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EXPERT INTERVIEW

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Ex-Chime employee on Chime's multi-product future

TEAM

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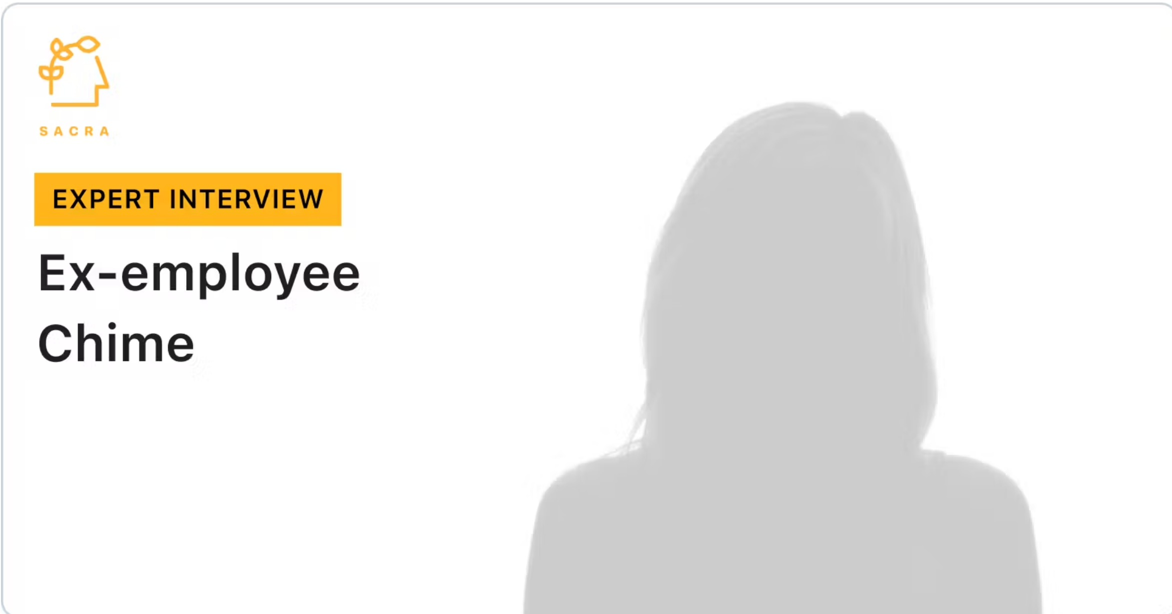

Background

We talked to an ex-employee of Chime about whether the neobank will look to become a chartered bank, Chime's forays into lending and other types of financial products, and the company's 5-year vision.

Interview

Fintechs like Block and Varo Bank secured banking charters while Chime decided not to. What are some of the upsides of acquiring a bank charter vs acting as a fintech? What are the downsides?

It’s something all the fintechs are thinking about.

When you think about the traditional banking world, there weren't really fintechs and these other sorts of neobank players 10 years ago. The current laws were mostly for large institutional banks that were servicing their customers, lending

out money, taking deposits, paying interest, issuing debit cards, things like that.
All these fintechs created a niche where they were higher up in the flow of the payments chain so they could capitalize on the front-end customer acquisition side of things.

As the space expanded a lot, the fintechs were making more and more money. They started asking, “How can we diversify and get away from just this interchange revenue we’re making?”

What fintechs started considering was whether they should get a charter, what type, and whether it would be worth it or not. Part of that has to do with the bank partnerships that exist, where the banks (like Bancorp) that Chime and other fintechs are partnering with get a cut of the fintech’s interchange fees.

The main downside is that getting a charter comes with much, much more regulation and compliance costs. And getting the license itself is a very lengthy and expensive process.

Companies decide if they want a national banking charter or state-by-state charter, if they're going to go that route.

The national charters are harder to get, I would say, and they take much longer to get the approvals. The benefit of getting a national charter is that, if you get one, you can basically open branches in other states much more easily because you have one license and you're able to do it.

On the flip side, state license-wise, you're basically going state by state to do it, which can be quicker, potentially, and maybe cost a little bit less and there's less compliance obligations. But at the same time, if you have multiple states you're operating in, then you're complying with a whole hodgepodge of different state regimes.

That's kind of the big analysis people have—”Should we get one of those types or not?”

