

# LendIt Fintech



Welcome to the Fintech One-on-One Podcast, Episode No. 338. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

(music)

Before we start today's episode, I want to tell you about a new event from LendIt Fintech, Nexus, the Dealmaker Summit, is all about making deals. We'll be bringing together a select group of venture capitalists, bankers, fintechs and debt investors for two days of face-to-face meetings in Miami on February 7th and 8th. Also at Nexus will be LendIt's famous Industry Award Show back in person for the first time since 2019. You can find out more about all our upcoming events at [lendit.com](http://lendit.com)

**Peter Renton:** Today on the show, I am delighted to welcome Patrick Sells, he is the Chief Innovation Officer at NYDIG. Now, NYDIG, that's N Y D I G, they are a super interesting company, they are building really the infrastructure needed for banks, credit unions, fintechs, for that matter, the infrastructure needed to really bring them into the age of digital assets so all the different types of things that you can do with digital assets, NYDIG provides just about everything that you can think of.

We get into that in some depth, we talk about some of the use cases that their clients are currently using today, we talk about NYDIG's vision for the future of financial services, that was fascinating in and of itself. Of course, we talk about regulation and the challenges that provides and how NYDIG is a very regulation-centric type of company, very much engaged there. Patrick gives us prediction on whether we'll see a Bitcoin ETF in 2022, we also talk about some of the big names that they have in their latest funding round. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Patrick!

**Patrick Sells:** Thanks, Peter, it's great to be on with you today.

**Peter:** Okay. So, let's get started by giving the listeners a little bit of background about yourself. I first really came across you...I think you were "Digital Banker of the Year" a few years ago, it was a couple of years ago I guess, why don't you tell the listeners a little bit about what you've done in your career to date.

**Patrick:** I'm very grateful for American Banker and that recognition when I was at Quontic, really I would say always been an entrepreneur focused on the intersection of technology and finance. When I was in college, I started a digital consulting agency that tried to bring very much the financial lens to how things like technology and digital marketing could grow the business and in probably four or five years ago, like a lot of people in America started hearing from friends about cryptocurrency and Bitcoin. To be honest, I didn't really understand it and I wasn't sure I wanted

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to spend the time to understand it and I wasn't sure I wanted to risk some money into it. I thought there's got to be an easier way to do this in a way that you get some Bitcoin for free and that really was the genesis of an idea of a Bitcoin rewards card.

So, instead of getting cash back or points, it would be pretty cool just to get Bitcoin back and make it easy at a bank and it kind of coincided with...I met Steve Schnall who was the CEO and still of Quontic Bank and also an entrepreneur. We realized we had a kind of a shared dream here to go figure out cryptocurrency in banking and really bring the two worlds together. So, I was at Quontic for a little over two years and we did successfully launch that in the fall of 2020, the first bank to offer retail Bitcoin product. NYDIG was our partner helping power that and so that's how I got to know NYDIG and carrying out. So, that's kind of the background for you.

**Peter:** Right. Why did you decide to join NYDIG, what was the opportunity you saw?

**Patrick:** You know, one of the things that's always been attractive to me about the financial industry is that it's highly regulated and, you know, first, I could scare away a lot of people who were wanting to be innovative or entrepreneurs, but I looked at it differently to say look, once you solve something from a regulatory problem, you have infinite scale because it can apply across any regulated financial entity.

And so, what had happened is getting to know the NYDIG team well while I was at Quontic and once we have kind of found a solution that powered the Quontic program, realized that NYDIG was a once in a lifetime opportunity to come over to a company and help bring that type of capability to the country and to the world, ultimately. And so, came over to kind of help spearhead our move into the bank and credit union, fintech space, etc.

