



## **PODCAST TRANSCRIPTION SESSION NO. 216 - NEIL ROBERTS & DAVID STEVENS**

Welcome to the Lend Academy Podcast, Episode No. 216, this is your host, Peter Renton, Founder of Lend Academy and Co-Founder of the LendIt Fintech Conference.

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Today's episode is sponsored by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. It's happening on May 13th and 14th, 2020, at the Javits Center in New York. Lending and banking are converging and LendIt Fintech immerses you in the most important trends of the day. Meet the people who matter, learn from the experts and get business done. LendIt Fintech, lending and banking connected. Go to [lendit.com/usa](http://lendit.com/usa) to register.

**Peter Renton:** Today on the show, we are heading down under to Auckland, New Zealand and I'm delighted to welcome Harmony. In fact, we have two gentlemen on the show today; we have one of the Co-Founders, Neil Roberts, who is the outgoing CEO and we also have David Stevens, who is the incoming CEO. By the time you listen to this he will be in the job and I wanted to get them both on the show. Obviously, Neil has the background and history with Harmony, we talk quite a bit about that, we talk about the loans themselves and the segment of the market they're going after.

We also talk about the banking environment in Australia and New Zealand, it's very different to the United States and David has a lot of history there and we talk about the fact that they've been able to scale pretty significantly to over a billion dollars, \$1.2 billion, in a market that's about one eightieth the size of the US so that gives you some sense and we talk about how they've been able to do that and what the future holds and possible expansion. They're already in Australia, but really building up their Australian presence. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Neil and David!

**Neil Roberts:** Thank you, Peter.

**David Stevens:** Thanks, Peter.

**Peter:** Okay, so great to have you guys on, always good to be speaking to someone from down under, but before we get started why don't you give the listeners, both of you, maybe we'll start with you, Neil, give the listeners a little bit of background about yourselves, particularly what you did before Harmony.

**Neil:** Sure, I'm well into my career now so maybe I'll just pick out two relevant projects. In 2001, I saw an opportunity with a consumer finance company to build some tech to automate credit and to build a business with direct mail and we started it in 2001, did \$3.6 billion in personal loan applications and over the next five years, raised about \$1.6 billion of that. Finally sold the



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business in 2006 to GE Money so it was myself and some of the Harmony core team. Some of us then went over to Australia from New Zealand, that's where I met Dave and we helped FlexiRent float, it became FlexiGroup and after that, sort of ten years stint, decided to come back to New Zealand and just saw an opportunity to start Harmony because the law was changing and I'm sure I'll get an opportunity to talk about Harmony in a moment.

**Peter:** Okay, over to you David.

**David Stevens:** Thanks, Peter. In terms of my background, I originally was with PricewaterhouseCoopers, ended up working on the float of FlexiGroup and got to know Neil and Brad and Simon, had a number of different roles there, really grew the business up from a one product/one channel business to a diversified financial services business, had a number of roles being the CFO in 2013 through to being Group CEO for about 12 months before taking on the Managing Director role of FlexiGroup New Zealand which represented about half of the business.

Since then, I went to a startup business called MiFund, which recently sold off 35% equity interest to the Bank of Queensland and, you know, and I've been excited by the opportunity of what Neil has been doing in the Harmony business and just came across last week into Harmony.

**Peter:** So were you living in New Zealand or living in Australia before this?

**David:** I've been living in Australia, but I commuted when I was Managing Director of FlexiGroup New Zealand. I sort of came over every second week for about 18 months.

**Peter:** Right, right, okay. Are you going to stay in Sydney or are you going to head to Auckland?

**David:** I've got a new baby due in about six weeks time so I'll be commuting for a little while, but the intention is to look to move over to New Zealand sometime next year.

**Peter:** Okay, so then back to you, Neil, I want to get into the founding of Harmony, what was it you saw in the New Zealand market and what was the impetus behind the founding of it?

