FINTECH ONE-ON-ONE PODCAST #290-STEPHANE LINTNER

Welcome to the Fintech One-on-One podcast, Episode 290. This is your host, Peter Renton. Chairman and Co-Founder of LendIt Fintech.

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Peter Renton: Today on the show, I am delighted to welcome Stephane Lintner, he is the CEO & Co-Founder of Jiko. Now, Jiko is probably the most unique digital bank in all of fintech and the whole offering is unique, how they approach it is unique, the way they got their banking license, you know, is certainly very different. Jiko is a digital bank, but it's got a very different focus, a different type of product, they're not interested in lending money at all.

They're really more of a technology company that is providing sort of the rails, new kinds of rails, to move money around very efficiently and quickly while also earning interest for their customers. So, we go into the details in some depth, it's not truly obvious. but stick with us, listen in the episode and you will find out how it works. It was a truly fascinating interview, hope you enjoy the show.

Welcome to the podcast Stephane!

Stephane Lintner: Thank you, thank you for having me, it's a pleasure.

Peter: Okay. So, let's get started by giving the listeners a little bit of background just to set the stage here, particularly focusing on what you did before JIko. Can you give us some of the highlights?

Stephane: Sure. It's pretty simple, I came from Europe to get a PhD in Applied Mathematics at Caltech , never thought I'd be in finance, but was hired to price derivatives on the trading floors at Goldman Sachs during 2007 and then had a nine-year career on the floors so learning a lot about finance in general, left in 2016 to start Jiko.

Peter: Okay. So then, how do you describe Jiko because it's really...it's not something that's very typically…not a lot of companies are like yours so how do you describe it?

Stephane: If you describe the function, our business is money storage and access at scale. So, the way we do that is through having a bank, having our broker/dealer with a treasury bill concept which your audience may not be familiar with, but really at the core, we've been trying to build, you can call it a bank, not really a bank in the usual sense, but very safe layer where everyone can store money,

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move it around really efficiently creating this internal credibility. So, money storage at scale, that's one way of saying it.

Peter: Right, right. So then, you keep depositors' money in treasury bills, I believe, so that's not exactly typical of what others do....where did the idea come from to keep deposits in treasury bills?

Stephane: So, I'll tell you, I know where the idea came from. Correction, the deposits are not kept in treasury bills on the bank's balance sheet, it's really an investment. You as an end user, if your money is with Jiko, really you own treasury bills now so there's really trading happening behind it, securities trading and clearing. You deposit and then we invest that money for you in Treasury bills.

Peter: Okay.

Stephane: I guess what makes this not a normal thing is we're both a bank and a broker/dealer where your money is stored in T-bills in your name, the bank is where the money comes in and the payments get processed, cards and all that stuff. So, the idea came from you just asked me, I worked in trading floors, and if you look there amongst banks, there is no such thing as cash. If you have cash, it means it's on balance sheet, it's lent, you lend money to the bank, the bank then works it.

So, when banks actually clear with each other the way you think about cash in the trading floor is treasury bills, securities that are issued by the government, they're safe, they grow, when things are good they grow, when things are bad they hold and if you're big, it's the best thing you can have your money because FDIC doesn’t apply. You see that on scale, I mean, you can say it won’t, but it you want to make the financial system efficient, you don’t want to have all the constraints that a bank that lends normally has only focuses to make things smooth and store money as a first layer then why don't we use it, why don't we do what corporates do and that's scale for everyone, small and big, hold T-bills instead of holding cash.

Peter: Interesting. Obviously, the yield, even in the relatively low yield environment is still going to be better than you get on your checking account or even savings account for the most part.

Stephane: You know, I get the question all the time, what’s the yield? The answer is, I don't know what the yield is because it's whatever the treasury bill market yields. In the same way, you can't really ask the bank what is the yield on my savings account, they'll tell you what they're paying today, they can't tell you what they are going to be paying in a month because things are always subject to change. So, it's not really the...the yield question is more about it naturally has yield when things are good, it's really a safe instrument and it allows us to be an ultra scalable platform where you don't have constraints.

We can take millions of consumers or large corporates and match everyone and do a lot of really nice things on the payments side. So, it's really the scale that people allow us to get, transparency and, yes, chances of yield when the environment has yield. By definition, at par or above most savings and checking accounts. That's historically how it works.

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Peter: Right, right, okay. So, I want to go and address this thing you did that was somewhat unusual. You're a fintech company, haven't really launched yet and yet you went and acquired a bank in Minnesota, a small community bank. Why did you decide to buy a bank rather than going through the chartering process yourself or what was behind that decision?