**Peter:** Right. So, what do you do there exactly?

**Patrick:** That's always a fair question when someone has the title Chief Innovation Officer.

**Peter:** (laughs) Exactly.

**Patrick:** So, you know, I spent most of last year working on building out our business in the banking space, as I just mentioned, and kind of a multitude of products. I think now spend my time doing thinking about how do you bring Bitcoin into not just financial services, but the world at large, retail, loyalty, all kinds of different use cases and how do you do that in a way that kind of solves a regulatory problem, solve a product problem, get to think about what's the product to consumer or a small business or business is looking for. I kind of go around all kinds of different industries trying to think about how do you take advantage of Bitcoin and cryptocurrencies for the benefit of the company and the consumers and employees.

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**Peter:** How do you describe NYDIG today, I mean, keeping in mind that, I'm sure there's different descriptions whether you're talking to a sophisticated audience or an unsophisticated one when it comes to crypto. Let's just assume we have a fairly sophisticated audience here, how do you describe NYDIG?

**Patrick:** You know, NYDIG, I think one of the fun parts of it, is we are pretty wide in terms of all the ways we operate and the ecosystem of both traditional financial services and digital assets. I think the most fitting way is to think of NYDIG as the AWS of crypto, you know, our parent company had to solve a problem at a time that no really other major institutions were trying to solve which was, how do you own Bitcoin and we did that.

Now, we have the ability to help all kinds of other institutions and organizations take advantage of that infrastructure ala the AWS analogy. You know, maybe another way of thinking about us that's familiar terminology in this world to those listening is that of Bitcoin-as-a-Service or an embedded wallet and think that that's what we are ultimately doing is allowing any type of organization to have a wallet, a digital asset wallet, embedded into their ecosystem.

**Peter:** Interesting, interesting. I'm on your website right now and it says, Bitcoin for All and so I noticed that you really do seem to lead with Bitcoin, is there a reason to that versus crypto, more generally?

**Patrick:** Yes. So, I think in many ways, you know, when you look at digital asset ecosystem anytime I think you're looking at technology, you have to look at it as why was it invented, you know, kind of a maximum coding is beginning with the end in mind. Bitcoin was created to be an opensource monetary network and I think that's different than really most other digital assets so as a company focused on financial security for all which is our mission statement, we see Bitcoin playing a pivotal role more practically because Bitcoin was the first and has been around the longest. There is a lot more regulatory clarity that exists with Bitcoin than many other digital assets and as we think about the role we play in helping financial institutions provide products, Bitcoin stands out and is a lot more comfort to them.

We do support more tokens than just Bitcoin. The way I kind of would describe it is that philosophically, we believe Bitcoin is different and the role it will play. Commercially, we take a regulatory first approach, you know, fundamentally see this as an exercise equal parts technology and regulations because you're touching money, in some fashion, you're touching a well established, existing regulatory framework and of from a technical standpoint, agnostic and so, you know, really able to support any type of digital asset that one of our partners would want. Insofar as commercially, you know, we know how the regulators think about it and how it should operate and if it's being done in an appropriate and legal way.

**Peter:** Right, okay, that's fair enough. So then, a lot of what you do seems to be working with banks, I mean, traditional banks obviously is a whole gamut of I guess opinions about crypto,

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but everyone's kind of looking at it. Some banks seem to be engaging obviously much more deeply than others, you know, you talk about digital wallet, what are some of the ways that traditional banks are edging their way into crypto?

**Patrick:** A myriad of ways, especially I think after last year, you have banks making it available through their wealth divisions and private bank to, you know, high net worth clients or the endowments and institutions that they serve. You have other banks that are now rolling out retail products so you can log-in to your local bank and buy, sell or hold Bitcoin the way you can at CashApp or PayPal, seeing banks writing financing or lending dollars against Bitcoin, much the way you could get HELOC dollars against a home.

Bitcoin is an asset, a property and you can borrow dollars against it and so seeing more and more banks do that. I think where I see banks most recently more so spending time thinking about the payment protocols and the network aspects and how will that change and what kinds of opportunities are there. And so, I think if I looked back at 2021, I came close to talking to almost a thousand financial institutions.

