FINTECH ONE-ON-ONE PODCAST NO. 404-KEVIN GREENE

Welcome to the Fintech One-on-One Podcast. This is Peter Renton, Chairman and Co-Founder of Fintech Nexus.

I've been doing these shows since 2013 which makes this the longest-running one-on-one interview show in all of fintech, thank you for joining me on this journey. If you like this podcast, you should check out our sister shows, PitchIt, the Fintech Startups Podcast with Todd Anderson and Fintech Coffee Break with Isabelle Castro or you can listen to everything we produce by subscribing to the Fintech Nexus podcast channel.

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Before we get started, I want to talk about our flagship event, Fintech Nexus USA, happening in New York City on May 10th and 11th. The world of finance continues to change at a rapid pace, but we will be separating the wheat from the chaff covering only the most important topics for you over two action-packed days. More than 10,000 one-on-one meetings will take place and the biggest names in fintech will be on our keynote stage. You know you need to be there, so go ahead and register at fintechnexus.com and use the discount code "podcast" for 15% off.

Peter Renton: Happy New Year everybody and welcome to the first show of 2023!

Today I'm delighted to chat with Kevin Greene, he is the CEO & Chairman of Tassat Group. Now, Tassat is just such an interesting company, they have created a blockchain-based solution for the B2B bank payments market. This is obviously real-time, they are actually live right now with several banks doing transactions everyday. We talk about obviously how their system works, who is it for, the types of transactions they're doing. We get into the weeds a little bit and talk about smart contracts and programmable money, we talk about FedNow and Kevin explains why he is so excited for that system to launch. We talk about any impacts from the blow-ups in the crypto space, we talk about the obstacles for broader adoption and his vision for the future of bank payments. It was a fascinating discussion, hope you enjoy the show.

Welcome to the podcast, Kevin!

Kevin Greene: Thank you.

Peter: I'd like to get this thing started by giving the listeners a little bit of background about yourself, you've had quite an interesting career. Can you give us some of the highlights of what you've done to date?

Kevin: So, I started my career as a Management Consultant at McKinsey & Company in financial services, I left a few decades ago, hate to admit that, (Peter laughs) and since then I've built a number of successful companies in both finance and technology. So, that's been my background and I guess that's kind of the big picture part of it.

Peter: Tell us about Tassat and the founding story there. What did you see and what was the problem you were trying to solve?

Kevin: So, the big picture is that I've been an investor in technology for more than 30 years, I've seen a lot of trends, I've seen a lot of developments. When blockchain technology first came on the scene, and I think we're still in the early innings of this transformation, I was in IT infrastructure that was first built 50 years ago, the likes of Microsoft, Intel, Cisco Systems, SAP, Oracle, etc. and that existing infrastructure today is antiquated, insecure, very expensive to operate, maintain and upgrade. Blockchain technology is a technological innovation and transformation which happens once every 30, 40, 50 years, it's truly an innovation. So, that's the big picture. When we look across the globe, it is transforming every industry all around the globe. An industry that myself and my partners know a lot about is financial services, and so we looked at blockchain technology and it seemed self-evident that it would be a terrific way to modernize US banking industry.

The US happens to have obviously the largest economy in the world and yet one of the most antiquated payments and financial services infrastructures in the world. A couple of things have made us different and we started the firm in October 2017, so a little bit over five years ago, a lot of things have made us different. As opposed to most fintech firms, you know, a lot of them have gotten started with the ambition of displacing, disintermediating, replacing, whatever you may want to call the existing US banking infrastructure. Our view of the world was we didn't really think it was going to go away anytime soon and we thought instead the approach should be to empower those banks to actually take blockchain technology, have it operate within existing regulations and in that way transform the way banking is done in America. So, that's one component.

One is to work within the existing regulatory infrastructure so that the existing regulatory perimeters, we like to call it. Second component is that our focus was on building solutions on private permission blockchain as opposed to public blockchain. So private permission blockchain is simply more secure, it's not public and that's got all the power of technology that's private and permissioned and not only an application built on it, are very secure….so two big differences. And our mission remains the same today as it's ever been which is to empower banks to compete and win in the emerging digital economy. That's what we're all about.