In terms of the Chime world, I think they debated this pretty heavily, but at the end of the day, I don't think they decided to pursue it as much because of all these costs I described and just the complexity of, honestly, operating a giant compliance program. Because when you have one of these charters, the

regulators are going to come in, they're going to audit you more frequently, they're going to check out your books. You're more high profile, if you will, and people can file more complaints against you.
One of the big benefits of not getting a charter is that you're basically passing the risk off to the bank that's overseeing your program, which, operating in the fintech space, is kind of ideal. You don't have to worry about those costs as much. And in the world of Chime, for example, we were very heavily overseen by Bancorp and Stride, our two banking partners. They took on the risk, it was their banking license we operated under. And because of that, they were very, very involved in almost everything we did.

I think of Chime moreso as a giant marketing machine built on top of banks and the bank charters of their underlying partners.

Of course, Bancorp had to review every single ad, every single new product launch, every single interview or anything we'd publicly do, because they're basically taking on the risk of being misleading in their marketing or not complying with a lot of financial regulations—around disclosing interest rates and when they change or if you're going to start a loan program, the information you need to include with that, or even just like ACH deposit times.

There's a bunch of regulations around making funds available at certain times, things like that, which the banks were subject to—and that we, as an extension of the bank, were subject to as well.

That does sometimes create a bit of a bottleneck because these fintechs are growing much quicker than the underlying bank partners are, usually. At Chime, and I'm sure every other fintech has felt this, you reach a point where you want a greater volume of things approved and to go to market faster, and your banking partner is kind of slowing you down because they want to review everything, but they may not have as many resources or their systems are slower legacy systems.

In the Chime world, there would be times where we would basically have to prioritize which thing to put in front of the bank first because there just weren't enough resources to get

them all done in time. And it mostly depends on the banking partner.
Bancorp and Stride were the two main ones that Chime used. Bancorp was a little more old fashioned and they wanted to have a heavier hand in reviewing everything, but they also were a larger bank and probably had a bit more risk for working with us. And they were diversified themselves because they supported a number of other fintechs.

On the Stride side, we were probably a larger client of theirs compared to the other clients they had, so they were growing with us more. Bancorp was more like, "You're one of a number of players we're supporting," that sort of thing.

Getting your own charter would've been a way to decouple your speed from the speed of Bancorp or Stride, but it would've put all the considerable cost and liability of compliance just on Chime?

Exactly, yes. It could also just affect how much interchange revenue that Chime would make itself. There's a number of basically different tiers of banks and a lot of them charge different interchange fees depending on how many deposits they have.

I think this is actually something that affected Varo. They're of a size where they could get a bigger portion of interchange from debit transactions because they're operating as their own bank, and normally, you're splitting the interchange fee.

Generally, with a debit transaction or credit transaction, the issuer gets a large chunk and the network gets a chunk.

The way it works in the partnerships is that the issuing bank will have an agreement with Chime, or whatever fintech they're working with, to give them back a cut of the interchange fee.

Imagine you have a $10 transaction and the interchange fee is like 50 cents, some percentage goes to the network, like Visa or whoever, if it's a credit card, some percentage goes to the bank, and of that maybe 25 cents to the bank, maybe 10 or 15 will go back to their fintech partner.

By cutting out that middleman situation with the bank, you could just get all the 25 cents, we'll call it. But that only works if

you're under a certain size.
If you get too big, you can't charge as much for your debit interchange fee, but that's why credit interchange is higher and a lot of these companies were trying to go more on the credit world. So for Chime, we started out with this debit product and then we rolled out this credit builder product, probably because the interchange fees are just so much higher that it makes much more money for the company.

It's interesting too with the incentives because Chime started out as a company that basically provided fee-less banking for the average person who may not have had good credit. Slowly, they moved towards nudging people to get on a credit product because the company made more money from interchange and users loved the new product. In the case of Chime, their credit product was a pretty useful thing and helped a lot of people because it basically enabled credit access for folks who couldn't normally get it.

Today, we're seeing the emergence of this different kind of fintech model built around vertically integrated BaaS like Cross River Bank and Column. If you were to start Chime today, do you think a Bancorp or Stride type partnership is still what would make the most sense?

When Chime was started, we really were capitalizing on one little niche bit of the market. And I'm not sure we realized how successful it would be. Maybe we were just going to be one of the people in the payment chain.

As the revenues grew so much, I think you got these crazy valuations. You get a bunch of investor money and you're thinking, "How can I keep the growth going?" Then they start looking at trying to diversify and have multiple products and expand, whether they should even have a bank partner, that sort of thing.

