BANK OF AMERICA

Pivot: Cross Border Commerce Podcast Series

Banking as a service: What is the ultimate destination?

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Mike Robertson (00:00):

Welcome to Pivot, the Bank of America Cross-border Commerce Podcast Series. Pivot refers to a moment where, due to an impactful event within the business environment, one is set on a new path and a new series of possibilities arise. In this series, you'll hear competing discussions with industry leaders and key figures in the cross-border payments ecosystem and learn how they pivoted when the situation demanded it. I'm Mike Robertson, Head of Transactional FX Trading, Global Banking and Markets at Bank of America. And I'm joined by my colleague, Doug Houser, Head of Transactional FX at Bank of America. For today's podcast, banking as a service, what is the ultimate destination? And we're joined today by our guest Nigel Verdon, CEO of Railsbank. Welcome Nigel!

Nigel Verdon (00:47):

Hi, thank you for the invitation.

Mike Robertson (00:50):

Excellent. Great to have you here. And Doug, hi!

Doug Houser (00:52):

Thanks Mike! Looking forward to the conversation.

Mike Robertson (00:55):

Yeah and so am I. So, the topic; banking as a service, you know, Nigel, I met you back in the days when you were still doing good things with Currency Cloud, and now there's a totally new story around banking as a service, we're Railsbank is doing some interesting things. I mean, I'd love to hear a bit more about that journey, really. Could you just kick us off with how you got, where you are?

Nigel Verdon (01:15):

Sure. I go back to leaving school. I left school and I failed all my A-levels and ended up as a professional sailor, up and down the east coast of the U.S. The boat I worked on, you can Google it called Sleep Providence. It was a replica of the first ship of the U.S. Navy in the war of independence back in 1776. So, my father eventually persuaded me to go to university cause he didn't either. And I ended up with two engineering degrees and an engineer. And then, the way I ended up in finance is a buddy of mine said he's joining, an engineering buddy, he was joining this company called Goldman Sachs; I hadn't a clue who they were. He just said, they'd pay you 20 times the money for the same engineering maths. And so that's why I ended up in the city of London, initially out in the mirror and then Swiss Bank called, I left Swiss Bank in 1996 and founded my first company when the single Internet appeared around '95, '96 and did the very first foreign exchange trades ever on the Internet, which is Swiss Bank called Eske Bank. And on the back of that, we built this company called Evolution, which is now part of BA Systems on a footsie 100. So it was my first introduction to how technology can massively change the business center. So I was sitting on the FX floor in Swiss Bank House, which is now called UBS, Swiss bankers to acquisition, the mergers and everything. Then we sold Evolution and I ended up on the equities business of dress the climb wall or, wear the same thing as a management team money equities, and one of my caretaker roles was to look after their electronic trading business and ended up actually in a new unit called Digital Markets, where we brought together all flow trading was equity, FX, credit, rates, listed futures options and everything into one business unit with a colleague called, Sean Park and Sean you're well known now, he's a founder of Anthemis from the most high performing Fintech funds and one of the real innovators in it. And when we left there, I founded Currency Cloud, which was still back in that foreign exchange. And that's now a global company worth half a billion or so. And I founded that in 2007 and left it 2015 to found Wells Bank. We founded Wells Bank. The reason for it was, I'd always wanted the infrastructure the Currency Cloud to build on top of because we have to integrate all their legacy infrastructure that the most of banks used to have then, and still have today. And, same with my colleagues, Kristo and Taavet founded TransferWise, and all us who came through that first wave in 2011, also Fintechs, when it sort of appeared and Q1 2012, when it appeared in the media was first moniker. We all wanted infrastructure because we all have to build our own. And hence was the Genesis of Wells Bank. It's the infrastructure layer, the regulation, the operations and technology to let anybody to build a financial services business, whether it's a Fintech, web brand on top of us, instead of taking 18 months to go live, it normally takes between up to eight weeks to go live. Our fastest has been a neobank in eight days from idea to Apple app store with a debit card and its name. And I think that demonstrates the power of infrastructure.

