



FINTECH ONE-ON-ONE PODCAST 398-PATRICK GAUTHIER

Welcome to the Fintech One-on-One podcast, Episode No.398. This is your host, Peter Renton, Chairman & Co-Founder of Fintech Nexus.

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Before we get started, I want to tell you about Fintech Nexus LatAm happening in Miami on December 13th and 14th. Latin America continues to be the hottest fintech region on the planet and at our 2022 event we'll feature all the leading players. So, join the fintech LatAm fintech community this year where you'll meet the people who matter, learn from the experts and get business done. Register at fintechnexus.com/latam and use the discount code "podcast" for 15% off.

Peter Renton: Today on the show, I'm delighted to welcome Patrick Gauthier, he is the CEO of Convera. Now, Convera is a relatively new brand, it was created to acquire Western Union business solutions, a Division of Western Union which everybody knows and this is their business-to-business payments, cross-border payments, which we also talk about in some depth, exactly what they offer.

We talk about the different use cases, the different geographies, the opportunity that's in front of them, we talk about how global commerce is sort of yearning for a simpler, more predictable process here. We talk about crypto and Patrick has some pretty strong views there, it was really interesting. We talk about regulation, compliance, something that is so critical when you're dealing with payments to, you know, pretty much every jurisdiction in the world. We also talk about Patrick's time at Amazon and how that has shaped Convera today. It was a fascinating discussion; hope you enjoy the show.

Welcome to the podcast, Patrick!

Patrick Gauthier: Good afternoon.

Peter: Okay. Well, let's get things started by giving the listeners a little bit of a background about yourself. You've had an interesting career to date, why don't you give us some of the highlights.

Patrick: In a nutshell, I'm a guy who loves to build products and teams and businesses and I've been in the fintech industry since before anybody knew how to spell fintech.

Peter: (laughs) Right.

Patrick: I first started at Visa working, and even before Visa, working on chip cards and sort of, a lot of predecessors to contactless. I introduced contactless in, you know, tap payments in the US. I've worked for PayPal, therefore, did a lot of work on e-commerce and wallets. At Amazon, I built Amazon Pay and a year ago, I joined Convera as the CEO.

Peter: Yeah. And that is one heck of a resume that you have, you probably.....some of the biggest names in global fintech that you've worked for. So, I know this was previously Western Union Business Solutions so maybe you can talk a little bit about how you kind of found out about them, how you kind



of were attracted to them, what you saw as the opportunity when it came to Western Union Business Solutions.

Patrick: I have done a lot of work in retail payment. Sort of the last 20 years, so much has changed when you think about it, right, 20 years ago was the beginning of programmed cards and people were starting to adopt debit. Here in the US, you still had a lot of checks around, etc. and you know, fast forward to 20 years later, we pay with our phones and lots has changed, not so much in B2B, in commercial payments.

Peter: Right.

Patrick: And when you think that commercial payments globally, are about five times the size of personal payments, you kind of envision a pretty big market opportunity. My sense has been, for a little while now, that it was time for innovation to reach commercial payments. And so, I started to sort of ponder about what it could look like for the last couple of years and then got a call from our investors at Convera who wanted to discuss about their investment thesis in Western Union Business Solution. One thing led to another and eventually, I came in as CEO. The thesis is one that says essentially, this is a big universe so we estimate the revenue pool that Convera plays into is about \$55 Billion globally. So there's a big opportunity, not a lot of transformation in the last 20 years.

You're starting to see indeed, there are types of fintech in electronic payments and better management of our account payables, etc., but overall for the most part, it still is the way things were done 20 years ago in spite of the fact that if you think of where the infrastructure of companies have evolved over the last 20 years with the emergence of clouds and various types of ERP tools, lots around payment has changed. And so, our thesis was if we have here a company that has deep know-how in how to deal with cross-border payments, been doing it for several decades, has deep know-how in risk and compliance, which are rather fundamental, has a big book of business and a big bank network where we're the largest non-bank cross-border commercial payment company, and so if we modernize the products and the capabilities, sky's the limit.

And so, I came to this with the notion of Western Union is a company that cares deeply about its customers and is very service-oriented, but not necessarily one that makes technology-first type of strategy. With my background, I thought if we bring technology in the mix here, we're going to take a good company and make it great.

