

NOW Podcast

SEASON 3 | EPISODE 2 TRANSCRIPT

Capitalism Needs an Upgrade: A Conversation with Dan Schulman, CEO of PayPal

Guest: Dan Schulman, *President and CEO, PayPal*

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Ken Stuzin (00:04):

I'm a partner at Brown Advisory. Welcome to the NOW podcast. NOW stands for Navigating Our World. Through these discussions, we try to understand the world better, to navigate some of the most pressing questions that are shaping our lives, our culture, and our investment challenges. As we look to the future, whether we agree or disagree with each other, the one thing we know for sure is that none of us can figure this out on our own. At Brown Advisory, we are focused on raising the future and we hope these NOW. Conversations will help us do just that.

Ken Coe (00:49):

Trust in our institutions is at an all-time low. Meanwhile, we are all trying to navigate through a pandemic, political polarization, racial injustice, climate change, cyber security threats, wealth inequality, the limitations of remote work. The list goes on. Business leaders are being asked to step into the void, to speak out and engage on societal issues, in addition to delivering profits.

Perhaps no business leader has embraced this duality more than Dan Schulman. Dan is the CEO of PayPal, a digital payments platform at the forefront of a paradigm shift that is changing the way merchants and consumers transact, move money, and manage their financial wellbeing globally. To give you an idea of scale, PayPal employees more than 26,000 employees located in more than 30 countries worldwide. It has more than 400 million active accounts globally. And in the last 12 months, PayPal facilitated over 17 billion transactions, representing more than \$1 trillion in volume. Dan's leadership has been good for shareholders, which include Brown Advisory's clients.

PayPal's stock has outperformed the S&P 500 by over 400% over the six years that Dan has led the company in the public domain. But Dan has focused on much more than shareholder returns. He has been outspoken in his views about business's ability and obligation to be a force for good. His leadership through the pandemic, earned him the number three ranking on Fortune's 2021 list of world's greatest leaders. This is just the latest on a long list of accolades that ranged from Fast Company's list of 100 Most Creative People to the Robert F. Kennedy Human Rights Ripple of Hope Award.

Hi, I'm Ken Coe and I'm an equity research analyst at Brown Advisory. I cover financial technology companies, including PayPal. I get to talk with a lot of accomplished CEOs, but I have to say Dan is distinctive as a leader, as an innovator, and as you'll hear, as a candid communicator. It is a genuine pleasure to have him on the podcast. Dan, we're so excited to have you with us. Thank you so much for joining us today.

Dan Schulman (03:04):

It's a pleasure, Ken, thank you for having me.

Ken Coe (03:06):

We wanted to start, and this is something that you've spoken about at a few public forums, but we thought that starting here would give a direct line of sight into the thinking of Dan Schulman. This concept of multi-stakeholder capitalism. For listeners who may be less familiar with the term, can you explain what exactly you mean when you talk about multi-stakeholder capitalism and why it's so important?

Dan Schulman (03:27):

It comes out of concept I'm calling is reverse Freedman-ism. Freedman, of course, the famous professor at University of Chicago, who basically said that the sole responsibility of a corporation is to its shareholders. And I disagree with that. And it's weird because I actually think by not having that, you maximize the potential of your returns to shareholders.

So what do I mean by multi-stakeholder capitalism and what a lot of people mean by that? I think as a CEO, I have a number of constituencies that I need to pay attention to. I have my employees, I have my customers, I have regulators. I have the communities that we work within and I have my shareholders. And they're all important to me, but they interact together. And so, my perspective is the number one constituency for me is my employees. And I would posit that everything flows from there. If I have a great strategy, but I can't attract the very best talent to PayPal, there's no way I can execute against that strategy.

But if I have amongst the best talent, wanting to work at PayPal, passionate about what they do, paid fairly, so that they're financially healthy and not financially stressed. And that belief in the mission and the values of PayPal, I feel like we're going to execute better than anybody else in the marketplace. That will satisfy customers more than anyone else can. If we do that, regulators are happy. And if we do that, then over at least the medium term, we'll have a greater return for shareholders.

And I think the debate is can profit and purpose work hand in hand in a corporation. And I would argue that they are not at odds with each other. In fact, they're quite complimentary, that you need to have a purpose as a company. It needs to embrace our communities that we work within, needs to embrace our employees, because that is what drives outsized returns to shareholders over the medium term. It's easy to maximize profitability in the next quarter. You don't invest in your product. You do less in marketing. No shareholder wants to see that. Shareholders like yourself and others, they're looking to see what makes for a strong enduring company over the long run. And I think a multi-stakeholder capitalism is the surest way to deliver.

