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James Robert Lay:

Greetings and hello. I am James Robert Lay and welcome to the 102nd episode of the Banking on Digital Growth podcast. Today's episode is part of the Exponential Insight series, and I'm excited to welcome Gord Baizley to the show. Gord is the CEO at JUDY.AI. And they are helping small business lenders make the most of economics of small business work through AI and automation with underwriting, monitoring, and portfolio reporting.

James Robert Lay:

Now I'm excited to talk with Gord about the work he and his team are doing at JUDI.AI, because we are continuing to see a tremendous growth opportunity for financial brands to maximize their own digital growth with a focus on the SMB market. And with that welcome to the show, Gord.

Gord Baizley:

Thanks very much for having me. I'm excited to be here and looking forward to a great conversation about small business lending.

James Robert Lay:

Absolutely. And speaking of exciting, what is one thing that you are excited about right now? Just personally or professionally. Your pick.

Gord Baizley:

I would say I'm excited about as something that blends into both, which is the world is coming back to life. And obviously we're all able to start to live a little and then hopefully get COVID behind us. We're a little behind you here in Canada, but we're getting there.

Gord Baizley:

And professionally, obviously that's really an exciting time too. We've found when COVID first sort of onset itself on us, that things slowed down for a quarter or two. But it's since that time been really, I think disrupting the way institutions think and driving digitization and innovation. And hopefully there'll be some, I guess some good to come of this on the other side of it. So looking forward to seeing what that looks like.

James Robert Lay:

Yeah. That's been a repeated pattern and trend that we're hearing from others. And you mentioned that you got out to go play golf recently with a client. And they're just overwhelmed right now with a lot of opportunity, right?

Gord Baizley:

Yeah, absolutely. I think all of the certainly mid-sized financial institutions are frantically trying to digitize. And yeah, COVID forced some of that, some of that was happening anyway. And they were saying their IT team is, the words they use but, is under siege in a positive way. But there's just so much demand on them for projects and getting a project prioritized is a real art.

James Robert Lay:

Yeah, and that comes down to just wanting to capture all the opportunity and as I've mentioned, I see opportunity with the SMB market. This has been one of my top 12 trends for digital growth in 2021.

James Robert Lay:

I referenced back in episode number 55. Ron Shevlin also touched on that in episode 58. I'm excited about the work that Corey LeBlanc and his team are doing, which he referenced in episode 73 in the SMB market. And then just had Derrick Sutton on in episode 94.

James Robert Lay:

So that's some context for the dear listener that this is something that keeps coming up time and time again. But Gord, I want to hear from you right now. Why do you feel that the SMB market is primed for financial brands as a way to maximize their own future digital growth potential?

Gord Baizley:

Yeah, I mean, there are a few reasons. First of all, it's just a massive segment, right? So depending on the data you look at, but it employs the majority of Americans. The majority of businesses are small businesses, so it's a huge opportunity.

Gord Baizley:

But it's one that's kind of been lost because it's hard to service. So it's been either buried in the retail divisions of the large banks and not serviced properly as a result. Or it's been stuck into the commercial processes of banks and credit unions. Which in particular with respect to lending, a large dollar commercial process doesn't work for small business lending.

Gord Baizley:

And so there's this massive market that's been untapped and I think there's an opportunity here to blend relationship banking with technology and data. And sort of come up with the best of all worlds, I guess, to service that market. So, that's what we're trying to do here.

James Robert Lay:

Before we get into deeper some of those opportunities, I want to start with the pain points. What are those pain points? Those friction points that you are seeing through the conversations that you're having with financial brands when it comes to connecting with those small to mid-size businesses? What's hurting them right now?

Gord Baizley:

Yeah. I mean, most of the financial brands just find it hard to service that segment. The economics are challenging, right? So you've got small dollar loans and I refer to small business lending as the worst of all worlds in the middle.

Gord Baizley:

So on the left you've got consumer lending, right? Credit score-driven, pretty straightforward. And then you've got large dollar commercial lending on the right, which you can spend some time on it, the economics work to do that. But you can't treat it in the middle, a \$50,000 loan or even a \$500,000 loan, like a \$50 million loan.

Gord Baizley:

And that's been the challenge [inaudible 00:05:53] to the space. So you've got low hit rate on credit scores for the business itself. You've got financial statements that are hard to get. We had a prospect the other day talk about a game of ping pong came out with these types of businesses where it's back and forth, back and forth on the information. And then it's not reliable when you get it.

