Peter Renton: Welcome to the fintech One On One podcast episode number 315. This is your host Peter Renton, Chairman and Co-Founder of LendIt fintech.

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Peter: Today on the show, I'm delighted to welcome Nigel Verdon. He is the CEO and Co-Founder of Railsbank. Now, Railsbank is a really interesting company, they're a new type of fintech company focused on embedded finance really making embedded finance a reality. Nigel gets into what that actually means and how they're doing that. We talk about some of the different companies they're working with. We talk about the different geographies and how they differ when it comes to embedded finance. We talk about the opportunities for brands to offer financial services which is something that Nigel is very bullish on. We talk about the latest funding round. And what Nigel would do if he was building a bank from scratch or whether he would even do that. It was a fascinating interview. Hope you enjoy the show.

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Peter: Welcome to the podcast, Nigel.

Nigel Verdon: Thank you. Thanks for the invitation to join you Peter.

Peter: My pleasures so let's get started by giving listeners a little bit of background. I know that Railsbank isn't your first rodeo here. So why don't you give the listeners some of the highlights of what you've done in your career to date.

Nigel: Started out originally as an engineer in the world of car manufacturing. And that was an eye opener, because of the technology used and applied on a daily basis and what are the learnings from that actually use today and within Railsbank. But a friend of mine then joined a company called Goldman Sachs, I used to work with the car industry and they paid him 20 to 30 times the money for the same engineering maths. And so that's how I ended up going down to the city. I didn't go to Goldman I went to Nomura, and then Swiss BankCorp, and during that time at Swiss Bank Corp called single internet appeared, which a lot of people may not remember the first time when you could just email a friend of you sitting next to you.

And you thought that was amazing that email worked names, but we did the very first foreign exchange trades on the internet back in the sort of mid 1990s. And then I found that a first company, which was a like a miniature Accenture, that helped Goldman Sachs, Morgan Stanley, Merrill Lynch, Deutsche, UBS, Swiss BankCorp all utilize the internet for the front offices to engage better with customers and everything that has ended up through acquisition as part of (inaudible) or BAE Systems, part of the FTSE 100. And parts of that still exists for that company. A second company I founded was a company called Currency Cloud, which was just exited to Visa about a month ago. So that's two exits we've gotten. Railsbank that is my current gig, which going nearly five years on the project.

Peter: Before we get into Railsbank, I want to just take a step back and kind of get your perspective. You've been around fintech for a long time, and you've seen different things come and go. And we've now got this trend towards embedded finance, which I know is what you're taking advantage of here. How do you define embedded finance? And why do you think it's suddenly a hot topic?

Nigel: It's a hot topic because the media seems to like it. Like fintech in Q1 2012 was a hot topic, because the word fintech... We've been calling it embedded finance for some time, before it was popular, because what we fundamentally do is we enable our customers to embed finance in the consumer journeys. Where a consumer could be an SME or a retail individual. So why is it important? The important thing is a shift between finance in a function experience where you go to the bank with a banking app, there's no difference in a branch near you to be honest. And you do something functionally, you check an account, you send money and things and it's not really embedded in the actual experience you're trying to do like is buy a car.

If you're going to buy a car, that's and then you need to finance that. That is where the point and the place should be. And that's where you embed finance into the buying car experience. That's where we see there's a trend that's hooked into it part. It's lots of people's marketeers and parts is a lot of media. But there's also as a good well thought through companies now focusing on finance being more than functional, but being an experience and that has been driven primarily by the consumer.

Peter: Right, right. What was it specifically that you saw, that was an opportunity that made you decide to start Railsbank?

Nigel: I started Railsbank, was not to go into embedded finance because that was a realization about 12,15 months ago there was a ta da moment, that's what we're doing guys. It was the experience in Currency Cloud building that out, my friends built out TransferWise I love the Seedrs, love the early stage fintechs Revolut as well, all these we saw as PowerPoint decks in the very early days, and everybody had to do the same thing and build an infrastructure. And that would take them nine to 18 months, before they get a customer and offer it to the customer.

And they all build their own infrastructure, which is payments, infrastructure, accounting, infrastructure, all this type thing. So we thought there must be a better way. And just like AWS did with machine infrastructure, let's go and do that with finance infrastructure. We went and built all the pieces and abstracted away all the difficulty, and decoupled the complex or so called complex pieces, and then just delivered it through very, super simple API's. The API's are like Lego, you just put the pieces of Lego you need to build a use case, you want to put one bed in a financial customer journey. We started off with infrastructure, and simple API's to build any use case. And that is exactly as we are today of how we operate. And it's now looking at how it actually fits into the consumers life as what is today called embedded finance.