Ken Coe (06:18):

It sounds like if you do better for all constituents, you almost in a sense maximize societal output if I think about it that way. And it sounds great in theory. I'd love to maybe dive into a little bit how you kind of embrace that philosophy in real life. And I was thinking maybe it'd be great to go through an example or two with some of those constituents. You started with the employee base. So I thought maybe we could start there. You obviously did a landmark income study. We'd love to hear more about that.

Dan Schulman (06:45):

The mission of our company is to assure that no one gets left behind as we move into the digital economy. That underserved constituents can manage and move their money with the same cost structure and ease. That is not typically the case in the financial services industry, where we say it's expensive to be poor. Unfortunately, that's very true in financial services. Things you and I take for granted, cashing a check or having a line of credit, sending money to somebody paying a bill. If you're outside the financial system or underserved by it, those can be incredibly complex to do, very time consuming and very expensive. And we know that across the world, over 1.7 billion people are outside the financial system.

I would say double that are underserved by the financial system. And here in the United States, 185 million adults are financially stressed. They struggle to pay their bills at the end of the month. And so that's kind of the mission

PayPal, right? Like what can we do to create financial health for our customers and to help small businesses compete in a digital era?

So, I did a study inside PayPal because I knew this was happening across the world. And I did a study. Honestly, I thought the study was going to come out different and I commissioned it because I wanted to use it at an all employee meeting as to how well we were paying people and our competitive positioning. And what I found in this study is that for all of our call center employees, our entry-level employees, call it maybe 40% of our workforce were financially stressed. They also were choosing whether to pay their bills or get healthcare benefits. How did they put food on the table? They had high absentee rates, high attrition, and were distracted at work.

And this was pretty surprising to me because PayPal pays at or above market rates everywhere where we hire employees. And it said to me, and this is why I've often said that capitalism needs an upgrade is I depended on the market to tell me whether or not my employees were taken care of. And for a large proportion of our employees, market-based rates were not sufficient. We wanted to measure this because that's not acceptable to me. Like if I told you my number one constituency is my employees. And I count on them to service my customers. If they're stressed at work, they can't do that effectively. And so we put into place a measurement, we call it NDI, net disposable income, which looked at how much income does an employee have left over after they pay all of their taxes and their essential living expenses.

And we looked at that location by location because of somebody being paid X amount in New York City, it's very different than somebody being paid the same amount in Omaha, Nebraska, or in Chennai, India. And what we found is that for these entry-level employees, their net disposable income was between 4% and 6%. They were one disaster away from a real spiraling negative impact on their families, their financial health. Again, they were choosing not to take health care benefits because they couldn't pay for food for their families. And we worked with academia. We worked with a bunch of NGOs to see what is a fair living wage. Where can someone start to put money away? And the number that came back is that people need about 20% NDI to feel financially secure.

And so, we raised wages where we needed to, we cut the cost of healthcare benefits for that segment of our employees. We gave everybody equity in the companies, so that they could share in the success of the company. And today, we are at 18% NDI. Nobody in PayPal is under 18% NDI. And by the end of the year, we'll be close to 20%. So, we will have hit our goal. And what I found with that, Ken, is our attrition now is at all time low rates. So we are keeping our experienced people. Our training costs are way down. Our absentee is down. And our NPS scores, our net promoter scores for customers are at all time high levels. And that obviously translates into consumer engagement. So that investment I think is probably more important than investments we make in marketing or product. Our employee engagement scores are through the roof right now. And in an era of the great resignation and everything else, we have employees that are engaged, passionate, and proud to work at PayPal. And I think that's just made a world difference for how successful we've been in the market.

Ken Coe (11:57):

That's fantastic to hear. So obviously, treating the employees well begets more user engagement, more net new actives. That leads to better shareholder return. So you've talked about three of the constituents already. I'm sure we'll talk about the regulators in a little bit. So maybe one of the constituents that you mentioned as well is the communities. And so I'm curious if you can walk through an example of how PayPal serves the local communities.

Dan Schulman (12:20):

I think one of the things I said to my team early on when we were first splitting from eBay. Anyway, we had the opportunity to define PayPal, what our mission was, what our values were. There were a couple of people that said we ought to put \$15 or \$20 million into kind of a foundation. And that should be the root of our ESG efforts. We could give to different charities, which is great. But to me, to really embrace kind of the S in ESG, the social contract that we have with each other and our communities, that our products and services need to be integral to what we do

I'll give you an example. We're probably one of the top five lenders of working capital to small businesses in the United States. Not everybody knows that. We're consistently amongst the very top of who provide working capital. And what's interesting is that of the billions and billions and billions that we've extended in working capital, 70% of those loans go to the 10% of counties where 10 or more banks have closed branches, and banks close branches in neighborhoods where the median income is below the national average because they need a certain amount of deposits for their branches to be profitable. So it's understandable, but you have these banking deserts. And as a result, these small businesses in these communities can't get access to working capital.

