's a huge journey, it's not a one-year thing so we wanted to make sure that they understand the value proposition, the product, they believe in

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the change that we are making within the economy, they believe in the future of work, they know that we can do better in regards to serving that specific community.

So, first it was about the people behind it in regards to us communicating with them on a daily basis and working together to solve the issues. At the end, it's also about what kind of product we can build on top of that. Can we offer both deposit and credit, can we offer the business tools on top if it and so on, so it's a mix of all of the above.

Peter: You haven't mentioned credit yet. This population will obviously have a lot of credit needs, is that in your pipeline?

Lilac: Definitely, we are working on it. If you're looking at that specific demographic in regards to traditional banks, they are very underserved because their income is not...from an expectation point of view, it's not the same as a nine to five employee so they don't get paid every other week from the same employer. From a model point of view, they are just considered riskier and either they won't get credit or they will have to pay higher interest in regards to that.

For us, when we have access to the account and we see the behavior of the account we can better serve them, we can offer available, affordable credit products that will be based on the specific behavior of each and everyone of them taking into consideration their income sources, their income stability, their nine to five position in addition to their side hustle and so on.

Peter: I want to switch gears a little bit and talk about your recent fund raise. You had a sizable Series B fund raise that you closed recently, can you tell us a little bit about the investors there and how that process was like?

Lilac: We closed \$55 Million, it was led by Group 11 that have been supportive of Lili from day one with participation from Target Global, Torch Capital AltaIR and so on. Our investors really, really understand the pain points and the challenges that finances are facing and they believe in the future of work. They are looking forward to specific solutions that are making a huge impact within the market of very (inaudible) oriented so they understand what needs to be done in order to build a successful fintech startup.

They have been with us for a long period of time since we started, two and a half years most of them. They know that this could become a huge thing for everybody and especially for the freelance community. The process is never easy, you look at the newspapers, it's all about there's a lot of companies that have been funded, companies are doing IPOs; at the end, it's a long process, it's all about the brand, the positioning, the story, the overall impact within the market. At the end, it looks very easy, but it's not.

Peter: We see news articles coming up pretty much everyday of some large funding round and it just looks like there's so much money floating around, you just got to have a decent idea and

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boom, you get a term sheet, but it's not quite like that. So, when I was browsing through your site a couple of days ago, I noticed that you do have quite a bit of educational content there and I'm curious about what is it that's resonating with the freelancers, what do they really want to learn there?

Lilac: From day one, our position was that we want to empower the freelancers in different subjects. It could be about taxes, it could be about expenses, it could be how do I manage my business, how do I scale my business. Since the pandemic started, it was all around the resources available for the freelancers, whether it's PPP loans or unemployment and so on. There were so many resources available, but within the overall messaging and the panic we got in the pandemic, we were afraid we will miss out on opportunities.

So, we decided to double down on content, making sure that the content is also available as a newsletter on a monthly basis, it's also available within the app. I think we are the only ones actually embedding all of those resources within the app experience just to make sure that you don't miss out on specific things that you have to be aware of and knowledge that we want to make sure that it's there. We also created a Freelance Guide with a lot of information in regards to all of the above so just to make sure that you're educated.

I think education is a huge pain point because a lot of those freelancers are actually young, they are young in age point of view, but also young in their career and they don't have a lot to lean on in regards to their family or friends and so on. So, we wanted to be in a position that we will help them get the knowledge and know-how that they can better manage their business and scale and grow.

Peter: You said earlier that a lot of these freelancers have similar problems and I'm curious about how you are trying to build a community here. Is that something that's really top of mind for you guys or is it something that's going to happen down the track?

Lilac: First, we are working with communities and unions that are already out there for freelancers to make sure that they are aware of the tools and services that we are offering and collaboration in regards to content and performance, but also when we are looking at our community, we are trying to make sure that we are building something that will resonate within their community and make sure that they do have access to all of those different tools. So, when we are building the content, it's very community-related so we are building content per state, community of drivers, community of fitness, the community of beauty, the e-commerce shoppers and so on.

We are trying also to create a lot of those different experience that will fit the specific demographics and the specific occupation and also in regards to the tools and services that we are offering. We are looking at the different segments of freelancers and trying to figure out what will be a good fit for that specific segment because there are some products that could be

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different from one segment to another. There will be ones that are more marketplace-oriented so they need to get access to the money immediately, there are ones that are more invoicing-oriented so they need to get invoicing features and payments and so on. So, we are trying to look at the different aspects of every community of freelancers and making sure that we better serve them.

Peter: Like some of the bigger communities, I imagine, are like for drivers for Uber and Lyft and those sort of things, are you trying to build interfaces into those apps. I know they are huge organizations these days, but a lot of people, particularly drivers, they like to get paid multiple times a day, but what's that process like for getting paid?