Mike Robertson (04:37):

That's fascinating, Nigel. Wow. So, in a way, first of all, that's a great story. You've certainly had a coat of many colors, I think is the phrase you'd find in the scripture, but ultimately, you're now with Railsbank and in doing reading about your business and looking around the Internet, you know, one sees this phrase, something as a service, banking as a service, treasury as a service, payments as a service, as a service it’s certainly something that's being used a lot in media. Hype or reality? What do you think?

Nigel Verdon (05:04):

I think the, something as a service is always used to describe the concept of a platform and a platform business and platform business model, and so sort of technology way of describing, like a utility company, water as a service, for example, which is what you get from your local water company, here in France, it would be helene des eaux and they give water as a service essentially. So, a way that the media and commentators have described utility strike platform businesses. So banking as a service is only really sort of consolidated on what it really is because it gets very confused with open banking, which is something fundamentally different. And it’s only really come of age really in the past quarter, or plus six months, I'd say because half the VCs in the world will chasing banking as a service. There's a new banking service business starting up left, right and center. So it's a, I think it's more than height, but it's not so much about banking as a service is actually what it frees customers up to do. And that's probably the most important thing. If, for example, I wanted to launch as a brand, like say Marks and Spencer's, and I wanted to launch a bank service, which they have. In the past, you'd have to sit on top of agent banking or something like HSBC or others. And you'd have to probably spend two years getting up and running a couple of million bucks and OPEX of about three to 4 million. And you'd also inherits all the legacy of HSBC of processes and everything else like that. So that was the old way of banking as a service. And you only have single products which are multi-party, you'd have a credit card and perhaps have a bank account and that's about it. Adding new products is pretty nigh on impossible because you have to align your vendor to actually have that product available. So banking as a service is just a hell of a lot more nimble than that. Its ability to multiple products, get live super-fast, at a 10th of the price, at literally 10th of the time, because all the hard work has been done. It's different than white label, very subtly because white labeling, like say, Marks and Spencer did with HSBC. I think they'd just be sealing that worth is, you inherit legacy. Banking as a service with typically digitize the underlying product, which say issue can send money, receive money, issue cards, spend money, issue insurance policy, all those little components. And we've made them available via APIs that can be reconstructed in any way that the customer wants to put them in their customer journey. And that's the fundamental difference; the customer owns the customer journey.

Doug Houser (07:53):

So, Nigel, I want to touch on that from the customer angle, right? And you said a lot there. That was interesting, especially about the nuance between when we're talking about how open banking, right, relates to the customer versus banking as a service. So I want to touch a little bit on, not banking as a service, but from my consumer, let's say as a customer standpoint, what I call services as my bank, which is to say that when I think about a bank in the traditional sense, I think of one place like you talk about it, you go to that, you go to that building even, you know, and say, this is my bank, and I get all my services from there. But now from a customer standpoint, how is open banking and banking as a service changing where consumers start to think, I'm going to get my banking from an amalgamation of different sources and all of those services aggregated for me as my personal bank, right? Versus, having one place to go for the services that a bank provides. Talk a little bit about how that mindset is changing the market. And is that something where we're going to evolve to from our customer's standpoint?

Nigel Verdon (08:59):

Yeah. If you look at how banks have traditionally, whether they've got a map or branch have always been bank centric, it's a privilege to come to the bank. It's a privilege to be banked. And so access to banking as being sort of more privileged than the actual human right, when actually it should be a human right. If you look at say tech companies and others, and people democratize access to whatever product they have or service, but like extremely customer centric, you look at say, Lulu Lemon, you look at Nike, you look at brands, they're very much wrap themselves around the customer. So, I think the shift really is by breaking and deconstructing finance, or you call it banking. Banking is just a collection of different financial products into the fundamental components I discussed, like an account, send money, receive money, a card, and insurance policy and allow the brand or the company, it doesn't necessarily need to be a brand. It doesn't necessarily to be a bank or financial services institution, to reconstruct financial service at the point in time when the customer needs them, or they essentially bank with a brand they trust. So it's, I think the fundamental shift is customer centric, financial services not necessarily delivered directly by the bank. And the bank more becoming a wholesaler and a place of safety to deliver those services, cause a fundamental issue if most G10 banks sort of, a bit of an elephant in the room on this one, is the cost of acquisition is about three $50 of customer. The LTV is like $250 ex-lending. And so the economics and all the infrastructure that sits behind it, really makes it very difficult to do something nimble because you're taking so much losses on ones that aren't producers. Whereas some at Wells Bank, the way we do it is it's cost us 10 cents a month to operate an account, Gita and Banks, 15 to 25 bucks a month. So we can fundamentally do things and enable brands and others instead of spending that two to 3 million bucks a set up, they can be spending 200K to be at the experimenting, and I'm putting financial services around the customer in the brand and then their customer journey. So that shift is really from bank centric to customer centric. So, I think, it's very difficult for the banking world to actually make that shift. I think their shifts...