Peter: Right, right. Can you just maybe describe some of the different products that you enable, like, what are some of the different API's that you have available,

Nigel: The basic sort of building blocks of everything, what we call banking as a service, which basically allows you to issue an account, send money, receive money, collect money, which is another name for direct debit. And those are just the very basic pieces you need for the basics of banking. We have our cards as a service capability, and that is issued, issued card, spend money on a card controller card doesn't reset the pins. And if you look at those capabilities within cards as a service, there's capabilities within banking as a service.

The art then is helping customers and work in partnering with customers to then say, right, I'm trying to build a wage advancing experience, because consumers the problem they're trying to solve is consumers are currently having to go to a payday lenders. And if they're going to payday lenders, the issue they're facing is compound interest. And so if they can implement wage advancing by hooking into the payroll, by using our API's and tweaking them together, and being able to issue a wage advance for 75 pence fixed price, would that be a better outcome for the consumer.

And so Wagestream, one of our customers partnered with us when they first started because they couldn't do that with traditional legacy infrastructure at all, they couldn’t issue half a million accounts in seconds, they just didn't have that capability. So that's an example of taking an initial account, send money, receive money and moving money between accounts. Which is send and receive money, and being able to hook around a customer problem and deliver a use case that solves that customer problem, which has compound interest and financial health.

And that gives us just an example. Imagine Lego, or imagine going to the supermarket. While API's are like all the vegetables, goods, you have, the recipes that you can either pick up the recipe from Sainsbury's recipe on how to make lasagna, and it says buy this, this and this and that, hey, presto, you've got a lasagna, or you got people who are chefs who can go in and just know what to pick. And it's the same sort of thing. People can just use our recipes, or they can figure out the API's themselves, because they've done that before.

Peter: Right, right. I imagine you're not really working with traditional banks at all. You mentioned Wagestream really like what those guys are doing. And you really focused on fintech companies? Or what about non financial institutions?

Nigel: We're focused on two segments, which is fintech and what we call brands. So brands for example, McLaren Formula 1 is a customer. So they're looking at how finance within their fan base can engage the fan base in a more meaningful way. Instead of every couple of weekends, during the Formula 1 season. If you use finance, you can be embedded with your consumer on the daily lives as well. We don't sell to banks, unless it's a neobank, which we put into the fintech pocket, we don't actually sell to your traditional legacy banks. The reason is, is if you look at how we've built our philosophy behind our infrastructure, we're totally vertically integrated banking service cards as a service products and also credit as a service. And we go goal and with this is what we achieved.

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And so you know you can you at businesses connect to consumer all the way through central bank with no legacy. So no legacy infrastructure, no legacy risk management processes. So you don't have a third party bank telling us what business we can and can't do. It's totally up to us because we clear Sterling directly ourselves. No legacy operations to cause problems with our customers. So we have this total, no legacy, vertically integrated stack philosophy of software operations and regulatory licenses and scheme licenses like Visa and MasterCard. So we can deliver the value that our customers actually want. And we don't have the impact of the legacy. We call this "legacy-saurus" impacting your business and your operational excellence, and your pricing and what business you can and can't do.

Peter: Right, right. So one thing that I've been really curious about is that everyone talks about legacy infrastructure, which, obviously, at one point in time, was cutting edge technology. How are you thinking about it where your technology that you're creating today will be legacy technology in a decade, or certainly in two decades. How are you thinking about it internally about making sure that your technology doesn't become legacy technology?

Nigel: Since the same way as Amazon, same way as Facebook, everybody will continually... technologies is not deployed and left alone. Which was the old model. Is basically very expensive, built it, it sits there, and you don't do some modifications to it. And then you have a release every week, or release a year or release every 10 months or three months. If your engineering is all set up into continuous, basic continuous releases, you may not realize if you're on Facebook, you've probably had 10,15 releases of functionality behind the scenes of bug fixes that you're totally unaware of just happened for you.

The same sort of thing is you're permanently adding functionality, deprecating dead code, fixing bugs, and it's always going on. So your software essentially becomes a living organism that's primarily going forward. And that thinking Google does it. And most of the big tech companies and lots of fintech companies, too, is a mindsets thing and it's an experience thing. And it's very difficult to do if you've got legacy, because the legacy isn't written to be continuous deployment. It's not written to work in that mindset. So there's a skill set. And so you can start working on no legacy platforms, and you're continually improving going forward, rather than continue putting in technical debt, which is unfortunate legacy ends up with lots and lots and lots of technical debt, because when it was all written, they didn't have the concept of continued releases.

