

Barefoot Innovation Podcast with Renaud LaPlanche, Co-Founder and CEO, Upgrade Inc.

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Jo Ann Barefoot: We have a wonderful show today and I am delighted to welcome back again, Renaud Laplanche, the CEO and Co-founder of Upgrade Reno. Thank you for coming back on the show.

Renaud LaPlanche: Thank you for having me, Jo Ann.

Jo Ann Barefoot: I think this is your third time, maybe even your fourth time as a guest, and you're always doing such interesting things and I was really happy that we have a chance to chat today. So I want to hear all about what you're doing, and I also want to hear your thinking about where the FinTech sector is with so many interesting things going on. But let's start by recapping you. Tell us. I know a lot of our listeners know all about you, but give us the quick history.

Renaud LaPlanche: Yeah. For all of those who don't know me, I'm Renaud Laplanche, the co-founder and CEO at Upgrade. So Upgrade is a FinTech company that provides a range of banking and lending services including mobile banking, personal loans, credit cards, home improvement financing, auto loan, BNPL products. So pretty wide range of products to a pretty mainstream type of consumer. Before Upgrade, so Upgrade was founded in 2016, before Upgrade, I was the founder and CEO at Lending Club, which was one of these original FinTech companies. Wasn't even called FinTech at the time. That tells you how old I am.

So I think we founded Lending Club in 2006 or seven. So yeah, it's going to be 20 years soon. Lending Club was one of the original FinTech companies, so peer-to-peer lending at the time and then turned into a broader credit marketplace and it actually became the largest issuer of personal loans in the country by 2012, 2013. I took the company public in 2014. It was the biggest internet US IPO that year. Then left in 2016 and founded Upgrade. And before Lending Club I was a lawyer, believe it or not, at a New York law firm called Cleary Gottlieb.

Jo Ann Barefoot: So tell us more about Upgrade. What is your mission? Where are you in your arc of growth and what are you excited about?

Renaud LaPlanche: Yeah, so at Upgrade we are really trying to create financial services and products that help consumers move in the right direction, really set them up well for the future while also helping them today, so putting more money in their pockets today. So it's a combination of responsible and affordable credit that will help consumers really reach their long-term financial goals. But in this day and age, you also need some immediate rewards and we're making sure we are delivering on that front as well. So as I said, wide range of products, mobile loan, mobile banking, personal loans, credit cards, and then all those merchant network with

home improvement financing, auto loans and BNPL. Our company has about 1700 employees, headquartered here in San Francisco, but with offices all over. Big office in Phoenix, Arizona where all the more labor-intensive tasks are located. So customer service, underwriting for collections, all that.

So yeah, I think so this year probably going to originate about \$10 billion in loans and really with that focus on making loans or credit that's really helpful to consumers in the long run. One example I often give, it's one of our main product is Upgrade card, so it's a credit card, but unlike of our credit cards, we think it's a credit card that really helps you as a consumer access credit on demand like any other credit card, but in a way that establishes a discipline for paying it back quicker than typical credit card.

There's now more than \$1 trillion in credit card debt, and the way we got to that trillion dollars is by a lot of people are just charging expenses on their cards and not paying them back right away or not having a clear schedule to paying them back and really taking advantage of the typical credit card terms of having this monthly minimum payment that essentially covers your interest and a little bit of the principle, but if that's the only payment you make that minimum monthly payment, it's taking you 20 years to pay back your debt and you'll end up paying three times what you initially charge on the card.

So Upgrade card is structured as an installment card, so it lets you pay for expenses online or in physical store, comes with a line of credit, but each balance at the end of each month turns into an installment loan with a fixed trade, fixed monthly payment of principal and interest. So you have a clear finish line on when you're done paying for that particular item and it's easier to budget for. So it comes with that discipline and predictability of a personal loan, but embedded into a credit card. So instead just charging expenses on your card and then maybe refinancing with a personal loan, you can do it all at once. You never have to refinance because that particular balance is amortizing anyway. So I think that's a kind of product that really help consumers establish some good discipline, good habits. It comes with that forced discipline of paying down your debt in a reasonable time, which has obviously economic benefit, you don't pay as much interest, but also just mental health benefits of sleeping better at night because you are getting out of debt every month.