Mike Robertson (11:28):

Yeah. I want to pick up on that point, cause I think that's a fascinating area. I mean, certainly you mentioned elephant in the room and no doubt, you know, there is that factor. There's two things I want to pick up on there. One is a statement and perhaps you can comment on it and then I've got a question to follow that. You mentioned the cost of acquisition for a customer and in a large bank versus your approach, would you agree though that the fact that the banking infrastructure in the legacy sense exists with that high cost, is one of the reasons that you're able to sort of layer in something, which ultimately reduces the cost that you have, you know, 10 cents, etc., without that traditional rail network that was there before, within the legacy environment that might not be possible. So there's that aspect. And if you could comment on that, and then the question I wanted to ask you, kind of following into that is this; it's very obvious for me living initially in London and now in New York, that the culture and approach to banking is quite different. And the regulators, of course, play a part in that as does technology and legacy. Talk a little bit, if you will, about the different approach you see in Europe with regards to open API versus what happens here in the U.S.

Nigel Verdon (12:34):

Yeah. So I'll just push one thing back from your original comment. We're 10 cents. We don't lie on top of a bank. We were direct clearers with the Bank of England. So there's no Barclays or anything between us and the Bank of England. We are the clearer. Okay. So, this is one of the things that hasn't clicked and a lot of the legacy infrastructures, because we've built it from the ground up to be lightweight and designed for 10 cents a month cost of running an account fully loaded with the compliance for it and everything. And because we built fraud, and into and compliance, everything into every single transaction rather than bolted around the outside, that allows us to do that. And that's what legacy is going to find it very difficult cause changing core banking systems and all the compliance sense of sellotape on the outside is like changing the wheels in your car. It's massively high risk, cause you’re impacting people's money. And so, hence why there's people like a standard chartered building, a total digital bank alongside of it. So they can basically move all the customers over to that and close down the legacy. Ditto as Charles Schwab did with his online, he showed, he basically cannibalized his orders, storefront brokerages. So that's what I think the fundamental change is. That we don't sit on top of anybody and just get them to take the pain. We take the pain all the way to the central bank, or all the way to Visa, all the way to MasterCard on it.

Mike Robertson (14:01):

OK, we can come back to that.

Nigel Verdon (14:02):

And also we're heavily regulated too. I think there's no real difference between our regulation and what we do, and a bank been regulated to, we held deposits and we do that and we have to look after the custom money. And we talked to the FCA and the regulator every day on top of that. So the key thing differences in Europe and the U.S. U.S. is highly complex because of the regulatory environment is very much state-based in many instances. And so there isn't, also there isn't the concept of a more lightweight, e-money type license, which has deposit holding and doing payments, which is what essentially e-money is. I mean, the difference in e-money and the banking licenses and the e-money license. You can't leverage those deposits into loans, and you also can't use as deposits, your own cashflows, which you can actually do in a bank within limits and stuff, and make sure you're, as long as you got all the other capital requirements in there, you can use them, whatever you want. So, that's one observation. Number two is, Europe and other parts of the world, there's concept of contactless payments. The fact, no hardly anybody uses checks anymore. The infrastructure's very much grown up because it's less complicated than the U.S. system, where still got these small, think it was U.S. or somewhat four 6,000 banks, serving 350 million people. There's certainly not that number in Europe serving 640 million people. So, because it's a very fractional based infrastructure trying to get it to change to the way the Europe, well Europe's been easier because it's a less infrastructure and people to change has really held, I think, the U.S. banking back considerably. And so, I think that the real challenge in the U.S. is how do you get all those banks, and the different clearing models and everything, cause they all end, they're not all members of U.S. Fed. For clearing, they have to clear on top of somebody else. And so you've got this layering infrastructure too, which adds extra complexity to it. And then when...

