FINTECH ONE-ON-ONE PODCAST – PETER HAZLEHURST

Welcome to the Fintech One-on-One Podcast. This is Peter Renton, Chairman & 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.

(music)

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: Today on the show, I'm delighted to welcome Peter Hazlehurst, he is the CEO & Co-founder of Synctera. Now, I think Peter is one of the most interesting people in the space, I'm not just saying that because he is a fellow Aussie, I'm saying it because I think he's got a really interesting background that now he is using some of the knowledge that he has developed over his career into what is a fascinating startup at the intersection of all of the fintech innovation that's happening today and the banking system working with the partner banks.

So, we talk obviously about how this all works, we talk also about the regulatory scrutiny that is happening in the Banking-as-a-Service space with partner banks, you know, we talk about the competitive landscape and how kind of Synctera fits in with it all, you know, we talk about how large fintechs are also looking to get banking licenses or acquire banks and how that kind of fits into what they're doing. Peter gives his advice for founders in this challenging environment that we have today and also touches on his vision for the future of Banking-as-a-Service. It was a fascinating conversation; hope you enjoy the show.

Welcome to the podcast, Peter!

Peter Hazlehurst: Hey, good morning, it's a beautiful sunny day here in Silicon Valley, for a change.

Peter R.: Good to see you and glad it's sunny - sunny here in Denver as well. So, I want to get started a little bit different, I'm sure you've never been asked this by any American podcaster who's got no idea what I'd be talking about, but you have a famous aunt and she's not just famous, she's like a mega star because she had a children's program that every single kid watched growing up. It's sort of…it's called Play School, it's a national program across the country and I grew up with it as did every Australian kid and there really isn't an equivalent to the US, I think the closest is like Captain Kangaroo or Mister Rogers or something, but even that is not quite the same. But, anyway, Noni Hazlehurst is an

Australian institution. When you were a kid, every one of your friends were watching the show, what was it like growing up with an aunt that everybody knew?

Peter H.: It was both interesting and fun and a little bit annoying (Peter R. laughs). My nickname in Australia was just, people just called me Noni, which was fine.

Peter R.: Right.

Peter H.: But I think they were like sort of a couple of really interesting transitions. So, one is when my cousins were born, they were nearly born as bi-centennial kids so Noni was super pregnant and it was the turn of 1988, but Charlie nearly got popped out on the bi-centennial which would have been like, you know, there were paparazzi hanging out at her house, she did a home birth which was kind of fun. So, that was like an upside, the downside was like her first big sort of commercial film was the movie called Monkey Grip….

Peter R.: I remember that.

Peter H.: …..which couldn't be even more…so imagine you've got this beautiful persona teaching kids out to sing and read and stuff and then suddenly, you've got this person that's sort of on the shady side of town, that may or may not of had sex on screen, (Peter R. laughs) and so I've never seen the movie because I can't come to that visualization, but all my friends had. So imagine being a high schooler, and everyone's like "I've seen Noni…" (both laugh) and I feel like "I can't deal with this."

Peter R.: Right, right, yes, rather awkward as a teenager, I'm sure, but, anyway, let's get into the guts of things here. I really want to start off with giving us some of the highlights of your background. You've got a fascinating background working at some really interesting companies, you know, why don't you just give us some of the highlights.

Peter H.: The upside of being in the game for a long time is you get to experience a lot of fun things. I came over when I was 20 to do my first startup and in four weeks' time, we're having our 30th anniversary. Tons of the people still work there, the company is still in production, we still built what was back then considered the modern core banking system called Phoenix and it's still considered modern and it's 30 years old. (Peter R. laughs)

And it's a testimony to the fact that some of the core things that happened in banking are pretty consistent, it's also amazing team that we had that pulled it together and started this idea of a Window's based, Unix based core banking system, no one thought you could do that, everyone thought AS400 was the future. Probably the best experience was we moved into this new office building and there was this old IBM 5150 hard drive sitting outside, to give you a perspective, this thing is like a cabinet that's, I don't know, eight feet tall, three feet wide type of thing.

Peter R.: Like a fridge.