**Neil:** Yeah sure Peter. So I think, first and foremost, there was a law change. So prior to that law change you wouldn't have been able to contemplate doing peer-to-peer lending and that was because of the securities law and the fact that every borrower would have to issue a prospectus. So the law change came just following the tail end of the financial crisis and the legislation itself was sort of a once in a lifetime review of the fundamental financial services regulation.

So great opportunity and of course, we had a team that had done it before, had a team that had raised money on the one side through a call center and automated the process in that call center, you know, \$1.6 billion in written deals, personal loan deals on the other side. So, with



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those two things coming together...another reason for the move by the government because we are, I think, still the only country in the world that offers a peer-to-peer lending license.

Part of the reason that the government was bold enough to do that was because New Zealand had struggled with a couple of key things over the last 20/30 years. One is productivity and the other is savings. It inspired us both to help, do a startup and join the tech community and try to solve both of those things. So, you know, using tech which will ultimately help ensure productivity and offering risk weighted returns in a new asset class to the retail public. And also putting the team back together was fun too and getting back to what we knew, I suppose.

**Peter:** Right,

**Neil:** That was the thinking behind it Peter.

**Peter:** Okay, okay. So, maybe just briefly give us some of the milestones. I know it's been...I think you were saying it's been five years this month since you started. So, tell us sort of how things have evolved and maybe some highlights over the last five years.

**Neil:** Yeah sure, I think one of the key highlights to me has been the team and how we performed when we were just six people getting the startup up and running and getting to market. We set ourselves some goals and, you know, we were I think the very first platform to get \$100 million to lend before we sold our first loan and we did that off the back of our ability to underwrite risk and, Peter, I think we actually met around that time because coming to LendIt was absolutely a pivotal time for us because we met some great contacts and it helped us down the track getting some funding.

So, putting the team together and getting to the point where the algorithm was right, the system was right and we were able to attract wholesale funding which meant that we could change a two-sided marketplace to a one. In other words, we could wait for retail to come onboard and of course, having the endorsement of some wholesale providers helped bringing retail on and, therefore, we grew rapidly.

I think the second thing would be how New Zealanders have embraced the platform. We have half a million people who have joined the platform, we've done \$1.2 billion in lending in that 5-year period here in New Zealand, a country of 4.5 million people. So, New Zealanders truly have embraced it and I think getting to a point where we in-housed our technical resource. Today, Harmony's pulse is very much with its engineering team and we do see the future in our platform and automation.

So, getting our platform in order, getting a team together that was forming, norming and storming and I think that some of the challenges that we've had, I suppose, is an unclear...we didn't know this until after we had launched, unclear federal laws that don't perhaps work well together.



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That meant that since 2015, we've been slowly operating a pivot and moving to lending our own money which we started to do December last year and we're rapidly, you know, picking that side of our business up because the regulations, particularly in New Zealand are such that we don't see a viable model for us doing peer-to-peer lending way into the future and we are sort of managing that and have been for some time.

We made a decent amount of profit last year and good revenue growth as well so quite pleased about that. We measure and take very seriously our engagement here as a team and, you know, we have benchmarked our scores at employer of choice level and then finally, our net promoter score from our borrowers, in particular, is extremely high.

I mean, it's higher than some of the names that you can think of, Amazon, Netflix, Apple, you know, we tend to score higher than that. So all in all, business is maturing and ready to grow and embraced by a lot of New Zealanders and by our licensor, the Financial Markets Authority. Yeah, so those are some of the highlights, it's been a great journey.

**Peter:** Okay, we'll dig into some more of that in a little bit, but I want to turn to David and just sort of...maybe we could start with, when did this sort of get on your radar? When did peer-to-peer lending/marketplace lending get on your radar first?

**David:** Yeah, probably around the same time that Harmony started, maybe a little bit before, obviously seeing the businesses out of the US. You know, it was a natural sort of point where you had the investors looking for yield and you had borrowers looking for, you know, a fair-priced loan. I guess it obviously...when you simplify it like that, it makes a lot of sense. I guess having worked in consumer finance for the last 12 years or so, I really recognized that there was a lot of lenders out there that were very much, one size fits all approach.