Gord Baizley:

And then the analysis, you can't spend a bunch of time on the analysis. So all of that adds up to economics that don't work. And if the economics don't work, then the customer experience isn't going to work either.

James Robert Lay:

You talked about this being a growing market and we're seeing that. I'm curious to get your thoughts for the dear listener, because this is an untapped opportunity here. Where, and how does the growing gig economy play into this conversation?

James Robert Lay:

Because you're right. Up to this point, historically, I would say the gig economy has gotten hidden or has been hidden in the consumer side of things. It's now time to pull that out and give it its own space to play in.

Gord Baizley:

It is, and small business is hard and the gig economy creates an added dimension to that complexity. It's the business for self or whatever you want to call it. And you've got now people in businesses that look the same, but they're neither.

Gord Baizley:

And so you need to find a way to untangle that and untangle it efficiently. And hopefully draw on some of the efficiency that is in consumer lending and apply that to small business/gig economy lending while not losing the rigor of commercial lending so that you don't lose your shirt. And you need tech and data to do that.

James Robert Lay:

And that's where the opportunity is because you've touched on this a couple of times now. You mentioned the efficiency and there's a great infographic that you have on your website that shows the traditional SMB lending journey being one to four weeks. But you're talking about taking that from down to just mere minutes. Now, my question is going deeper, what are some of those more specific opportunities that financial brands have to really innovate the SMB lending model here?

Gord Baizley:

Yeah, I think there's really three opportunities, right? One is just speed. So can you speed up the process and get to a faster decision? And that's the efficiency play, right? If you can do things faster with less resources, you get a better result quicker.

Gord Baizley:

The second one is managing risk and ultimately if you're managing risks better, you can reduce the loss rates, but more importantly, you could expand the credit box. And so if you can provide more credit to small businesses, that's a big win. On any given survey, you'll look at 50% of small businesses complained that a lack of capital is their largest problem, right? So, if you can use tech to solve that problem.

Gord Baizley:

And then if you get speed and if you get an unexpanded credit box, you've got a way better customer experience. So that's a massive win for obviously the small business, but also the institution in terms of retaining the client. And our view is that small business and banking and small business lending is actually a pretty strategic part of the relationship. And if you have that, you probably get the consumer side, and the mortgages, and wealth management. So we have a few clients that definitely look at it that way. And rather than looking at it just as another part of the retail business.

James Robert Lay:

So there's the trifecta of speed, reducing speed, risk, improving the risk model. Particularly for the business owner, because that pain point is access to capital. And when you add those two together, it's an optimized experience that makes people feel good and you can tap deeper into the business wallet. But then also you've got a whole opportunity of employees who work at said business because then that employer becomes the advocate for the financial brand.

James Robert Lay:

Really, I mean, it's a win-win-win. Win for the small business and the small business owner. A win for the financial brand and even a win for the employees of the small business when you add all of these different components together.

James Robert Lay:

Where might, because you've touched on technology and data a couple of times out too, where might there be an opportunity for a financial brand to transform their model? To move from really being reactive, waiting for an SMB to raise their hand and say, "I need help." To taking more of a proactive stance in that SMB's life, if you will? To provide recommendations, to provide advice and dare I even say to provide maybe some even coaching and advisory services based upon the data that they're seeing from that SMB? What does that look like here?

Gord Baizley:

Yeah, absolutely. And that's certainly where all of this is going, where our platform is going. We've started with looking at everything through the risk plans, right?

Gord Baizley:

So all the data we ingest, we're looking to assess risk. But you quickly transfer from, "Okay, this is a risk assessment in reaction to an application." To, "Let's do a risk assessment as part of a pre-approval

process or a cross sell or upsell process." But then you're into, okay, forget about risk for a sec. What else is in the data?

James Robert Lay:

Yes.

Gord Baizley:

What else can we extract from there. You've got to be sitting on too much cash and we better call the wealth management team. Or they've got a bank account or a loan with another institution, or these guys could use some insurance.

Gord Baizley:

So when you're looking at the data, and our clients are quickly pushing us there saying, "Well, if you're looking at sitting on all this data and you've got the talent and the tech to look at it. Please bring us the growth opportunities as well." So that's coming.