Peter H.: A giant fridge and each hard drive platter was like, I don't know, three feet around and sort of an inch thick and it used to have a switch. If you wanted twice the storage an IBM engineer would come in with a screwdriver and would allow the hard drive to write on the back side of the disks, like a really field operated upgrade. Anyway, the whole thing stored five megabytes of storage or something like this and we said, this is silly, so we turned it on its side, put a glass table cover over it and made it our conference room table (Peter R. laughs) and we literally brought it in from the dumpster outside, it was pretty funny.

Peter R.: That's great, that's great. Anyway, I know that you spent some time at Google, you spent some time at Uber, just tell us a little bit about what you did there.

Peter H.: Yeah. So, Google was a really cool time in banking and payments where people were starting to use their phone, so NFC had just sort of started to come out and I was lucky to work with the team that helped launch Google Wallet and the first ability to tap and pay with your phone. We combined that with buying a company called TxVia here in New York, Anil and Jonathan's company, they obviously went on to do Money 20/20 and have been spectacularly successful in the events space. But what was nice about it was we made it possible for you to literally use any card that you've had in your wallet for Google Play or other reasons and pay with your phone.

We did it by "inventing" (air quotes for the people on the audio side), this concept of tokenization, basically this idea that we would present from the phone at actually a Discover Card and then on the back we would do a couple of transactions to charge your American Express or whatever we thought you were paying with. And we did this because there was no tokenization and we needed some way to be able to get the credentials, pay them in the merchant without having to store the whole pan and rebuild pan and all that sort of stuff, but it was pretty fun. We created a whole new category, we did some really cool projects with Google Play, we launched the ability to have a pay batch email and so forth so that time and period was pretty transformative, 2012 to 2014.

Then I did a bunch of startups and other things which were kind of fun including Postmates and others, but ended up at Uber and Uber is obviously a pretty big merchant from the payments ecosystem and we had this two-sided marketplace of consumers that were wanting to ride or eat or scooter on our platform. And on the other side of the marketplace were the working folks that are doing deliveries or pick-ups or driving and so on and the velocity was insane, it was off the charts and it's obviously 24/7. There's no off time and so everything you build has to be built for scale and everything you build has to have resilience because stuff breaks, bank accounts get closed, you name it, we had every sort of possible thing across 70 countries.

But it was amazing, it was so much fun, like you're in this product category where you can see what you're doing in real-life and for me that was one of the sort of the best parts about the role at Uber which was you're actually materially impacting people every single day. When we started Uber Money which was effectively the neobank for the drivers, the goal there was to really start to build on their behalf the ultimate banking products so that they actually felt like the extended relationship with Uber was not just transactive in terms of drive or shop or deliver, but it was now we'll help you with your financial journey.

Peter R.: Uber's such an interesting company from a fintech perspective because in America you pay by credit card and it's pretty simple, but in other countries where there isn't a deep credit card infrastructure, I've always just been amazed at how Uber really has sort of made payments transparent, it feels like, throughout the world. Whenever I travel, I'm often using Uber in all these different countries and it's an amazing thing that the payments mechanism is seamless, it doesn't matter what country you're in and what type of financial system they have, it's all ….and I imagine the plumbing for that was not simple.

Peter H.: When we sort of set this up, we actually had two separate teams, a team that was focused on rider payments so this idea of letting the consumer pay you some way and in the US riders' credit and debit card, but you'd also think of PayPal, Venmo, gift cards, Stored Value, purchased gift cards, third party incentives so people like the American Express folks giving an Uber benefit. You had to have a way to store all of that money, so we created Uber Cash as like the universal container of that value.

And then we created a whole bunch of APIs so that people……we eventually couldn't spend any more time integrating different ways of paying so we just said, send us your money, basically, and that was actually a great unlock in terms of consumer choice. But the key thing that we focused on at Uber was let the consumer choose how they want to pay so if you're in cash-dominant market, Brazil or Mexico or Russia or whatever, we let you pay in cash and most US or European riders have never even thought about the idea of paying for an Uber with cash, but it's very common, it's many, many, many trips per day, for a week, for a month.

