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Welcome to the Fintech One-on-One Podcast, Episode No. 326. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Peter Renton: Today on the show, I'm delighted to welcome Dan O'Malley, he is the CEO and Co-Founder of Numerated. Now, Numerated's a really interesting company, they have a somewhat unique story insofar as they were incubated inside a 200-year old bank, not a typical fintech founding story, but, today, they are a really well established fintech, focusing on business banking. They bring automation and technology to banks for dealing with business lending, we talk about that in some depth, how they do that, what their approach is, what the pandemic...the impact of the PPP and everything around that, what that had on banks, particularly when it comes to dealing with their business customers. We talk about the state of digital lending today, what the future holds, what are some of the trends that are most interesting and what's next. It was a fascinating episode, hope you enjoy the show.

Welcome to the podcast, Dan!

Dan O'Malley: Thank you for having me. I'm excited to chat.

Peter: Likewise. So, let's get started by giving the listeners some background, love you to sort of walk us through your career journey leading up to your current role at Numerated.

Dan: At heart, I'm basically a giant nerd, was trained as a data scientist in college. My first job was building data science models for retailers, pricing, store space allocation and then I just kind of by happenstance got into financial services and went to go work for, I guess I will call the first fintech, Capital One, who used models and math to stuff a lot of people's mailboxes with direct mail pieces, you know, helps transform the early innings of consumer credit which was a ton of fun. When I was at Capital One and saw that you could build with data in financial services, I really got the bug for building and was crazy enough to believe I could maybe do it myself and founded a company back in 2008 which was not a super great time to start a financial services company as the world was ending.

But, nonetheless, I founded the first neobank in the US, a company called PerkStreet, we had a pretty good ride at PerkStreet, we were a little before our time, but achieved some pretty great

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growth, we were doing a billion dollars a year in transaction volume for our platform at our peak, sold off the assets of that business and then went back into a financial services company, went into a bank, went into the 7th oldest bank in the United States actually. It was crazy and I brought a whole team of entrepreneurs into the bank to build, build technology and the result became the Numerated platform which we spun out of Eastern Bank about four and a half years ago. So, that's kind of my journey.

Peter: So, tell us a little bit about that founding story because I know that, you know, Eastern Bank, as you say, is a very old bank, but not old when it comes to technology and forward thinking kind of practices. I've read a bit about it, it was Eastern Labs, I believe, that I think you helped start. Was the intention always to spin out something or was this just like a natural outcome.

Dan: The intention was to spin something out, we called it the grand market, that's the word, structuring labs and putting it together. I had a team of entrepreneurs who wanted to build and we actually wanted to build inside of the bank with access to customers, balance sheets and then the bank really needed to transform. You know, it's a 200-year old institution, extremely conservative, I knew that it needed to change and so the grand bargain was I bring a team of entrepreneurs that get to build and in the process, you know, help the bank transform its culture and how it goes the market. We basically set out to have three years together and I kind of told Bob Rivers, who is now the CEO, I was like I don't think we can stand each other for more than three years. (laughs) So man, we got to like it, do our thing, built some magic and then get out in three years and about a week after we created Eastern Labs.

Peter: Okay. So why don't you tell us a little bit about Numerated, describe what you guys do and why what you're doing is important.

Dan: I would say, financial services is in the midst of a massive digital transformation. You know, we first set out at Eastern then as Numerated to digitize how banks got to market, in the beginning we called it hey, we're going to build a Shopify for banks so they can put their products into digital channels themselves. And then, when we started working on that, the deeper we went, we realized like we've actually really got to build a whole stack for a bank to make decisions and move in and around and interact with customers like we've got to go all the way down. So, what we have ended up building is the way that digitized the entire lending process for financial institutions and the businesses that they engage with and it's incredibly important for a few reasons.

One, banks, historically, had been just wildly inefficient and so helping them create these processes for them (garbled) the entire world. Two, banks need to be able to put their product now wherever customers want it, it can be on their website, it could be embedded in other channels, it needs to be where the customers are and there simply is not a platform to do that

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outside of Numerated for financial institutions on the business side. And so, we, ourselves, is providing an essential piece of technology for banks to even exist in the digital world.