But we can give them access to that capital because we don't need a branch. We can extend based on metrics that are how much sales do they do with us, a number of other variables that we look at. Here's the interesting thing. Where we lend money to a small business in those neighborhoods, their average sales go up 22% versus the control group that goes up 1 to 2%. And so that's just like this example, like these are businesses that are just starved with working capital and if they could get that working capital, they could grow and if they can grow, then they can add employees. Then those sole proprietors are less stressed. They have more money that they can spend in their neighborhoods, and you create this virtuous cycle as opposed to a vicious cycle. What I keep pressing inside our company is like our products and services automate the communities we serve stronger and better where others may not be able to do that.

I also think our top value as a company is diversity and inclusion. Justin Trudeau's dad had the best quote on this. He said that diversity is a fact, but inclusion is a choice. And I think that the more diverse a company is, the stronger that company is, the better it performs in the market place. We need to also know that the stronger the communities are that we serve, the better off we're going to be as a company over the long run. We are not in a bubble in ourself. We are inextricably entangled to the communities and the economy around us. The death of George Floyd and the amount of emotion that kind of outpoured into our country, I've never seen anything like it inside PayPal. People were frustrated, they were angry, they were disappointed, they were determined to do something.

We started off basically saying, okay, we're going to give \$5 million to some nonprofits in the communities that are underserved who are really well deserving. We're definitely going to go do that. And then I started talking to black employees inside PayPal and black leaders across the country. And one of the messages that came to me was, "Dan, this needs to be not a moment in time but a movement over time." We need to see companies leaning in in ways that aren't just about the issue right now, but how do we solve some of these systemic issues? And for us, the place that we felt we could help is in lowering the racial income disparity that is basically the same today as it was back in the 1960s, the last kind of civil rights era. And so we committed \$535 million to doing our part to reduce the racial wealth gap; giving grants to small businesses, not loans but grants to black owned small businesses that were going out of business at the rate of 41% compared to all other businesses that were going out of business maybe 21% of the time. And one of the things that I found is that these grants, one of the things I'm most proud of is that 90% of the companies that we gave grants to were still in business a year and a half later. And so there's so many things that I think businesses can do to step up and make a difference in the communities that we serve. And I think by doing that, there are a couple of benefits that happen. One, our communities are stronger and that obviously creates demand for our products and services.

Number two, your employees are incredibly proud of the stand that you're taking. And I really believe that values can't just be something on a wall. They have to be something you step up to, otherwise they're just propaganda, and that's worse than having no values at all. And finally, so many customers in this day and age are looking to buy from brands that they trust and that share the same values with them. And I think these kinds of things are what can cause a company to move from being a good company to a great company over time. We live within our country. We have obligations to work in public private partnerships to make our country stronger, to make our democracy stronger, to make our economy stronger. And when we do that, we will benefit over the medium and long term.

Ken Coe (18:56):

So if you believe that's a fundamental obligation of CEOs, why do you think it's taking so long for the collective group to embrace multi-stakeholder capitalism and this idea of bridging the racial equity gap?

Dan Schulman (19:08):

One thing I have seen over the last couple of years, there's a lot of very serious conversation happening now that wasn't seen two or three years ago. The pandemic has exposed a lot of trends that were always there but they weren't quite as evident. And I think we all now understand that our economy is fragile. Even our democracy can be fragile if somebody doesn't believe that the system is working for them. And again, if you're struggling to make ends meet every single month, that's 185 million adults in the US. You don't believe that your kids are going to have a better future than you did. You start to radicalize both on the left and the right, and that is dangerous, honestly, for our democracy requires that we look at what is the greatest good for all of us, not particularly me individually but the collective.

We don't operate in one bubble. And by the way, I think our shareholders are beginning to recognize that as well. There are some shareholders that are pushing for more short-term returns, but those shareholders that are long-term shareholders in a company want to believe that over the medium and long term, on average and over time, you're going to have growth that continues going forward, and you're not going to have that growth if your economy is in shambles, if the system is in shambles. And so this is really the right thing for companies to do, for shareholders to embrace. And I think you're going to see more and more CEOs become much more involved than maybe what was five or 10 years ago.

