

FINTECH ONE-ON-ONE PODCAST 291-LEX SOKOLIN

Welcome to the Fintech One-on-One Podcast, Episode 291. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

(music)

Today's episode is brought to you by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. LendIt's flagship event is happening online this year on April 27th to 29th featuring many of the biggest names in fintech. We'll have the CEOs of Afterpay, Figure, Brex, Varo, Dave, Finicity, just to name a few as well as many leaders from traditional finance. LendIt's 2020 event was also held online with many people saying it was the best virtual event they'd ever attended. LendIt is setting the bar even higher in 2021, so join the fintech community at LendIt Fintech USA where you'll meet the people who matter, learn from the experts and get business done. Sign-up today at lendit.com/usa

Peter Renton: Today on the show, I am delighted to welcome Lex Sokolin, he is the Global Fintech Co-Head and the Chief Marketing Officer at ConsenSys. Now, this is quite the epic episode, it's actually the longest episode I've ever recorded in 291 shows, but I didn't want to edit it down because I feel like what we covered here is really important.

We're talking about two of the hottest topics in fintech right now and that is Decentralized Finance or DeFi and Non-Fungible Tokens, NFTs. Now, we go into each of these in some depth, we provide examples of how to get started, what it really means for not just fintech, but for the broader economy and also, Lex provide his perspective on where he thinks these two really hot trends are going, It was a truly fascinating interview, hope you enjoy the show.

Welcome to the podcast, Lex!

Lex Sokolin: Thanks for having me, my pleasure.

Peter: Okay. So, let's just started with giving the listeners a little bit of background about yourself and we were chatting earlier, you're living in the UK, have been for many years. Why don't you give us a little bit of background before you got to ConsenSys.

Lex: Sure. So, I've got a lot of New York in me, now a little bit of London and I also have a little bit of Moscow for sort of a secret agenda, you never know (Peter laughs), but I've kind of hit up different parts of the world, but really grew up in New York and considered that my home. New York has a gravity to it and so that gravity is Wall Street, as many immigrant kids got pulled towards Wall Street and so started out at Lehman Brothers and in 2006 in a strategy function for the Wealth Management asset management business. I kind of got trained up on an analytical skill set thinking about money and was very fortunate, I think, to have the crash happen very quickly.

Fortunate for two reasons, the first is it didn't really affect me deeply, I was just an Analyst Associate, a couple of years out of school and then also, I didn't miss it, I didn't miss the experience of being in the 2008 crash. I think it was such a rich experience that many people who graduated in 2010 or 2015 or 2018 would benefit from seeing a real nice meltdown and everything. That gave me permission to separate from Wall Street and do my first startup around 2009/2010.

I was at Columbia at that time and so buffered myself with government loans, and it subsidized....robo advice discovery and kind of ideation so I started a company called NestEgg Wealth which was B2C robo, very quickly turned into a private label digital Wall platform which is now called AdvisorEngine. We raised about \$50 Million from WisdomTree and sold to Franklin Templeton last year.

And so, I spent a chunky amount of time in digital wealth and kind of thinking about personal finance, how people hold assets, how they invest, why they do it, the behavioral bits around it and then sort of dove head first into the financial advisor value chain. And so, you start talking about data and custody and trading re-balancing and equities and fixed income and intermediation and the whole sort of machine, the whole factory of how actually the investing side of finance works.

Around 2016, I left the company and wanted to really look around and go deeper and joined an equity research firm called Autonomous Research to start their frontier technology kind of fintech practice and so....most of the work there was about yelling at hedge fund managers who allocate large checks to traditional financial services companies about how everything they're doing is doomed, none of their investments will work and Google would have destroyed all of it. And so, it was good rhetorical practice because I feel like you can't really persuade people using normal words in that environment.

The additional advantage of the work I did at Autonomous was basically three years of thinking across the industries, getting out of wealth to banking and lending and payments and insurance and seeing the same structural pattern repeat. There's no difference between a wealth tech platform and a digital lending private label platform and a Banking-as-a-Service private label platform. And then if you melt that down to APIs, it's all the same stuff underneath as well, in terms of just from a macro perspective of what it's doing to the industry.