Peter: Right, right. Well, Western Union obviously is a very well established brand, been around for over a century, I'm sure, and.....

Patrick: More than 175 years, yeah.

Peter: Yeah. The telegraph, right, was sort of their innovation that they began with.

Patrick: Exactly



Peter: So then, you talked about the payment business, B2B payments, but Western Union is very much focused on cross-border so you're looking at the opportunity in a cross-border context only or in a broader opportunity?

Patrick: Certainly, our center of gravity is cross-border. We do support domestic, I mean, if you're able to support well cross-border, you're competing in the Olympics. So domestic payments is then like competing in the Regionals. It's much simpler from an execution standpoint. So, we support domestic to the extent that an integrated solution is important for our customers. but the core of our know-how is in cross-border. We make you know, whether it's spot payments, we make cross-border payments simpler, and one of the attributes of global commerce is often companies are making payments for something in the future and this is where our know-how in hedging comes into play and where our value proposition is helping CFOs have a predictable cash flow.

Peter: So, let's just dig into that a little bit. Maybe you can just explain kind of the core product offering today.

Patrick: So, we are in the business of providing payments on a global basis and we have effectively a settlement network, we're partnering with 60 banks around the world, supports about 140 currencies, really have customers in 200 countries, and our customers need to make cross border payments. Now, we have clients that are in the C2B business so, for instance, education, higher education where students want to make a payment for their tuition from their country of origin, we have clients that are in the B2B business, for instance, import/exports companies that have to pay their suppliers often at a future date. And we have customers that are in the B2C business so, for instance, pension companies or payroll companies where the recipient of the payment is in a different country than the source of the payment.

In all of those cases, we support two fundamental capabilities, either the capacity to make a payment now and we handle basically all of the risk and regulatory and Forex component of this or to make a payment in the future. And to make a payment in the future, we can either provide our clients with very simple forward type of options, we'll guarantee you for a certain amount of time an exchange rate or some pretty complex hedging products for the more sophisticated companies that are trying to manage in a more active way the foreign exchange risk. When our clients are managing the foreign exchange risk, what really we're doing is we're helping them build different types of insurance, we are not a speculative, a speculation company, we don't trade on our books. What we allow is our customers to not be victims of currency volatility of which, you know, there's been quite a lot lately.

Peter: Right. So, you've obviously detailed a number of use cases there, I mean, is your offering really like a web-based, is it app-based? It's very different from a student sending a payment to a college cross-border than it is for a large enterprise company sending it to another large enterprise company for possibly millions of dollars. What's the technology behind what you're doing?

Patrick: The core platform itself, you know, sort of moving money across borders, settling, basically clearing and settling, risk management, compliance management, you know, the core components we often sometimes refer to them as primitives are the same regarding a use case. What changes a lot is certainly the user interface and the orchestration. So we support user interface via web interface



where the person can enter their payment. There's still a fair amount of business that actually gets also carried over the phone, especially in the hedging side.

This is often an expectation of clients, especially you see a lot of that, for instance, in Asia. We also have programmatic, you know API-based integration with the systems of our clients or we may receive for instance in the case of pension funds, we may receive batch files that then we execute against. So, we've different ways of receiving the request for payments of our clients, we then have an orchestration engine, a settlement engine that allows us to process the transaction from known accounts, that of the sender, to known accounts that of the recipient.

Peter: Right. So then, I mean, you talked about 200 different countries, that's pretty much every country in the world, I think. There's not that many...

Patrick: Pretty much, yeah.

Peter: (laughs) So, obviously, there's going to be different geographic corridors that have the majority of the traffic. What are those, where are you seeing the most activity?

Patrick: Our business is very strong in all the Anglophone countries so US, Canada, UK, Australia, for instance. Generally, what you will find is a correlation between just the size of the economy and the size of the cross-border transaction. So, even though we trade in 140 currencies, the majority of the volume is actually in the G10 currencies, it's very useful to have the long tail, the exotics as we call them, because then we provide to our customers a one-stop-shop for transactions around the world, but the vast majority of commerce is contained within the G10 economies.

