

INNOVATOR SPOTLIGHT: UPGRADE CEO RENAUD Laplanche

- Jo Ann: I am so happy to welcome back to the show again, Renaud Laplanche, who is the CEO and co-founder of Upgrade. It's wonderful to have you back, Renaud.
- Renaud Laplanche...: Thank you, Jo Ann. It's great to be back.
- Jo Ann: So I'm really looking forward to hearing about all the latest that you have been doing. It's very, very intriguing and exciting. And I know that most of our audience knows something about your background probably. But let's just start with you reviewing for us your background and then tell us the story of why you founded Upgrade.
- Renaud Laplanche...: Yes, of course. So about 15 years ago I founded Lending Club, which was obviously one of the pioneers in consumer FinTech at the same time as Prosper and Zopa. So all the early consumer FinTech companies that we were enabling consumer credit online. So trying to set up online processes to lower the cost of credit for consumers and expand access to credit that way, make it more affordable. So I ran Lending Club for about 10 years from 2006 to 2016, took the company public in 2014, and was one of the biggest IPOs that year. And in 2016 I and several of the top managers at Lending Club left and we all started Upgrade in May 2016. And the goal there was really to take everything we had learned at Lending Club, but apply it to a broader scope. Lending Club was, as many of these early FinTech companies, very focused on solving one problem where we were trying to pick one issue.
- Renaud Laplanche...: In our case, at Lending Club was really the amount of credit card debt and the high cost of credit card debt that consumers had to face and trying to refinance a lot of that for lower-cost personal loans. So we were really trying to solve one particular problem. So as a result, Lending Club was very much a monoline business. And then over time, we tried to expand to other categories. That was a pretty slow progression, slow expansion to other categories. So Upgrade, the idea was really to start a new bank from scratch and really envision from the beginning the ability to deliver multiple financial products to our customers in a way that's really synergistic and is helpful to our customers in the long run and really help them move in the right direction, make good financial decisions, give them some support for making these decisions with our credit health program and delivers of loans, credit cards, mobile banking, savings accounts.
- Renaud Laplanche...: So all the tools you need to really impact your financial situation and make progress and upgrade your credit and upgrade your finances for the long run. So we're very attached to that multi-product approach, but also to designing products that are fundamentally good for our customers in the long run.
- Jo Ann: And so you've been having remarkable success. I know the Nielsen report has found that the card is the fastest growing credit card in the US and now in the top 25 largest US card issuers I think, and also I understand the only FinTech in that top 25 groups, so I'd love to hear what's driving that.

INNOVATOR SPOTLIGHT: UPGRADE CEO RENAUD Laplanche

- Renaud Laplanche...: Yeah, so I think that's right. Upgrade has been actually for the last two years, the fastest growing credit card in the US and we're now top 25 US card issuers. We think we will be top 20 by the end of this year. And certainly very rewarding to see that success because it wasn't obvious at all. We took a big leap of faith with a great card in the sense that we wanted to build a card that would be really consumer friendly, help consumers manage their credit card debt the right way. We call it the only credit card that's good for you. It's really the only credit card that gives consumers credit when they need it. Then comes with the discipline and the responsible credit approach of paying down the balance every month at a fixed rate with fixed monthly payments along with straight line itemization.
- Renaud Laplanche...: So basically, every balance, every monthly balance on the card turns into this installment loan and our customers decide if they want the installment to be two years or five years or anything in between. So based on how much they can afford. But once they've chosen that installment payment, it comes with a discipline of making that payment every month. And you can always pay back more if you can, but at the minimum need to make that monthly installment. So it's really a departure from the way traditional credit cards work, which is really revolving with a small monthly minimum payment and if that's the only payment you make, it's going to take you 22 years to pay off the balance in full. So we have a great card, you really have that predictability of payment, it's easier to budget for, you're making a big purchase, extraordinary purchase, it's okay to finance it over a few month or a few years.
- Renaud Laplanche...: But it has to come with that responsible approach of paying it down every month as opposed to the traditional credit card approach of kicking the can down the road, making the monthly minimum payment and creating a bigger problem for yourself later. You [inaudible 00:06:49] now trillion dollars in credit card debt, that's \$8,000 of credit card debt for every family in America. It's credit card debt on average cost 18% interest. It's actually coming up now with rates going up, there are a lot of fees on top of that. So it's a big chunk of debt. It's a very expensive chunk of debt for most families. So Upgrade card is really trying to solve that problem and deliver a lower cost product where so the rates are lower, no fees, but more importantly you got to pay that balance down every month. So it comes with that more responsible approach. So frankly we didn't know if consumers were going to go for it, be responsible. It's not a great marketing tagline that doesn't necessarily sell as much as free money or get cash fast.
- Renaud Laplanche...: But it turns out that a lot of consumers really went for it and decided that they had enough credit card debt and a product like this would really help them save on the cost of interest, also just sleep better at night knowing that they're paying their card down every month. So not everybody's responding to that message where we're the top 25 card issuers. We're not the top one yet, but we're really hoping that more and more consumers embrace that more responsible approach to credit card and continue to join the ranks of great card holders. We now have more than a million card holders and adding a lot every month.