The downside of the cash marketplace is you have to introduce collections from the driver so in a card swipe we divvy up the payment to the driver and to everyone else, but in a cash collection scenario, at the end of the business day, the driver owes Uber 20% and so how do you do that? So, then you've got a second order thing of going to create places where it's easy and convenient for them to drop off the money and all of those people want to get paid so let's be real, dropping off money at 7/Eleven is not a free transaction. So, we had this continuous push and pull of more payment methods for customer choice combined with more pay out methods, how else can you get the money to the driver and most importantly, how fast can you get money to the driver.

Peter R.: Right. Anyway, let's move on to Synctera now because I really want to dig into this. So, tell us a little bit about the origins of the company, what was the problem you saw that needed solving?

Peter H.: I think it's directly relevant or related to the experience we had at Uber which was I was lucky we had a great sized team that we could allocate a ton of resources to the problem of launching a neobank. We had lawyers and PD people and we could build first party relationships with all of the partners, but very few companies have those resources and what was clear to me was I felt like we were a lot like how Patrick and Jonathan transformed e-commerce and payments by making it possible for anybody to add a payment method to a website with Stripe. Stripe basically transformed things from, you know, there were a couple of other players like Braintree and Adyen and others that you could do business with or Chase, but unless you were prepared to pay $50K a month or $100K a month in minimums, those companies were too big and they didn't have time to work with regular merchants.

Along comes Stripe and says, we'll let anybody do it and what happens after that is creativity and idea flows. The same thing is actually even in many ways more complicated in banking which is it's really hard to know all the compliance rules for a debit account and what are the foreign border, cross border transaction fees and all of this was done, and stitching together those relationships from KYC, to ledger, to accounting, to print a card and all of those things, it's a high burden. What I observed, what I believed would be the market opportunity is that there were amazing great ideas that weren't coming to market because it was too hard or too expensive or took too long.

And so, Synctera is this goal of making it really as easy as possible to test a hypothesis in fintech and as complicated as possible if you want to do something really bespoke and really interesting and it's really a two-sided bimodal marketplace so early experimenters that are trying something different. We're working with a fintech right now who's got this great idea about inverting the concept of a subscription, so right now when you do a subscription, you leave your card on file and every month they charge it, it's a burden on you to cancel. But all of them will let you have a card on file that expires, or goes out of date and then you can reactivate and so now you've inverted the subscription dynamic.

So, they're launching this product where the debit card is off by default so it does the first auth and then every other time Netflix has to ask hey, would it be okay if we charge your card and that's an experiment. I don't know, I think people want to do that, but the burden to get that to market is really high for a creator.

Peter R.: Right.

Peter H.: On the flipside, there are people that really do know what they want to do and we need it to be able to have a rich API set that allows them to build whatever they want. And so, the learning of Synctera is all different types of customer ideas in fintechland, whether it's embedded finance or otherwise and then the problem space is how do you get them a bank that's comfortable taking the risk for the type of transaction they want to do.

Some of the things are pretty straightforward where there's not a whole lot of risk, some of them are credit programs where you definitely have risk. And what Synctera's unique at is having built a marketplace of banks, we can now do matchmaking in between so we take a fintech's idea and say, where will it land? If it's a cannabis fintech at the moment that lands like Regent Bank in Tulsa, Oklahoma because they are the only bank that will do cannabis. But our job is to bridge that gap and we lower prices over time by increasing the efficiency and effectiveness of each of the banks operating on their platform.

Peter R.,: How many banks do you have on your platform right now?

Peter H.: Ten at the moment so it's moving quite quickly.

Peter R.: Okay. So then, take us through, like fintech has got a pretty broad purview these days, there's lots of different types of products that are being launched and more creative things than we ever thought possible, are you open to kind of any use case? Maybe you could talk about what is the primary use cases that fintechs are coming to you for.

Peter H.: So, we've definitely focused on how can we bring banking to a use case. We're not just a pure payments company, we're not an ACH money mover, we do those things, but it's where would a bank account be helpful, so we have a number of use cases where people have an incumbent business, whether we talked about cannabis, whether they're running dispensary management inventory tools or if they are doing a hair salon management platform and clearly, a bank account for the business owner is a really valuable thing. Right now, most of those business owners tend to get banked with the local Chase or BofA or whatever because that's where small business tends to go and if they're in the smaller towns and cities they tend to go to their community banks.