**Peter:** Wow, that's impressive.

**Patrick:** A lot of Zoom.

**Peter:** Yeah, I'm sure.

**Patrick:** I would say that the majority of banks and credit unions, at this point, are either doing something or have a team dedicated to it and at least trying to make sure they understand what options are available to them. Of course, not everyone has decided to do something just yet, but I definitely think the industry has moved and will really see that come to fruition in 2022.

**Peter:** Right, right. And then, what about the fintechs? I had Renaud Laplanche, the CEO of Upgrade on the show a few weeks back and he talked about you guys helping to power their rewards card, they have a crypto rewards card. Are fintechs more open about working with companies like you than maybe the banks?

**Patrick:** Upgrade's a great partnership of ours and a great partner to work with, pretty cool just to highlight the power of Bitcoin rewards card for a minute. When we first got the one at Quontic done it was September of 2020 and I was earning 1.5% back. Today, everything I bought in September is about 9% back and everything I bought in October is 7% back, there's no card like that in the country so pretty cool when you kind of begin to think through like how does this actually work. So, I think in terms of fintechs, generally they are interested as, you know, banks in terms of offering something. You know, you would think with all the hype and the speed of which many fintechs can operate, more would have done something in 2021.

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**Peter:** Right. right.

**Patrick:** You know, what I oftentimes remind people is that well, fintechs are their own companies and their own technology platforms. At the end of the day, they are leveraging a underlying bank charter to make all that possible and what that bank is comfortable with or not will dramatically inform what the fintech is doing. And so, there are definitely banks that do Banking-as-a-Service and think of MVB, the bank out of West Virginia, another great partner of ours who provides Banking-as-a-Service, they also provide Bitcoin-as-a-Service to fintechs. So, if you're a fintech using them, you can get both Bitcoin products and banking products. So, I think we'll see more fintechs begin to offer a solution here in 2022 as their underlying banks have gotten comfortable.

**Peter:** Okay, So then, you've mentioned a couple like Upgrade, MVB Bank, can you mention some of the other names that people might recognize that you're working with.

**Patrick:** Having had the opportunity to Zoom with a thousand banks and credit unions, there's quite a few from small banks like I think of Granite Community Bank or STAR Financial which is in Indianapolis or Indiana, you know, in the community bank sector. There's credit unions like UNIFY or ICCU and all of those are institutions that have been public about, you know, doing something with NYDIG, from small banks and credit unions up to the largest like US Bank, Morgan Stanley, JPMorgan. You know, there's a lot of banks and credit unions and I think even by the end of this quarter, you'll probably hear or see another 100 to 150 banks and credit unions around the country being live with a Bitcoin product powered by NYDIG.

**Peter:** Right, right. What about outside of banks and fintechs, like insurance companies, asset managers, brokerages, are you working with other types of financial institutions as well?

**Patrick:** MassMutual and New York Life are two that come to mind, they're actually investors in NYDIG and working on a whole host of products in the insurance world, same thing with asset managers and hedge funds, pensions and endowments as well are all of the types of institutions that we support. In that use case, they are more consuming our service for themselves whereas many banks and credit unions, they are consuming our services to offer to their end-user. We also support a lot of Bitcoin miners, as an example, merchants, corporation's, payment providers are all areas of focus for us.

**Peter:** Right, right. Are you guys providing custody services as well or just the technology to buy this, where's the custody?

**Patrick:** Here maybe it's helpful just a little bit about the origin of NYDIG. We are one of three operating specific areas of a company called Stone Ridge Holdings and the original business is called Stone Ridge Asset Management. We manage a little over \$15 Billion on behalf of a hundred institutional investors focused in alternative strategies and back in 2014/2015, Stone

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Ridge had actually began acquiring Bitcoin on its balance sheet as a treasury reserve asset and if you think back 2015, that was not a very popular thing among institutions that look like that.

Our auditors, EY, got to the point where they didn't know how to give us an audit, (both laugh) they're not into Bitcoin and, you know, we went out to try to find a counterpart in the market that can meet those kind of audit and regulatory requirements that we had because, obviously, being an SEC-regulated business we needed to have a clean audit and we couldn't find someone and so decided to build in-house what was needed and really that meant we had to solve three fundamental problems.