James Robert Lay:

And that's where I see more of the proactive, coaching, advisory next best product. I mean, we're seeing that already in the QuickBooks world. We're seeing that in the Amex world. I mean, I get offers based upon all the data that they have on me and could get access to capital literally within five minutes if I needed it. But it's interesting too, to see what's going on like for example, the payroll side. Like with Gusto and how Gusto is bringing financial services.

James Robert Lay:

So there's a tremendous opportunity. My question, when it comes to innovation and transforming not only the model, but transforming the mindset. What are some of the challenges that you're seeing holding financial brands back from optimizing and innovating on this SMB lending experience? And really just, I would say the overall relationship as a whole? What's keeping them from making progress here?

Gord Baizley:

Yeah. A couple of things. The first one we already touched on with just resources, and there's so much digital transformation to be done and so many digital projects underway that getting this particular dimension prioritized is always a challenge, and so they've got to fight that.

Gord Baizley:

I guess the second one would be just cultural, so we're selling in particular into community banks and credit unions. And they're very protective of their positions as relationship lenders and stewards of the relationship, which as they should be. That's their competitive advantage. But they don't have to think of this as mutually exclusive.

Gord Baizley:

Technology and data can unlock times with the relationship and for higher value activities. And so it's not that you're automating customer service into oblivion. It's quite the opposite, actually. It's going to raise the bar and give you more time for that relationship.

James Robert Lay:

What's using automation and AI, artificial intelligence, as not a replacement, but an augmentation to the internal talent, to the internal resource? That can then provide better recommendations, that proactive coaching guidance advisory model. But let's dig deep into that idea of culture, of a mindset. Where's the gap and what do you feel could be done to begin to bridge that gap to say, "Hey, we're not trying to replace anyone. We're just trying to make you even better so that you can do even more for your clients"?

Gord Baizley:

A lot of the culture obviously starts with leadership saying, "Look, this is a priority and we're going to drive this," right? And I've talked to, I remember distinctly being in a meeting recently with a credit union and it was a C-suite executive talking to us about what I know that my competition isn't the bank down the street, or the credit union down the street, it's going to be Amazon or Facebook. Or all of the platform guys that are getting into small business lending and then banking.

Gord Baizley:

And so that mindset had them running fast at, "Okay. What are the ways that we can iterate it and digitize quickly and not just take on massive digital transformation projects, but actually find some quick wins?" And I think that's a key mindset in terms of the culture is, getting iterate quickly and not just look for a platform that's going to solve everything all at once.

James Robert Lay:

You talked about this idea of quick wins. We were discussing being able to get set up and running in eight weeks versus two to three years and by that time it's too long. Let's talk about cashflow data because you wrote about this being an old piece of jewelry with a new battery. That new battery being machine learning and how that can help address some of the SMB credit conundrums that are really a big sticking point. So where does cashflow data play into the mix here from being able to help make some of these proactive recommendations and decisions?

Gord Baizley:

Yeah, I mean, it's a critical piece of the puzzle and it's what allows us to not have to pour over financial statements and do a bunch of manual analysis. And we wrote about, 10 years ago you couldn't look at this because it would have been manual processes. Now with some of the machine learning technologies available, we can untangle that. A bank statement is a bowl of spaghetti. It's cryptic, and it's pages and pages and months and months of data you can look at. If you have 12 months of data to look at and five pages per month, you got 60 pages of very cryptic transactions.

Gord Baizley:

But imagine now, if you could quickly turn that into a synthetic income statement and then quickly extract proxies for ratios out of that. Well, you can automate the lending process almost in seconds as a result. And then from there to your point, you're also looking at saying, "Okay, where's the growth and the gold in there too?"

Gord Baizley:

So, the whole idea of looking at cashflow data has really transformed lending and it started with the FinTech lenders several years ago. And now, and that's where we were born and incubated within one of

those. And so the idea of using that sort of alternative data, which is debatable because it's been around a long time, but it's key. It's definitely critical to the transformation that's underway.

James Robert Lay:

You mentioned being spun out of FinTech. I have to ask you, when it comes to SMB lending, what is a common belief that others in this industry might have that you just passionately disagree with?

Gord Baizley:

Yeah, I would say, there would be lenders out there, whether it's commercial lenders or retailers that don't think you can run an SMB portfolio profitably and efficiently. And that it's worth the trouble. And I would passionately disagree that you actually can do that. Not only you can, but you need to.