We're creating a framework to make that easy to launch business banking is quite common and popular and it's across every vertical, it's really interesting this quote from Angela [Strange of a16z] where everyone's going to be a fintech at some point in the future. I think it's pretty on point in that there's banking and payments flows in most use cases of corporations and if you can help them to do those more effectively, that's better. The second category is what I'll call like embedded banking accounts for particularly types of communities. The classic example is one of our fintechs called Sincere, who's creating community around pet ownership, pet lovers always need food for their pets, they need toys and all that sort of stuff, so this is a discount community that sits around that. There's an economic concern around like if your pet gets sick and you need to go to the vet, can you afford it. It's a pretty tight knit community of users that if they had banking woven into that experience, they could do better things with them so that's another universe.

And then what has been really interesting is because our API's so broad, it's a whole bunch of people coming to us and saying, could we do this, could we do that. There's a considerable interest right now post the pandemic of this future of work and the concept that people don't actually have to live in the US to work for a US entity, but the problem with that is how do you pay them, and companies have emerged in the middle to help with that, like Deel and others. But if you could just get a bank account for a person who's a web designer based in Mexico City wouldn't that be great.

So, we're seeing a lot of interest in that sort of borderless commerce or borderless banking, if you will, that is new and no one would have contemplated because in the old days here in Silicon Valley or wherever, you'll be like everybody get in a room, we have to work together so the concept that someone would be remote would never have come into market.

Peter R.: Right, right. So then, you talked a lot about fintechs, but I know you're also working with non-fintechs, right, so tell us a little bit about the interest you're seeing there.

Peter H.: Yeah. So, the outcome of the work we do with a non-fintech is effectively a fintech.

Peter R.: Right. (laughs)

Peter H.: However, like I don't know, we have a really fun relationship with a company called Players Health and these guys are great so I started a company really focused on helping kids play sports and figuring out what are the barriers for safety and trust and so forth in the sports industry, totally that's the focus. If more kids play sports, the world is a better place because people are healthier, and people have better connections to their families. What are the things that block that? First is the trust, do you trust the sports league, is it safe, (inaudible) is it clean all those sorts of things and there's been a lot of work done on advocacy of kids in sports over the last five, six, seven years and so forth.

Then the next thing is it's literally banking, right, so all these leagues have, you know, opening days where a ton of money comes in from parents, where does the money go, how do you bank it, who keeps track of it all and who keeps making sure that there's not a problem with inside the league of someone's siphoning off a little bit off the side type of stuff, that's the next sort of phase. The third phase of it is then banking services for those league managers so paying their bills and so on. And so, is it a fintech, it's sort of become one, but it's really a focus on kids in sports which I think is fabulous.

Peter R.: That is a real pain point I know with my kids' soccer league it's……the money management is painful, that's for sure. So, I want to kind of dig into it a little bit how your APIs and how your platform works. You know, it's pretty simple use cases, people want a debit card with their bank account, I imagine that's a very repeatable standard type thing, but then you might have, you know, a credit card, with more specific type of rewards, like if someone comes to you and they're after a use case you haven't really done before. Do you have to sort of add to your API or how does that work?

Peter H.: Yes and no. So, part of it is, we have a great example which is Wahed, which is one of the first Muslim Shariah Law compliant neobanks coming to the US. One of their constraints is they don't want the value of the person's balance, which I'm deliberately not calling an account yet, not to be saved at the bank and turned instead into gold or some other non-bank-like instrument because they don't want the bank to be able to earn interest and then put it into lending, this concept of riba. So, for us, we already built the idea of real-time authorization, so you do a swipe, you convert it and we did that because we had a number of crypto fintechs come to us and say, I have this crypto balance, I want to be able to pay for groceries.