Ken Coe (20:51):

That'd definitely be great to see. And in all of this, it's pretty clear that the financial system is falling well short of what it needs to deliver. As you look at the financial system, what do you view as either the biggest or the few biggest problems that we have? Is it access to capital? Is it the cost of accessing that capital? Is it just all the friction involved with trying to move money? I'm just curious what is the biggest impediments and difficulties that we see right now in the financial system?

Dan Schulman (21:19):

Yeah, the short answer was is, yes, all of those things that you just mentioned. But if you look at the current financial system, and I have the opportunity to speak to government officials and regulators around the world, pretty much there's universal agreement that the system needs to be modernized. The take rate over the last 10 years for the global system has been stubbornly persistent at about 2.8%. Second, the system's very expensive. As I just mentioned, very expensive for those who are underserved than those who are affluent. And third, it just takes too long to access your money. If I cash a check and then I want access to those funds, if I do that, it takes three days to go and do that. Somebody else cashing a check or sending money to a loved one, an international remittance, it can take a week to 10 days to get your money.

And here's the issue with that. It is not for the most part that those who struggle that their expenses are greater than their income. It's that their cash flow is uneven. They need that money instantaneously to pay their bills. And in today's system, you don't get that. And so I do believe the promise of modernizing the underlying infrastructure, and that could be through distributed ledger technologies, through more formats that add utility, that utility could be smart contracts, digitizing assets. It could be direct issuance from central banks into digital wallets so that you don't necessarily have to go through intermediaries. It made no sense to me that the government was mailing stimulus checks to people during the pandemic.

People weren't living where they were, they were living with their parents or other places. If they got the check, it took two or three days to get there. Then they'd have to leave their home and cash that check and people would take 2 to 5% of that amount, and then you have cash and you got to stand in line to pay bills. You go to digital wallet to digital wallet and you can create the transaction for a fraction of what you might do in the real world. And so I think it's just a matter of when not if. If we fast forward it five or 10 years from now, it's going to clearly change over

that time. We just need to innovate responsibly. We need to innovate hand in hand with regulators. And there are these crypto purists who think that we need to disintermediate the system. That is not going to happen, at least in my estimation, but that doesn't mean we aren't going to modernize. It doesn't mean we aren't going to use more digital technology underneath.

Ken Coe (24:09):

I'm curious if we can dive into that a little bit and you talk about the next five to 10 years, and we think about that level of innovation. Are we looking things like cash and credit card becoming form factors that we no longer use? Are we looking at all of us managing our entire financial wellbeing all on super apps and not really dealing with some of these legacy financial institutions that we're so familiar with? What does it look like as you build out that five to 10 year thought process around this innovation that you're talking about?

Dan Schulman (24:38):

Well, first of all, anytime you're predicting the future, you're likely to be wrong in a number of places. I think we all really have to have a huge sense of humility when we talk about the future, but this is what I think based on a lot of conversations and obviously being seeped in the industry over the last 11 or 12 years. I do think that form factor is going to change. I do think that we're already seeing it, that really discontinuous leap forward into all forms digital because of the pandemic. I don't think there's any going back from that.

The way we play, the way we pay, the way we entertain ourselves, it's all moving digital. The way we get medicines and telehealth and the way we educate our kids, it's all moving more and more digital. And all of these form factors are being subsumed into the mobile phone. And as you go in store, more and more stores are moving towards mobile. Clearly there's a lot of tap and pay still going on with cards. But if you ask me, take time out of the equation, say 10 years from now, there's going to be way less cards and way more mobile form factor and cash will also always be around but much less cash than before. And those mobile phones are going to connect to point of sale that are mobile and cloud-based in and of themselves. And so they're not going to be hardwired into different networks. And I think even the shape of retail is going to change very much where retailers are how do we attract people into our store? And the digital side of the online or e-commerce side was a separate division. Now, it's clearly Omni where the distinction between online and offline is, I think not just blurring, being obliterated. Because retailers are now thinking, how do I reach customers and engage with customers digitally? Now they have a real chance through QR codes and through mobile phones and through apps to basically have a relationship with the customer that they can never have with really a credit card or cash before.

So, I think that is all shifting in the future. And it's very interesting to think about, what does that mean from a super app perspective, from consumer platforms? Where do basic financial services that banks provide right now, what parts of them become commoditized and what parts are where banks add real value add that for instance, a digital wallet provider couldn't provide? And I think we'll see new and different ways that people can pay. And we're seeing this explosion of buy now, pay later. But buy now pay later isn't just paying for, it's basically people saying I want to purchase now and then I want to figure out how to pay for that purchase afterwards.