So, particularly the banks where there was no rate for risk, it was very much, you either get approved or declined and this is both in the traditional finance businesses as well where you get a very similar customer demographic when you're operating like that obviously when you're only using one rate whereas with the...you know what impressed me about Harmony's business was the way they would grade risk in 30 different risk grades and allow a customer who is, you know, a higher credit quality to borrow at a lower rate and a customer that is maybe slightly lower credit quality was still able to borrow at a rate that is appropriate.

So, I think that was something that I didn't see being done very well, particularly in Australia and New Zealand, something that made marketplace lending get on the radar. I think that's why we see more businesses today adopt that sort of risk-based pricing methodology and it's something that I think is the way forward.

**Peter:** Right, right, yeah, fair enough. So Neil, I want to turn back to you. We're actually recording this during this transition. You've been Founder, CEO, Co-CEO and now, you're stepping back, so what was the reason to bring on someone like David as CEO at this stage of Harmony's development?



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**Neil:** Yeah, so the first thought or what I've always thought is that a lot of founders flounder when they get to the public markets and in this part of the world, the deep pockets of capital are in the public markets. As you know, Peter, companies tend to go a little sooner to those markets for that reason and, you know, the ASX is trying to attract those that perhaps don't have the market cap to go on the NASDAQ. The source of super in Australia, is I think \$2 trillion or some crazy number like that, so it's a huge source of capital to access.

So, for me, I've always felt that, you know, I wouldn't want to be a public market-facing CEO for two good reasons. I don't think I'd be very good at it and I don't think I'd enjoy it. Now, the team has worked with David before, a 9-year sort of interview process both ways (Peter laughs) and really enjoyed that. We enjoyed some great success at Flexi and that was during some tough economic times and it was great to see that Dave left Flexi and almost as a favor took on what would have been a failing startup because unfortunately, the founder of that startup had passed away and turned that around as well. So, proving that in the process, good at the big top end of town and good also with the startups.

So, knowing David well, knowing his skillset is absolutely bang on for what we've got going forward and having been on this journey myself for seven years, I just felt it was time for everybody's sake that get a new CEO on board and from here, hopefully I can get back to doing the things that I really love and that's starting new businesses or creating value in some way rather than what becomes quite a large beast to manage.

**Peter:** Right, right, okay, fair enough. So David, I want to turn back to you and just give a little bit of a sense because a lot of people are obviously not very familiar with the Australia or New Zealand market. So, maybe you could give us a little sense on what the banking climate is like down there, in particular the personal loan market as well.

**David:** Yeah, sure. Australia is unique and I guess New Zealand as well. The banks dominate sort of around 80% of the consumer finance market. We have big four big banks that are very strong and went through the global financial crisis relatively unscathed, didn't require any sort of government bailouts and the like and they've really...I guess when you dominate a market so much for so long, you become quite complacent. On the other side of that you've got point of sale finance companies as well.

There has been a lot of companies that have come into the space, there are a lot of startups and the like that have come into the personal loan market, particularly in Australia, over the last few years on the back of Australia just had a Royal Commission into the financial services sector. That has actually created extra, I guess, regulation and challenges for the banks, particularly around some of their profitable areas that they are now looking to divest, well seen because it's due to conflict of interest and the like with those sort of advisory businesses that sit with the banks. Fortunately, they all escape with legacy systems as well and processes as well that make it quite hard for them to adapt to the type of lending that consumers expect these days.



You know, they want to have...I think people have less patience now than what they might have had a few years ago and sort of want to be able to give a couple of pieces of information to a financier and then we go off and make our credit assessment and we're doing all this in real-time. So, that's where the fintechs, if you like, of Australia and New Zealand are really good at cashing in. When you've got four beasts that have 80% of the market, you're able to chip away at that and get some good volume from that.

The market overall has been fairly benign in terms of growth of the market, but certainly the share of the non-bank lenders is certainly growing quite rapidly both in Australia and New Zealand. If you look at the success that Harmony has been able to achieve, we have \$1.2 billion in new loans written just in New Zealand, you can see the opportunity in Australia which is a population of around six or seven times the size.