Mike Robertson (16:11):

Do you think it will hold them back? Ultimately?

Nigel Verdon (16:14):

Totally, totally. I think that's why you've seen the consumer react and join people at Chime and others and Robinhood and Wealth Fund and things because of the experience is so much better and the consumer's not held back. But I think there's a real challenge in the infrastructure.

Nigel Verdon (16:32):

That's interesting.

Doug Houser (16:33):

So I want to touch a little bit on, again, that was a great sort of primer as to how you operate like a bank versus how a Railsbank doesn't right? And one thing about, for when you see the democratization of services like this, which is, you get a lot of entrance into the market. Who can provide a lot of different services, but the question I have fundamentally is, does it require a long-term for there to be a concentration of capital similar to how the larger banks acquired in the past? So, and what does that look like, of how you think about, how consolidation would happen in the space, right? I mean, Railsbank recently acquired assets from Wirecard. Talk a little bit about how you think long-term, if this is a distributed network of small players that are offering differentiated services, or if long-term, it looks a lot like the consolidation that has happened to the banking industry over the last 50 years with this burst right now of new services being offered in the market.

Nigel Verdon (17:42):

The way I said is, banks still play a major role and, just historically my great, great grandfather was one of the co-founders essentially of ANZ Bank. So we know a little bit about banking and it's fundamentally banking is there to take deposits and turn them into loans. And that's the fundamentals behind it. And those banks have ended up with, I think every bank, if he looks at them, has something like 190 on differentiated products and very few differentiated one, cause a current account is no different from any bank. And then there's another elephant in the room. You look at the marketing spend out of one of the big four in the U.S., they actually spend more marketing a credit card and a bank account than Apple do globally, and such an undifferentiated product. So invest the core problem and the economics behind it. So what's the future look like? The good thing about banks, their safe, they have all been through war, famine, credit crunches and everything. And 99.9% of banks are run by very good people. And what they, really, are is centers of safety and very good at managing risk and very good at lending. They have a ton of data, which none of the Fintechs have and lending, a friend of mine is a CEO, so Chief Executive of Standard Chartered, former CEO of Standard Chartered, we chatted a few years back about, it's easier for lending money, Nigel, but the Fintech world hasn't figured out how to get it back again. The banking world has. And so I can see where platforms like us will be like the Amazon web services, there'll be four or five platforms where the new world sits on top of and the concept of data centers or banks providing those APIs and all that sort of thing will disappear. Banks will then use platforms like us to distribute the amazing product, which is, would you prefer to have a deposit with Wells Bank or would you prefer to have a deposit at JP Morgan? I think most consumers would prefer to have a deposit at JP Morgan, but there's some consumers who may not be able to be applicable to JP Morgan, they may have one at Wells Bank, so there's different risk profiles. But if you make that choice available by the platform, you can construct financial products around that to your consumer. And so the interaction with consumers will most likely be in the hands of tech and brands, but those tech and brands won't get into the business of licensing or bit of platforms and fundamentally some of the banks, whether it's banks or insurance companies at the back end. So I think there'll be a shift towards being wholesalers. And then you change the economics considerably to actually make a, probably a better economics for bank. When instead of again, paying a few hundred bucks to originator an asset alone on to your balance sheet; you're paying five bucks to originated it, that fundamentally changes the economics of the bank as well. So I think if we look forward to a world of platform, wholesaler and distributors, that's what I think the future is, but that scares majority of boards and the banks and the reason is on the boards, most of the banks in the world, I think only 2% have anybody who's got any real tech experience and digital experience, cause they still think that technology is IT. It's not. They're a fundamentally different thing. Amazon doesn't have a chief digital officer; Google doesn't have a chief digital officer. And if you've got a chief digital officer, you've lost the plot because you don't know what digital is. And ergo your board doesn't. And so I think...