And that could be in any one of a number of form factors. It could be paid splitting between rewards points and Fiat currency. You could think about a consumer saying, okay, here's what I want to do and I want to embed it in a smart contract. I only want my payment to be triggered if the following things are met by that. And so I think you're going to see increased utility through payments and I think this advent of central bank issued digital currencies is going to create a tremendous influx of people coming into the system that previously were excluded.

Ken Coe (28:18):

You know, Dan, it's interesting, every time I hear you talk, you're always talking about how PayPal and other players in the ecosystem need to work together for the good of the financial system. And I think that's something that seems obvious now. I think when you started at PayPal, it wasn't so obvious. And I think you had the foresight really to open the PayPal ecosystem. And so I almost want to take a step back and think about the leadership style that

you have and where it came from, whether it be AT&T, Virgin, Amex and maybe the different leadership styles that you experienced. I know one that comes to mind, Richard Branson, who we all know is an eccentric guy. I'm curious how those experiences shaped your view of leadership and of success.

Dan Schulman (28:58):

Well, you learn something from every job that you have. One of the things that my dad taught me was, I think he said something like, "Son, you're born with two ears and one mouth use them proportionately." And I'm sure he stole that from somebody. Like we are constantly in a learning all the time. Things are changing so quickly. You look at technology right now, the evolution of 5G, and I'm on the board of Verizon. I have a seat in the first row to look at that. That's going to radically change things as things move to the edge and devices become slimmer and they don't need to have the memory, you'll have instantaneous transfer. That's going to radically change the internet of things. It's going to change the price points of mobile phones and what we can do.

You look at Quantum coming on board again, whether Quantum is here in five or 10 years, doesn't really matter. It's going to radically change processing power. So, the technology itself is changing so rapidly. And then industry structures are changing. Consumer demand is changing.

I had leaders at every one of those companies and mentors at each of them that taught me different things. Yeah, you talk about Richard. Richard was really the person who opened my eyes about businesses and their ability to be a force for good and why that could be really powerful. One of my all-time mentors is Gail McGovern. She was my boss at AT&T. And she's now on the board of PayPal, CEO of the American Red Cross. She taught me just like one thing after another as well. And I think the thing John Donahoe at Nike, he now is the chairman of the board of PayPal is a really close friend. And we were just together earlier today talking about a whole bunch of things for an hour or so. We learn from each other.

So I think it's keeping an open mind and knowing that every experience can teach you something. And my view of the ecosystem, a lot of it comes from my martial arts background. And I've been practicing a form of martial arts one way or another for 40 years now. And a lot of that is how do you deescalate? Anytime you get into a fight, there's a good chance you're going to get hit and hit hard. So you want to try and avoid it, even if you're an expert at physical skills and fighting. And my view was when I came to PayPal is why couldn't we work within the ecosystem as partners, because we don't have all the assets to satisfy customers and others don't have all the assets to satisfy customers. This has to be a place where we can partner together. And we had to challenge our own model, by the way, to do that.

That's why the market did not love when we announced this idea of giving complete choice to consumers, as opposed to steering them to the low cost funding instrument that would help our margins. And the day we announced it, our stock dropped 9%. And I remember one headline saying, "The market questions Schulman's strategy, the stock tanks." I was like, wow, it's hard to imagine that a strategy can play out in like one hour. Usually they take at least several quarters, but that really was, I think, the very beginning of us turning from being kind of frenemies to really being close partners with the financial system.

Ken Coe (32:42):

Dan, I want to ask you a personal question. If you were told that you could not finish your career at PayPal, you had to finish it doing something else or somewhere else, what would that look like? What would Dan Schulman do?

Dan Schulman (32:54):

Well, let me be extremely clear. I love what I'm doing here at PayPal and I feel like I can make a real impact. Here in the world, the values we stand for, the services we put out, can be very helpful for hopefully millions, tens of millions, maybe hundreds of millions of people, so I can't imagine a better platform. But your question was, I can't do that for whatever reason, which I can't even begin to imagine.

Ken Coe (33:22):

That's right, hypothetically.

Dan Schulman (33:24):

Then clearly, I'd probably go into a public service of some sort. I do think we owe it either to our country or to each other, to take advantage of the opportunities that we've been lucky enough to have in our careers and in our lives and to give back.