Jo Ann Barefoot: So the convenience of a credit card with the discipline and ultimate interest benefits of an installment lending structure basically. Have you been able to measure the impact on consumers in terms of what the result of that is for them?

Renaud LaPlanche: Yeah, for sure. So we are tracking our customers pretty closely. We have over five million customers now, and yeah, we see improvements in credit scores. There are benefits we don't see or we can track closely-

Jo Ann Barefoot: Mental health [inaudible 00:08:03]-

Renaud LaPlanche: Mental health benefit I was talking about, but at least in terms of economic benefits, I mean we're saving a lot on the interest and in terms of credit situation, we see their credit score improving. So we're, I think, hitting a lot of our targets there.

Jo Ann Barefoot: You mentioned also that you're offering buy now, pay later. Talk more about where you are with that and how you see the pros and cons for consumers.

Renaud LaPlanche: And buy now pay later can be good or bad. I think we're choosing to focus on the good as part of it. So we're only financing at this stage travel expenses. So it's an acquisition we made last year called Uplift. There's a leader and we're now the leader in travel BNPL. So basically providing installment loans at the point of sale with airlines, cruise lines, hotels. So that's really a way for consumers to be able to afford a trip that they might not be able to afford and make these payments over time. And it can be very useful and it's unexpected trip. You have to get on that plane. There's a family emergency or something and you're paying \$800 that you haven't budgeted for. It can be really useful to make that payment over 10 or 12 months.

Or on the other end of the credit spectrum for people who don't necessarily need credit and are better off, but they're going on a cruise or booking a resort for a family vacation and they could be paying cash, but the cruise lines or the hotels for interested in using a no interest payment facility as a marketing tactic. And then as a consumer you get these 0% financing offers that are like, why not take it if it's free money? So you have a lot of people just take that 0% offer, pay it over time at no cost to them. It's just easing their cash flow a little bit. And the cruise lines and the hotels have noticed a better conversion on these offers than added.

So in that case it's more market marketing tactics more than anything else. But I think in every case we're focusing on lots of larger purchases and it's structured as a loan, so there's an underwriting, we pull credit, we report some credit payments or lack of payments to the credit bureaus. So it doesn't have the type of negatives that we've seen in BNPL when it's used for smaller retail purchases where sometimes the providers don't consider it a loan and really there's no underwriting. And so there's a risk, especially for younger consumers to pile up on these BNPL offers because there's not only no underwriting but no reporting to the credit bureau. So you can't really see if someone is getting really too much of that debt. So here with travel space and the way we're setting it up, we think it's a useful service to consumer and it doesn't have some of the risks of smaller ticket retail B2PM.

Jo Ann Barefoot: What is your strategy in general for the card loans? Is it a straight B to P marketing and what's your marketing and customer acquisition strategy?

Renaud LaPlanche: Yeah, cloud is purely direct marketing to consumers. I don't know if there's very unique marketing strategy. I think we're really focusing all the innovation on the

product side and making products that again, set up consumers well for the long run. And yeah, I think we require consumers through a variety of channels, so both online and offline with direct ads, SEO, SEM, remarketing, social media, offline with tested TV quite a bit. You might have seen the Upgrade donkey commercial. If not, you can search right on YouTube. And I think TV has been good for us for a product like this that's quite unique where the benefits needs to be explained because it's unlike other credit cards. I think it's helpful to have 30 seconds to really explain how the product works and then what the benefits are as opposed to really a one-liner in an online ad. So I think for that reason we've seen TV commercials working pretty well for us.

Jo Ann Barefoot: That was why I was asking it is do you know whether customers are attracted to it because they want the discipline of the installment payment type structure or do they just sign up for it and then they get the benefit of that?

Renaud LaPlanche: Yeah, so we see both. I think we see a lot of people really responding positively to the message embedded into the card of a more responsible credit card, but we'll also see a lot of people just responding more to the flip side of that, which is, hey, it's a more affordable card because you're going to be paying some less interest over time because you're paying it down faster. And basically uncover the actual mechanics and how it works and how you get there and be responsible of budget management over time as they use the product. So we certainly see both cases.

Jo Ann Barefoot: If we talk more broadly about how to foster healthy access for consumers to good products, how to simplify their financial lives, how to promote financial health, what are the keys to doing better than maybe we've been able to do historically?