INNOVATOR SPOTLIGHT: UPGRADE CEO RENAUD Laplanche

- Jo Ann: And as the consumer continues to use the card, how does that change the installment loan feature?
- Renaud Laplanche...: So they basically get a credit line when you open the card account, get a credit line like you would with any other credit card and let's say if your credit line is \$5,000 and you're going to spend \$2,000 the first month, that \$2,000 turns into an installment plan. So you'll be paying it over two years. And so you still have \$3,000 available on the card. And so if the next month you spend another \$1,000 so there's going to be another \$1,000 plan that's going to start a month later and a month later. So for 23 months you'll have both plans to pay back simultaneously. And so we group these two payments, so consumers only have one payment to make, but it's easy to see when you go to your account, you see what payment corresponds to what plan and how it all comes together.
- Jo Ann: And Renaud, what do you know about the demographics of these consumers? Have you done consumer education to try to develop the preference for this and what are the characteristics of the consumers who choose it?
- Renaud Laplanche...: Yeah, so in general we offer our products and try to design products that are appealing to the broadest possible swath of the US population. So we want to really build a mainstream consumer brand. So this is not a niche approach. I think a lot of FinTech neobank targets of younger consumers or some category of underbanked consumers, which are certainly easier to acquire because we have less options available. But they are also less profitable as customers because again they're lower income, lower credit quality and so on. So our customers are very much the representation of US population, their average age is about 40 year old, average FICO is 700, average individual income is \$100,000. It's quite a bit higher than the average. But other than income, pretty much every other metric is very representative of the US population and that's the way we want it.
- Renaud Laplanche...: We want to be helpful to as many people as we can. So our customers have a banking relationship, the bank will be a Wells or Citi. Just try to give them more value and a better experience through product innovation. And when I talk about better experience, it's very measurable. We measure the net promoter score NPS for customers worth 78, which is very, very high. A lot of banks and the large banks are in the 10s or the 20s. Some smaller banks and credit unions are in the 60s. 78 is a really unusual satisfaction score in financial services, which is notoriously a space where it's harder to please consumers.
- Jo Ann: That's true. And then in addition, you have offered a mobile banking product or set of them. Talk to us more about that and the relation between the credit and debit products.
- Renaud Laplanche...: Yeah, so as I said in the outset, we really think our ability to help the greatest number of consumers is really dependent on ability to offer a broad range of services that touch on every aspect of our financial life. It was really important for us to have a full suite of mobile banking services and we're still building that

INNOVATOR SPOTLIGHT: UPGRADE CEO RENAUD Laplanche

up and we only launched mobile banking a year ago. And so we're still adding features on a regular basis. We are launching in the next few weeks a savings account that will complement with existing [inaudible 00:13:30] checking account. But what was really important to us was really to combine mobile banking and credit card in a way that makes sense to consumers and that helps educate them on when to use credit. You asked me earlier how do you educate your customers so we just launched a new product called Upgrade one card and the idea there is to combine the functionalities of a debit card and a credit card into a single card.