Peter: Right? You guys I think, I believe, based in the UK, but what markets are you actually operating in?

Nigel: Our largest markets are UK and Europe. So, no that we've been split apart, because of good old Brexit, we're up and live and running our customers and North America. And we have customers live in APAC, as well. So in APAC, we're live in Australia and in Singapore. And we've been lighting up three or four new countries in the next 18 months. And so growth plans are to consolidate US, consolidate the APAC region and continue to grow and build out more so into Eastern Europe and Nordics and our UK and Europe business.

Peter: So then how, how hard is it? Because I mean, obviously, finance is very local and there's different regulations and different customer expectations in different geographies. But what do you need to change if you're going into Australia or the US or Spain, for example?

Nigel: We designed the API's and platform to be able to deliver everything globally, in terms of issue account doesn't change whichever region you are. And being able to issue an account. Behind the scenes we have Railsbank, a rail is specific to say, the UK or to Spain or to whichever jurisdiction you're in. Because in each jurisdiction, you've then got not just some technology challenges with connecting up to the central bank, or you've got legal frameworks, you've got regulatory frameworks, you've got different KYC etc. But that's all hidden behind the scenes.

And our goal was to make sure we have something like say Salesforce, a totally its own platform for the common API and approach to API. And it's multi talented and everything across the world. We just hide what's needed for localization. So it's the same thing, if you get onto a plane, it's pretty much the same everywhere in the world. The regulations for flying in China are different regulations for flying and the say across Europe are different from the US, but that's all hidden behind the scenes. Your consumer, you get the same experience. So what we learned at Currency Cloud, what we learned all the way back at Evolution. How do you build global? And what you don't build global is you've just got to decouple what the product should look like and does look like, and then what local requirements are to actually implement that capability in a local market.

Peter: Interesting, okay. When you're looking at the geography of the world, and obviously, you've mentioned quite a few regions. Are there specific regions that are more open to this sort of embedded finance model? Or are you finding it pretty much wherever you go, fintech entrepreneurs are really open to it?

Nigel: The hard work was done from 2012, to around 2016, 2019, that sort of a friendly, the first wave of fintech came through. So the idea of opening up markets, trusting non-bank financial institutions, essentially. And that mindset of the consumer has changed. And the media has played a wonderful role in helping on that and regulators have also paid great roles in helping that and promoting.

So we see there's different stages of markets, so you you're probably the most developed, some of the Southeast Asian markets have developed other ones developing, but they're going they're. The market, I'd say that the most backward is actually the United States, then because the legacy really is embedded there. So they've got a different problem with embedded finance, liquid embedded legacy. Similar problem that one, but there's ways around it. We've figured out some ways around that we how we operate, there,, our future plans of how we operate there, too, with similar model that we have in the UK, Europe and other Southeast Asian countries.

Peter: Right, right. What do you think is the biggest opportunity here? You mentioned McLaren, obviously, non financial services firm. Financial services is a massive vertical that probably could spend your entire business focused on but how big is sort of this brand-type business you talked about for financial services? How big is that compared to fintech companies that are really focused on financial services?

Nigel: The research most people referring to is it's done by Bain Capital, and also by a chap called Simon Torrance independent sells side analyst. And remember it their numbers are, there's roughly about 3.6 trillion of, of stuff from a revenue side within the traditional banking insurance market at the moment. The predictions are, if you start opening it up, and brands like Nike, Lululemon, Apple's already doing it, distributing finance, and using finance as a, as a tool to engage with consumers and understand consumers and deliver more relevant things to consumers and up the the cadence of, of interactions of consumers.

We see that market and I don't see any reason that the numbers have been through assignment. But what often is ways thinking is it's a $7 trillion market. So does an increase of basically $3.4 trillion that can be attributable to embedded finance over the next 10 years. So that's a positive side. And then it could also encroach into existing 3.6 trillion, shifting the money out of probably some traditional banks into the brand, but the brand's more from a distribution perspective and banks going back to being places of safety with solid balance sheets, as well. So we can see how the two play together nicely.

A parallel industry, if you looked at how the iTunes. It wasn't an invention, it was just a marketing tool, because MP4 was a well invented before that. That one innovation massively changed the music industry, because it didn't have to buy 29 terrible tracks to get one track you wanted. For 99 cents, could get you the track you wanted. You can build your own albums and super easy while pressing tape recorders and all that stuff, use it as kids. And that's now created an industry where the power shifts has moved away from the record labels, to some extent, as it will be for the banks. But the record labels still play a key role in that ecosystem, their sense of custody of music catalogs, for example.