**Peter:** Right, so I just want to go back, the listeners probably don't know what a Royal Commission is, most of the listeners probably would need a little explanation, but I follow that to some extent. The banks have been really...I mean, what I'm curious about, maybe just 30 seconds on what the Royal Commission was all about, but then how has that sort of impacted you guys? I imagine it's a positive because the banks have come out of this with their brands tarnished, does that mean that it's really some tailwinds for you guys?

**David:** Yeah, look I think so. For the listeners, a Royal Commission is basically a...I think in simple terms a government deep dive or investigation into all practices that go on in that particular industry. They're doing another one into health care coming up shortly, I'm not sure of the exact schedule, but it's basically going into a deep dive where banks have to, in this case, present all of their I guess dirty laundry in those terms and they then are assessed on various things.

There are quite a number of areas where, not just the big four banks actually, some other providers like AMP and the like where basically some practices were called out that were not what you'd expect and as a result of that, the regulator and generally, the public as well has obviously been quite sort of shocked by some of the details that have come out of that. So, I think to your point, Peter, yes, there is certainly a bad taste left in some people's mouths around that and, you know, I think that does create some opportunity for us.

You can see in Australia the personal lending as well as SME financing has really sort of...it was already taking off to be fair prior to the Royal Commission, but that has added some fuel to the consumer and SME finance businesses, both in Australia and New Zealand, pretty much the big four banks in Australia are the same in New Zealand, just may have different names, but they're all owned by the same group.

**Peter:** Right, right. Okay, so we should just dig into the actual products themselves for a little bit. Tell us about...what are the range of interest rates, the loan sizes, loan terms, that sort of thing.



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**Neil:** Yeah, maybe I could do that, Peter. So terms, we offer a 3 and a 5-year loan simply, absolutely no penalty of paying back early and therefore, we tend to get a weighted average term of around 58 months. In terms of the interest charges, keep in mind that we operate in a market where the higher FICO-type credit is paying 19/20% on their credit card so we start at 6.99% so we can do \$70,000 for an A grade and we can do that in sort of turning it around in 10/15 minutes at the rate of 6.99% which is our champion rate all the way through to in New Zealand 29.99% and it's 6.99% to 24.99% I think in Australia or thereabouts.

So, now we do very little of our business at the extremes so at 29.99% we might do by dollar 3 or 4%, but it's a far bigger number by number of loans and, you know, we find that...if we were to help that sort of pricing, perhaps there are other lenders out there that are far more expensive. So, the science behind that is we took a credit card rate at the time we did a spectrum or universe of credit and we made that the weighted average and pushed out a typical bell curve across that spectrum. So, you know, we're doing most of the business in the low B grade, C and high D grade.

**Peter:** And so what was the average loan size then?

**Neil:** Average loan size today is about \$26 grand, \$26,000 kiwi dollars.

**Peter:** So, what's that exchange rate these days with the US?

**Neil:** US...um it is doing pretty good, it's about 65/70c, is that right, Dave?

**David:** 65, yeah.

**Peter:** Right, okay. So, you take 35% off that for the US equivalent, okay. Then so what about the underwriting, I'm curious...I'd like to sort of dig into that a little bit and get into how you're using technology, how fast this all is and what are some of the data sources, that sort of thing. How are you doing the underwriting?

**Neil:** Yeah, thank you for that. So, we obviously...credit, we pride ourselves on doing credit first and well. Obviously, I mentioned before the fact that we had that \$100 million to lend before we sold our first loan and that wasn't without some deep DD and rigor. So, we have a scorecard 1.0. 1.0 was a demographic scorecard, it wasn't really using our own data because we didn't have any, we just started.

We've since launched 1.5, we're ready to go to 2. 1.5 set us up for really cutting back on the data points that we need to ask the customer for/the borrower for because what we've built in our platform is the ability to have an instant two-way conversation where we can highlight data to a potential borrower in a format having gone and got it externally and have that borrower just confirm and if it is wrong just make the amendments so, 1.5 has set us up for that. It's really helped our conversion through the funnel.