Stephane: So there's two levels in that decision level. First decision was let's get started, let's get regulated, let's do this the right way, [inaudible] only Varo went really that way, a company like Square, it's only now that they've obtained an ILC charter. We decided from the beginning, we want to scale, we want to inspire trust, bottoms up so three ingredients needed for that, a licensed bank charter, a clean technology stack and a completely different balance sheet model where you don't have the problem not having to do lending at all and these other complicated things that a bank normally does which prevents them from scaling.

Then, knowing that we wanted to be chartered, we had a couple of possibilities, either apply for a new charter or buy a bank. We decided on the latter because the opportunity was there. There was this particular bank that we ended up acquiring, it was available, a great price point and a great management team so everything led to that. And also, if you're trying to deploy a new business model like ours, regulators before approving a new charter on the position really need to understand what you will be doing.

Peter: Right.

Stephane: The best way to do this is you have an existing bank, you deploy the product and you show what you're doing, regulators can see is at small scale and come and say, well, we don't like this, but we like that and would like you to do this better. You build the trust over to your process and eventually, you close the deal. That was really safe for us because, otherwise, it would have been really difficult to demonstrate what we would want to do without having a charter.

Peter: Right, right, yeah, that makes sense. So, what was it about this particular bank that you see, you said the price, the management team, were you sort of dead set on going this route of having a bank, of buying a bank. So, what was it about this bank,,,..because I believe it was in Minnesota, it's not exactly....you're not based in Minnesota so what was it about the bank that was appealing?

Stephane: There was existing relationship. Some of our investors were involved with the bank so it was a natural starting point, when we started talking there was more to explore, even the feasibility of what we wanted to do with this bank and then through the conversation it became natural between us and their management team and their board. So, let's really do this, let's do a pilot and start approaching the regulators and get to a deal over time.

Peter: So, what was it like approaching the regulators? I mean, you're doing something that no one's really done before so what were those initial conversations like and how have they progressed over time?

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Stephane: They were very friendly from the beginning, very encouraging as well, supportive. I guess because our model is also clean, we're doing is very easy to understand, relatively safe, we're not introducing systemic risk, we're not introducing technology risk, on the contrary, we were reducing it by having rebuilt everything in a modern fashion by having a de-levered institution that's really just focused on payments and money storage so it all made sense.

From there, here's the next step, we'll deploy, we'll do five accounts, very low volume, then we'll do 50 accounts and maybe 500 and all along, at regular intervals, having visits from the regulators, the SEC or the Federal Reserve, FINRA, coming to inspect and give us feedback and really looked at our processes because eventually it's all about risk management and the ability to anticipate risks as you build.

So, we did that all along, we built it into our processes so we're safe when we deploy features now, it's knowing what we're doing. We didn't have to reinvent the wheel after launching, it's all pre-built and so it was a very friendly relationship. It was thorough, very thorough, ultimately, that's good for everyone, makes the product safe, makes the platform safe and, as a result, we know that we can scale and not have issues. It's not like the regulators come and tell us, we don't like what you're doing anymore because we have the dialogue ongoing.

Peter: Right, right. So, is the community bank itself still operating in that same community?

Stephane: Yeah, yeah. We've kept it operating the way it was, we are plugged into the community, there are plans eventually down the road to also have some overlap with what we do and what the community bank itself does so we're on the board and that relationship remains very healthy.

Peter: Right, right. So then, I was just on your website earlier today and I saw that you still have a waiting list....that you are operating, right. I've read you do have live clients, I presume you're just trying to kind of scale this carefully rather than opening up the floodgates so tell us a little bit about that process, about the scaling up from zero.

Stephane: So, we have thousands of users live on the platform now. We've been clearing out the wait list pretty actively so people who still want to come in, especially now, can get onboard relatively quickly. The wait list is likely going to disappear very soon, it was a safe mechanism to make sure we controlled the on-boarding process at the beginning. When you control everything, that's fantastic, because you control everything it's also very risky (cut off-no sound).

Peter: Okay, okay. I want to talk about the bank account itself and the debit card that goes along with it, can you just describe how that works, some of the unique features that you offer.

Stephane: So, at the core.....I mean, I like to use the electric car analogy…so it comes with a card, it works with ACH, it feels like a bank account, it's just running on a different fuel. We're not using deposits, we're not doing all sorts of stuff in the balance sheet, we've invested you in T-bills, it's clean and you can ask the question, where's my money and it's there in T-bills. We have nothing to hide so it's clean and green, but it's still like a car, it has most of the features you would expect the car to have,

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in this case a bank account. Right now, it works with visuals, it has the basic ACH and debit card functionalities with twists here and there. We control the stack, we're trying to focus mostly on your safety and security to avoid you having to call us all the time or not knowing what's going on. So, I'll try to describe two main features.