First, how do we take dollars and turn them into digital assets in a way that satisfies anti-money laundering concerns both for ourselves and for our regulators. Secondly, then how do we custody those assets in a way where there's clear controls in accountability and transparency. And then third, how do you do accounting for those assets. And, you know, we were able to solve all three of those problems and still to this day, EY audits both Stone Ridge and NYDIG and I think we're the only digital asset provider in America that is audited by one of the Big Four.

And so, once we have solved those problems in 2017, contributed that IP into what became NYDIG and so kind of a long of explaining how we do custody. Yes, we do that in-house, every part of NYDIG is actually built in-house and we use a 100% cold storage solution and that's pretty unique to NYDIG and what that allows for is the elimination of cyber security risk because if your private keys aren't exposed to the software exposed to the Internet, you can make this an exercise in physical security.

And, well, Bitcoin may be newer to the world, cryptography and private keys have been around for many, many, many decades and governments and organizations have used cold storage to protect our country's secrets and corporate secrets and so able to take advantage of a very well established process there. And so, that's very important, I think, if you're a bank or credit union and you're thinking about things like reputation risk. You can't have it that someone logs-in and hacks your customers' Bitcoin and so that's part of why NYDIG has had the traction in the financial services industry that we have. So, we do provide all the execution and liquidity and custody in-house at NYDIG.

**Peter:** Okay. So, when you say cold storage, it means it's disconnected from the Internet, it's disconnected, I mean, like I imagine even from electricity in many ways and it's stored at a secure location somewhere that obviously probably isn't in downtown Manhattan. Can you maybe explain just briefly what it means.

**Patrick:** So, with Bitcoin you have public keys and private keys and the way I kind of explain that, public keys, you can think of like an email address is what you're going to share with the world, you don't have to be worried about keeping that private and that is what is required for someone to send you Bitcoin.

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Then there's your private key and that's what's required if you want to be able to take Bitcoin you own and send it out, whether you want to sell it or transfer it to someone and you kind of think like a password, however, where it's different than a password is that it can't be reset. And so, if those private keys are lost, hacked, stolen, forgotten then the Bitcoin that is controlled by them is forever lost and that's why you hear of stories of people who had half a billion dollars of Bitcoin and a land dive somewhere or land dump somewhere.

**Peter:** Right, got you, okay. Maybe we can switch gears a little bit, I want to talk about the future. I'd love to get the NYDIG vision for the future of financial services because it feels like we're still in this very early innings in many ways when it comes to digital assets. So, what is NYDIG's vision?

**Patrick:** Very much agree with you, it's the early innings. Our vision for the future is one that takes advantage of all of the new opportunities that Bitcoin, in particular, brings to the financial ecosystem and can create a more prosperous and secure world. I think in a country like America or others where there's a really strong central bank, Bitcoin is a beautiful complement to the Fiat system. And so I don't see a world where Bitcoin replaces the US dollar, for example. I think it will be a complement and I think it will forge new payment rails that will be to everyone's benefit that you can move dollars over the Bitcoin protocol and there's a lot of advantages for that.

And so, you'll really see the inter-twining of the two worlds whereas I think when we turn to look to the world more broadly and I always think of what's happened in El Salvador where they've actually adapted and made Bitcoin legal tender, I think we'll see many other countries do that as well where Bitcoin really will become the dominant form of money and payment currency around the world. And so, again, all the more kind of pointing to this very, very robust network that is everywhere in our lives.

**Peter:** I noticed you did not mention Decentralized Finance at all, I mean, Bitcoin is a proof of work system. There's a lot of decentralized finance type offerings that are moving to proof of stake, but any thoughts on DeFi and its role.