Peter: Interesting, interesting, okay then. So, I guess, like I'm thinking about North America here where the US and Mexico, massive remittances-type economy, but I guess that's really more of the retail side of Western Union, not sort of what you're doing. Is that not a major geography or geographic corridor for you guys?

Patrick: The US is an interesting geography and here's the reason why, because everybody in the world uses dollars. And so, the cross-border transactions to and from the US and the foreign exchange needs are very different in the US than any other countries in the world. But we do have customers in the US, in particular, where we work a lot with universities and higher education institutions.

Peter: I imagine to there's a lot of countries in the world, like the trade is in US dollars, right? so....

Patrick: Exactly.

Peter: How are handling that when sometimes it might be a US dollar to US dollar, but neither of those countries are part of the US so...

Patrick: Yeah. It could be US to US, but the truth is what we.....you know, if a buyer and a seller are a sender and a recipient are in two foreign countries so, in other words, the US dollar is not necessarily their native currencies then they have to do...in order to do a trade US to US, they would have to do two foreign exchange transactions. We actually are able to then offer to those customers a capacity to



basically execute their payments or receive their payments in their own currency, right, and handle all of Forex aspects for them. The largest currency pair in terms of volume is US to Euro, for instance, but other like big currency payers, you know, US to British Pound, US to Yen, for instance, very consistently drive in a lot of volume.

Peter: Right, got it, okay. So, globalization has been around for a while, but still even with a lot of the changes over the last three years there's still a huge amount of trade happening between countries and that's not going to stop anytime soon. So, I imagine, people want a simple, a predictable cross-border process for their transactions, how does Convera deliver on that?

Patrick: I think we need to hire you for our marketing team (Peter laughs) because you described exactly what our customers are asking us. They essentially are asking us, can you make this simple, because cross-border can be complex, and can you also make it such that I'm confident in what's going to happen. Because the truth is cross-border also has also certain elements of uncertainty and so, that's what we help companies do. In terms of making it simple, I think I'll give you a very practical example.

Since February, since the events in Ukraine, a lot of sanctions were imposed obviously on a lot of entities and people, even out of Russia, and it's our job to actually help our clients navigate those sanctions. In other words, if any company does, right now, business with the sanctioned entity or sanctioned person out of Russia, those have very strict legal consequence for that particular company. One of the things that we did instantly as soon as Russia invaded Ukraine was to, literally within hours, have the sanctioned regimes that have been voted by Western countries in place to protect our clients and for those who had exposures to ruble trades help them undo those trades and undo those payments so that they would be in compliance with the laws of their countries. This is one of the ways in which we basically help make cross-border simple.

Then there's make cross-border predictable and this is where sort of the future looking components comes into play. We have deep experience and understanding both the volatility associated with currencies, what drives that volatility and as a consequence the type of hedging our customers need to look for. I would point, we just released a report that looks at global economy in 2023, it's called "Are You Ready for 2023?," in which we actually discuss what we think are the various scenarios for currency volatility as well as the various drivers for those scenarios in order to help our customers think through what are the type of risks that they want to protect themselves against and then we help them put in place those strategies.

Peter: So, when someone is added to the sanctions list because this has happened, it wasn't just on the invasion, there's been additional people.

Patrick: All the time.

Peter: This could be in US dollars to British Pounds, for example, there could be someone who's actually just recently been added to the sanctions list, what you're doing, and what you're saying is, as soon as they're added, you automatically include them in your system and when someone wants to go and pay them, you go "oh, hang on, this person is a sanctioned person" and you kind of make them all aware.



Patrick: There's two aspects to this. First of all, when we onboard someone to either send money or receive money to make payments, we validate that, those people or entities are not subject to sanctions and then when we carry a transaction, we also monitor this as well. The laws related to both know your customer and validating transactions were really, really 20 years ago after 9/11, were really, really elevated, you know, they predate this, particularly to avoid money laundering, but after the terrorist attack on 9/11 you saw a really more material body of laws implemented around the world.

Part of our job is really to be the one that actually navigates this on behalf of our customers. We are licensed in, goodness gracious, I think we have about 75 licenses around the world, right, because moving money or being an options business are regulated businesses and therefore, you need licenses from the financial authorities in order to do that.