Mike Robertson (21:20):

You make a, well you make an important point there, I mean, we all understand that legacy companies have legacy oriented boards and you know, let's not go too far there, because I do take your point on that one. But I want to just go back to something, you said, around this new model. It fascinates me and I can sort of see the utility at an angle. Absolutely, I live in the same world you do. And I can sort of see where that might go. And of course we have customers and clients that talked to us about new ideas in this sense, how do you see this, I'm using this boot on purpose? This re-imagined environment, this reimagined a platform world. How do you see the actual shift in the fee structures though because clearly every player has to take something in return for what they do? So, how do you see that fundamentally changing at the cost end to the customer, and indeed to the legacy entities that are making money today from the environment? So you're sitting in the middle of that. So how does that change things?

Nigel Verdon (22:10):

It’s the same way that I think Amazon has done it, that AWS and others. Before Amazon, I used to, oh anybody used to have a machine with them and then there was data centers, but you still have to have bits of tin in the data centers. And then AWS says, oh, it's a pure digital product. Then that's the shift and the digital product underneath it. They're still, Cisco routers are still bits of tin sitting in there. So, I think that’s the shift. And so you get the economics of Amazon or JP Morgan for sake of argument. Cisco still in business providing Amazon, which has been like Amazon web services would be something like Wells Bank, the capabilities there just to have a different product set. But they're still making money. The person who really wins, I think out of this is the consumer because access is massively enhanced. And the say unbanked where it's unaffordable for banks from the, they tend to use a compliance angle say well or not, then our risk policy. Well, there un-affordable is a real, another elephant in the room. And so, certainly UK got 8 million unbanked, perhaps you can bank those people as 92 million unbanked across Europe, 92 million people. That's a huge amount assuming there something 640 million people in Europe. And if you look at, say Southeast Asia, within two hours of Singapore, there's something like 350 million unbanked because the economics don't work. So if you shift to this model, you bring the world into something called financial services inclusion, and you make financial services a human right and not a privilege. And then you move it from bank centric to very much make customer centric. Parallel is what happened in the music industry when the iTunes came out and the music industry was on its knees because of economics, all the powers in the labels. So the iTunes suddenly people had choice, they had a digital product, it didn't have an analog product, like even a CD is essential an analog product, but you could have choice. And so that was choice with a simple thing called digital product, business models, massively changed. Now the music industry is in a massive heyday again. Power has shifted somewhat away from labels, but labels are still there. But the consumers mastery enabled distribution models for, I can be as a musician and I can use all the, my cause I can do everything digital, even my laptop. I can become a famous musician from my bedroom, if you certainly see...

Doug Houser (24:36):

Yeah, I want to touch on because there is the one point though, which is, I want to talk a little bit about this, which is, while yes, democratization of all services are very similar, No regulatory board and no government is saying, how do I prevent the next indie rock crisis, right, to be able to prevent the next economic crisis? So, banking services are fundamentally tied, right, to stability of governments and stability of the financial systems. And so as such are going to be regulated differently. So the idea around the democratization is a little bit different, right? So, how has that balance of access to services and how do you see the push/pull happening with the desire for, as we talked about, traditional banking structures have safety, kind of built in? How do you see that evolving, right? It's a little bit of a different services play when you talk about the financial industry versus other technical services.