This is sort of a problem of the general traditional finance space. It is a very high barrier to entry to get a banking charter. So it's a pretty rare occurrence where someone would say, "I'm going to start a brand-new bank," and just get a charter and get going because that would just take so much time and money. You got to find investors to basically float you and then hope people actually sign up and use your bank.

In the case of Chime, they did it from the opposite side of focusing more on customer acquisition, which was a great play for them because they grew so quickly and acquired so many people.

Due to the beauty of the interchange model, the incentives are a little more aligned because the more people will use your card, the more they spend, the more interchange is generated and there's really no additional cost for the consumer.

How is Chime positioned specifically vs Varo and Dave and generally vs the other neobanks like Current and Aspiration?

This is something I always found interesting because they're not all that different. They offer the same things, but they all try to differentiate and say, "Oh, we have free ATMs" or "We offer rollover to your savings account programs," but none of them are really that novel or unique.

It's an interesting thing. These solutions are not really off-the-shelf, so each company has to build their own version of it, which is why for them it feels like a big accomplishment—. "Oh, we now rolled out ATM fee-less banking"—because they're having to build it themselves internally.

A lot of it does come down to who they're targeting in the marketing. Chime had their own market segment they focused on pretty heavily. Some of the other banks or companies were targeting people higher upstream—like SoFi, which was a pretty large competitor.

Chime's huge benefit is that they're getting people who've never banked before. They're net new customers. And from Chime's perspective, that was great. Any customer's a good customer, as long as they have some money they're going to spend. And from a customer standpoint, the incentives were aligned. They got a great product that helped them for free.

People were thinking about trying to broaden the scope to appeal to higher-income earners and things like that, which I think is the natural development of a lot of these fintechs, especially when you're based off an interchange model. The more people spend, the more you make. And if you have the average customer holding a couple hundred bucks in your account spending that much per month, that's different than a high-income earner spending $2,000 a month or something like that.

Did folks at Chime see Cash App as another big emerging competitor?

Yeah, I think so, though it was not discussed much. For a while, they might have even had larger volumes than we did. Same with Venmo in that sort of peer-to-peer payment space. Chime was not distracted by that though and was pretty heads down focused on building out their own brand.

Chime did make their own version of a peer payments tool—I think it was called “Pay My Friends” or something like that—where you could send money for free to other people who were on Chime. They even built out some further version where you could send money for free to people who didn't have Chime using this peer payments thing and then you could encourage them to sign up for it. They used to run a lot of promotions on that, just again, for new customer acquisition.

There's slightly different business models. I think Cash App probably got even less interchange because they didn't really have a direct relationship with a bank as much.

It’s interesting. I’ve talked to a lot of different people—some folks are on Cash App, some folks are on Venmo, or they're still using PayPal—but every company wants to have their own peer payment system because it's just cheaper and they want to keep the money in-house. Plus—they don't actually have to worry about sending it because they're just basically moving numbers around on an internal spreadsheet because the money's still at the same bank or the same financial institution.

How did Chime think about the competitive dynamics with international neobanks like Nubank, Revolut, N26 and Monzo?

Chime was focused really heavily on the US market—as they only operated in the US, they weren't really focused internationally. We were still in US growth mode, and there were a lot of accounts to acquire in the US.

There were talks about how competitive these international companies would be if they came to US markets, and some of

them did, but at that point, Chime already had such a lead in the market.
When I was first joining Chime and I was talking to some people who'd been there longer, I asked them, "Why should I come to Chime? What's the difference?"

They all said some variation on, "We were first to market, we're the biggest, and it's really hard to catch up."

I think there's a lot of truth to that, especially with the brand recognition. I mean, again, Chime is such a great marketing company. People see their ads on TV all the time, and they're very known, probably one of the more known fintechs, if you will, from the average consumer.

What did you see as Chime's biggest competitive advantage?

Chime have one of the best marketing teams that exists in fintech. They put a ton of energy and thought into the direction of the brand and how customers would interact with us and feel heard. They had a really strong Voice of the Customer program where they did tons and tons of research to figure out what people actually wanted as they figured out the features they were building.

The culture of it permeates throughout because, even as a new employee at Chime, people go through a training module where you sit in with call agents and you review customer calls and people calling with complaints or questions. You actually learn how to handle those tickets in Zendesk.

They also did great marketing with influencers. The influencer marketing program they had was amazing—like Mr. Beast did some Chime ads. The whole company was talking about it.

There'd be Chime product placement in music videos, things like that, which is something that no fintech or bank is really doing, but it makes an impact when you see your favorite musician pull up a Chime app on your phone. It seems cool and hip and accessible.