And so we see a similar thing on finance, where banks still are enrolled in there. There's a different role in economics is different. But there are places of certainty that well they're run by very good people, etc. and centers of where capital can be laid to rest in the bank, stored and then leveraged up into assets, into loans, etc. So that's our view of the world is just new money being created to someday be taken away traditional, and there'll be a new infrastructure and market structure that delivers on that.

Peter: Right, right super interestingly. So basically the pie can double in the next decade is what you're saying uh...

Nigel: Yes. Simple version. Yes, that's it. That's much more eloquent than me.

Peter: Okay, so I want to switch gears and talk about earlier this year in acquisition or might have been last year that acquisition, you might have Wire Card Services. Where, you know, obviously, the Wire Card scandal, the company imploded, there was a lot of there was fraud, like anything, there was also, I'm sure some good pieces of that business, but tell us why you decided to acquire Wire Card Services, what was in it for Railsbank?

Nigel: We were building our cards at the time. We knew that the previous incarnation of wild card which is called the Newcastle Building Society. And a lot of people were still there who were at the Newcastle Building Society. That was purely the commercial side. So we thought, Hey, we're, if we acquire that we can step change our card business. The other piece was, we didn't think we needed a massive failure within the fintech market of this business going totally bust. And consumers losing trust in fintech because a set of people in the in situ mentioned watch, I decided to be fraudulent players.

So this helping them market makes good commercial sense to us. And I approached a colleague of mine who was on the advisory board of Wirecard and just said look, we're super interested and we want to make sure it's an orderly market is created fintech is important. We don't see too many failures or anything like that, because it gives us confidence in us. We can help here. Some negotiations and all the typical thing you go through with an M&A deal we ended up acquiring it, migrating it over to us in just over two and a half weeks.

And now that the lots of customers a good 95% still all operating. All his success and I think the sad thing is some people from Wirecard are being tainted with the with a brush of fraud when there shouldn't be is it was a good company. There's a lot of very good people there a lot of people who could work for us in the UK and in Germany, as we opened up in Munich office purely because of that. I think we should just say got on the CV be proud. They were let down by few others, just like Barings was let down by Nick Leeson.

Peter: Right, got it. I read recently, you have a partnership with Plaid. Obviously, Plaid is really at the center of financial services, particularly in the US and also increasingly in Europe. Tell us a little bit about that relationship and what what you're doing in there.

Nigel: The way we look at product is customers drive everything. And one a lot of our customers wanted the ability to… essentially it’s called payments initiation, as in pay by bank transfer. And have use cases around that and also wanted access to finance data, so to account aggregation and build use cases around it. We looked at doing it all ourselves. And if you look at the open banking side, it's meant to be open. But it's open, but complex. Because every bank is fundamentally different. And anybody tells you different is wrong.

Why do we have TrueLayer? Why do we have Plaid? To solve it for all of the banks because they are subtly different. Which is what happens when you get a protocol designed by committee. So instead of a deciding to reinvent it, they're a world class company. They know these use cases very well. They're essentially a utility. And so we've started partnering with them rather than build. Because, us to try and build that would have been a two year project. Where as we could come to market, satisfy our customers and satisfy their consumers and do it super fast, and everybody's happy. And it doesn't make sense for us to reinvent something that is a portion of our product set rather than something like credit we're into it's massively differentiated on part of our products.

Peter: Right, I want to talk about funding, you recently closed a $70 million funding round. That's the sizable sum, although these days, fintech has had such many large funding rounds, we still forget that 70 million still a decent size round. Tell us a little bit about who your investors are, and what you're going to be using that money for.

Nigel: The money is going to be use for… invested in three main areas. We invest in, the team says we call it rocket fuel it, within' the team, invest in cementing the foundations, which is making sure things are strong and reliable can grow and growth, which is new markets, new products and things.

We're investing that in different balances across our three business units of UK and Ireland, North America and Southeast Asia. Because if you Imagine UK, Europe is essentially a Series C business. Our US business is a pre Series A and the APAC business is a Series A business. So you deploy capital in different ways into those businesses. And because growth curves. So across the balance of basically people, reliability and core infrastructure, scale and growth, we balance across those three in the different areas. So it's growth in Southeast Asia, its growth in North America. And it's cemented the foundations and a bit of growth as well for UK and Europe. And it's people across the whole business, because people pair everything. It's not just technology, right? People make everything happen.

Peter: Okay, so we're almost out of time. But a couple of things I want to get to, I'd love to get your perspective here. If you're starting a bank today, and obviously, this will be a digital bank. And if you were starting from scratch, how would you go about assembling all the different pieces and including, like your core banking solution?