Peter: You only became CEO, I think it was about a year ago, can you tell us a little bit about the thinking behind that move. You wanted to get back and get your hands dirty again?

Kevin: (laughs) It's always fun to get my hands dirty. I've been an investor from day one, I was on the board from day one, became Chairman at the end of 2019 and really upped to my involvement, became Executive Chairman about the middle of last year. It was really an impetus from our board just because of my background and success in building growth companies. We were really making the transition from a technology company to a full service growth company. It was really the board deciding that it was time for me to step up and lead that charge in part because look, things were moving very quickly, the opportunity was right in front of us and I was somebody that had both the skills and the longevity with the business. That the conclusion we had was rather than go outside the board, we should do it within the board, I was the one who have been most deeply involved in the company.

Peter: Okay. So, I wanted to step back for a second and talk about the, you know, B2B bank payments market. You know, it's been around for decades, as you said, can you maybe just describe how it operates today and how large that market is.

Kevin: So, it's important to contrast, I think, with the retail or consumer market so that is about $5 Trillion a year in transactions and when you talk about industry structure in that space you have Venmo, PayPal, Stripe, Square, all sorts of competitors. Interestingly, the B2B market is ten times as large and estimated to be anywhere from five, six, seven, ten times larger, we believe it's ten times as large so that's $50 Trillion and in fact, somewhere around the order of 50 to 60% of all B2B payments within the United States still happen using a paper check.

We recognize that's a remarkable statement and it mostly happens within banks. Commercial banking is the most profitable sector of most US banks, that's really where the action happens, and given how much happens using paper checks it only happens nine to five everyday, can't do it outside of those hours, and you can pay with Venmo any time of day, if you want to make a B2B payment, you've got to wait until the Fed window is open. So, that I think that gives an enormous market, very antiquated, ripe for modernization and not many competitors.

Peter: So then, let's get into it and describe exactly what you guys are doing. Can you talk about TassatPay, talk about the Digital Interbank Network, and what that all means.

Kevin: So, TassatPay really empowers a traditional bank, core banking infrastructure, to deliver real-time instantaneous payments, 24 hours a day, 365 days a year, securely B2B transactions so that's what TassatPay does. So it's really a very, very powerful tool. We have done to-date over, nearly $750 Billion in transactions, we're averaging about $50 Billion a month, we're just beginning, but we're putting up some really good numbers so that's what TassatPay is about. TassatPay is for two business customers of the same bank so it's intra-bank solution.

On October 1st, we introduced a national extension which is the Digital Interbank Network which as its name indicates is real-time payments around the clock between two banks so that's the next extension of what we do, think of it as a domestic Swift built on blockchain. I think that's exciting because real-time payments are good, in fact, more than half of all of our transactions on TassatPay happen outside of nine to five banking hours so we know there's demand for it. But once you're able to do that and once you got things running in the blockchain then it gets really interesting because then you can build smart contracts to take advantage of that same digital infrastructure.

So, you've got a series of smart contracts being created that will allow people to direct payments and use payments in a lot of very interesting, you know, varied ways so that's the package, TassatPay, the Digital Interbank Network and smart contracts. Digital Interbank Network we launched in October 1st, just like when we launched TassatPay we picked a Saturday, we did over $500 Million in transactions amongst a group of banks over an eight-hour period.

Peter: I want to go back and talk about smart contracts because you mentioned it and I think it's really interesting. Can you give us some examples of how you think you're going to use this smart contract technology within your system.

Kevin: So, let me just give you a generic example and then I'll talk about specific use cases. So, imagine that you're a corporation, you've got a customer and you expect to get paid by that customer. What you can do with that customer is you can actually send them a smart contract that says if you pay me early you get a discount, if you pay me late you pay a premium, and they've always been able to send a letter like that. In this case you would do within your bank direct between the two corporations and you would capture all that on a smart contract and then you could actually schedule the payment itself so okay, yeah, I'd like to take advantage of the discount.

The smart contract would say, would you like to just schedule the payment now so you can take advantage of it, you can say yes, it happens automatically. Or, you say yeah, I'm going to take advantage, I'm not going to schedule it now, the smart contract would then govern those payments and if you, in fact, paid early you get the discount, you pay on time you wouldn't get it, if you pay late you pay a penalty. So, that's how a smart contract works, you can program all of this and as long as two customers are at the same bank and have a platform like TassatPay they can do it that way. In our case if two customers have banks on the same network, the Digital Interbank Network, they can do that. You really get into what people call programmable money.