Renaud Laplanche...: So we don't think it's been done before. So it's another big leap of faith that could be a resounding success or miserable failure. We don't know which one it's going to be yet, but the intent is good. The intent is help consumers simplify their life, have a single card in their wallet or single card on their phone that we can use for both everyday expenses and we call that pay now. So anything that's everyday recurring expenses that should be debited from their bank account. So they use the pay now function of the card and at the same time when we make a larger purchase, something that's more exceptional we're going to make once in a while if they want to spread the payments over multiple month, we can use the pay later function of the card. So you can toggle between pay now and pay later on the app depending on what you're buying at a given time, you can also set some rules and not have to do it manually.

Renaud Laplanche...: So let's say set it up so that every expense of less than \$100, it's everyday expenses, it's going to be debited directly from your bank account. And expenses of more than \$100, you can spread that over a few months or a few years. So it's really designed to also help consumers to really understand that we shouldn't be using credit for everyday or recurring expenses. They should be using credit for exceptional expenses that we only make once in a while and we can spread over a few month or few years. And at the same time the way the card is constructed, it offers credit card rewards on the entire [inaudible 00:16:12] whether it's going to be pay now or pay later, you get the full benefit of up to 3% cash back rewards even on everyday expenses. So it's almost like getting credit card rewards on debit purchases.

Renaud Laplanche...: So it's something that's pretty rare and pretty unique. So it helps consumers get more value. And in a world where there's 8% inflation, getting 3% cash back helps a little bit, but it's not getting you quite all the way. But it's helpful. And also our customers are getting the other benefits of credit cards like fraud protections and all those things that come with credit cards that you don't get with debit. So it's really a credit card, but with that pay now option that really helps you take care of everyday expenses immediately, debit them from your bank account. So we think it's going to be a very helpful product. I think over time it's going to be a big success, but again, it's product innovation and so you never know which way it's going to go.

INNOVATOR SPOTLIGHT: UPGRADE CEO RENAUD Laplanche

Jo Ann: So as you mentioned, you have a long history with FinTech and we're seeing so much change in this space and it's fascinating to hear you talking about being a credit card FinTech that's still innovating on that model, which a lot of people feel like has been homogenized over time. And then more broadly beyond credit or cards, we have so much change underway in the FinTech sector broadly turmoil in the marketplace, regulatory uncertainty and so on. I'd love to hear your thoughts on the state of FinTech today. Where is it in its maturity, what's ahead and do you think we're going to have some big winners and losers and if so, what will determine who wins and who doesn't?

Renaud Laplanche...: Yeah, so I think it's an amazing time and an exciting time to be in FinTech because there's so much innovation coming in, so much more innovation that's being enabled by new technology and whatever the US version of open banking ends up being, there's more and more data available that helps better understand consumers and offer them a product that they're more likely to benefit from at any point in time. So I think it's greater availability of data, greater availability of computing power, greater likelihood of consumers to trust FinTech companies that are now really becoming mainstream. I think all this is enabling more innovation and some of that's innovation, at least at Upgrade, we're really trying to make it in the best interest of our customers. Again I think Upgrade card is epitome of that, the credit card companies generally work very hard to keep your customers in debt as long as possible.

Renaud Laplanche...: Upgrade card is really helping them, is the only credit card that's helping you get out of credit card debt. So I think there's a lot of innovation that's really going in the right direction is going to be helpful to a greater possible number of consumers. Now to your point, the markets are changing. Interest rates are rising very quickly, which is a lot of FinTech companies, particularly in credit are feeling the pinch, there's not as much liquidity in the market as there used to be. Stock market is down obviously by big margin. FinTech companies valuation add reason to I think unsustainable levels over the last two years. So coming down to Earth pretty quickly. So we'll have to see how it all shakes out. I think there might still be some choppy markets ahead for the next few month. I think the longterm trend is one that's extremely exciting with, again, more data available, more opportunities for innovation, greater acceptance by consumers. So I think we continue to deliver more value and a better experience in the long run. And so to your point, there are going to be the winners and losers.