What we didn't have is a connection to the Royal Canadian Mint or some other gold facilitator and we said, to the Wahed team, you can build that, we've got the real-time authorization and now you can simulate and create, literally you swipe your card and pay for coffee with gold and that's pretty cool so in that case our API supported all the use cases. We've got some other customers saying hey, I really want to do interesting use cases around cross border, and we need to store extra information on KYC we say great, we'll need to add new functionality to support that. And that's the game of fintech which is this blurriness of, is the work we're doing something that other fintechs would love then we put it in the platform. If it's bespoke for this one client, we might build it for them and maybe charge professional services, if we need to and if not, we then let them go build it themselves. As long as we built a lot of the primitives into our platform, can I move money from this account to that account, we are pretty flexible allowing you to stitch it all together.

Peter R.: Right, right, right. So, I want to talk about the regulatory side for a bit because there's been talk from the Head of the OCC, the Acting Head of the OCC, that there's going to be a crackdown on some of these bank fintech partnerships. We've seen one partner bank that's had a sort of, been told that it needs to make some changes, there might be more things coming so how are you kind of navigating this regulatory uncertainty that seems to be in play right now?

Peter H.: So, I think from the get-go we've started with a high order bit of solving compliance as part of the minimum viable product which meant a more deep relationship with the fintech to understand what they're doing and how they're operating and performing fintech due diligence. It's meant working with our partner banks to help them build out and to find the program that they want to manage and a bunch of education as well. So, for some of our partner banks or sponsor banks, this is the first time they're doing fintech and so they're looking to us for thoughts on what does oversight mean, what should they do, what should they require of the fintech, what are the rules around money limits and so forth.

And our job has always been to sit in between, providing the sort of player/coach role of helping the banks understand their obligations, but also building out all the tooling and infrastructure so that they can do the work. And I think that's been a really important heavy lift on us from a tech perspective of making sure we've got a single immutable ledger that sits across everything that you can say, where is the money and then a really solid set of documentation to make sure we know who the person is that's using the money and where the money came from and that whole value chain of making sure you understand the custody of whose money is it and where is it standing and who got uses of it became the central part of what we have to do and where we built.

That took a lot of work and I think we probably would have been six months faster to market if we had decided let's cut some corners over here and let's just launch some programs. The downside of that is then, as evidenced in the market, if you don't have really good relationship with the regulatory compliance frameworks, unfortunately, it's quite easy to poke holes in what you've built and that makes for an unsafe economy and unsafe workplace and marketplace, and we just didn't want to go there.

Peter R.: Right, that makes perfect sense to me. I mean, it's a good move considering that probably when you decided to go the extra mile there wasn't the regulatory scrutiny, and now there is, so solid decision in hindsight, for sure. So then, the banks, obviously there are some banks that have had fintech relationship before, some you said are new to it, what sort of capabilities does a bank need to kind of join your platform, you know, a lot of these banks they're not very large, they're community banks, they don't have a huge tech team so what does it involve from the tech side to be able to connect into Synctera?

Peter H.: So, the bank onboarding process has a number of steps. The first is business dynamics so as a bank becoming principal members of Mastercard or Visa so you can issue cards directly. Many of the community banks prior to that would have issued cards through Bank of America or Chase so that's part one. Step two is talk to your regulators, the FDIC or the OCC or whomever and get a new routing number so that you can segment your traffic. So, you're going to have, the bank has traffic over one side and that might be on FIServ or FIS or whatever and this new routing number where all of our accounts and fintech program will be stored so that we, Synctera, can then manage all of the accounting and ledgering, otherwise, you end up with a big integration project between someone like Synctera and your core banking provider.

In our universe at Synctera we don't connect to the core banking system which means the tech lift on the bank is relatively low. Right now, we still have some lifts around ACH processing and so on where we ask the bank hey, can you post this file for us and even that we're taking out of the equation with direct integration to FedLine in Q2 of this year. So, our job is to reduce the technical uplift of whatever and then spend a lot of time focused on compliance and due diligence so teaching the bank how to look at a case that we might throw for question and answer.

So, imagine someone comes up on a sanction list, we throw that case on our platform, someone at the bank says oh, actually that's a false positive and do some more due diligence or if in fact it's a problem, maybe they'll file a SAR on that customer. So, we've built all the infrastructures so that they can monitor fraud, all the AML cases and so forth and our job is to take the technical lift away with a single centralized repository. So, everybody on our Synctera ecosystem, the bank, the fintech, us all look in the same place, there's not like three silos of this is the bank's information, this is the fintech's information and when it's shared that makes it much easier to keep track of all of this stuff and lowers the technical integration costs tremendously.