Renaud LaPlanche: So in terms of simplifying financial products, I think there's still a lot of opportunities. And then sometimes financial products were created a certain way because of technology constraints or just the way banks thought about this product. Or for example, in the case of debit cards and credit cards is based on how the payment settles and some of these distinctions don't really make a lot of sense for consumers. So we've really taken a hard look at, okay, why are products structured that way and is that something that either makes more sense or simpler or can deliver more benefits to consumers? So we're really back to first principles, and that's actually the kind of thinking that gave birth to Upgrade One card, which is that we launched last year that essentially replaces a debit and a credit card. It's a single card and you can really pay for all your expenses with only one card and decide to use it as pay now or as pay later.

So you have both options and you can set it up in the app, you can toggle to pay now or pay later for different expenses. You can set some rules, say like everything over let's say under \$200 or \$100, it's everyday expense. It's going to be a pay now, so it's going to be debited directly or the next day from your bank account while pay later expenses will be more of akin to credit. And it's an

expense, larger expense, more larger purchase that's going to be paid for over time in several installments in six or 12 months. And then if you misclassified an expense, you can go back later and reclassify it. So it's really a way to avoid having to juggle with two different cards. You have a single card in your wallet, single card on your phone, and you can use it to settle all expenses.

So in addition to simplifying consumer's lives, it's also a way to really get the benefits of both types of product where you get the use of I won't pay any interest if it's pay now expense, but you also get the rewards of a credit card. No matter if you use it as pay now, as pay later, you get credit card type of rewards with two or 3% cash back, which you can't possibly get on a debit card. So you get credit card rewards, you get all the credit cards of fraud protection benefits and dispute mechanism and so on that are better than on debit cards. So we always try to basically build products that way, thinking, "Okay, why are these products organized that way and then does it make sense and can we reorganize it in a way that makes more sense or is simpler or delivers more benefits to consumers?"

Jo Ann Barefoot: And did you say that there's also a savings feature?

Renaud LaPlanche: So we do have savings account, so there's no savings feature to One card, but you can certainly use it in conjunction with our savings account, which right now, if you're giving me that opportunity, I'll jump on it, offers 5.21% APY, so that's one of the highest APYs in the market right now. It's a great time to take advantage of higher interest rates.

Jo Ann Barefoot: That's great. It seems so important to be helping people save so that they're have a good [inaudible 00:20:23]-

Renaud LaPlanche: Yeah, so the card that is tied to a savings account is actually a secured card that we launched just a few weeks ago, and that's part of a broader effort of making credits more accessible to a broader audience, including people who haven't had opportunity to build credit yet. So younger consumers or recent immigrants or people whose family status or marital status has changed where sometimes you have couples and all the credit is on the name of one of the wife or husband, and then they get divorced and the other person does not have credit on their name. So there are all these situations where people haven't had a chance to build credit.

And so a secured card is a good way to do that, where you set money aside in an account and then you get the same amount of credit and the credit payments get reported every month. So you build up your credit that way. So our secured card is really set up as a temporary fix to really help you build credit quickly in just a few months. And then there's a clear graduation process to go from secure to unsecured. And so if you put \$500 in an account, you get \$500 in credit, but the \$500 you have in an account is in a high yield savings account, say you get that 5.21% APY. So it's also a really good way, particularly for younger consumers

to build that muscle of saving and of having a savings account and earning interest and see that the positive impact that savings can make on your budget.

Jo Ann Barefoot: I want to pivot to talking about the wider ecosystem, but is there anything you want to add first on what you're trying to do at Upgrade?

Renaud LaPlanche: No, no. I think we talked about the main, I think, the main product innovation we've been able to bring to market recently. I mean the other one just in the same category of trying to be more inclusive in addition to the secured card is a new feature we just launched recently called Path to Approval, which is also a way to rethink what the credit approval decision looks like instead of being this black or white binary approved or declined, there are a lot of situations where potential borrower could be approved if they make a few changes to the situation.

And rather than just giving a declined decision, we give a Path to Approval that has more feedback and is more actionable and helps consumers understand why they cannot be approved today, but the things they can do to be approved in a few months. And so there's a plan and they know what metric they need to impact and how to impact them, and there's constant feedback during that time. So we think it's just a better way to make a credit decision, communicate a credit decision in a way that's actionable and feels a lot more positive and helpful than just a straight decline decision.