Peter: So, I imagine, there's going to be different rules and regulations, depending on the country that you're operating in, so, like do you just have a massive compliance team that is up to date on every law on every country or how does it work?

Patrick: That's pretty much indeed. We have a team, we have systems, we have also a bunch of data sources that we apply to our systems and so on. Indeed, we have a pretty significant team, several hundred people around the world whose job it is to make sure both we interact with the regulators around the world to understand where they're headed, and for them to understand what we do.

And then secondly, we have the various systems and processes, the various lines of defense to make sure that payments that are sanctioned by law are not allowed to go through, this is a really important part of our business. Each one is a little bit behind the scene and that's okay, our role is to make it behind the scene for our customer because otherwise it'd be a headwind to their business and we're here to help our customers grow with confidence. That's at the core of what we provide to the CFOs around the world.

Peter: Right, right, okay. So, let's switch gears a little bit. I want to talk about crypto and Stablecoins because there's been a lot of innovation, particularly in the cross-border space, where Stablecoins are being used in, you know, in a lot of countries, in the developing world especially. There are crypto companies that are trying to disrupt the cross-border remittances for businesses and for consumers, you haven't mentioned crypto yet so is the backend technology, I presume it's non-crypto based, and how do you kind of think about that space going forward?

Patrick: Our backend is crypto-independent, we're able to move money across a range of different types of rails in order to touch both the recipients and the senders payment account. Look, I'm on the record of being a crypto skeptic, the geek in me, you know, I'm an engineer at heart, I started coding a long, long time ago, the sort of geek in me loves the elegance of the technology, that's great. The problem is the technology is not solving a lot of real problems, it's solving a lot of perceived problems.

Peter: Right.

Patrick: And one of the issues the technology, so far, has not really been able to answer is, how does crypto really co-exist with various monetary authorities in different countries, the truth is Central Banks



have an important role to play in the economy of monitoring the monetary mass. When you're not on top of it, you have situations like we have right now with inflation really being really hard to control, so the Central Banks have a really important role to play with monetary mass and Fiat currencies are an important lever for that.

Peter: Right.

Patrick: I think as we see Central Bank-driven digital currencies, we are definitely going to see an evolution of the role of crypto, but today, all of the various crypto assets that you have out there, including Stablecoins or just a traditional crypto, I do not see them as a good unit of exchange aka a currency, but as a certain asset class that allows you in all of your cross-asset and portfolio of assets to make certain types of investments. I would pause it as a proof of this that the volume of transaction on crypto currencies in crypto exchange mirrors fairly closely the value of the currencies themselves, the crypto currencies.

In a sort of indicative of, when it goes up people want more of them because they see the asset appreciating and when they go down, people are starting to stay away from it because they don't want to trade into that asset. You see that in all of the recent results over the last 12 months of the different crypto exchange, I think it's indicative of the fact that crypto is an asset class not a unit of exchange in commerce. You know, that's okay, underlying technology has all sorts of interesting things, especially with DLT, that will come into play over time. Personally, what excites me in the near term is real-time payments.

Peter: Right. I just want to go back to make sure I'm clear on something because you said you're currency agnostic, does that mean that you can work today with someone who's wanting to send USDC to Euros or whatever or is that not just a use case that comes up.

Patrick: It's not a use case that comes up. So, I'm first and foremost customer obsessed, I'm always asking myself what it is that our customer needs. When I meet new customers, I always ask them, when we're at our best, what do we do for your business. I have yet to meet a single one of them that says, you'd be at your best if you would enable me to support crypto currencies. So, right now, I think it's a very specialized part of asset trading not yet a major type of rail for global commerce, but as it emerges, like I said I'm customer-obsessed, and as it emerges we'll have the capacity to support it and I think we'll see that happening when the Central Bank digital currency uses starts to take hold.

Peter: Right, right, fair enough. So, can you give us a sense of the scale you guys are at, like how much volume is flowing through your pipes?

Patrick: Last year, we processed \$170 Billion.

Peter: Okay, okay, that's quite a decent amount. I want to go back to sort of your background and you spent some time at Amazon. I'm interested about, I mean, Amazon and PayPal for that matter, extremely innovative companies, very much focused on the customer experience piece, what have you learned from your time there that you've been able to bring to the table at Convera?