Peter R.: Right, right. So, in many ways what you're doing is unique in fintech, I mean, there are others that are kind of, I imagine, competing with you at least indirectly. I mean, obviously, we've got the likes of Treasury Prime and Synapse that seem to have some cross over there, then there are some of the vertical players like Deserve for credit cards, how do you kind of view the competitive landscape?

Peter H.: So, I mean, the good side of things is with competition it makes us all better at what we do so there's nothing like honing your experience based on what you learned from others. I think, in practice, there are two or three of us that seem to get the majority of the incoming requests and that's great. I think there were a number of folks that came to market over the last year and a half, two years while we were still building that were newer to the game and didn't have quite the understanding of what it takes and what we're starting to see now is a lot of new deals boomerang back. So, when we launched last Money 20/20 at the end of 2021, we knew we were going to take an early-stage approach and work with early young fintechs that would be willing to try things out and experiment with our APIs.

Over the last year, we've grown quite quickly in terms of our customer demo and what's happened is the fintechs we're working with becoming more and more large and also more and more adept at what they want to build. And as a result, that's made us really think about what differentiates us from our competition and I would say probably the most valuable component of what we do is this concept of the marketplace where we actually take the idea that you have and then once a week, we send out a note to all our banks and say, hey, banks, here's this cool idea, are you interested. In that way we can facilitate the relationship building between the fintech and the bank and then ultimately, we introduce each other.

And there's like in a period of time where they will say, I like this bank, this one has different requirements around compliance so maybe I don't want to work with that bank and our job is to bridge between them. And because we have a different set of risk appetites and different sets of objectives from our bank partners, we can almost always find a home for somebody which I think is really great.

Peter R.: Right, right. So then, fintechs, once they have scale, I mean, you sound like you're working with more of those in the earlier stage, but once they have scale, you know, some of them are getting banking licenses, buying banks, like do they outgrow you guys at some point or how do you view that?

Peter H.: I worked on a pretty big fintech at Uber and I don't think there would have ever been a circumstance we would have considered getting a banking license.

Peter R.: Right.

Peter H.: Because the impact on the organization is massive and it changes the culture of the company and it's hard to separate the bank hold co laws against everything else you're doing. So, me, Peter, would never opt in to buying a bank, let's put it that way, I know the word hold. (Peter R. laughs) I do think that the bigger the fintech, the more sophisticated they are on the API requirements, but even like the largest folks with hundreds of engineers on payments and banking still partner up and find partnerships that matter. I think the sophistication on the business dynamics of the terms of the relationship and in our model, it's making sure that we can pass through savings with tiered pricing that happens as velocity increases and also a line on extending geographic footprint.

So, for example, it's great if you're a fintech building in the US, but how do you extend into Mexico or Brazil or Canada or France and if you can provide incremental value geographically, that may actually be equally interesting. And then the other part of this which I think is really important to invest in is what we call "multi-bank support" which is this idea that as the fintech or as the customer of ours, we call him an integrator, gets really large, they're going to want to diversify their risk of any one particular bank having an issue by then splitting across multiple banks. And it turns out, ledgering is hard work, you need a lot of engineers to build a compliant ledger that will meet bank requirements and so if they leverage us for that and then we help them get into other geos and we help them with other extensions, that's where we create a lot of value for our customers.

Peter R.: Right, right. I want to ask about the environment we have today, it's been challenging for fintech founders to attract capital and a lot of them are sort of really focusing now on cutting costs and trying to get to break even as quickly as possible. So you talk with a lot of fintech companies, what's your advice that you give to fintech founders to try and help them navigate this challenging environment we have today?

Peter H.: So, I would say, like first and foremost, know your community. If you're just trying to build the next Bank of America or Chime or something that's very horizontal as a fintech or bank, it's going to be really expensive and really hard to be successful, but if you have a really well aligned group of folks, for example, imagine Roblox launches a fintech, hang on, they have, it's called in-app purchasing and game support and there's a whole economy that's built there. How do they do that, because their community of game players is so self-connected, like they have access to that customer base with a low CAC, so first thing know your community.