On the ACH front, we've tokenized the whole experience. Instead of having one bank account number, that's your account, that's it and when that's compromised, you have to close, re-open, call every single place that may have had your bank account on file. Nobody keeps track of that. You see I didn't know how many places actually have my bank account number on file, it's an amazing experience once you actually start looking. Once we actually start the linking, each account….for each place you give them a new bank account number, we call that a portal.

We like you to think of Jiko when you think about money storage, your money is safe and now you're connecting, we have got the rails. Give it a new address each time so they can shut down that address when you want and so that's what we think account numbers are for. So, we call them portals, the account ships with at least 15 and if you need more, we'll happily consider that. Fifteen is all we need, so far. You give one to AT&T, one to payroll, one to the gym, they are disposable, you can close them. You can keep probably keep one, you don't have to close the entire account and…so that's one key feature and it's really useful if you like to be in control of your finances.

The second piece is the debit cards, yes, we ship physical cards because that's very useful when your phone is out of battery, no number on it just like the Apple card, we keep it pretty safe and the card is ....the method is you swipe, you're not supposed to swipe. If that happens first, you need to unlock it in the phone, it's a little clunky but it really keeps you safe, chip and pin otherwise super secure and, of course, the ability to spin off numbers in the app if you need to make a virtual payment online. So, we don't want you to use the same number everywhere. Same philosophy, stay safe, use different numbers and configure around this. The one feature I'll mention, you may have heard about this, in that spirit, all of this ships with cash back so when you use your cards for real rewards on debit at scale you may have heard that this recently....we've created a flow to allow you to pay your taxes.

Peter: I've read that, I've read that.

Stephane: That works at scale because we know where this goes, that's for a special purpose, the virtual card in the app that you can spin off and that number will only want to be in the IRS. That one will allow high limits....high limit, reward debit has never been done and we're getting quite some demand for that. Somebody pays $4.7 Million to the IRS, that will be $7,000 in cash back, whether you believe that's not subsidized by VCs, that's just the efficiency of our approach.

Peter: Right. The $4.7 Million on a debit card, that is truly quite something to see. So then, can you explain the mechanics, let's just take that example from here. The $4.7 Million, obviously, this person had money, you had the money in T-bills and then they paid the IRS $4.7 Million, explain what actually happened in that transaction.

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Stephane: So, what happens when you pay with your debit card is that any payments, debit card or others, your Treasury bills get liquidated real-time so you sell your investment, free up the cash as a result and now can take.....as a user you don't have to do anything. In this case, $X Million in your account, you paid, it looks like a normal bank account, but it's down to zero, whatever the amount is supposed to be and you see a transaction for your debit card. A few days later or a month, you get your cash back.

So, the difference with another bank though is that in this case you summon your own investment and you settle that in real-time, it's your investment that you're liquidating, your T-bills. You bought T-bills when you bought money in, you sell T-bills on the way out and it's fluid, you know, it works at 3:00 am on a Sunday morning, it works on a Monday when the markets are open. And we don't really care how much goes in/goes out, we don't live on interchange, we don't have a balance sheet, we don't have liquidity concerns. If all the money goes out tomorrow, we can make that happen. You don't have to go scramble to find the money (cross talking) that's why we're very comfortable with that transaction. If all our users run on the bank at Jiko, take all the money out, it's theirs, the T-bills, they get sold and .....

Peter: Right. T-bills probably being the safest investment there is because in many ways what you're building is a much safer way to do banking because, obviously, a typical bank will loan their money out, real estate or small business or what have you, if they have a run on the bank that becomes a real problem, the FDIC gets involved whereas with you, it's a much, much safer system.

Stephane: Yes. I think one thing that's important, we talk to bankers a lot and they still do the traditional activity, you need credit in society, and the banks, that's what they do very well on the lending side, after all, this is LendIt. What we're really operating is the checking and cash core experience that everyone sits on, after that, people should still, down the road, be able to invest in balance sheet intensive products from lenders. Whether CDs, savings or structured loans so whatever it is, that's going to be required for banks to keep operating and we're not really addressing that on the contrary, we just making sure that at the … when it comes to cash for day-to-day, that's moving fluidly.

Peter: Yeah. We couldn't have the entire banking system operating like that, it wouldn't really work. So then, what is your business model, how are you making money?