Jo Ann Barefoot: Yeah. Are you using AI and do you have a view on how we're going to be using AI broadly in providing consumer financial services?

Renaud LaPlanche: Yeah, for sure. I mean, we've been using AI since in inception of the company in a lot of ways. I think I look at AI as predictive AI and generative AI and certainly generative AI has had a lot of press recently, but predictive AI is something we've always been using in terms of building credit models and constantly learning from the data and making these credit models better and being able to say yes more often based on what we learn in general for the data pool, but also individually with each consumer since now we have a variety of products and we get a lot more data about each consumer, particularly when we have their mobile banking account and we can see the transactions there. That really helps us build that relationship and know more about the consumer and make better decisions. So we always use AI models and machine learning to really build these models.

And so generative AI, we're also using more as a test for now in a few ways. We have a couple of co-pilots type of frameworks where evidence of engineering to help engineers write code more efficiently and find errors in the code and be more productive or even for the customer service. And we have a couple of chatbots that we are testing that have some generative AI under tight supervision, as you can imagine, just like co-pilots. So I think we start trusting

the co-pilots more of a time if they perform well, but at this stage it's still pretty experimental.

Jo Ann Barefoot: Fascinating. So let's take a little bit of time to just, as you said, you've been working in FinTech since before we were using the term FinTech and nearly 20 years. I'd love to get your thoughts on where we are today. We've been through a bit of a rollercoaster ride in finance and FinTech in recent years. We've got a lot of maturing of the companies. We've had some, I guess, pushback as to whether the promise is being met that people were envisioning in the beginning, we've got a changing regulatory environment, we'll come back to the regulatory environment, but what do think, where are we, what have we been learning and what do you think is exciting looking ahead at this point?

Renaud LaPlanche: Yeah-

Jo Ann Barefoot: [inaudible 00:28:07.

Renaud LaPlanche: Clearly we've seen a maturing process, coming of age process in FinTech. There was a lot of product innovation 20 years ago. Some of these products failed, some succeeded through normals of learning process of innovation, of putting products out and testing how consumers, if there was an interest from consumers and then how they're using the products and making changes. I think that essentially FinTech and consumer product type of innovation and quick feedback, quick learning mechanisms wasn't really there in banking. Traditional banks often had a different mindset.

So I think that injection of product innovation and the product innovation process of putting a product out, quickly learning and improving and including getting a product that discontinuing products that don't really submit any consumer demand. I think that process has been incredibly helpful to the consumers first, but in general to financial services and even to banks that have inherited some of these products, either from acquisitions of FinTech companies or just by osmosis and some generalization of products for the marketplace. I think what was missing probably in the early days of FinTech was, I mean a couple of things. One, there often wasn't the right type of rigor and analytical discipline that you often see at banks.

There wasn't necessarily a culture of compliance. There wasn't always a culture of rigorous underwriting of consumers, and generally some of the product innovation was not necessarily realistic innovation because it was set up by some entrepreneurs who often had limited or no financial services experience. So I think you've seen really a professionalization of FinTech with another generation of entrepreneurs or same entrepreneurs who just grew up and learned that are more aware of the state-of-the art in terms of professional services or better at setting up a control environment, compliance infrastructure, or taking underwriting and regulatory compliance a lot more seriously. And sometimes it's by adding personnel that came from banks where

you've seen a lot of them, larger FinTech companies and more successful FinTech companies have managed to really mesh together the product innovation side of things, the technology and marketing and product side of the firm with the more traditional compliance, underwriting, just sometimes knowledge of professional services.

So I think that all that combined has really given birth to FinTech companies that I think combined the benefits, really the best of both worlds of product innovation and financial services, of rigor and discipline. I think that bodes really well for continued product innovation and continuing to help consumers benefit from that product innovation because it's now coming from companies that you can trust as a consumer. So I think you've definitely seen that trend of more professional FinTech environment and players. The other thing that has evolved quite a bit is just the relationship between FinTech companies and banks. And so a lot of the early FinTech companies, I've never been in that camp, but some early FinTech companies were really out to get the banks and replace banks. I think we've always been on the side, and I think what's what's been successful so far has been really more collaboration and partnership between banks and FinTech because both have something to offer to consumers and consumers really benefit when there's a type partnership.