Ken Coe (33:44):

For what it's worth, I think you'd be a great ambassador. So, I'm going to finish with two questions. I'm actually going to steal a question that you like to ask people at the end, and then we'll maybe give you one that we like to finish with. So to steal your own question, if you could just talk about maybe one or two setbacks or life-changing experiences that changed your viewpoint around, it could be leadership. It could be success, it could be your outlook on life, and as you always point out, not just necessarily the instance, but how you responded to that mentally and how you handled it?

Dan Schulman (34:15):

I've spoken about this before. Clearly the biggest blow I've had in my life, and we've all had multiple blows that have knocked us for a loop. How does somebody come back from being knocked down? Because that really is, I think, the measure of someone. But my sister died early. She was 19. She had a sudden aneurysm. It was devastating for my family, for myself. It's like a bomb had blown up in our family and in our brains. And I had to leave work for a while. It was AT&T, I was up and rising young star there and vice-managing a high-profile project. I just had to step away for several weeks. And I came back and the team had really stepped up and had just delivered on everything, actually well-delivered and pre this, I probably would have said a lot of, "I did this and this is what I led", but I couldn't claim any credit legitimately could not claim any credit.

And so I basically said, look, this is what the team did. They did it without me, and I couldn't be more proud of what they've done, but all credit to them, none to me. In fact, I was a mess during this time. Once you give credit to other people and recognize what they do, people then tend to want to work with you because they feel part of that. They feel part of that family that's working on that. And it was where I learned that there's way more power in highlighting the success of others and highlighting your own success. I wish I was a worse person and my sister was still alive, but she taught me some huge lessons in her death. And I miss her all the time, but it was one of those things where it really opened my eyes to the world around me.

Ken Coe (36:13):

I'm sure that was really difficult. And sounds like a great life lesson came out of a very unfortunate and difficult circumstance, but no doubt it led to-

Dan Schulman (36:21):

They often do, by the way. They often do.

Ken Coe (36:23):

Dan, I want to finish with one question that we like to propose, and that is what gives you hope.

Dan Schulman (36:29):

I'm an optimist at heart and I'm pretty much always hopeful. I remember giving a short speech to my daughter on one of her birthdays. And I basically said, "The key to success is like two things. It's be yourself, which is very hard to do, because most people are not authentic to themselves." But the other thing I said to Molly was, "Be optimistic." I just think that as Shakespeare said, "Nothing is or is not, but thinking makes it so." And I think that it doesn't mean because you think something good is going to happen, that something good will happen, but if you don't think something good is going to happen, chances are good it's not going to work out the right way. And so, I really believe

that each of us has the opportunity to make a real difference in the world. It may just be a small thing, but it's a difference that we can make and you add all that up together, and that can be a very powerful force.

And I think as each of us have our own perch and platforms, I think if we use it to be optimistic, to be hopeful, I think there's a real chance that we can spur that change in the world. There's a ton of things to be concerned about in the world. I think we need to be realistic. I always say that the definition of a leader is to define reality and inspire hope. And I think both are important if you just inspire hope. People don't think you have a firm grip on reality. They think you're just sort of like off in Lala land and how is he possibly thinking that can happen? And if you only define reality, people could get somewhat mired in the overwhelming kind of day-to-day difficulty of that. And so you've got to create that bridge between the two, but I think great leaders can do that and need to do that. And I'm one that always feels like with enough fortitude and enough determination and enough humility that we can make change in the world.

Ken Coe (38:35):

Dan, I think that's why you are pretty much unanimously known as a good and great leader. We appreciate you living true to your word, and Dan, we just want to thank you so much for joining us today. This has been great.

Dan Schulman (38:48):

Ken, thank you so much. I really appreciate it.

Ken Coe (38:50):

Thanks Dan.

Ken Coe (38:54):

I'll be back in a minute to discuss some investment takeaways from my conversation with Dan. I've been thinking nonstop about my conversation with Dan Shulman.

Ken Coe (39:01):

I've been thinking nonstop about my conversation with Dan Schulman and about what his perspectives mean for us as investors. I'm going to bring in two of my colleagues from CrossBoundary, it's our frontier market partner, to share observations.

Jake Cusack is the co-founder and managing partner of CrossBoundary. He's based in DC but frequent areas of the world like Erbil, Nairobi, Tunis, Bogota, or any of the many other areas where CrossBoundary has presence and advises clients. Efe Braimah, also with us, is an associate principal in the firm's Lagos office and has deep experience in the fintech sector as an advisor and investor. Jake, Efe, welcome.

Efe Braimah (39:42):

Thanks, Ken. Great to be here.

Jake Cusack (39:44):

Thanks, Ken.