Peter: Right, right. I think that's one of the most exciting innovations in decades when it comes to finance, I think the opportunities are endless there. I want to just make sure I understand sort of the flow of funds, particularly for the Digital Interbank Network there. Can you just take us through a payment happening in real-time, they might be two customers of two different banks, but they're both part of the Interbank Network, just describe how it happens and, you know, is it instant, I mean, how long does it take?

Kevin: Yes, it's instant. Again, we've gotten this down to get it down to seconds. What happens is the banks are on the network, much like happens now. I mean, banks all operate on Swift right now, right?

Peter: Yep.

Kevin: But if I'm a customer of one bank and I'm sending to you and you're a customer in another bank, all I know is that I'm sending you money, I don't know what's happening behind the scenes. And so, what's great about this is the customer experience is all they know is, you sent me your blockchain identifier so it's very easy for me. I enter that, I send you the money and within a matter of seconds I will get confirmation, the agreement is I get confirmation that you've received the money. What's happening is the Network is working amongst the banks kind of behind the scenes to make that happen.

Peter: Right, okay. So then, you're trying to get the banks onboard, right, because it's a two-tiered kind of approach, I imagine. I mean, what are the banks telling their customers?

Kevin: What they're saying to their customers is, you can now make payments instantaneously around the clock, by the way, that's very compelling. Everything we do today, alright, you and I, anybody listening to this, everything we do these days we do anytime of day whenever we want to, except for one thing, moving money within a bank, okay. I mean, it's not going to persist and we've created the rails to be able to do it around the clock and as I mentioned, more than half of our transactions are happening outside of normal banking hours.

Peter: Right.

Kevin: That's very powerful so, yes, the bank does have to go to their customers. I think what we've seen is they've identified certain use cases, mortgage warehousing, franchise finance, oil & gas, private equity capital calls, and things like this. We've got close to 30 use cases that banks have come up with once they've come into contact with our technology, but they have to go out to their customers, talk to them about the merits. What we've seen though is that when companies start using the platform they then start inviting their customers and their vendors to use the platform as well and one thing that we're very certain of is that once they become accustomed to making payments instantaneously, securely, around the clock they don't go back to doing it the old fashioned way.

Just like none of us is going back and use a rotary phone anytime soon or even a pushbutton phone, it does take some evangelical work on the part of the banks because it is so new, it is so unusual, however, every survey shows that corporations want real-time payments. I mean, the surveys that have been done at banks, 85/89% say, if we could get real-time payments, we would like real-time payments. If a bank offered it, it would change our relationship with them so the demand is there, the banks just have to get equipped, and go out there and tell the customers they have the capability.

Peter: Right, right. And so, what size of bank are you actually targeting? Are you going after the large banks, I mean, I imagine there's some kind of cut-off as far as size, right?

Kevin: Well, in both platforms TassatPay and the Digital Interbank Network or The Network as we like to call it, we're open to all comers, we really don't have any bias, the Network in particular, completely open, all comers, all the time. So, we don't really have a limit, I think what we're going to see is the largest banks probably feel they can do this on their own, but beyond the top 20 banks this technology is not something that's easy to come by. So, they really like the fact that they can rely upon us to make it happen.

Peter: Right. What's involved in actually setting this up from the bank's perspective, like are you talking weeks, months, what's it going to take?

Kevin: Yeah, that's a wonderful, wonderful question (Peter laughs) because that's another thing that we kind of educate banks about. By and large, when a bank hears that it's an IT project, they think months and years and millions of dollars. We actually can implement a bank from a technology standpoint in about 30 days.

Peter: Right.

Kevin: But then there's risk and operation so we implement banks in about 60 to 90 days at a very nominal cost. So, it's unlike anything they've ever done, again, this is the power of blockchain technology, not old fashioned.

Peter: Right, right. So, you're not the only game in town as I'm sure you're fully aware, I mean, USDF Consortium is doing something, I was just reading last week, the Regulated Liability Network has launched, what makes you guys different from these other sort of competing projects?