The second thing is make sure you understand that interchange isn't the only way to make money in banking and probably isn't going to be your only way to get to profitability. You're going to need to think about other services that you offer them, whether it's subscription-based content so $5.99 for access to education and learning materials, whether it's ultimately offering a lending type of product and/or other cross border fees and so forth. Lending for us has become quite high demand, of late, so I think that's really interesting.

I think the third part of this is make sure that what you're actually doing solves a real problem. So, I think a lot of folks came into the market saying hey, everybody should have this checking account, it's going to be great, but they never actually talk to their customers and said, what about it matters to you. It turns out maybe the thing that matters to them is faster access to their paycheck, turns out maybe something that matters to them is global spending capabilities and if you don't actually know what the customer wants, and you just assume a me-too checking account is going to work, it's not going to work.

Peter R.: Right. I'm glad you mentioned lending because that's something…my thesis has been that these neobanks, they need to add lending because it's a highly profitable business, it's what banks have really built themselves on for decades, centuries really. So, on the lending side of things you said you're seeing more demand there, what types of products are they demanding, is it ……lending has obviously a huge array of different types of products, tell us a little bit about what you're seeing.

Peter H.: So, on the business side of the equation, we're seeing a lot of folks coming and asking for charge card support. So, I think of the next Brex type of product where you spend through the month and you settle at the end of the month, like an American Express card and so it's definitely lending, but it's not where you sort of generally think of as lending. We've seen a number of folks come to us for overdraft or what I call mini lines of credit hey, I need $100 to buy gas for my car, that sort of stuff so they're super short term, one day, five days, ten days usually to help someone through a cash flow scenario. There was a lot of interest in buy now, pay later types of use cases several quarters ago, I think that's now being tempered by business specific vertical use cases so the general-purpose solutions like Affirm or Klarna are going to be great, no one's going to disrupt them.

If you're Sony Play Station and you're offering buy now, pay later for in-app game purchases, that's very narrow focused and it's got a direct market segment, then is actually quite relevant and opportunistic. I'm not saying Sony is doing that, I'm just hypothetically saying. So, we see the lending verticals being charge cards a lot, lines of credit, overdrafts, things like that, we're not seeing a whole lot of term lending and we're seeing a little bit of demand on the pure credit card side, but I think most people are in the fintech community or in the banking community are a little risk averse on pure credit in the credit card sense so we're seeing some interesting use cases there.

Peter R.: Interesting, okay. So, last question, I'd like to get your sense of what's your vision for the future of Banking-as-a-Service which is basically a lot of what we've been talking about here and I mean, within that answer if you could also sort of give us where you want to take Synctera.

Peter H.: Yes. So, I think they converge, like this idea of somewhere between Shopify or Stripe for banking as on one side of the market where it's super easy to get started, do an experiment, try something in a say, in compliant fashion and then at the same time scale up into being able to build the most complicated global use cases, it's kind of where I think it's heading.

Right now, we can do the complicated stuff and the simple stuff is actually ironically harder to build because to build something simple, you have to take away some degrees of freedom, but also make it really safe so that the operating process to run the program are low, we have the ways to go there. But it's definitely been my end-state idea of being able to sort of push a button and magically start printing debit cards 24 or 48 hours later with a compliant program. Getting there is going to be hard and making sure it's safe is going to be really important. I do think that the future is a ton of new creativity and that's what's exciting to me.

Peter R.: Right.

Peter H.: If we get somebody coming in with something new and you're like, I never thought of that, that's kind of cool. We've got a number of startups that are focused on helping particular segments of the market so we have folks that are doing fertility and helping people solve real-world problems which is made easier when you can make the money movement work better and smarter.

Peter R.: Interesting. Yeah, I love that. You're at this really interesting place in the ecosystem where you're seeing lots and lots of creativity, I think that's fantastic. So, anyway, Peter, great to have you on the show, I really appreciate your conversation today.

Peter H.: Yeah, thank you, it's really fun. I'll get you an autographed photo of my aunt.

Peter R.: (laughs) That would be great, okay

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.

(music)