Patrick: Those were awesome experiences and I feel very lucky that I was able to work with both companies. There's two parts of Amazon that really are foundational for me. The first one is the culture of customer obsession and by the way, I would say Western Union and WUBS definitely has a culture as deeply grounded in servicing the customer. Customer obsession though goes a little bit further and if you listen hard, for instance, to what Amazon says or you read the Jeff Bezos shareholder letters, customer obsession is about being able to anticipate what the customer needs by focusing really on the problem that you solve. At Amazon, you know, I had to present product concepts to Jeff and the presentation doesn't start with pie charts with the size of the market.

The presentation starts with a discussion with Jeff about the clarity that we have on the customer problems we solve. And once we have that, we move to the how are we going to solve it, and will the experience be customer-centric. Once you've answered that, you're able to ask the questions, how will we detect demand signals and how do we scale it and therefore what's the potential size of the market? But this is a company that always, always starts with, do we really understand what's important for our customer? I think that it's something that, for me, is fundamental that I'm taking to Convera in the sense of going beyond servicing our customer, going beyond reacting to our customer demand and really anticipating our customer need is an important shift which we will effect in Convera.

The second thing at Amazon is really heavy, heavy use of data. We had a joke at Amazon which was in many companies, if you have a bunch of people around the conference room table and somebody asks, how high is the ceiling, you'll have some form of algorithm at play where either the boss says and everybody says the boss is right or you average the opinion of everybody or the loudest voice in the room. There's some form of, you know, unspoken algorithm that will come at play to determine an answer. At Amazon, the answer is, somebody go get a measuring tape. (Peter laughs).

And so, data doesn't lie, data tells you what it is and so we spend a lot of time at Amazon really making sure, you know, we had the proper data to understand what was happening in the business. So, in Convera one of the very first things that I did was to create an instrumentation group and we are leveraging our investment in technology to really instrument everything in the business to understand with precision what has happened so that we can make good decisions for our customers.

Peter: Right, got it, okay. So then, last question, as we're winding down 2022, I'd love to get your plans, your goals for 2023 at Convera.

Patrick: 2022 is the year of transition for us. You know, it's relatively complicated to extract a company out of another one.

Peter: Right.

Patrick: And we have really to, in particular, undo a lot of inter-connection between the infrastructure of what is Convera now and Western Union. We also did a lot of regulatory work in 2022 to get the authorization of different authorities around the world. 2023 is the beginning of the transformation, 2023 we are making very, very major investments in technology to migrate all of the technology that we bought from Western Union to the cloud. There are all sorts of good reasons for doing this, but first, accelerated migration to the cloud.



Second, we are starting to really re-design what we think the customer experience can be in a much, much more digital first view, streamlining a lot of the way in which the payments, and the various activities around payments are done. And so, it's year one and the last thing we also have to do, as part of year one, is start to explain who Convera is. As you said yourself, Western Union, you know, well established company, 175 years of history, clearly a very well-known brand around the world. Now, we have to tell the story about what is Convera and why Convera matters. I will say, we did see it in our investment thesis as an opportunity because the Western Union brand is a very strong brand, but it's directly associated with two-people remittance.

Peter: Right.

Patrick: And it's not necessarily associated with business-to-business payments. So we have an opportunity to tell the story about our competencies in business-to-business payments in a way that will not be distorted by the implicit perception of what the Western Union brand is.

Peter: Right, right. This podcast obviously will help you get that word out, at least to the fintech community.

Patrick: Absolutely, absolutely.

Peter: Thank you very much, Patrick, for coming on the show today.

Patrick: Thank you so much for having me.

Peter: You know, I love that anecdote that Patrick shared there about Jeff Bezos and the Amazon ethos of customer obsession. While I think every company in fintech would argue that they are customer-centric, customer-focused, there's a difference and it might be only subtle, but it feels real to me, the difference between being customer-focused and customer-obsessed which has obviously driven Amazon to be one of the most valuable companies on the planet. I think more companies in the fintech space could probably make that subtle but very important distinction and move towards customer obsession. It's going to be very interesting to see Convera and how they develop with Patrick bringing a lot of the things that he learned at Amazon into that company.

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

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