**Patrick:** I find it fascinating to watch as someone who likes and loves technology. I think there's kind of a misnomer that cryptocurrency isn't regulated, in reality, everything that touches money is regulated. Well, it fits inside of a very established regulatory framework it's either a security, a commodity or it's fiat and so I think what has happened though is crypto quickly came to be, some of the fundamental characteristics had been re-arranged in a way that made it not immediately apparent, exactly what is this. And so, things have just been happening, both in the country and around the world, but you've actually stepped back and you've applied what do I know makes a security and how do I think about that.

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What you see in a lot of DeFi or others types of cryptocurrencies is a lot of questions about is, is this being done in a legal way or not. To me, DeFi is much more of an expression of how blockchain technology, can work and how it can ultimately change a lot of the world that we know it. The way that technology and the Internet works is much more of an indicator for that than I think it has anything with do with money, so to speak, because, again, I think a lot is probably being done in a way that's illegal whereas Bitcoin is much more clear, what it is and what it's doing in the role that we play as a form of money in our lives.

**Peter:** Right, right. When reading American Banker or any of the other major publications, there is still a lot of banks who are on the fence because there is regulatory uncertainty still when it comes to digital assets. I mean, from what you're saying, obviously, you're very in-tune with the regulatory waves of what's happening here, but it feels like to me that we need Congress to provide more clarity here. What's your sense on the regulatory uncertainty and how it is, you know, limiting potentially the adaption of crypto?

**Patrick:** Proudly speaking, there is uncertainty and competing views on what's happening. There are though increasingly enough clarity that allows banks and the industry at large and credit unions to come moving forward in some fashion. I think, fundamentally, for a bank or a credit union, you know, what is different about crypto is it's not permissible just to have a crypto offering. Banks did not have to think about a question of permissibility if they wanted to roll out a new peer-to-peer product, it's clearly permissibly that banks can help consumers move dollars back and forth from each other.

And so, when it comes to having a crypto offering, you know, banks have to either say look, we're going to take a custodian position and that's where I think there is still a lot of questions from a regulatory standpoint, what does that mean for the bank or the credit union or they can bring in a third party that is a qualified custodian to make that available and that's where NYDIG has really worked and pioneered and how we work with many institutions today.

You see even in that model, like take the NCUA, for example, they put out a permissibility letter right before Christmas really talking about how, in fact, that model is permissible and they gave the additional clarity that credit unions were looking for. And so, I do think it's clear for how regulated FIs can have an offering here, depending on what legal position they take and then I think there's many other things happening that, you know, again where there's not enough clarity, but in terms of having kind of a foundation, I do believe the clarity is there and a comfort with the regulators.

**Peter:** Right, right, okay. So then, how long do you think it's going to take, I mean, like top 25 banks ...I mean, I look at my banking app almost everyday, how soon will we get a banking app from a top bank that can trade crypto as easily as they can do it on Robinhood or CashApp?



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**Patrick:** Yeah. It's a question I wish I could speak more about. I can tell you though that there has been a lot of energy here from the largest banks all the way down and I think what we'll see over the next six months is the realization of all of the work that was done last year of building the integration, doing the technology, figuring out the compliance aspects, the customer service standpoint. And, on the NYDIG side, I can tell you almost every single day we're taking a new bank or credit union live and they span in sizes and so, you know, I can't give you an exact answer to that question, but I don't think it's too far away.

**Peter:** Right, right. I mean, what about the proverbial Bitcoin ETF, we got a futures ETF in 2021, we're going to get like a regular spot ETF in 2022, predictions?

**Patrick:** My personal prediction would be, no, I don't think we will. I think there are some fundamental aspects what's required for an ETF that doesn't seem like exists with Bitcoin or is not possible. That being said, you know, the regulators and the financial tools services businesses are equally focused on continuing to build out new products and I'm not sure what's happening and so who knows what could happen, but if I had a couple of satoshis, I would say no.

**Peter:** (laughs) Okay. NYDIG has your own application, right, for your own Bitcoin ETF, is that true?

**Patrick:** Correct. NYDIG filed an application for one in 2021, you know, we do operate the largest complex of private Bitcoin funds in the world so we do a lot in that world kind of ...if you think back to the heritage of being an asset manager at Stone Ridge and so a lot of that has spread into NYDIG and so there's a lot we do in that space.