Peter: Yeah. I go to your website and it says "business banking made easy" so you focused on the business side of things or consumer as well?

Dan: Today, we are exclusively focused on business.

Peter: Right.

Dan: As most of your listeners know for the vast majority of banks, business is where they make all their money not on consumer and so we have focused on helping them digitize the business.

Peter: I presume you're selling this product to banks, who's been most responsive? What are the kinds of banks you're working with?

Dan: It's really a mix, we have banks as small as \$80 Million in assets and as big as \$300 Billion in assets so it's a pretty big spread. I would say there's probably two different use cases for using Numerated. If you're a larger financial institution or a regional bank, above \$10 Billion assets, you've got some pretty good small business volume that you're doing and you've got to make it efficient, you've got to make it effective, you've got to compete and so we provide simply the best experience in the market for both bank and the customer and small business. Those high value banks really need a platform for that.

The second use case is for smaller financial institutions where they honestly don't have any sophisticated business lending technology in the bank, maybe they've got some back office tools, but they have never done digital lending before.

Peter: Right.

Dan: And so, for those banks, we actually just help digitize them and really the entirety of their business banking product set and it's not just about small business, it's about any product that they offer in business banking.

Peter: Okay. So then, maybe you can tell us the breadth of the services, I mean, is this from a more digitally..... a new loan customer, are you doing underwriting going through origination and servicing? What do you provide in that across the spectrum?

Dan: The vision we've set out to build is fully digital end-to-end loan origination and servicing. We have most of that today, but there are some parts we are still working on. So, we will take an application, underwrite it, use all of our data tools to power the underwriting and then we will move the loan into the kind of documentation and closing process. It's funny, when you think

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about consumer lending, it's pretty easy to close a loan when you've got a business with multiple owners, with multiple signers, officers.

You might have two different companies involved in the loan, it gets kind of complicated, digitizing all of that is difficult. So we power all of that and then we will go and create a loan and whenever the ledger service existence is for the institution. Afterwards, we are increasingly helping banks manage that loan too. Again, there's complexity in business loans where you might be requiring the business to meet certain thresholds for cash flow or assets or levels of other debts, managing all of that and tracking all of that is typically manual for most financial institutions. We're increasingly helping banks automate that as well so it's really the full life cycle of a loan.

Peter: Right, right. So, I imagine anyone in the business lending space has had a pretty interesting last couple of years. Maybe you could just take us through what was life in Numerated like. I think I did read that you're involved in the PPP, just take us through the last couple of years and how you worked with your clients.

Dan: So, we rewind to like two years ago, pretty different world back then, we're two years in business, business is going great, but we are trying to convince banks that they should digitize their lending because customers want it, be much more efficient. We are still trying to convince banks of the future and they have not really arrived yet, in their minds it is coming soon.

Peter: Right.

Dan: And then, all of a sudden, COVID hits and every bank is a digital bank for a period of, you know, four/five weeks and then the PPP Program starts to come together and all of these digital banks, which is every bank, (Peter laughs) have to do a loan with high efficiency, high automation because they know that all their business customers are going to ask for loans from the government. And so, it was like the perfect lightning strike for us, the future that we were building around it, it just happened all at once. And so, we started getting phone calls, we configured a PPP product on our platform in what ended up being two or three days and then we just heard some new deals. Normally, banks take like a really long time to make decisions and we were signing contracts like same day. (Peter laughs) It's the most wonderful moment of my career.

Peter: Right. Barely had time to read the contract, I imagine, to send it through Legal, but that's great and I think, you know, surely companies like yours that helped the small businesses of this country survive, we all were hurting back then. So, what happened then like you stood up a PPP Program quickly for a number of these people, you know, PPP Program is ended, there's obviously a second round and what have you, but what's happened since the PPP ended?