And then the other dimension is the actual things that are novel like the platform shifts that matter. And so, putting advisors or bankers or underwriters or carriers or whatever it is into a phone, that's nice in a way so we did that. It's over, there's no point anymore in the sense of like it'll continue to happen, but it's not where the innovation is really bubbling up. And so, if you think about that as distribution, the question is what is left to do in finance and what hasn't been done.

That's really what's taken me to blockchain and programmable blockchains as a theme, I think, is completely fundamental to what the financial services industry will look like. Sort of the punch line there is financial manufacturing, but let me pause before I go down the rabbit hole.

Peter: Okay. Lex, why don't we go down for a little bit. Just tell us exactly what you do at ConsenSys?

Lex: So, I joined ConsenSys about two years ago now, I do a couple of things there with the main one being to co-lead our fintech group called ConsenSys Codefi which is a product development group responsible for building software products around digital assets to organization, decentralized finance, StableCoins, really you name it, the intersection between large financial institutions, B2C users of crypto networks, everything that relates to enabling these actors financially, helping them figure out how to use decentralized finance, helping them figure out what it means to have blockchain-based currencies, to have financial infrastructure. That's something that we do at ConsenSys Codefi.

I also spent quite a bit of time leading the Marketing Team for the firm as a whole and then thinking about tokenization, token launches and economics for the sector. So, it's a little bit of a war salad, but this is such a broad space and that's why I'm really attracted to it.

Peter: Right, right. Let's go right into it. I want to first talk about DeFi, Decentralized Finance, and I want to dig fairly deep in here, I'd love to get your take. Firstly, let's just start with how do you define it, particularly for lay people.

Lex: It's a lovely word, (Peter laughs), it's a lovely word, Decentralized Finance, you know, is decentralized good, is decentralized bad, are you conservative or are you liberal or are you a libertarian or are you an anarchist? It's a catchall phrase, the same way that fintech is a casual phrase. I think of it really as financial infrastructure that sits on programmable blockchains, but I am also a finance geek and kind of an industry insider and so I overcomplicate the answer.

The first flip that you want to do for DeFi is separate out the asset class so the thing that you invest in, the thing that you want to own, the token, the security, whatever it is, right. So, there are...like Bitcoin is an asset class, crypto currency is an asset class so within DeFi there are things that you can buy that represent exposure to something, let's say to some economic activity so there is a bunch of assets there in DeFi. That's largely why people are enjoying, flooding into it, it's just to get access to the returns from projects, early stage venture style projects in DeFi.

The second related but different point is that DeFi is a financial middleware, it just happens to be correctly made. Like, I don't know if this is a personal point of view or this is a ConsenSys point of view, but once you sort of grock that blockchains are where computing is going to happen, meaning, you know, we've gone from large warehouses doing computational work to personal computers to then laptops to then.....the Internet has Cloud and the Cloud runs programs and then your mobile phone is really your window into a gigantic Cloud and the Cloud executes the software and you access it through your phone and the next computing paradigm

<http://www.lendit.com/>

is we all run nodes of a network that agrees on a collective truth and executes software against it.

So, once you understand that the next computing paradigm is programmable blockchains, DeFi starts to make sense as just financial software on these programmable blockchains. And then, because, you know, programs speak to each other, they're not written in different languages, they are not on paper, they are not across different standards and so you have fixed income and insurance and asset management and payments, all written in the same language and in the same standards, you know.

So, in the traditional world you would think of a card network like a Visa has almost nothing in common, in terms of its infrastructure, with private equity investment shop KKR which has nothing in common with the infrastructure of something like Tradeweb and Fixed Income Electronic Trading which has nothing in common with the value stack represented by InvestNet or AssetMark for portfolio management.

In Defi, it does, it's all the same, it's all just software and Ethereum and it does all of these things across the different functions, you know, and you can look at a super app like Ant Financial and it is obvious that these functions are distributed together. Consumers use payments and lending and banking and savings and insurance together because no human being cares at all about the separation between these products unless you work for a regulator.

And now, from a manufacturing perspective, the factory that makes these financial products, they also now do not care at all what asset class they're making, they're just software on a computer. And so for me, you know, if I go back to the sort of break between there's the asset class, the things that the factory makes and then there's the factory itself, you know, I'm endlessly encouraged and motivated by the factory because it is the Google or Spotify moment for the financial industry right now.