Jo Ann Barefoot: On that point, what do you think about the future for the banks? The banks have been learning a lot from the FinTech world, as you said, acquiring or importing a lot of knowledge and techniques. Some of the FinTechs are getting to be really big players in their spaces, although still tiny compared to the banking world. What do you think is the future for banks?

Renaud LaPlanche: I think there's no one way to be successful. I think some FinTechs are going to be hugely successful and some banks are going to continue to be successful as well. I think what matters at the end of the day is to continue to innovate, continue to bring new products to consumers that incrementally help either reduced costs or deliver better economics, deliver better experience, reduce frictions. And I mean, that can be done either at banks or FinTech companies. I generally think that FinTech companies would continue to grow faster and capture market share just because we can innovate faster. Typically, the way they're set up and their DNA is more in tune with product innovation. I think that's where value comes from at the end of the day. But certainly some banks will continue to be extremely successful, especially if they can continue to learn and adopt these innovations and make them better.

Jo Ann Barefoot: Right. Thank you. So we always like to ask about policy and regulation on this show as you know. When you look at the regulatory space, and I know you've heard me say this before, our listeners hear me say it all the time, I think the regulators have a hard job to do here. They're dealing with lots of novel kinds of things that are changing very rapidly. Do you have any thoughts for the folks who are sitting either in a legislature or regulatory type of seat in thinking about

how to navigate the risks and make sure that we also get the benefits of upside opportunity and all this innovation?

Renaud LaPlanche: Yeah, no, I mean, I for one have no complaints. I think the regulators are generally focusing on the right thing. So when you see the CFPB focusing on fair lending and some credit card terms that really were not helpful to consumers and junk fees being the latest example, I think going after overdraft fees in the past, going after junk fees recently, I think it's all going in the right direction in terms of protecting consumers against terms that are sometimes unpredictable, sometimes hard to understand, or consumers don't necessarily pay attention to when they sign up for this product. So capping fees at a reasonable amount, it's definitely going in the right direction in terms of crafting a better environment for consumers to thrive. And so I think that's great. I think the OCC is also focusing on the right things on their side on these bank FinTech partnerships, for example.

I think any clarity is always good. So I think the focus on the relationship between banks and FinTech is the right place to focus. I think maybe getting to a place where there are clear rules on who does what and who's responsible for what and the right accountability on both sides I think is again, going in the right direction in terms of providing a clear framework where innovation can thrive. It's sometimes people make the mistake of thinking that innovation and clear regulatory framework or in opposition to each other. I think it's the opposite. Innovation can really flourish when the rules are clear and there's a set framework including some constraints on what can be done and what cannot be done. And if you give an engineer or good product innovator a clear set of constraints, they'll find the best way to fill that void and create solutions that meet the constraints that deliver value to consumers.

Jo Ann Barefoot: I couldn't agree more. That's a great note to end on unless there's anything that we haven't talked about that you'd like to add.

Renaud LaPlanche: No, no, it's been great as always. Thank you again for having me on the show.

Jo Ann Barefoot: Thank you for coming. One last question. Have you been finding time to do any sailing? I know that some of our listeners know you were a competitive record setting sailboat racer at one time. Are you still sailing?

Renaud LaPlanche: Yeah, a little bit. So nothing spectacular that you could read in the paper, but yeah, still sailing from time to time here in San Francisco Bay. We're lucky to have amazing Bay to take advantage of. So yeah, sailing from time to time, no record-breaking program in recent years, but maybe some on the horizon, thinking about some new, different kind of product innovation where that could be helpful in breaking some of this older setting records.

Jo Ann Barefoot: I'm glad I asked. That's fascinating. Well, we'll have to have you back on the show if you get progress on that. Where can people get information about Upgrade?

Renaud LaPlanche: Yeah, our website is always good place to start, just upgrade.com.

Jo Ann Barefoot: Perfect. And we will put information in the show notes as well as the transcript of our conversation at regulationinnovation.org. Renaud Laplanche, thank you so much for being my guest today. It's been wonderful talking with you.

Renaud LaPlanche: Yeah, thank you again for having me back.