Nigel Verdon (25:35):

So I appreciate it. I still serve on the boards of world's number two foreign exchange options hedge fund as an NED, so I get that. One of the key things is, there is systemic risk and everything that governments and everything they have to control, as well within the financial services. And then obviously the 2007, 2008, everybody had their eyes off the ball, including the boards of most banks. And I think everybody learned from that. Democratization doesn't mean that risk management goes out the window. As I mentioned earlier, everybody plays a role in democratization. Banks are still places of safety and always will be, and they have been many times. The role in the place of safety may change. And it’s basic from mainly from a distribution model. So, I can see the deposits still maintaining within the banks, but their cost of actually acquisition of those deposits, and also then acquisition of the assets side of it, but fundamentally large, which is a good thing, because most banks, you look at the return on equity at the moment, it's been declining and it has been declining. And it hasn't really grown at all since 2007, 2008. And you can see the paper written by Frank Waltman, the former CFO of Capital One, is now with Nigel Morris founder at Security and Investors. And if you look at the paper for the call, the Copernicus Moment, the banking, it's a very good thesis on why their fundamental economics changed. Even if you're making money and you're profitable, it's there, it's some of the other ratios aren't there. And you look at the share prices as everything's not stellar when they should be. And I think its change. You keep the risk, you keep the systemic risk, so it keep the risk and systemic risk won't ease in. Economics will be better, and actually then the financial system. And I think it's in a better place, a fundamentally better place.

Mike Robertson (27:28):

Yeah, that's really interesting. I certainly take your point about looking ahead in the good times to ensure that you aren't tripped up without looking ahead when times begin to shift. I totally get that. And just incidentally, I, you know, growing up in Africa, I do see the impact, especially you, we all know what Impressa is these days, but when Impressa launched, it was fascinating. And it did change the fundamentals for so many lives. So collapsing the cost, clearly in the whole sort of economics of the permit, so to speak, is interesting. And it does bring more access to so many people. And, you know, I can totally see the benefit of that. I want to just move across, you know, it was in the media and certainly why I called was a topical subject. You know, a while back, I guess, you know, one person's challenges, another person's opportunity. And so talk to us about what you acquired a portion, I believe, was it, Nigel, of WireCard or something there? What are your plans with that?

Nigel Verdon (28:19):

So, yeah, we acquired a part of the UK business, which was a card issuing side, 90%, 95% of the work in business was card acquiring, and that was level the main issues were the card issuing part and UK was primarily the acquisition of Newcastle Building Society, a few years back. So we actually knew those people, and it was a clean business. So we’re not in the business of acquiring. We saw that asset come up for sale. We approached colleagues of mine on the supervisory board of Wirecard and said we were interested in this particular small piece because we understood where all the risks were in the company. And just so, even for the record, I know Jan Marsalek, the guy has disappeared, and I also know Wirecard's biggest customer who allowed them to get to where they are at the time. So we acquired it. It's now, we've got roughly a five, roughly just over five and a half million cards issued out there now. Lots of those are from the Wirecard acquisition. There's a team of people who are superb, who've come and joined us as well. And we were hiring in the market, hiring for good people. So the people came and fundamentally, we helped save those other 5.5 million or so 5 million or so account holders from having a major impact, and also the Fintech industry having a major impact and systemic risk because of the fallout of another part of Wirecard, which wasn't their fault at all. So we work massively close to the regulator. And I think we got the deal because of our relationship with the regulator and the fact that we've got a bunch of gray hair in the company, who've run banks, been CFOs of banks, have management responsibility in banks in our past lives. So we understood how we can make sure we remove the systemic risk. And I'm proud to say that the team migrated all the Wirecard cardholders and program managers over in a four week period, and not a single cardholder was impacted. So, it was combination of one, we don't want the market having systemic risk because it's not good for the merchant Fintech markets, we put our check book where our mouth was, two it's helped our business, so it's aggressively helped us scale our business. We've got some fundamentally great people who've joined, and I still think they should have a badge of honor of working for Wirecard because it was a great company. It was supported by a few, and there's still great people out there. So I also, if anybody seen somebody ex-Wirecard, don't persecute them, hire them. They're good people. So that's the sort of impact to us. It's really helped. And it's also built our brand around the world massively. That's another sort of impact we didn't even consider, but it has made us now worldwide known, thanks to all the articles associated with them.