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Dan: You know, we're going to discuss first the PPP and then I've been talking with them, you know, hey, what's next for you guys, you guys just launched probably the first digital lending program you've ever managed, what's next, you want to keep it up. And so, we're seeing an increasing number of banks say, yes, and right now, we're over a third of our banks are working with us on other products and so they're moving at bank speed again so it's going to take a while, I think, for banks to emerge from COVID and PPP.

It's really going to take most of next year, I think, for banks to truly return to normal, but what we are seeing from our customers, at least, is pretty strong demand to use this digital process for more and more products inside the bank which is super exciting. Obviously, for us as a company, it's exciting, but I just think it's great for the industry. It is this lightning strike moment where banks have had to step forward multiple years in their digital journey.

Peter: So, do you think that...is it close to 100% that banks have realized now that they have to have a digital journey or some still saying, you know what, that was one off thing, forget it, we're just going to go back to what we did before.

Dan: I think every bank has realized that they need a digital journey. I think some banks have decided that they're just going to sell instead of building it.

Peter: (laughs) Right, okay.

Dan: Those are the ones that we're working on.

Peter: Interesting, interesting. So then, if you look at small business lending, in general, you know, I talked to some of the non-bank lenders, that say the demand is starting to come back from the small businesses themselves, what are you seeing with your clients as far as small business lending demand?

Dan: I would agree that demand is starting to come back. We've seen volume on our platform, gosh, double over the last quarter for traditional loans, that's exciting. Right now, it's mostly in lines of credit, credit cards, not big chunky term loans. So, I don't really make it sound like volume is the roof, but are definitely seeing more engagement from our banks' customers, for sure.

Peter: Right. Sounds like what you said that, you know, sometime next year, you think that we'll be back to a more like 2019-type environment?

Dan: I think so. You know, I think the banks' attitude is they're only starting to think about pushing volume next year, maybe the very end of this year, we've pretty consistently heard that, they'll be responsive and have been responsive to inbound requests, but they're not going to get back to really pushing volume until (inaudible).

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Peter: Right. So, I want to talk about automation and I read recently you've added some automated lending features, can you just dig into that. It's something that I find really interesting as part of the business lending process.

Dan: Maybe to explain a little bit about how our platform works....

Peter: Yeah.

Dan: ...and talk about lending, what we can automate today and what we we're going to automate. We believe there needs to be a fully digital end-to-end journey, not just for the customer, but like for the bank. You know, most bank still do a whole lot of decision manually, they're literally still typing-in business financials into a spreadsheet to make a decision and so we started off fully automating, fairly simple, unsecured basic business credits and we've done loans in as fast as two minutes and 57 seconds from the business starting the application to having created the money by API and the bank accounts.

Peter: Wow!

Dan: So, that's truly fully automated, I don't think you could go faster than three minutes. Our journey at Numerated has been kind of handling more and more complex credits and so today, we can do a full digital journey and secure against a piece of collateral, a truck for a piece of equipment, you know, or some element of working capital against inventory or whatever the business has to put against it. We can digitize that entire journey.

Where we're going next is to be able to analyze the financials of the business in real-time, whether it's from accounting systems or documents that are uploaded and be able to either have the bank make an instant decision based on those financials or maybe it's a light touch, you know, the bank will probably want to take a quick look, but it's the click of a button to approve a loan as opposed to manually typing things in.

And then, the closing process looks the same for more complex loans as it does today on the system, it's all digitized, docusigned, done electronically without any need for face-to-face or paper. And so, handling those more complex credits with the click of a button is going to be really exciting, there's no other bank lending platform that is doing that today.

Peter: Right, right. And so, what about the different types of loans that banks offer, I mean, some banks will have a whole equipment finance section, some will just do commercial real estate. Within sort of the breadth of different types of loans, are you covering it all or where do you focus?

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Dan: So today, we have pretty robust work for what the bank would call C&I lending which is essentially all business lending outside of real estate which is going to include a level of equipment lending for most banks. It's going to include working capital lines, but the big product for most commercial banks is commercial real estate. That's where most of their portfolio is, it's where they're very competitive and that is the next big product for us. Nobody has created the fully digital commercial real estate loan yet and we aim to, it should take us about a few months.