Peter: Right, right, okay, So, let's just talk about getting started in De-Fi. Over the last couple of months, I've sort of educated myself, I would say, a working knowledge about having a MetaMask wallet which is like, I believe, the ConsenSys made wallet and I've got an Aave account and a Compound account and also also own those tokens separately which is totally, obviously separate to what the DeFi investment is and I bought some DAI on Aave and Compound and a bunch of other things and I've been getting my returns coming in.

So, this is one aspect to DeFi which is the lending aspect and I am lending my DAI now to someone getting a return on it, but is that sort ofthere's a lot of listeners who do not have anywhere near the knowledge that you have, is it smart sort of on-ramp to getting started in DeFi pretty typical or how do you recommend people to get started?

Lex: I think the first kind of conceptual shift that you need to make is because the space is now like an expanding fractile, it's very complex at the edges and it's only going to be more complex at the edges. Things don't go back, they'll go forward. I think the first step is just to understand what exactly is going on with blockchain-based finance before even going to pick a name and

buy it. You can have Apple and GS and Bark and DB as stock names and, similarly, if you were to throw 500-letter acronyms from the S&P 500 at people, they'll be like this is all nonsense.

That's a reasonable reaction to when you see a print of DeFi tickers, but it's no different than if you were to see a list of any other financial tickers. So, I think the first step is just like why is my experience so different here, what is going on, you know, and the analogy that I default to is this concept of the wallet. If you have a physical wallet in your pocket and there's some cash in it, you walk around, there's cash in your wallet, maybe there's some cards in there, the cards do different stuff.

They might be loyalty cards or they might be credit cards, they might have your identity on there, you might have keys in your pocket as well so you're walking around with this physical wallet and you go to a store. When you go to a store, the store doesn't hold your wallet, you know, you go to a Starbucks, they don't hold your wallet, you take out your wallet from your pocket and you give them your card into their payment processor and they charge you and on your way you go and they don't get to keep your wallet once you leave.

In the Internet world that's really changed quite a bit so if you go to Amazon or if you go to any retailer these days, what happens is that that retailer has a locker and in that locker is all your stuff. You leave your credit cards in every store you go to, they're just there in their locker and then you also give them a bunch of other stuff like your identity, you know. So, imagine you walked into a Starbucks and they said, hey, great to see you, give us your name and password to open your locker so that we can take your money out and it's just like a crazy paradigm if you think about it that way.

And so, the blockchain-based finance approached does, it reverses it back when you again have a wallet that the stores do not and this goes back to the De-Fi protocol question which is Compound and Aave and the rest of these companies, they don't have your account, they don't have your money in the same sense that a bank account does or that Amazon does when you give it your payment information. With a bank account, it literally has your money sitting on the bank balance sheet.

What is happening in the DeFi sense is that you, the user, have a MetaMask wallet installed, what the wallet really does is it gives you access to a particular location, an address on the blockchain. So, it stores and encrypts your access to it which is like a key, it's actually called a key, and then you're the one holding that key and that is what gives you control over what happens to the money that's maintained by this network. And then when you come to Aave or Compound or DAI or MakerDao or Yearn, any of these other projects, they're like a little vending machine.

They perform a transformation function, it's a little map robot and they ask you...well, you have to click on a button first that says, I want to give you this, right, like I want to put the coin into the pinball machine, I want to buy a Coke. In one case, it might be, I want to put a bunch of my money into a box and get another type of money out, I want to collateralize this black box with

ETH and I want to get a USD cash equivalent account and there's a mathematical transformation function that allows you to do that and that's MakerDao and DAI. All of these DeFi protocols are centrally these little robots that you can take money out of your pocket or out of your portfolio, permission them to access it and then permission them to do stuff to that money.

And so, I just want to kind of open up that paradigm shift that really gives authority and power back to the user over their assets. I think the adjacent question is like well, what should you invest in, what should you do. I think there are some basic functions that have been developed, the ones that you described are a great starting point.

So, number one is, put in collateral into a box and get a US dollar StableCoin cash equivalent. Another primitive would be take an asset and receive an interest rate on it for lending it out or borrow an asset at some interest rate. This is like a margin desk, it's not borrowing and lending in the sense of underwriting risk, it's in the sense of somebody wants to go long and short so it's just like a Morgan Stanley or Goldman Sachs capital markets desk and so you can get an interest rate on giving your asset for somebody to borrow and pay you for. From there, there are more complex things as well.