Doug Houser (31:20):

So that's a point I want to touch on a little bit, as well, is when you have the strategy of acquisition in the space, we talked a little bit about how consolidation is happening in the space. How do you think about assets? And by that, I mean, what assets are you looking to acquire as Railsbank versus for example, a traditional bank would? You have people, you have technology, so for example, are you thinking you want to acquire a portfolio of technologies because you're not sure exactly what the prevailing technology is going to be going forward, right? Do you want to acquire brands? Much like in the distributed technology space, where you say, I'm going to acquire the brands that will allow me entrance into a new market. So I just want to think a little bit about how it's different from traditional banking and how it kind of, is related to technology because it sits in the middle a bit. How do you think about what assets you're acquiring when you think about making acquisitions in this space?

Nigel Verdon (32:17):

Yeah, sure. If you look at, say history of most bank M&A activity, there's lots of mergers, a majority have failed and being demerged as well. And, just my observation from sitting in banks, when I was at Swiss Bank or when we bought Warburgs and then Dillon Reed, and then we're asked to buy UBS because of LTTM fallout. So there's that sort of driven. So banks generally acquire for access to new market, access to assets and customer bases. That's fundamentally the only reasons why to acquire or somebody's in distress, and so you can buy the assets at a less cents than a dollar. For us, it's a different thing. We don't really care about the technology because I learnt in Swiss Bank on, when Swiss Bank were bought. So Warburg's had said, you'll lose all the Swiss Bank core technology because we're streets ahead. And it's all based on the technology O'Connor built when Swiss Bank bought O'Connor. So it's the same thing as technology. We believe that a great platform is leading edge, and it's continually being improved. And it's built, not like the legacy; it's built like Google and Facebook, where you can permanently improve every single part of it. So you don't get stuck in this or technical debt by a part of the world. So, our acquisition mindset is it's about customer basis. It's about new country entry and team, quality people as well. Those people, let's not forget, people power businesses, they're the most important thing that we have and with a good people, we get happy customers. And it's something, that's also, not forget, it's all about the customer. We don't need to buy the sort of balance sheets at all, because were not a balance sheet business. What we want is with distribution business. We're a customer facing business and we're a people business, below the covers as well.

Mike Robertson (34:18):

That's really interesting because I can, sort of, see where that approach will differ from the way things have been done before. We've mentioned regulators on and off through this conversation. And clearly you're exposed to different regulatory environments given the fact that you have a more global outlook, then some of the audience. Talk a little bit about that. I mean, how would you, if you were asked to describe the difference in approach between the U.S. regulators collectively and perhaps regulators in Europe or in even, indeed, even in Asia where you have a location in Singapore now.

Nigel Verdon (34:49):

Sure. So, we're regulated across UK, Europe, Singapore, just getting approval in Philippines, Australia, Japan, and so we got good exposure of different regulation and things. The fundamental difference in U.S., and say Europe, or especially the UK, and UK fully, one of the leading lights on regulation in the world over the past, say 40 years. U.S. is rule-based, UK is principle-based. So, people operate in the U.S. spend the whole time arbitraging the rules, where as a principle base regulation is all about, are you doing the right thing? And I think you get better outcomes by principle-based regulation, because it empowers some trust in the people, and you've got to have the right environment for that. And I've seen it operate by some trading floors in banking and others. And it breeds a different type of relationship with the customer. And that's the fundamental divide, regardless where in the world of, are they rule-based or are they principles based? MAs is very good. It's very mirrored on the loss of the stuff, on the MAs of Singapore is very much moving on UK as well, and the principle-based approach, and then, there's others, which are sort of blends of the two. When you become totally prescriptive and rule-based, it's actually quite dangerous place to be for regulation in my humble opinion, because you can't have a rule for everything. And so you need to be able to empower your industry to think, and if you're going to power your industry to think in the right way, and sometimes you get some bad eggs like you do, you get a better outcome for moving systemic risk, and you've got a better outcome for the customer for treating customers fairly. That's just my observation of operating over, most lot of jurisdictions. My management teams operated them a ton of jurisdictions as well, because we've all operated around the world over the past 30 years. But I think when we come then to discuss regulation, which we do all the time, because we were, I'd say we're daily contact with our regulators in UK and Europe is always comes back to this principle versus rules. And we're big fans of principle-based regulation.