Lilac: So, we are working with Visa in regards to VisaDirect so whenever you want to get your money, you will just use the Lili card and the money is available within 30 seconds. So it's extremely fast so you can get access to your money and you don't have to pay any fees for that. Also, when we are looking at the different options, we want to be there for every freelancer in every way they want to get paid so we're set for early access to their deposit, we support project deposit, we support cash deposit so we have a lot of different ways that you can access your money better and better tracking your expenses in regards to the app.

Peter: We've had VisaDirect people on the show that interface in many of these apps. So then, how often are people wanting to get paid, are people doing this daily, multiple times a day, weekly? Does it vary within verticals?

Lilac: So, it really depends on the segments, there are segments that are getting paid a few times a day and there are others that are getting paid once a week. In regards to their method of payments, it could be very diverse and it could be a mix of all of the above so you can see a freelancer getting paid using the card, VisaDirect, they also will have a check deposit, they also get cash, they will go to a cash location that we are offering to deposit the cash and so on.

Whenever an income hits the account, they will get a push notification, they will get an email so they will always know their money is there and available immediately and also the tax bucket feature which means that we can take to get our percentage and move it into their tax bucket. Their overall balance is actually their true balance and they are safe to spend it.

Peter: Is that tax bucket...is that just like a savings account that they sort of set aside, how does that work?

Lilac: It is a sub-account, it's not a savings account, it's a sub-account. The money is there, if you want to move it back to the checking account, you can, we recommend that you save it for the tax season, but it's all done very automatically. We set the percentage, it's based on the expected income and expenses for the year and we set a percentage specifically for you. If there is an emergency, if you need it, you can access it immediately.

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We also try to make sure that you are behaving in a better way from a financial point of view so we introduced, during the pandemic, the Emergency Bucket feature which is another bucket that you save as little as a dollar a day so you will have money set aside for emergencies. We wanted to make sure that everybody will have access to at least \$400 if they need it in regards to emergencies.

Peter: We're almost out of time, but a couple of more things I want to get to. You've now built a digital bank offering in Israel and you're building one in the United States, tell us a little bit about which is more challenging between the two countries?

Lilac: I think the overall challenges of freelancers are the same within most countries. The US economy is more used to financial products so from a trust point of view they are willing to try and give a chance for any integrated solution in regards to that and making sure that they test their product and if it's good, they will stay and I think that's one thing that's very different.

From a regulation point of view, it is very similar, but within the US economy you have a lot of different solutions that you can integrate with in regards to KYC and AML and backend processing and also the support from Visa, it is very similar from a banking point of view.

Peter: Interesting. So, last question. So, the freelance market is obviously.... it's huge and as you pointed out, it's growing, I'd love you to end with sort of giving the listeners your vision, where are you guys taking this?

Lilac: So, we definitely want to be the go-to solution for freelancers. If you are starting your business as a small business owner or self-employed, or even if it's just a side hustle, we want to be the solution that you will choose on day one to manage all of your finances and all of your business aspects. So, the go-to in all-in-one experience that will tackle all of your different needs as a freelancer and looking to solve that on day one in a very, very simple and easy way, in a very engaging way.

We want to make sure that we are supporting the growth of the finance economy, we believe that the future of work is freelancing and we are building a new generation of employees that are actually self-employed and making sure that we offer than one-stop-shop for freelancers that will include all those of those different types of resources.

Peter: We will have to leave it there, best of luck, Lilac, I really appreciate your coming on the show today it's fascinating learning about your company.

Lilac: Thank you.

Peter: Okay, see you.

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Lilac: Bye, bye.

Peter: As we just discussed there, the freelance market is huge, there's no questioning that and it is going to get bigger. It just makes sense that freelancers will be drawn to a digital banking offering that is tailored to their needs because freelancers do have specific needs, they are different to a small business and also different to a consumer.

They're really a blend of the two and that's what Lili is doing here trying to create something unique that is appealing to the freelance market and clearly, whether it's Lili or somebody else, someone is going to own this space, it's going to be a very sizable business, I would expect. And, you know, the freelance market I think there are so many ways you can take it, so many ways that you can build community there and Lili is off to a great start.

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

Before we go, I want to remind you about the brand new event from LendIt Fintech. Fintech Nexus, the Dealmaker Summit will be the first major in-person fintech event of the past 18 months. A hand-curated audience of venture capitalists, bankers, fintechs and debt investors will be meeting face-to-face at an event 100% focused on doing deals. It will be happening in Miami on September 1st and 2nd, you can apply to join and find out more at lendit.com

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