Renaud Laplanche...: We believe again in that multi-product strategy, we think the companies that are the most likely to win with consumers will be the ones that deliver multiple products and services. But it shouldn't be just hodgepodge of unrelated products. It has to be multiple products and services that work well together in the interest of the consumers of financial health and benefit. So I think when you look at what we're trying to do at Upgrade, it's again products that are extremely synergistic that work well together so personal loan that helps you pay down or pay off previous credit card balance, a credit card that really helps you with the future. So the personal loan helps you pay past debt. The Upgrade

INNOVATOR SPOTLIGHT: UPGRADE CEO RENAUD Laplanche

card helps you for the future, incurring new financing, new expenses that are going to be financed at the lower rate with no fees with [inaudible 00:22:29] schedule so you never have to refinance that debt again.

Renaud Laplanche...: And then rewards checking that pays better than market rewards, checking and savings account that pays better than market interest rate. So all these products put more money into the pockets of the consumers have them make good financial decisions for the long run and they work well together and each one is created on top of the other. So I think the FinTech's ability to create that suite of product that works in a synergistic way for the benefit of the consumers is really important and the factor of success. In the companies that remain monoline or create products that aren't really designed to work together or just grow through acquisitions with disparate products and platforms, I think are just less likely to succeed.

Jo Ann: Very interesting. And how about the incumbents? They have been learning from the innovation in the FinTech sector, they have some natural disadvantages and advantages I think. How do you see the competition coming from the banks and the traditional card companies and so on evolving?

Renaud Laplanche...: Yeah, so banks are also making amazing progress in embracing innovation and new technologies. And many of the banks have a very large customer base. They have lots of financial resources, access to local [inaudible 00:24:17] so there are benefits in being a bank for sure. I think so far over the last 10 years, most product innovation has come from FinTech, not from bank, not from banks. And some of the banks again are embracing this product and launching similar product. But they have not been at the forefront of creating new solutions for consumers. So I think what's worked really well is partnerships, where FinTech companies come up with new products and then these products get distributed with the help of the banks or get funded by banks' capital. So each type of player focuses on the strength with FinTech innovation and banks of capital and large distribution capabilities.

Renaud Laplanche...: And you were talking about the regulatory environment earlier. And so certainly when we see the so the recent OCC questions about banks' FinTech partnerships, we pay a lot of attention because a lot of value for consumers is being created through these partnership and it's understandable that the OCC would look into it and make sure banks and consumers are well protected that it's really important to do that in a way that keeps sight of the fact that these new solutions that are getting created for the benefit of consumers would not exist without bank FinTech partnerships.

Jo Ann: The OCC in particular and other agencies as well have raised questions about the bank FinTech partnerships. If they were to decide to ban them or curtail them really sharply, what would happen to the market?

Renaud Laplanche...: So I don't think there's going to be a general ban on partnerships. I think what come out of it would be constraints, additional constraints as to what these

INNOVATOR SPOTLIGHT: UPGRADE CEO RENAUD Laplanche

partnerships would look like and so on. And I think if the regulations and guidance is well thought through these constraints would be designed again to protect consumers. If you look at the approach that regulators have taken with new products so far, let's say the recent recommendations of the CFPB on buy now pay later, I think they're focusing exactly on the right things.

Renaud Laplanche...: They're focusing on the risk of loan stacking, focusing on making it mandatory for BNPL providers to report the BNPL debt as debt on the credit report so that other lenders are aware of it so that consumers don't incur more debt than they can afford. So I think that's a regulatory focus that's going exactly in the right direction and I'm hopeful and pretty certain that our regulators will continue to focus on this kind of issues and continue to push for regulations that really benefit consumers, but without stopping innovation in its tracks because that would be very painful to consumers if that was to be the case.

Jo Ann: Do you want to offer any suggestions to the regulators other than what you have just said or to policy makers in Congress? Are there areas where you think they either should be doing things or should be careful not to do certain things in order to be sure the consumer will be well served?