Peter: Right, because some of those loans are obviously large, I mean, they have sometimes tens of millions of dollars and for having a loan like that, I don't know how much a bank is going to want to automate, but is there a difference when you're dealing with these larger loan sizes?

Dan: When you think about the dynamics that are in play for a \$10 Million loan, it starts to make sense to spend some person time.

Peter: Right.

Dan: You know, for a smaller credit you need low touch, you would need automation for larger credits. I think the automation is as much about making it a good experience for the customer, making the bank certain that it's following its process as opposed to necessarily trying to get people out of the mix.

Peter: Right.

Dan: You should spend at least a few hours to just making sure that the documentation reflects and the loan terms reflect what you've negotiated with the business so I don't think the end game is the same for a commercial real estate loan.

Peter: Right. What about the other end of the spectrum like the small business loans? There are obviously banks that will do, you know, small business, I mean, I know fintechs have really focused on that area like the sub-250K loan space, but there's more and more banks that are interested, it seems to me anyway, in that space. I mean, and that's where I think...as you say, you need a high level of automation and then you're talking about potentially connecting with accounting systems, I mean, how's that end of what you're offering, how is that different?

Dan: That's the end where we've had our two minutes and 57 seconds loan, right, where you can do full automation. The exciting thing for most banks is they already have a number of relationships on the depository side. It is push button capital, right, that can be instantaneous because they've already done KYC on our system, they're already doing the underwriting in advance, we're evaluating the customers on a continuous basis and so you can offer capital in real-time, it's pretty exciting. There's really nobody else who can do that for a business versus their bank, push button capital has been our focus on the smaller business.

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Peter: Right. I noticed earlier this year, I think it was in the Inc. 5000 rankings came out and I always look to see what are the fintech companies that are ranking high and you were very highly ranked, I think it was no. 32. Walk me through sort of what's going into that extremely rapid growth for any company, particularly for someone like yourself, what have you done behind-the-scenes to really enable that growth?

Dan: It's been pretty crazy, kind of just keeping up with it has been tough. In the early days of COVID and PPP, it was just hand-to-hand combat every day and night so we ended up becoming the number one platform, as far as we know, for PPP loans, for banks and credit unions. We did about 8% of the last round of the program for our platform and just handling all of that with a team of like 55 people, for most of it, just worked really hard.

Honestly, there's no other way to say it, we were working 20-hour days because we've got a super committed team who was just in it, wanted to make a difference. And then, you know, starting about a year ago, we were able to scale hiring, scale the team, invest in the team, gosh, it's been like non-stop company building since then, you know, figuring out our processes, redoing our org structure, elevating some leaders and just making sure we were ready to handle all of these new customers that we have and give them a good experience. And so, you know, it's the entrepreneurial journey, right, you know, handle growth waves when they come and then just build as fast as you can.

Peter: Right, right. What's the business model there, is this like a SaaS-type product where you're charging a monthly fee, you're charging basis points on originations or is it a combination?

Dan: Yeah, it's a combination, you know, we do charge an annual SaaS fee for the platform based on kind of which components of it you want to use and then we will typically charge a loan fee as well for the loans that we do.

Peter: Right. I want to switch gears a little bit and just talk about the overall digital lending space that, particularly on the small business side, has been totally turned upside down over the last two years, but in potentially a good way for the most part, what are the trends that you're really focused on when you look at the digital lending space today?

Dan: I think the most interesting thing that we are seeing right now that's maybe a newish trend is that no one lender is going to have it all and that goes for banks, that goes for fintechs, it goes for everybody. You know, different lenders have different expertise and gone are the days you just go to Bank of America for whatever you need, right. And so, we see an increasing porousness between balance sheets and between partners and fintechs have long partnered up and that's just part of the model when you're building a technology company, banks have not.