Nigel: I'm slightly cynical on why the world needs more digital banks. Because a lot of them actually don't really differentiate. Because if you look at the core product behind the bank, digital one, stuff a current account is no different from anybody else. Sometimes slightly, they get some different rewards and some interest and stuff. But their current account is a totally undifferentiated product.

Peter: Right.

Nigel: They say the same of the sending money receiving when you see where you go faster payments with banks, it's totally undifferentiated product, the UK faster payments aren't faster from one place to the other, by definition. So I would actually wouldn't advise against building another digital bank unless it's in a market which say Pakistan, for example, where there is no real digital penetration of banking and the developed markets, you'll see there's a couple of dominant players and say you've got Revolut, you've got Monzo, you got Chime, and others. And the next wave is not really a digital bank. It's about building a digital consumer experience that has finance in it. And taking what is a current account, making it into the Lululemon account or something and then building experiences around that and then linking it back perhaps to your appeal open banking to your through Barclays account.

I would be slightly reticent of trying to build yet another digital bank. Because if you roll that on 30 years, look, what's happened to the US market with 6000 subscale banks. There's no greater market and subscale balance sheets anyways, and some of them in businesses because the fintech wave uses them as sponsorships. That's the only reason suffering is 92% of the flow from market or go through Southern bank because of its massive concentration. So I just slightly recently, I was gonna, if I had to build one from scratch, you'd want to build it on something that's always on. You don't have to piece everything integrate together.

You could build on a Railsbank, we have 46 neobanks, based on top of those bank already, and you don't want to be in the game of infrastructure, you want to be in a game of product, customer experience and delivering upon that. So we don't actually work with digital banks, we take those out of fintech and we say they're in. So they're more digital manifestations of Natwest when they try Bo for example, there's 100 million money just thrown down the drain with that, for 11,000 customers. And coming back to a digital bank is thinking like all product, all businesses, you've got to figure out what gives you edge what's your value prop that people are going to buy to buy like this the hard way 11,000 customers compared to us as well as Railsbank, we've got 6.7 million cards and accounts issued. That's done in less time that it took to build Bo.

So I think you got to ask the question is the first thing I've said instead of building it is prototyping the value prop with consumers or with consumers or SMEs or private individuals. You can achieve that, you get a lot of good data. Then, it goes to the next thing which is how do you build it because have people bought the value prop or not? That's what I think. Look, digital bankers are actually missed, the core value prop is missed.

Peter: So last question, love to sort of have you gaze into your crystal ball. If you would and talk about like the future of embedded finances sounds you feel like the whole brand kind of approach is going to come to dominate but I'd love to kind of, you know, get your sense of what you think the future holds and what will Railsbank's...what will this role be?

Nigel: The future is starting to come a little bit clearer in the crystal ball. If you look at what's Apple and Goldman have done. Apple are phenomena at creating customer experiences and the Apple Card is an experience that consumers use and now becoming endemic and part of their process so they're making money out of it too. Goldman are very good at balance sheet and aren't usually good at retail customer experience. That's not their bag, you know, on a mass scale. So putting those two things together that's embedded finance to all intents and purposes, it's it's a bespoke embedded finance. So that's something you go down to Savile Row type of thing.

So I think the real opportunity there is the the Marks and Spencers of the embedded finance and that's what Railsbank, the largest platforms that powers this industry, like AWS does for data centers will be the same for embedded finance. So it's all about scale. It's all about pret a porter, ready to wear all that approach. And that's what we've built. Railsbank to be.

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Peter: Okay. Well, it said it's gonna be fascinating to see how it all evolves. Nigel, I very much appreciate you coming on the show today.

Nigel: Thank you for the invitation. Hopefully, it's useful to your audience.

Peter: Yes, I'm sure it will be. Thanks. See Ya.

Peter: This whole idea of brands, integrating financial services, to increase loyalty of their customer base. You know, it really is something that has just getting started and has, I agree with Nigel, huge potential. And he talks about doubling the pie of total total financial services. And I see as embedded finance matures and as the codebase matures, it’s only going to get easier and less expensive for brands to offer, not just a co-branded credit card with, you know, with Chase or Citi or someone else's, as the bank behind it.

But really having their own experience, where they entire way that you interact with the financial product is, is really built in the way that is totally congruent with the brand. And I think that's what we haven't seen much of them. You see it with the apple card, which which Nigel talked about and how that's a financial product that really integrated into the way we think about Apple products. And so there's certainly opportunities for other brands to do something similar and it is really going to be fascinating to see how this develops this coming decade. Anyway, on that note, I will sign off I very much appreciate you listening, and I'll catch you next time. Bye.

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