As of late 2021, Chime users could make deposits at Walgreens. How do you think Chime thought about the

importance of having physical locations (even if inside existing retail stores)?
That was probably in response to some marketing competition and the fact that a lot of people who use Chime are doing cash-involved banking.

A lot of Chime customers are lower-income, maybe they're earning tips and they're getting a lot of cash. For them, it was problematic to not have a place to be able to deposit cash easily—normally, they'd have a brick-and-mortar bank to do that. And a lot of folks might not have a great smartphone where they can do easily mobile check deposit—stuff like that.

I believe Chime actually did end up building a mobile check deposit solution, so they made it easier to do that. But I think in general, they thought that they needed to have some sort of physical presence because their customers really wanted to be able to deposit their cash. That's why did these partnerships with Walgreens and a couple of other entities, to basically let them use the ATMs there to deposit cash at those locations.

Those two use cases kind of went hand-in-hand. It's interesting because a whole other category of companies has sort of developed around enabling fintechs to have access to these ATM networks.

Fintechs will say stuff like, "We have 55,000 national ATMs", but really they all have the same access to the same ATMs—it's one or two networks.

It's interesting because Chime's founder, Chris Britt, came from a company called Green Dot, which was basically a leader in prepaid cards and ATM-type solutions. He was very familiar with the space, which is where I think he probably got this great idea to insert Chime in here.

But they built out some key features to make it easier. For example, in the app, there's a feature, like a map, to find the ATM closest to you. And I think there were issues at one point where it turned out our ATM network was not really in places where most users were. So it wasn't super helpful if you have to find an ATM and it's five miles away. That's not convenient if there's not an ATM in your neighborhood you can use with your primary bank. There's desire there to get better coverage where their users were located, and so that's partially why they probably chose which network they chose. Gotta hand it to the research team, what a good insight. You sometimes don't know until you test and iterate.

Klarna has received a lot of pushback from people and consumer groups over the contention that their products encourage reckless spending and are actually unsafe for consumers. Did Chime think about getting into the buy-now-pay-later space, and did you see any of that similar kind of pushback emerge in relation to Chime as Chime moved away from pure debit to offering credit and other kinds of products like loans?

People mentioned it once or twice, but it never really took off to the extent of like, "Hey, we should do this."

At the time, there was just so much regulatory scrutiny around BNPL that I think Chime were afraid to step in the space—which I think was smart, because what Klarna and all these other companies have been doing hasn't been sustainable.

As we saw with the market crash, those companies are all doing terribly now, because the risk is really high, and the regulators are just kind of upset by it—which I understand, primarily because it basically creates a huge visibility problem into the financial health of consumers.

Normally, if you're using a credit card, the credit card companies know how much credit you're using because it's all being reported back to these centralized credit bureaus. But with the BNPL companies, that usage isn't being reported.

People would use five different BNPL providers to sign up for six different loans, and then the bank doesn't know that you actually have this $1,200 obligation each month to pay off 12 different purchases. They can't see that, and they can't put it in their risk model.

For Klarna and all them, I think they're happy to do it. But what's also interesting is that I don't think they're as profitable as people thought, because a lot of them made money being paid back by the merchants actually offering the BNPL deals. It's not like they were making their money purely off the fees from the BNPL mechanism. If you were offering it for a TV, the TV manufacturer might be like, "Hey, we want people to buy

more TVs. Klarna, we're going to pay you a little bit of money to make this feature available."
It’s really more of a feature add-on for retailers to sell more products. But yeah—Chime didn't really dive into that world too much, and I think it was smart. Banks don't like the fact that they don’t have visibility into it, and regulators certainly do not.

And unfortunately, consumers are not usually the best about managing their debt all the time.

I think the intent of the loans at Chime was different. The loan program through Chime was more about, "Oh, I need $100 to buy my groceries." It wasn't tied to a specific purchase of clothes or furniture or whatever. I mean, Chime probably wouldn't have known what you used it for, but I think the amounts are meant more for these one-off, medium-size purchases.

Genuinely, I think that people at Chime did want to build products that helped people. They had the idea that loans were helping because they did a lot of user feedback research, and people were always saying, "It'd be so convenient to get a couple extra a hundred bucks before my next paycheck comes because I've run low and I've got to pay for this." They had some really cool user stories about that. People who ran out of money to buy groceries for the end of the month and using this instant loan feature helped them make ends meet for an extra two weeks until their next paycheck came.