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I think they're going to start fast and so we're having an increasing number of conversations about our platform, you know, hey, you have a digital lending platform that's much more flexible than anything else they've got in stock at the bank, who else can you plug into to help us out whereas these are the data source I want plugged in, can you get them into your system? I'd love to actually pull different lenders involved and help with that, can you help me find customers? And so, we think that there's a huge opportunity to help our banks partner up in the same way that great technology companies did it, we all know how to do that tech, if you have to, banks can do it too.

Peter: Right, right. Gazing to your crystal bowl then and see like where are we going here with the technology, I mean, is automation really the big trend? I'm thinking like five to ten years out, what are your predictions, what do you think is going to happen in the business lending space over the next five to ten years?

Dan: Automation is certainly required, banks have to go provide more efficiency so their shareholders will know where they're going to find it is through automation. Customers are going to demand better experiences, you know, what they're going to get with this automation. I think we'll be like substantially at the end of that story in five to ten years, it always takes longer than you think, but that's going to be mostly done.

I think the next wave is going to be about partnerships and about a journey in creating partnerships and banks who have that mindsets, which they have not passed that cash, like all the answers are not inside these four walls. Banks are so inward looking sometimes, they've got to get out and they've got to realize they have a role to play amongst other providers, that's going to be fascinating. I actually don't think we'll be talking about fintech in five to ten years because anybody involved in financial services is going to have to have a fintech mentality.

Peter: Right, right.

Dan: They're not even going to have a banking license, but who cares.

Peter: Sure. And then what about the big tech companies because you see Amazon has a big lending operation, you've got Shopify, Square, PayPal, these are all massive companies with really big lending operations. Obviously, you focused on the small, some of them very, very small businesses banks didn't want to serve anyway, but it's interesting to me that tech companies are really focusing on this space. I mean, how do you feel about those tech companies and do you think that for banks, are they really going to eat into banks' market share or is it really they're serving separate markets?

Dan: I think it depends on what sector of banking that you need. If you look at the Apple Program, Goldman is the nearest example because they've got a bank. Not all of Amazon's lending, but a lot of it. Chase is in it as a partner and so I think large banks, money center banks

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will probably just need time, I think that banks that are a notch or two down will learn how to partner and can be capital sources to big tech companies. I think largely big tech companies are not going to want a balance sheet themselves, don't look for a balance sheet. I think smaller banks that don't find partnerships will have their product set and customer set eroded, yes, and those banks will probably get acquired by the ones who have a strategy.

Peter: Makes sense, makes sense. Last question then, what's next for Numerated? Can you give us any insights on what you're doing as far as product expansion, growth, that sort of thing.

Dan: Digitizing the end-to-end lending experience for all of business and commercial lending is right in front of us and so we're going to make some announcements over the next two/three months. That's going to make it clear how we are going to power that, we're pretty excited about it and then after that, an increasing number of partnerships to bring value into our ecosystem of banks is where our next wave of growth will be. And so, I can't say anything about what that is going to be, but we view that as kind of the next wave of growth.

Peter: Okay. We'll look forward to hearing about that. Dan, we really appreciate your coming on the show today, thanks a lot.

Dan: Yeah, it was great to be here, thank you.

Peter: Okay, see you.

Interesting point that Dan made there towards the end about fintech and how we're not going to be talking about fintech in five to ten years. That may well be true, but we're going to be talking about technology and I think that is his point that banks are going to have to be very tech-centric, it can't just be part of what they do, it's got to really reverberate around everything, it's really got to be in the culture and I think there are certainly banks that are there already and those that aren't probably realizing they have to do that.

It's going to be interesting to watch, as he said, but technology has come a long way just in the last couple of years. Technology is not going to stand still, it is going to keep getting better. So, even in five or ten years time where we think the technology is so much more advanced, it's going to keep advancing, it's a never ending cycle so it's going to be very interesting to watch.

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

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Today's episode was brought to you by LendIt Fintech LatAm, the region's leading fintech event. It's happening both online and in-person in Miami on Dec. 7th and 8th. Latin America is still the

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