There is stuff that looks a lot like asset management or like a big fixed income fund where a community of people make investment decisions on your behalf and they might be maximizing interest rates, they might be maximizing usage reward which are called "farming." And so, you might hop in and provide money into what's called the "vault," but really looks like a fund. And then, I think another one that bears talking about is providing liquidity which is essentially allowing you to act as an institutional market maker where you're putting money into a box that people trade against so you're sort of like the market maker on a stock exchange floor, but you're doing this again through code.

And so, those are the ones that have been the most popular. Of course, trading is enabled, insurance is enabled as well so we're really sort of at the edge of that unfolding complexity that I started talking about.

Peter: Right, right, yeah, It is super interesting because.....the thing that struck me...I remember when I first bought Ripple, it was like back in 2016 or 2017 and it took me all weekend to figure out how just to buy it. What I was struck with the MetaMask wallet is it's really no more difficult than applying for a bank account, it's easier actually, and you've got a chrome plug-in that you could just go and do it.

I was surprised when I went to this other site to sort of recognize that I have a MetaMask wallet. It was really simple, but I think it seems to me that right now, it's really crypto enthusiasts that are really creating MetaMask wallets and other types of wallets. What's it going to take to get it more into the mainstream where someone who might have a 401K and it's invested in the stock market, knows nothing about finance, what's it going to take for them to get a wallet using some of the DeFi features?

Lex: So, a couple of things on that. As you can tell, brevity is not a virtue that I have. (Peter laughs)

Peter: It's okay.

Lex: You know, so the first point is like people love to hate on the crypto user experience, but I agree with you and I think that the crypto user experience at this point is very much on par with B2C fintech because many fintech entrepreneurs are now in the crypto space and have just re-created what was once novel and interesting and now, it's delivered through Goldman Sachs Marcus to millions of people. You know, they've re-created on top of the blockchain paradigm and the other day I had to fill out wire instructions....you know, this was an electronic experience, I was on a bank website, I was typing in where the money was going and I had to put in the bank account and bank number of the destination and it felt like a totally insane moment.

I mean, this is a small thing, people have had much worse experience with wires and getting them over the line, but like I had to go to a PDF and then the routing number was on the PDF and I can copy the number once and then I put that into the first field that says account number and then the second field confirms that the account number is real so I have to type it. You know, I can't copy paste it in there so I have to type it and so I'm typing a nine digit bank account number from memory from what I'm seeing and comparing it to a PDF.

If it matches the first field then it's good and that's that, that's the security and it is so unbelievably awkward and error prone and this is why we have settlement issues and reconciliation issues and why literally thousands of people in finance wake up everyday to match one Excel file to another and say these are the breaks our firm has to pay millions of dollars to reconcile that.

With MetaMask, like you might be initially put off by the fact that you have this long hash which is your address and you have to copy it around and paste it in different places, but, it's unbelievably easy. You press on the number and it copies it and then you paste it somewhere and you're done and it's never wrong. From a user experience, it's reallyI think we're over the hump. The second point around how do we get more normal regular people into it is I do think it's worth pausing on whether that is still a true concern. We know that Coinbase has \$90 Billion in AUM or let's say in custodied assets and about 43 million users. So, 43 million out of 300 is a pretty good market penetration for the United States, it's an amazingly high number.

And as a robo advisor entrepreneur, it dawns on me now that it was never a Betterment, it was always Coinbase. The robo advisor was never a Betterment, you know, and I love Betterment, I have nothing but respect for them. I think they're ethical and they execute super well in all this stuff, we'll put Wealthfront to the side. But, they've got \$28 billion or so of passive asset allocation and Coinbase is going to go public at \$100 Billion. It was always about the novelty and the next generation there. And so, I think the actual adoption is much higher than some of us who've been in the space for a while feel.

And then, when you look even at mathematics squishes inside of decentralized finance sort of explosion, our monthly average users are now at 2.5 million per month, these are people who every month use the wallet. Two and a half million of actives is pretty high, it's pretty, pretty high even when you compare it to the Robinhoods and the Chimes and so on, we're going to print you the 10 million users, but you look at the actives and it's roughly comparable. So, it feels to me that we are now in the....I think we're past the early adopters, I think we're passed the.... just the crypto geeks and I think for the basic functions of accessing Ethereum, may be holding NFTs, may be holding the DeFi tokens, I do think we have that adoption.