**Peter:** Right, right. Last month, you announced a massive funding round that had some big names, some of the names we've mentioned, what's this going to allow you to do, do you think?

**Patrick:** Very appreciative to WestCap who led that round and many of our partners like FIS, Fiserv and Affirm who participated in the round, but on the team here at NYDIG, very proud of that and grateful for it. I think, you know, if you go back kind of the analogy of the AWS or another one that we all sometimes use, think of us as kind of the Intel chip inside of financial services that can be both the technology and the regulatory that's needed.

You say okay, you've laid this framework through all these partnerships and all the things that you did to make this accessible for all, Bitcoin for all and now, it's bringing all of that to life, right, a scale that is truly industrywide and massive and so we've got to do that and continue then to add new products and innovation as regulations do get clear from other assets on the platform to other use cases like a global payment rail, etc. so it's really the advancement and maturity scaling of the platform that we built in 2021.

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**Peter:** Okay. So then, do you guys operate just in the United States or are you global?

**Patrick:** Today, we are largely focused in the United States, we did announce an acquisition late last fall of a Lightning payments business called Bottlepay which is headquartered in the UK. With that now, we have additional licenses to operate in Europe and have an eye on really building out our global expansion strategy in 2022.

**Peter:** Okay. So, last question then, what's in your to do list this year, what are you trying to achieve maybe as a company and you, personally.

**Patrick:** So, I think as a company, it's making Bitcoin accessible for all. A lot of people panic about Bitcoin because they weren't comfortable with how you could access it. They didn't want to take a selfie holding up their drivers' license on a pull-up for a crypto exchange company and so they just stayed out of it whereas if they can log into their bank or credit union much easier, I think. So, under that kind of theme of access, you know, one of the things focused on is how do you take it into a company's rewards or a loyalty program.

We announced something with Landry's as an example, they've got almost 5 million loyalty members who earn points every time they go dine at one of those restaurants and now, they can convert those points to Bitcoin points, right, and that's attractive for the Bitcoiner, but it also means that for someone it's a very low risk way to gain exposure and awareness and education to Bitcoin. And so, thinking about how do you make it accessible in all kinds of different ways for all kinds of different people and corporations, that's really kind of the theme, I would say. Professionally, personally, my to do list is non-stop Zooms all day, every day (Peter laughs) for fintechs, credit unions and merchants.

**Peter:** Right, right. And I appreciate you including us in your Zoom journey today so thank you very much for that. Patrick, it's been fascinating having you on the show, really appreciate it, you've provided some great insights here.

**Patrick:** Great, thanks so much, Peter, great to be on with you.

**Peter:** You know, I don't think we can put the genie back in the bottle, digital assets are here to stay, they've tremendous momentum behind them and even though, obviously, some of the assets are very volatile, clearly, there's a huge number of use cases now that are really getting traction. I believe it's here to stay and it's going to be fascinating to see what does come out once we have, I would say, clarity on the regulatory front, I think that's going to really create a boom. Even if it is tough regulation, I really still think it's going to create a boom in digital assets.

Companies like NYDIG are there to kind of take advantage and I'll be shocked if we don't have on-ramps to digital assets with pretty much every single bank, every financial institution in this

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country. I'll be shocked if that's not happening by the end of the decade and it's going to just become more important I think to the economy as time goes on.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

(music)

Before we go, I want to remind you about a new event from LendIt Fintech, Nexus, the DealMaker Summit, is all about making deals. We are bringing together a select group of venture capitalists, fintechs, bankers and debt investors for two days of face-to-face meetings in Miami on February 7<sup>th</sup> and 8<sup>th</sup>. Also at Nexus will be LendIt's famous Industry Award Show back in person for the first time since 2019. You can find out more all about all our upcoming events at [lendit.com](http://lendit.com)