Ken Coe (39:45):

So, Jake, let me start with you. Dan obviously believes very strongly in the power of multi-stakeholder capitalism. How does that resonate with you, and how does that connect with what you're trying to do at CrossBoundary?

Jake Cusack (39:56):

Yeah. I think it definitely resonated with me, and I think it was a great interview. CrossBoundary is a firm that's focused on bringing private capital to underserved markets, and that name CrossBoundary comes from not only going across geographies, but also across stakeholders who traditionally work apart, so across the public, the philanthropic, and private sectors.

If we go way back to the origin story, I served in Iraq as a sniper platoon commander, an intelligence officer, and I felt there like some of the objectives that we were trying to accomplish in terms of creating a more stable, prosperous, peaceful society required investment in the private sector, which was a missing piece of what... of the US government was doing there.

And so after that experience and after going back to business school and meeting my co-founders and briefly working at another private equity firm, we started CrossBoundary about 10 years ago to bring that missing piece, the private sector in, to some of these more challenging markets. And over the last 10 years we've now grown. We have 140 people, 18 offices across every major continent, and are working on impactful investments across agriculture, energy, fintech, as we'll discuss today, and many other sectors.

And I think in that context something that Dan also said that resonated is that it's more expensive to be a poor country. You have higher cost of borrowing, your currency is often declining against the dollar, it's harder for you to access good investment opportunities.

And if you go down to the next level, to the company level, it's more expensive to be a company in a poor context, because you have less access to capital than you would in the US, you have to vertically integrate to replace a lot of what you might normally expect the government to be able to provide in a more developed market or what you might rely on other players in the value chain to provide.

And then, of course, if you go to the individual level it's definitely more expensive to be poor because you might need to pay very expensive interest rates to get cash, to meet very basic needs, and you don't have enough money to save and participate in investments, which has been the primary vehicle of wealth creation for the last few decades.

So I think there's a huge need to be met here, but there's also an opportunity, as you discussed with Dan, for quite meaningful returns for companies that can help meet that need.

Ken Coe (42:03):

Absolutely. Efe, let me turn to you. So Dan talked about moving more and more toward a future where consumers are going to be using their mobile phones to manage everything to do with their finances. The company talks about its mission being to democratize financial services, to drive global financial inclusion. How does this reflect what you see as you look around African markets? What trends are you seeing in the fintech ecosystem?

Efe Braimah (42:24):

Thanks, Ken. This is a super exciting conversation for me because of how much the landscape has changed and evolved when it pertains to financial inclusion specifically. Just touching on financial inclusion, first of all, within the African context, I think one thing that was really clear from Dan's comments and really resonated with was the importance of the underserved and unserved being able to manage and move their money with the same cost structure and ease that more affluent people would be able to.

This really is the essence of inclusion, and essentially this is what we're seeing fintech starting to solve for and innovate around in the African markets. When you think about the number of people that are financially excluded, the sheer market size in Sub-Saharan Africa, so about 20% of the total global population have excluded people in Sub-Saharan Africa, and you have 40 million people in Nigeria alone that don't have bank accounts.

Nigeria and Africa as a whole has a very youthful population. There is very rapid tech adoption, and there is increasing penetration of smartphones. So we're seeing fintechs coming in to disrupt their traditional pathways to development, with a growing number of people being formerly included for the first time through a digital bank account or an e-wallet.

And these fintechs are really stepping in to develop products that address the pain points of the consumers. So, you're having fintechs that offer affordable payments products, quick loans, flexible savings, and investment products. So it's a very exciting time for innovation in the sector.

Ken Coe (44:04):

You touched a little bit on the innovation there. Can you maybe talk about some of these companies, and again, maybe some of the innovative ways they're addressing it, whether it be through partnerships or new product development?

Efe Braimah (44:13):

I think one thing that fintechs are really doing right now in this part of the world is meeting their customers where they are and innovating around the market needs. For example, we're seeing a lot of disruption in the payment space. There's a lot of payment services, providers, payment focused fintechs that are driving the vast majority of uptake.

If you think about how trade and commerce happens in Africa currently, it's largely characterized by smaller number of fragmented national markets or SMEs. And there is a real and frequent need for cross border payments or remittances. We're seeing companies like Paystacks and Flutterwave innovating around B2B payment.

What's really interesting is that these companies are not just reducing the cost of transactions for the end user, but they're also increasing access to market for businesses. Earlier in the year we saw Flutterwave integrate with PayPal so that merchants could add PayPal as a payment options when receiving money from outside the continent. This really just opened the door to over 300 million PayPal users to African businesses.