Gord Baizley:

Small business banking is, according to McKinsey, 20% of global banking revenues. It's a massive category and I mentioned before, my belief is it's an anchor to a whole bunch of other dimensions of the relationship. So you can probably count it as 30% of global banking revenues when you attach the peripheral opportunities to it. I don't think a bank or a credit union or an institution can afford not to do it.

James Robert Lay:

And getting really practical, let's take one of the financial brands that you've been able to work with and optimize this experience. And you don't have to name names here, but what did they come to you with? They came to you with a problem. What was that problem that they address? And you were like, "We can definitely solve that problem for you." What did their paths look like before working with you guys?

Gord Baizley:

Yeah, so I can think of one client particular. A credit union that came to us and they felt that they weren't properly servicing their members in this respect. And that it was a massive opportunity and the way credit unions think. It's not just an opportunity, but it's actually something they have to do. This is a service we need to provide to our members and so we've got to make it more efficient and we've got to be able to lend these small dollar amounts without taking weeks and months and ruining the economics and ruining the customer member experience.

Gord Baizley:

And so this was actually our first client, essentially, that was arms length when we were spun out of the FinTech and so this is exactly what we were doing inside of FinTech and we had the benefit of having gone through all the trial and error, I guess, and the growing pains that as a lender ourselves before spinning out and reselling the platform.

James Robert Lay:

And so how important thinking about this is doing some type of benchmarking? It might even be competitive benchmarking against others because coming back to the point about culture, about leadership, what I find is the big thing that holds people back is just the lack of knowledge. A, of what is possible, or B it's the fear of the unknown.

James Robert Lay:

And so by doing some type of benchmarking study, IE. let's just call it digital secret shopping. I'm curious how many SMB lenders have ever done that comparative to say like a Kabbage or any of these other Neal Lenders in the marketplace who literally are making the claim that you could get access to capital and cash sometimes in minutes.

James Robert Lay:

And that's a very attractive offer for a small business owner like myself. Knowing that there's a lot more on the other side of that equation, just because of my knowledge of the industry, but from the average SMB owner. So where does that fall in of just helping build some awareness for just the general marketplace that they might not know that they have a problem?

Gord Baizley:

Yeah, I mean, and obviously we try and relay our experiences to people and to communicate the edge that these lenders have too, right? Aside from the customer service and customer experience angle that I think is critical in small business lending because small businesses want to have a relationship.

Gord Baizley:

But aside from that, the alternative lenders that you just mentioned, they have a pretty high cost of capital. So the economic model is radically different. That's where we keep coming back to community banks, credit unions. I think they're in pole position when it comes to small business lending. They have the relationships, they got the local knowledge, and they've got a really low cost to capital. So, all they need to do is adopt a little bit of technology and obviously transform that cultural piece, but they should win that piece of business more often than not.

James Robert Lay:

When we think about deployment here, I mentioned before, there's a lot of ways to slice and dice deployment. Sometimes it's, we try to get to the hundred percent before we launch. I'm a big believer, let's get an 80%, get it out, test it, iterate it. Pilot programs, right? Pilot programs, I think are a great way to show proof of concept. To help build the confidence of others internally, who might not even be fully aware of once again the opportunity, but they might not even believe that there's a better way for it because they're clinging to the past. How do pilot programs play into the deployment of new types of technologies and really in this particular case, new types of thinking here?

Gord Baizley:

Yeah, they're important and there's varying, I guess, flavors of the pilot programs. Anything from a quick trial, run this with two or three advisors to see how you feel about it.

Gord Baizley:

There's, do a retro analysis on your data to see what you would have decided using this platform, for example. And then there's run it in parallel with your existing systems for a while, until you get comfort and then you can gradually wean off the parallel systems. Expand the scope of lenders loan size, or number of advisors. There's lots of ways to get to the comfort level that you're required.

James Robert Lay:

But there's also, when we look at pilot programs and really this becomes the new definitive operating model. It doesn't only improve the SMB's experience, the prospective clients experience. But it also

improves the employee experience as well from a time reduction savings. Do you have any lessons learned from that?

Gord Baizley:

Absolutely. And I've even been talking about this from a marketing perspective, but a couple of our longest standing clients, our biggest fans are the front line employees that are doing the small business lending.