I think that is a much more palatable and pro-consumer tool versus a, "Hey, maybe you can't afford to buy a TV now, but you can get a BNPL loan and buy it anyway." That felt a little more—I don't want to call it skeevy, but toeing the line of being good for consumers or not.

Varo Bank and Dave have seen their valuations decline drastically with Varo struggling to stay afloat. Can you talk in general about the challenges of a business model dependent on interchange revenue in the view of rising interest rates and a looming recession?

I have two points on this.

One is that Chime is probably in a better position than most companies to handle a recession because they have a lot of

cash flow and a lot of investor money and they haven't blown it all.
But also, there’s just the way that people use the card. They’re using it for essential purchases. Even in a recession or a lower spending environment, people are still buying groceries, they're still buying gas, and they're still buying staples. That is a pretty good stable income source. Giving out loans in a bad financial environment is more high risk because it's worse to have a bunch of loans on your books in case of default and things like that.

I think Chime is positioned pretty well with their interchange model. What’s interesting is the forward earnings projections and things like that—when you get tons and tons of investor money, people expect crazy out-sized returns. Those may not be in line with what actually could be achieved, but I think Chime, as a business, is very stable and will continue to grow.

Another interesting thing which I think benefited them very heavily—and probably benefited all fintechs—was stimulus money and child tax credit refunds.

People forgot about how that affects all the banking companies, but basically the government just gave billions of dollars to consumers directly. They’re going to spend it, and if they spend it through a Chime account, Chime gets even more money.

There was a period in there where all these fintechs saw crazy growth, partially fueled by all the money that was paid on stimulus payments.

Can you talk a bit about the organizational breakdown of Chime and what teams were the biggest, between say, engineering, marketing, and others?

Engineering was probably the largest, as it would be at any tech company. Marketing and the design team were also pretty large because so much of Chime comes down to its marketing and design—the app was beautiful and was intuitive to use, and there was a lot of thought put into how that would work and how people would enter the app and do certain functions and make it easy to understand. These are the teams I was probably most familiar with.

We did have a pretty large legal compliance team there as well, because like I said, it's pretty regulated. So that was a good-sized team plus all of the people who worked with our banking partners, Bancorp and Stride.

We did have a pretty large operations team and customer service team as well, though some of our ops was outsourced —and by that I mean that Chime was using sub processors, like Galileo, as a lot of other fintechs were to handle some complex tech stack implementations.

Can you talk a bit more about the card issuing partnership between Chime and Galileo?

In the ecosystem of fintech, you have the issuer bank—that's the Bancorp or the Stride—and you have the front-end, the Chime or Varo, whatever.

Then there's all the operations that happen in between, when you sign up for a Chime account and you actually get issued a debit card or get a credit card mailed to you. All those sorts of things are handled by these backend processors—Galileo, for example. They handle issuing new cards or replacement cards or even assigning users in the different account types.

At these fintechs, they kind of have buckets of people where they put them in different groups—not based on credit worthiness or anything, more so just because you can't have millions and millions of people in one database, so you have to split it into multiple.

They would have different bins of basically, these customers in this cohort, they're like this first chunk, there's going to be a second chunk. But the processor would basically help unify the payments.

In the banking system at large, when you're sending ACH payments or direct deposit payments, those are getting tallied up and moved around every day, and it's a really complicated task, where the Federal Reserve is sending you basically giant Excel or CVS files of "Here's the money that needs to be moved around," but every day someone has to download those and implement them, which is a large still kind of manual-ish task. Galileo came in and tried to make that easier, and so they were used as the backend system to do that for everybody.

But what was very interesting was that, at a certain point, SoFi bought Galileo and then everyone was like, "Uh-oh, this is bad. Our competitor now owns the underlying technology that empowers all these companies."

Chime, certainly, and lots of other companies started to build their own backend systems, which is a very complicated task, but I think they're trying to prevent the risk of unfavorable terms with this separate-but-owned-by-a-competitor company. Or they're worried about the functionality changing or something like that, which—obviously—there's agreements in place between all these parties where they have to do things a certain way, but I think there's always a fear that maybe they just won't.

Can you talk a bit more about the competitive dynamics between Chime and SoFi? Did a lot of that boil down to the fact that SoFi was more indexed on student loans?

Probably. I think they targeted more that higher-income market. It was also really smart for them to acquire Galileo.

It was very expensive for them, but they basically got a piece of this underlying banking tech that everyone else is using.