Stephane: So, mostly as a platform. What we've done and what we've exposed to the app will be available to other partners who want to embed the Jiko experience into their product. It works. Think about any merchant that suddenly wants to store, a value store, I am not going to name any, but in every branch there's a number of (inaudible) where you could store some money for them, we can do that scale. We can help them get a much more streamlined experience and just create.....let everyone benefit from what we have done, there's huge demand for that and in that sense instead of the electric car, I like to make the analogy of the Dropbox of money. Super scalable, with APIs and anyone can open accounts on your behalf and then we approve it and then we have beautiful money experiences. So, the platform will be our main revenue, we'll charge for access and for account openings.

But you as a user, of course, if you want to use our app there will be a free version and we will have .....because of what we've done, we think it's powerful enough because there's a beautiful product to

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be sold as well. We don't want to bleed either so the current app is going to be tiered, there will be a monthly subscription fee for a certain balance. We're still figuring out what that's going to be, so it's going to be both the platform access indirectly to the partners and we will charge them for accessing your money with your consent. We'll bring you amazing experience in the branch while charging you for using the app directly fully, if you want to use it as a primary bank account. If not, there's a beautiful light version available for free.

Peter: Right, right, okay. So, I want to talk about this platform then. Are you going after like treasuries at companies or you're going after other banks or both, what's your sort of vision there.

Stephane: Down the road, we can do a lot. We're not fully equipped to do everything, we're still a small company. Right now the main demand we're seeing is from fintechs that look for…they are nimble, they've got good ability to plug into APIs, they are designed for it, and most fintechs are not regulated. They are looking for a regulated partner on which to open accounts, store money, potentially issue cards. Within the value prop of that particular fintech, they each have a niche and a beautiful feature and they're rolling out an ecosystem around it.

There's still a need to store cash and create a banking experience so we're seeing a lot of demand for that and in that sense it make us the ideal partner bank. What's differentiated between us as a partner bank versus others is really (a) that we have a single API that houses everything. When you work with Jiko, you don't have to go get a core provider or a core processor and another partner bank. That's one. And we scale so whether it's 500,000 users or multiple millions or multiple fintechs bringing a lot of flow, including big tech down the road, we have no scale issues, We won't have to recapitalize, we won't blow up, we're always going to be there.

Peter: Right, right. Someone could bring $10 Billion to you and you could just handle that because the Treasury market is just so monstrously big and yeah, I see that. I mean, it's really interesting that you've got this sort of cash layer because I can see that...I mean, a lot of cash, we have business, we handle cash and it sits in a checking account earning zero right now. I mean, it seems to me that....like you've got a consumer offering, are we going to see a small business offering as well?

Stephane: Yeah, of course, of course, and even corporate down the road. We just have to grow carefully as we go. Right now, we build everything for the consumer because we wanted to serve first and just create more universal access really cheaply. We've done that, we're exposing it now, we're making it available to the general public and exposing it to partners who need that. The next situation is…it's a long list… that line is getting so blurred, anyway, what is a business versus a person, so many gig workers and self-employed, it's really getting blurry.

So, fundamentally, it's still the same, you've got to store the money and in fact, the bigger you think, the more important you've done is...the more obvious it becomes that what we're building is important because consumers are protected by the FDIC or do you really care about T-bills versus FDIC. Well, yes, it's transparent and some yield really, but if you have more than $250,000 because you're a small business, you have rolling cash, where do you put that.

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It's not FDIC insured above $250,000 comes with and sweep accounts and all the complexity you're not equipped. Put it into T-bills, start with that, that's your core primary layer and process your payments with that and match that versus your users. We build a lot, a huge ecosystem, it's mostly paper work when it comes to the controls, that's really what it's all about. Large businesses means heavier volume, more money laundering issues, more on-boarding questions as to who has access to the account. We're investing in it, we'll be ready for it at some point, partners are already asking and ultimately, corporate cash, the scale would be the final step.

Peter: Right, right. So, the Treasury bills and my understanding there, they're all short term, I think it's less than a year duration, right. Then you have Treasury Notes, they're longer duration, Treasury Bonds, I mean, are you.....you're focused on Treasury Bills because they're obviously the most liquid, like you're going to offer the longer duration product at some point as well.

Stephane: The more sophisticated the client is meaning small businesses who contribute their cash flows with Treasury Bills or large corporates yes, that's when you want to start opening the yield curve to longer duration. For day to day retail consumer, T-bills is, I have to be careful, is as good as cash, but that's pretty much that and then anything above that would be really an investment that requires heavy exposure and may not be suitable for everyone. But, for small businesses, for corporates, yeah, they should actually manage and be able to go on to five-year bonds, ten-year bonds, they remain liquid, you could still sell them, 10-year bonds are extremely liquid, you can sell some of them, but they have a mix now because as rates move, those bonds barely move and the Treasurers will have to manage that. There's lot of layers we can do that, we can even cross sell. What we do, we just ...we would be the layer.