Doug Houser (37:14):

I want to talk about that a little bit more because the U.S., when we talk about the U.S. regulatory environment, obviously, one of the largest markets, I think we all know that, but it is very prescriptive, right? We are talking about very much rules-based of saying, if X happens, you do Y, right? That's why you have to remediate it. You have to check for this, you have to do that. And why, that something that is sort of easy to govern and police, right? But as you said, isn't necessarily producing better outcomes from a risk standpoint. Is the U.S. going to, do you think it has moved forward in principle-based thinking, and do you foresee it in the future, sort of, are you optimistic that the U.S. will move more towards principles based going forward? Or are we going to be in the cycle where it is largely prescriptive?

Nigel Verdon (38:09):

I can't see it changing anytime soon, it's the base of the regulation and it's the base of how the regulator and the Fed and everything acts, and you can just see it in the way the DNA. So it's incredibly difficult to change your DNA. So, I personally can't see it, but the U.S. will continue on it. We just know it's a rule-base environment. One, it sets values and regulates it, actually challenged that because you'll find everybody. And I remember this in banks, how it works is spending the time arbitraging the rules and trying to find a way around the rules and things. So it's very difficult to regulate because you get tons of court cases, which are on the edge of the rule, but the rule, isn't totally clear cause of poor drafting, for example, it's just happens. So, it's theoretically, you've got a set of rules. It's easier to govern in practice. I'm not certain as it's a, it's a great place. And you just see it from lawsuits and the amount of time we've got to have lawyers to make sure you've got a clear understanding of the rule and some, sort of, way, cause there isn't really a safe harbor otherwise, and then you've got to go to court, which isn't great.

Mike Robertson ([39:20]()):

So that safe harbor point is interesting. Cause I mean, frankly yes, one can see the importance of allowing, you know, that sort of, that hot-house safety to incubate new ideas without, you know, being tripped up. And I take your point that the U.S. approach maybe backed into the DNA and living here for a few years now, I can, sort of, see that within general culture sometimes as well. I wonder whether you feel the U.S. would at least move more healthfully towards that safe harbor approach to allow more incubation to occur. Do you see that happening?

Nigel Verdon ([39:50]()):

Well, there's this thing called lobbyists in the U.S., and as a teenager, my father was a military liaison between American armies and the embassy, and father was in the military, and we lived in McClean, and father worked in the embassy and Fort Mead and a ton of other places like that. And the real observation there was, exactly that whole approach on that, which is fundamentally different, and it will be the U.S. that makes U.S. different, but also makes U.S. great as well. So, the safe harbor side of things in terms of opening things up. There was one in Wyoming, whether if I think Kraken has got the first hurdles were licensed, but that still has to go through Fed and in places has, sort of, seen a bit of innovation, but lobbyist tend to squash it down considerably. And you've got see if the lobbyists that JP Morgan and others can throw at a bank and make a Merrill Lynch can throw at it. So I think lobbyists, possibly the people that are breaking innovation, and it'd be great to see a brave regulator, like the SGA was with sandbox and many others around the world have followed suit as well. And you see how those markets have changed? Have they got more systemic risks? No. So, I think, yes, if you've got a brave person in there, I'm not sure who it will be because of lobbyists and the way that American politics and how you get funded works. See if that actually happens, it'd be a great thing that does, cause I think the U.S. is a great market. It's a ton of innovations happening in so many industries.

Mike Robertson ([41:28]()):

Indeed. And perhaps that's a whole new topic. You know, the capture somebody was referring to that regulatory capture through the lobbying channel is a very interesting conversation, perhaps another whole 45 minutes on that at some point. Nigel thanks very much. This has been a fascinating look into, you know, banking as a service in general and your thoughts on how that moves and where this is going for banking more broadly. Doug and I'd like to thank you very much for joining us on those topics.

Nigel Verdon ([41:54]()):

Thank you as well for the opportunity to speak, it's always good to speak to you, Mike, cause it's bumped into ourselves in many, many different guises.

Mike Robertson ([42:03]()):

Indeed, indeed. And thanks Doug for joining too.

Doug Houser ([42:05]()):

Thanks so much.

Mike Robertson ([42:07]()):

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