Kevin: Sure. The first two principals that I've mentioned at the beginning, first of all, private permission blockchain so that's what we do. USDF has built theirs on a public blockchain and they're now talking about a private version of it. The second thing is that we operate entirely within existing banking regulations so our "all-in" that we applaud actually, we like the recognition of the importance of this sort of technology, but they're pivoting theirs on the creation of Central Bank Digital Currencies or CBDCs so theirs again, as far as we can tell, will take some regulatory changes and support.

It's very internationally focused, we can do international, but we're a private permission blockchain operating within existing regulations and another big difference is, again, we've done over $750 Billion in transactions. You know, we're up and running today, we're not an experiment, we're not - we're going to try to do it in the future.

The third component is that, again, people underestimate how hard this is to do, we are an end-to-end solution so we can go from the core banking system directly to the customer all in one solution. As far as I understand, USDF kind of expects the banks to figure all that stuff out on their own, we do it for them.

Peter: Okay. So then, what about FedNow because that's, you know, supposedly launching in Q2 of next year, could possibly be delayed, that's for sure. Assuming that does launch sometime next year, how will your network interface with this new payment system from the Fed?

Kevin: Yeah. We are super, super excited about FedNow and the reason is that the way our network works is that we can, on the blockchain, be netting around the clock, okay, and doing messaging around the clock, however, we can only move fiat currency during hours of operation when the Fed wire system is open. So, FedNow will operate around the clock which means that…so because of that differentiation between netting and settling there is some credit risk that the banks need to manage within the system.

Peter: Right.

Kevin: With FedNow operating around the clock, now we can net around the clock and we can settle around the clock which eliminates all those credit issues, all that liquidity issues. So, we applaud, we welcome FedNow, we hope it comes as quickly as possible. The other reason we're excited about it is that like another legacy solution, RTP within banks, these are just messaging protocols and then they kind of say to the banks, well, you've got to figure out how to connect that into your core banking system, maybe you've got to figure out how to connect that to a customer. So, as I mentioned, we're an end-to-end solution, so the beauty of FedNow is that our platform can act as a conduit, an on-ramp to FedNow for banks.

Peter: Right.

Kevin: So, think about that. Now, a bank bites, whether they adopt TassatPay and/or the Network, Now not only do they get access to FedNow, but they can connect that access to their customer and along with it they get all the power of blockchain and real-time payments around the clock, highly secure, smart contracts, etc. So, as I've said, we're very excited about FedNow, they've got what's

called a “Showcase Group” so a group of private companies that can kind of participate in the development of FedNow and rolling it out and we are a Showcase member and have been for a long time. I can’t say enough about how excited we are about it.

Peter: I didn’t think about that as you being sort of an on-ramp, that makes perfect sense to me now. So, I want to ask about the stuff that’s been in the news recently, the crypto blowups. It’s obviously nothing to do with what you guys are doing, but some people just, they sort of put blockchain in with crypto and, you know, we haven’t even said the word crypto until now in this conversation, there’s nothing crypto-like about what you’re doing, but have you seen any impact in your conversations with banks that are thinking about joining the Network. Is there any pause because of the crypto blowups or are you seeing that has no impact.

Kevin: Not really any impact. Credit the bank CEOs, they’ve really come a long way, I mean, all this is new to people and I will say that 18 months ago when we started really talking to the rest of the banking community, bank CEOs, you kind of have to spend a fair amount of time explaining what blockchain is. About six months ago, what we found was they were all saying, we know we’ve got to be doing something on blockchain, we’re not sure what it is.

Over the last few months, it’s been look, we get blockchain, it makes a lot of sense, we’ve got a lot of use cases, let’s get going. So, the crypto event is really a non-event for them because they have become more educated, they have become more savvy about it and as I’ve always said to people, you know, the cryptocurrency world is interesting, but I’m interested in the other 99.5% of the US economy which is going to be riding on blockchain one way or another. It’s just pure technology, I mean, as ubiquitous as the Internet, that’s what’s going to happen.