Peter: So, are you investing in like 30-day bills, I mean, what are you typically investing?

Stephane: So, we have discretion over that. Historically, we've been investing people in one-year bonds and rolling those on a monthly basis so one-year bonds ….I mean, the T-bills, usually the curve tends to be convex. You could point to the yield, it’s still highly liquid, low risk, but by rolling it, we keep the highest point on the curve. Right now, there's really no difference between that one-year bond, one month so our team is most likely going to move everything into one month, wait and see what happens in the rates market when that is disclosed. T-bills are maximum one-year yield anyway.

Peter: Right, right, right, that makes sense, okay. So, tell me about ....I mean, the tech you built, it's got to be somewhat unique, like what's the size of your tech team? How have you kind of built this technology?

Stephane: There's 15 people in our tech team right now all located in Iceland. We went to Reykjavik to build this (Peter laughs), the only country that threw bankers in jail after 2008.

Peter: Right.

Stephane: So, what we're doing clearly resonated there, actually joking here, it just happened to be that my officemate is Celtic, he is from Iceland, he joined us very early and helped build up the team

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there. So, we have a really great team, we're are operating far from the US and creating a global team because we need to operate 24/7 and there is only so much you can scale in Iceland but it's a fantastic place to start and we have a great team there.

Now, it's 2021, we started around 2016 prototyping, the cloud has matured so much and can do a lot if you're not encumbered by legacy. So, that's why our team is actually that tiny because setting up, you don't have to get data servers, you don't have to......between infrastructure and AWS, everything that's been maturing between Google and Amazon, you can do so much extremely safely with regulatory oversight.

You have to know what you're doing. I mean, you have to be experts. But you can really operate with a very tiny team. In fact, safely, almost more safely than if you're doing it with legacy. we've been doing like we can just backfill from one zone to the other and anything that comes with that. So, that's our team, it's going to grow, the architecture is pretty distributed, we have looked at the blockchain, we are not a blockchain company but there are good constructs in there so it's all about basically digital T-bills. We focus very heavily on privacy, that's core to what we do, we are a bank after all. We cannot have bank accounts and also want to sell the data and have random access. Security and privacy are very important to us.

Peter: Right.

Stephane: If I may de-mystify one thing is if you are a bank and you have the ledger and let's say you have only ten clients, you could operate the bank with our technology, it's called a Book and that's how Uncle Scrooge was making the entry. (Peter laughs) I mean, that's really all you need for a bank or even it's a broker/dealer of securities, you make the entries, that's how it used to work, it doesn't scale well but really at the back all you need is a database. You want to do that super modern with the latest technology, but the data model is not well known. It's not as complicated if you start it from scratch. That's one very important message.

Peter: Right, right, I get it, okay. And so, you've talked about a lot of places you're going, I mean, you're still in the early days here, but maybe we can end with....maybe you can tell us like some of the milestones you're looking to hit over the next 12 months.

Stephane: Yeah. We're raising focus right now on on-boarding our first partners, we have a few that we're starting deal terms with and we're doing everything to hurry them up and be live before the end of the year while, of course, talking to anyone who's interested about running on what Jiko's built towards opening up much heavier volume next year. But, this year, opening up the platform basically while keeping on improving our direct product and making it as smooth and as fluid as the modern landscape requires, so really a beautiful and safe experience where people feel they want to bank with us…just where it belongs and nowhere else.

Peter: Right, right. Well, it's really an interesting product, an interesting company that you've built here, Stephane. I appreciate your coming on the show and best of luck to you.

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Stephane: It's a pleasure, thanks for inviting me.

Peter: Okay, see you.

You know, I love creative ideas like what Stephane and the Jiko team are doing. I mean, when you think about it, there's no reason why your money should be just sitting in a bank checking account earning zero. In fact, you're being charged for the privilege often to have that money stored there. Jiko has invented a new way of doing this, you know, I could easily see a point where something like this becomes the norm.

Now, it's going to take many, many years, decades, in fact, if that ever does happen. Jiko is in a position to really take advantage of the....even if the rates are low right now, it's better to get something on your money than nothing and if rates start to go up a little bit then it will become even more important. So, I'll be watching their progress with great interest and, you know, I think we'll be seeing a lot from Jiko going forward.

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

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