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The next addition which we're about to do now really does cut back on data points. Peter, you may not know this, but this month is a big month in Australia because positive reporting comes in for the very first time with plenty of coverage from the banks. So, it's been on the horizon for a while, the banks have kind of missed the dates a couple of times, I think, but now, we're finally there. You know, it's not quite a FICO score, we don't have the ability to get the sort of data you can get in the States, but this is really a big step in that direction which will really, you know, help the likes of Harmony underwrite.

But, what do we do from the technology point of view? I mentioned the platform and the two-way conversation that we're able to have so the headwinds from the regulator is they do want you to check in with customers and we know ourselves that it is a lot better to get external data and actually be able to present that. So we have, over the last few years, been automating the lending decision more and more and more, it is an immediate payback if we're able to automate more of the percentage of what's coming through our funnel and the conversion goes up exponentially because people enjoy the experience.

The reason we're on that track is because we obviously see voice and digital assistance in the not too distant future dominating our space. So, you can't have a voice interaction where you're asking lots of questions back and forth because that's a telephone conversation so you really have to double down and invest in your ability to go straight through processing and automation. We're on a journey to 80% straight through processing. We're about 60 now and in that 60 there is some touch by a human eye and it is instant decisions and over the next year, we'll start lifting that percentage exponentially.

**Peter:** That's really interesting, super interesting, actually. It's challenging to be able to do that straight through kind of automated underwriting. There's several companies in the US that have tried, none of them have made it to 100% at least on the consumer side, but it's certainly a goal of many of the companies here.

So, I want to switch gears a little bit and talk about funding. I know that you said you had \$100 million before you got going which is very impressive, I don't know any other platform anywhere that launched with that kind of war chest. I know that you've also had some good relations with several US investors, so maybe tell us about the funding side of the business, where the capital is coming from.

**Neil:** Yeah, sure. I think I mentioned a little earlier that, you know, we launched and we had since had reason to question the regulatory environment in which we operate and that has led us to a move to simplify our funding model. We operate as a peer-to-peer lender, we're licensed as a peer-to-peer lender with 18,000 lenders operating on our platform.

The regulatory environment just threatens that business model just because of Harmony's ability to earn so where we see our future is going on balance sheet, we started that journey in December and Dave as CEO has a very good pedigree when it comes to his contacts and his



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ability in the capital markets here given the balance sheet that he ran in FlexiGroup. You want to comment on that Dave?

**David:** Yeah, obviously being able to diversify our funding sources, there is obviously the element of the peer-to-peer, but also being able to get wholesale funding warehouses and then lead to securitization of the receivables allows us to really optimize the best cost of funds and also provides us with the availability of funds at all different levels on the risk grade by having the bank warehouses in place, we launched our first bank warehouse in December last year in New Zealand, we're looking to roll out another one in New Zealand with another bank and then also a couple in Australia as well in the coming months. So, that will give us some really good diversity of funding and also allow us to maximize the returns.

**Peter:** Right, so are you going to eventually shut down the peer-to-peer side of the business?

**David:** No, look I think we're sort of...I said we look at the diversity of the business in funding. At this point in time, we'll obviously look to...over time, we'll continue to assess that, but certainly, we've got a lot of lenders on the books at the moment and that does create that diversity for us which is a good position to be in.

**Peter:** Right, okay. So, you did mention this earlier, but I just want to zero in on it, I mean, this is obviously, you're a New Zealand company. New Zealand is a small country, it's quite impressive, it's like one eightieth of the size of the US or something like that and you've done over a billion dollars that would put you up over LendingClub if you extrapolate that out over here.

But, I'm curious about...the Australian market as you said is six/seven times the size. I think I read somewhere you passed \$100 million in Australia so obviously the vast majority of what you've done has been in New Zealand, but with Australia being the bigger market, are we going to see a big push into that market coming up here soon?