James Robert Lay:

Yeah.

Gord Baizley:

And it's often small business lending is with, in the retail branches or with the small business advisors. And they're even expected to do the underwriting in some cases. Which they don't love to do and not necessarily trained to do.

Gord Baizley:

And so they transformed from sort of needing small business lending because it's a ton of work for a small win for them to, "Okay, that was pretty easy and now that's a win and I can get on to managing the relationship like I want to manage it." So it really can transform an employee experience as well.

James Robert Lay:

Man, I can't help but just think as you're talking through this. Another big theme that we've been having on the podcast is this idea of thought leadership, building a personal brand in a digital world.

James Robert Lay:

An SMB lender is primed for this opportunity, particularly if they're able to free up time, free up capacity, to become a thought leader. To share content in that local marketplace to build the relationship digitally, and then to be able to service it digitally. It's, once again, it's almost a double win when we thinking about this.

James Robert Lay:

And two there was research from Gartner that said 70% of small businesses would change their primary bank for digital access to product. So growth opportunity, right there.

James Robert Lay:

Gord, this has been a fantastic conversation, a lot of great practical insights. But let's get super practical here as we wrap things up because I'm a big believer that all change, all transformation begins with very small, simple steps. Micro wins if you will. What would be that one small micro recommendation, that small micro commitment a dear listener could make or recommend internally to someone else just to begin to move forward on their journey as we've discussed today? What's the one thing to commit?

Gord Baizley:

Yeah. When it comes to our world of small business lending, I would say, look at however, you carve up your sort of CNI portfolio and there's usually various tiers. Take the lowest tier, whether it's up to a 100,000 or 250,000 or whatever that is and say I just want to start with that and I don't need a system that's going to integrate with every other system right away and talk to them. Just let's do it in bite-sized

chunks. So it's a standalone system that we take. The smallest dollar loans and let's start with that and just see how it works. Let's get it going and get the ball rolling with that.

Gord Baizley:

And once you get that working and the kinks out at a relatively contained risk level, you can start to expand it out and you can integrate with systems and add larger dollar loans and more advisors, et cetera.

James Robert Lay:

I like that because I see there's a correlation to that for example, with CRM. So many financial brands want to move CRM to the corporate level, and it's just too much change too fast. It's overwhelming, particularly for those on the front line.

James Robert Lay:

And we're like, "No, no, no, no, no. Let's just focus on one small area here. Build a level of confidence through building a level of competence and we move." So the same idea, if I'm hearing you correctly would work here. Let's not try to integrate everything and, no. Start small, build progress. And then be able to expand that internally. Am I hearing you correctly with this?

Gord Baizley:

Absolutely. What we've seen is as soon as you start to get some momentum building, when you've worked out the kinks with if it's loans under \$50,000 and three advisors. Wherever you choose to focus, if you get that working and people start talking about it and realizing, "Yeah, this works," then that can snowball. If you start with this big, hairy project that you could get stuck. Before you get the wins, you need to get the momentum.

James Robert Lay:

I want to say it was an article from Forbes that I read that 70, and it's funny you mentioned that the frontline here, 78% of people on the front line do not like change at all. "Do not move my cheese, please."

James Robert Lay:

And so by focusing in on a small group, it's a great way, I think you use the word momentum. That's a great word. Build some momentum, get some wind in the sails to continue to push the ship forward.

James Robert Lay:

Gord, This has been fantastic. If anyone is listening, they want to continue the conversation that we started today what's the best way for them to connect with you, reach out, say hello?

Gord Baizley:

Yeah, they can reach me at my email address. Gord.baizley@judi.ai. That's G-O-R-D.B-A-I-Z-L-E-Y@J-U-D-I.A-I. So we'd love to hear from anybody that wants to have a follow-up chat.

James Robert Lay:

Connect with Gord, learn from Gord. You guys are doing fantastic work, Gord. And I really, really appreciate it. Its important work, its meaningful work, and I'm a big believer in supporting the SMB market because just like community financial brands are the backbone of the local market financially.

The SMB market is the backbone of the local economy as well. So thank you so much for joining me on another episode of Banking on Digital Growth.

Gord Baizley:

Thanks for having me. It was great to be here.

James Robert Lay:

As always, and until next time be well, do good, and make your bed.