It's also interesting just to see how a lot of other competitors or even other third-party integrations have been trying to sneak more and more into the space. Plaid makes a lot of really interesting tools that all these banks are using because it basically is much easier and more straightforward to send all the information around through these APIs that are just permissioned about who can access what.

There's definitely a rise in API-focused fintech companies that are helping solve various of these pain points—like Atomic, which basically are a company that basically just helps folks direct deposit more easily. For a while, I think Chime was using them as a processor—they were the ones handling our direct payments or direct deposits for certain customers, just because it's easier and it wants to do it internally if you can find a tool that'll do it for you. That's the name of the game these days. Fintech's a little bit more modular, so everyone's in their little lane and you're buying the pieces to make your product work.

You mentioned the gap between venture expectations and reality, and I'd love to hear more about the your take on how that was looking at Chime as of last year.

Like I said, I think Chime is in a safer and better position than most. But again, a lot of it depends on when people expect to get their money back and how quickly Chime is worth its valuation.

Even before I joined, there were hopes of going public. People weren't really talking about it, but it's like, "Oh, we hope we go public this year." Ultimately, I think they were probably smart to wait on it because the market wasn't great.

We'll see how long they continue to wait or if some other action happens and someone acquires them. I've always personally thought—again, not on the strategy team—that it made sense for a larger bank just to acquire Chime, because Chime is such an excellent marketing engine and they have this segment of people that, really, big banks don't really interact with or touch.

In a world where a larger bank, like JP Morgan or Bank of America or whoever, were to acquire Chime, they basically would just totally revamp their digital experience and would be much more appealing to lower-income people, younger people, and become a cool app and just get the benefit of that brand recognition.

But it’s hard because at startups, people don't really want to be acquired. They'd prefer to IPO, especially when you work on something for so long. I’m sure all the people there want to IPO.

What’s the messaging on where Chime wants to be in 5 years? What’s the thesis on getting there?

People loved to throw the word super app around. I think a lot of these fintech companies had the desire to be the next super app. And by that I mean they wanted to do everything—give you a loan, give you a credit card, give you a debit card, pay your checks, whatever, sort of like large mainstream banks do.

The name of the game was stickiness. The idea is that if you get a bunch of people on and they like one product, you can

get them to use the others. There was a lot of talk around, "How do we build this app to do everything?"
I personally thought it was very buzzwordy. Everyone talks about building a super app, but the plans to actually do it—who knows? I wasn't in on any particularly unique plan they had to get there, but I think they were focused pretty heavily on customer acquisition, like every other tech company.

As part of that, there was a desire to build out features to improve the user experience. One of the biggest wins was the get paid early feature, which let people get their paycheck a few days earlier than if their employer paid directly. Customers loved that and it was really impactful in people's lives. There was also a project around showing people their credit scores, which was basically a way to compete with larger banks and show people their credit scores in the app, the same way that if you go to Chase or any of these large banks, you can normally see a credit score tracker in there.

There is increased desire to build that full picture view of your finances into the app, because if people are spending money through Chime, they're going to want to see what their credit score is going to be.

If you're using the Chime credit builder—which promises to basically help you build your credit score—you probably want to be able to actually check your credit score. There's a lot of work around some partnerships on that front. Experian had this novel product called Experian Boost, which Chime users got access to.

Basically, they were trying to use alternate credit score data to impact the overall credit history of people. That's a big issue, and there's a lot of other fintechs in the space working on that problem. The idea is basically that today, your credit score is only really affected by your credit card payments and maybe a mortgage or a car payment. It would be really helpful for consumers if you could also get credit for paying other types of bills on time, like your utility bills or phone bills.

There was also chatter about building a lending program, which I think became involved with the lending and banking charter question we talked about before, where normally banks make money by taking deposits, lending them, and making

money on the interest and on overdraft fees and things like that.
Chime did not make money off those things, just the interchange, but I think there was a desire to get a piece of that pie. Who wouldn’t? If you already have tons and tons of users, it's not hard to be like, "Hey, do you want a little mini loan?"

I believe the loan program was more focused on small loan amounts, like a few hundred bucks and under. And I think Chime’s idea was better than average for these kinds of small loans—because we had a pretty good window into our users’ financial health, so it could be tailored to a low risk default rate. Plus, users really wanted this feature.

To get access to the loans, you would have had to have set up direct deposit with Chime. And for Chime, it would be a lower risk loan than average because the person who's taking a loan out is already depositing money into their account every single month. Unless you were to switch jobs or lose your job, they would basically always know the money was going to come in.

I'm not sure that it ever really fully launched because market conditions changed.

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