**David:** Yeah, we certainly are. You know, the business has been run out of New Zealand and will continue to be run out of New Zealand. One of the things that attracted me about the business is it's a highly scalable business due to the fact that Neil spoke about the straight through processing and various things like that in the platform. Australia is certainly going to be the key focus of the business, obviously we have an Australian accent as well in the room, we've got a passion about that and I'm quite familiar with the market over there.

So, as you correctly said, we've written over \$100 million in Australia now which is always your hardest \$100 million to write, it costs you the most, you learn from a losses perspectives and you're obviously building up the channel and building up brand as well. So, I think the business has done fantastic to write that sort of number really, really without a focus and I think it shows the power of, you know, the platform and some of the relationships we have over here to be able to move that across into Australia. I'm very excited and very keen to really get Australia pushed particularly towards the end of this year. Yeah as we sort of get some of the funding lines sorted out as well. That will help that move as well.



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**Peter:** We're almost out of time, before I let you go, maybe...Neil, over to you just first, what are you going to do now, I mean, you're stepping back from the day-to-day role...I mean, I presume you're going to stay involved at the board level or something, what are your plans?

**Neil:** Look, I remain the largest shareholder in Harmony and between myself and the founding team, we still own over 50% so my interest is in supporting David obviously and making sure that I help wherever I can in terms of the next phase of Harmony's growth. What I would like to do, Peter, is get involved in some of the opportunities that are coming out. We have great momentum around open banking data, around CCR coming out, around the willingness, particularly in Australia, of the population to actually want to take a positive move away from the big banks given the recent publicity.

I'd just like to get back to creating real momentum and well, taking on a big opportunity and delivering on it. So, we've got a few ideas, but what I'm going to do first is when the baton officially goes over to Dave, in a few weeks time, I'm going to take a holiday and get out of his hair for a little while (Peter laughs) and enjoy some summer and come back and ready to take on the world in the early new year.

**Peter:** Okay, enjoy that, and, David, what about you? I know you really haven't officially even begun in this role yet, but what are sort of your priorities for the next 12 months?

**David:** Yeah, that's a good question. The good thing about the business is it's performing really well so it's not like...if it's not broke, you don't need to fix it. But, really the key focus will be really leveraging the platform to grow out Australia, continuing the growth and building out some of those warehouses, funding warehouses that we spoke about and looking down the track to set them up so we're able to securitize those customer receivables to ultimately optimize our cost of funds in the business.

So, that'll be the things, Neil mentioned continuing to innovate, we've got an engineering team, around 50 people, and that's really where the key to the business is in how we stay ahead of competition and make customer experience better. That's something that we continually do. We don't create a process and then forget about it. It's about how do we make that customer experience better every week so keeping the those NPS scores up and the like that Neil spoke about so that's something that, we almost count as hygiene in the business rather than projects that start and stop it's rather that it is continual learning for us.

**Peter:** Right, okay, we'll have to leave it there. Thank you, Neil, thank you, David, I really appreciate you both coming on the show today.

**David:** Thanks, Peter.

**Neil:** Thanks, Peter.

**Peter:** Okay, see you.



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You know, I'm always impressed when I talk to companies in these smaller markets. It's not easy to scale to get to a billion dollars not to mention, it's not easy in large markets either, but it's much, much more difficult in smaller markets to really get to a significant scale.

That's what Harmoney has been able to do and, you know, they really have barely scratched the surface of the Australian market and that obviously has tremendous potential for them as well. I think given their track record of success in New Zealand and the fact that they actually have an Australian CEO now, I'd be very surprised if they don't make really significant inroads into that market in the near future.

Anyway on that note, I will sign off, but before I do, just a note we'll be in LendIt Europe next week, LendIt Fintech Europe 2019 in London so there will be no podcast episode next week. We'll be back in two weeks. So, thank you very much for listening and I'll catch you next time. Bye.

Today's episode was sponsored by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. It's happening on May 13th and 14th, 2020, at the Javits Center in New York. Lending and banking are converging and LendIt Fintech immerses you in the most important trends of the day. Meet the people who matter, learn from the experts and get business done. LendIt Fintech, lending and banking connected. Go to [lendit.com/usa](http://lendit.com/usa) to register.

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