What's even more interesting is that as activity is picking up in the payment space this is leading to an ecosystem of other financial services solutions that are really just promoting inclusive growth. I'll give you an example here. The second most active sub sector after payments is consumer and SME lending, and fintech activity is really increasing because they can leverage payments data to start determining lending risk more easily and using smartphones for distribution.

So you have Nigerian startups like Carbon and Renmoney that are using alternative credit scoring algorithms to assess credits and provide instant unsecured loans.

Ken Coe (46:03):

And I'm glad you brought up PayPal. I think the PayPal partnership with Flutterwave is really interesting, and we've got other public companies that we're invested in that have partnerships in there as well. I know Visa struck a partnership and actually made an investment in Interswitch, which is why we're really excited about some of these areas of the market and some of these areas of growth. So, thanks for sharing that, for those insights.

Jake Cusack (46:22):

Maybe, Ken, just one thing to just jump in with that I think is really interesting that we've seen... a trend that we see in our markets is just, there is an opportunity for them to leapfrog, in some ways, and go straight to a more modern digital fintech ecosystem out of necessity.

You can look at Kenya, for instance, where there's really significant penetration of mobile money because of the absence of other alternatives far ahead of some developed countries. You look at something like the rise of buy now pay later companies and that enabling ecosystem in developed markets, and that's something that we already saw happening in many of our markets, again, out of necessity.

So, you had something like solar home systems which were providing people with energy and electricity for the first time. And what really unlocked that sector was having a pay as you go model so that people didn't have to absorb those high upfront costs right away, but could spread it out over basically a subscription basis or via a lease type product, and so that the financing was embedded in the product offering. And we're seeing that happen with things like smartphone handsets as well.

Ken Coe (47:27):

So my job is to assess the companies I cover completely objectively, but I have to say I'm fascinated by Dan's perspectives on leadership. Jake, I'd love to hear you reflect on Dan's comments as a leader. What struck you the most?

Jake Cusack (47:39):

I think certainly his comments on wrestling with how to be more inclusive and wrestling with those challenges and thinking about, you can't limit your view to just your company and trying to fix it just within the walls of your company, that context matters.

And when you think of the really important issues around diversity, equity, and inclusion, it's not the kind of thing that you can just have a few workshops on and an annual training and then declare it fixed. It's a long-term journey that we all need to be committed to and making changes, not just within our company, but trying to make changes to the context, whether that's through policy advocacy or how we relate and engage with other companies and individuals.

Another comment that I liked from him was saying that the job of leaders is to define reality and inspire hope, because we work in tough situations. We did a lot of work, for example, in Afghanistan, which is obviously a tough place, and there has been a number of depressing developments over the last few months.

And so we want to be realistic about that. Progress isn't an inevitable, that you do have to continue to work and strive in order to make the world a better place. But we do believe that we can create that kind of bottom up change, and that the best way to do that is by working with entrepreneurs in these markets to bring investment.

Ken Coe (48:56):

And how do you react to Dan's premise that his most important constituency is his employees?

Jake Cusack (49:01):

Yeah, I completely agree with that, and I think there's a really strong link to what he was saying about being mission and purpose driven as well. Going back to my time in the Marines, I really clearly saw then that people will do incredible things and make real sacrifices that have nothing to do with how much they're being paid to do a job. And they'll do those things if they're motivated by the mission and by the colleagues that they get to work with to their left and right.

I think it's the same thing, hopefully, at CrossBoundary today. I think people come join us because they're motivated by the mission of bringing investment into these underserved markets. They're motivated by the culture and by the chance to work alongside people like Efe and because they want to make a difference in the world.

So, thank you, Ken, for your time today, and great to have the chance to speak on this, and appreciate the chance to hear from Dan as well.

Efe Braimah (49:49):

Yeah. Thanks. Thanks, Ken. It's been awesome just being able to dive into some of the nuances of fintech and financial inclusion, especially in Nigeria and in Africa, so very exciting that we're really having this conversation.

Ken Coe (50:03):

Jake, Efe, we can't thank you enough. Thanks so much for joining us today.

Ken Stuzin (50:09):

Thank you for joining us as we continue this effort to seek out insights that help us understand our rapidly evolving world. If you enjoyed listening, we encourage you to subscribe to the podcast.

In our next episode we will discuss the intersection of ethics and artificial intelligence and why it matters for investors. We'll explore, in the words of one of our guests, Aza Raskin, one of the central questions faced by

humanity, can we learn to do what is right in the face of what is effective? We hope you'll tune in. Until then, be well and stay safe.