Peter: Right, right, that makes sense. So then, what is really the obstacles that you're seeing now because you just launched the Interbank Network, clearly there's thousands of banks out there, sounds like it's not a heavy lift when it comes to implementation so you could get even some of the smaller banks onboard. But what's the obstacle, I mean. banks don't move quickly I guess, in general, but what are you finding as the biggest obstacle for wider adoption right now?

Kevin: It's new technology. Whenever we have something new that people haven't seen before, it always takes a while so our biggest obstacle is just education, getting the word out, talking to banks, getting them comfortable with it and adopting it. And to their credit, I mean, banks are meant to manage risk, they're meant to be risk-averse and careful. I think that being careful makes a lot of sense that's why we’ve spent so much time to make sure that we operate within regulations we are what’s called SOC 2 Type 2 Compliant, highest level of data security, unqualified opinion, I mean, very high level.

So, our main obstacle is just education and getting the word out, explaining it. It really is so powerful, it's almost hard to imagine. So, for example, we've had incidences of fraud are extremely low as opposed to the ACH and these other existing infrastructure and that's unusual for them, you have to explain that to them and so it really is that powerful and oh yes, we can implement it that quickly. The main thing is just the newness of it and educating people, but we have slowly seen that knowledge curve grow and that adoption since we became faster and faster.

Peter: Do you have the blessing or a green light from the regulators like the OCC, FDIC, the Fed, I mean, do these organizations..they may not tacitly support it, but what is the conversations you've had there?

Kevin: So, to be clear, regulators never green light, endorse or approve anything (Peter laughs), but we've been through, look we're in six banks right now so we've been through the vetting process, they've been through the regulatory process of the FDIC six times. The banks that we work with have gone through the approval process with state regulators, with the different Fed offices and also with the OCC so they've gone through that process. So, what I think is more interesting part of the question is that regulators face a challenge right now and that is that they see cryptocurrencies, Stablecoins, digitize this, digitize that. All of these forces trying to pull assets outside of the regulated banking system and rightly, the regulators are concerned about the risks and I've been saying this to people for a while.

I think the crypto winter is kind of proving us right in a way so I've been very concerned about that. Then we show up and say look, what's driving all that is this blockchain technology, it's very powerful, but we can do this all within the existing banking regulations, within the existing infrastructure, and I can tell you, the blood pressure drops dramatically in the room, they feel really, really comfortable about it, so that's been good. Having said that, it's the same process because this is new to the regulators, just like it's new to the banks and so we work very closely with the banks, with the regulators, with our attorneys and just educate them on what's going on here.

Peter: Right, makes sense, okay. So, I want to close, if I could with.....I'd like you to paint a vision, your future vision that you see for bank payments, like where are we going to be let's just say by the end of the decade so seven years time. What do you think the payment system is going to look like in this country?

Kevin: So, I like quoting Bill Gates, he said that people always overestimate the near-term impact and wildly underestimate the long-term impact. Look, I think at the end of the day what's happening is that people are going to have more and more control over their assets, but they have to have control over those assets in an environment which is highly secure. So, I do think the whole world, if you give me ten years, ten years from now just like everybody's on the Internet, everybody got into cellphones, the IT around the world will be operating on blockchain.

US banking services will be no different in that regard and the result will be much more efficient utilization of capital, much more control over capital by corporate treasurers and by individuals. By the way, programmable money is going to be like yeah, of course, all money is programmable, yeah, of course, I can control when I pay people, how I pay them. I think ten years from now people are going to say, of course, you can do that. We all used to wait until the bank opened at 9 in the morning (Peter laughs), if you're on the West Coast, if you don't get it done by like 1 in the afternoon, you're out of luck. They're going to look at that and go, are you crazy? It's all going to be running on the blockchain, it's all going to be very customized, customizable, and the benefits in terms of capital markets efficiency and economic efficiency are going to be, are really hard to calculate and it's going to be extraordinary.

Peter: Plus all the new uses cases, that's what's going to be interesting.

Kevin: Yes.

Peter: Okay, Kevin, well, it's fascinating, it's really great technology. Thank you for coming on and sharing with the listeners.

Kevin: Thank you very much, thanks for having me.

Peter: If you like the show, please go ahead and give it a review on the podcast platform of your choice, and be sure to tell your friends and colleagues about it.

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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