Renaud Laplanche...: Well, I think they should keep doing what they are doing, they're doing very well so far. Again, I think where we all ended up with the recent BNPL ruling was really smart. I think what was worrisome about the OCC statement was the so how general how broad brush it used in the statements. But I'm sure once they receive surveys and dig into the data and go through the process they're going through, I think we see some more detailed approach coming up and an approach that really threads the needle between the needs of consumers and of consumer protection and the safety of [inaudible 00:30:06] of the banking system.

Jo Ann: So we have plenty to think about and work on in the short to medium term, but I'll still ask you a longterm question when we think about buy now pay later or more broadly embedded finance, and we also look at the changes that seem to be evolving in the crypto and defi and web three world and so on. Do you have any guesses at what the impacts over time might be to the financial services industry, the financial system? Are we going to end up with, are we still going to have the same number of incumbent institutions that we have now? And will a lot of the FinTechs become mature players in that space? And will the embedded finance take a big share of their market away? What do you think might be ahead? I won't hold you to it.

Renaud Laplanche...: Yeah, no, it could go in any number of directions. Well I think that what's really exciting to think about is super apps, and how these super apps get created and is it embedded finance or is it embedded commerce? Is it the FinTechs and the banks that start offering more eCommerce services to aggregate eCommerce payments and credits? Or is it this eCommerce payers and the merchants that offer more of these financing solutions? And it could really frankly go either way.

INNOVATOR SPOTLIGHT: UPGRADE CEO RENAUD Laplanche

I think when we think about the super apps direction where we Upgrade, we obviously started with credit where we added payments product and we're thinking of, okay, how do we add eCommerce? How do we make Upgrade the starting point of the shopping experience in a way that delivers value to consumers? And I think they experience and simplifying the experience isn't enough of a draw.

Renaud Laplanche...: In a situation where a lot of the experience happens on the phone, each app is half a finger away from the next app. So saying you get everything in one place isn't going to do it. I think what's really going to drive the adoption is more of the value you can deliver to consumers. So we started down that path with something we call Upgrade shopping, which is a shopping portal you can access from the Upgrade app where you get access to tens of thousands of merchants, both local retailers, also big brands and discounts of up to five to 10% depending on the merchants. And so in that case, you're basically by adding everything in one place, what you're doing is removing some intermediaries, but also adding the use of economics and the rebates and the discounts that consumers can get from each player.

Renaud Laplanche...: So you're basically adding in the best case, 10% merchant discount, 3% credit card cash back, some discount on payments. So basically you can get 10 to 15% of additional value as a consumer. So I think that's how we should all think about it is how do we either remove intermediaries or combine margin, combine the economics in a way that puts more money in the consumer's pocket? And if we do that, I think that the companies that can successfully deliver on that premise will be the next super apps and the next very large mainstream brands and consumers will win because they just get a better deal and more value from their overall experience.

Jo Ann: Wonderful. Very, very interesting. Is there anything we haven't talked about that we should?

Renaud Laplanche...: No. We could keep going for hours. I don't know if your listeners will have patience for it, so no, I think that was great. Thank you Jo Ann. It was wonderful to be back.

Jo Ann: One last question. Are you finding time for sailing? Our listeners might know that you have been a champion competitive sailor. Do you still sail?

Renaud Laplanche...: I do. I haven't done a lot of new record breaking sailing in the last few years. I've been sailing in San Francisco Bay with my family. But yeah, I think it might be overdue because you might remember I have these three different sailing records. Two of them have been beaten already. It's only number of time before I lose the third one, I need to get back into it and try to regain these records.

Jo Ann: There you are, world records. Well thank you so much for being with us. Where can people get information about Upgrade?

INNOVATOR SPOTLIGHT: UPGRADE CEO RENAUD Laplanche

Renaud Laplanche...: Well, I think our website is always a best place to start. Upgrade.com.

Jo Ann: Perfect. Renaud Laplanchee, thank you for being with me today. It's been fascinating talking with you.

Renaud Laplanche...: Thank you, Jo Ann.