Peter: Yeah.

Lex: There's still more to do, I think a lot of that will be done from the off-ramps so Coinbase and finance extending into the programmability, but I think there is a lot of progress already.

Peter: I should also point out, you can get Coinbase at their own wallet which you can use in some of these DeFi applications as well, you don't have to use MetaMask. I want to switch gears and talk about NFTs. You just mentioned them, they are the hottest thing....in the last two weeks, I have seen more articles on NFTs. The Wall Street Journal had a big piece this morning, you have Marketplace/NPR talking about it, NBA Topshot is now kind of ...I would almost say it's mainstream, but, Lex. it obviously stands for Non-Fungible Tokens, again, give us your take on why it's so popular.

Lex: So, there are fungible currencies like the dollar, if I gave you a dollar, if I gave you another dollar, you don't care, it's the same. ETH and Bitcoin and even the tokens of these DeFi protocols, they're all sort of the same divisible and fractional. Non-Fungible tokens are a unique object, broadly speaking, you can have additions, you know, you can have ten of the same objects like you can have ten prints or posters of an Andy Warhol, but they're designed to be the one unique thing. It can be a visual image that an artist makes like the digital artist Beeple who I think has a \$6.5 Million Christie's auction going on right now so speaking about the mainstream.

Or, it's the videos of sports moments like NBA Top Shot where you got fans collecting basically Harry Potter frames, moving images of people they love and admire and just want to look at it all the time and feel that this is rare. Why does it matter? There are some starting criticisms that misunderstand what's actually going on, right, because you can say, it's nice you've got an image, I've got that image, I just screenshot it, what's unique about your image. The NFT is supposed to be unique and owned and it goes in that same wallet that I was talking about when you're walking around....you know, Starbucks doesn't have a locker, you have the wallet in your pocket and similarly now, in your wallet is your collectible card of LeBron or whatever.

And so the first criticism, which I think is incorrect, is I can just take a screenshot, I can right-click and save and the answer to why that's wrong is the same answers to what's the difference between the Mona Lisa and the poster of Mona Lisa. The poster of the Mona Lisa carries the same visual information and it doesn't matter because nobody cares about the visual information itself. The visual information is a very small part of the pleasure of what the Mona

Lisa generates, right. It's the original artwork, it is the history of that object being originally made by the creator of that object who is famous and has social capital. It is the historical context of what has happened to that piece of art, who has owned it, how has it passed through different environments over time, you know, and then it has cultural importance.

The one that's hanging here's important and the print in your dorm room is not and so it's the exact same dynamic here. Just because you have a copy doesn't mean you have the original and the original is the thing that the artist made and then you can get to kind of the discussion of let's have two artists, one is a painter and makes beautiful portraits and another is using oil paint and then another is a painter that makes absolutely gorgeous portraits, but they use their iPad and PhotoShop. They spend an identical amount of time creating that beautiful portrait.

Why is it that you value the physical, but not the digital. In part, because the digital is infinitely reproducible and so there's no price whereas the physical is scarce. So now, what's happened is we have a mechanism that says, this digital work is scarce and authentic and you know, I'm not here to sort of pump up crypto prices, that's not the point of the storytelling, but the shift is like a breath of fresh air for creators, for digital creators and by the way, there are fewer and fewer non-digital creators and more and more digital creators because we're all stuck in our COVID worlds and it's sort of obvious.

Here's my sort of...I'll try to conclude on this, this is the framework I have...so what Napster did, and I grew up on Napster as my defining moments in the early 2000's, was it massively, it exploded the demand side, the people who got to enjoy music because it crashed the price to zero of all music. So, you go along the demand curve, right, supply and demand kind of cross, and then you crash the prize to zero and so anybody who wants music now has access to it, massive increase in people enjoying creative output and file sharing and all that.

Artists got crushed, Lars Ulrich of Metallica was particularly unhappy, teenagers were jailed, that was a fun time and so now, we're in the opposite moment of that where all of a sudden, you have digital scarcity on creative output, digital creative output, and so you can have markets and economies around it. So, you're seeing a massive entry on the supply side so more musicians, more artists, anybody who knows how to deal with an audience and make music or videos or art is now trying to create more stuff that is blockchain-anchored because they feel like they can get paid for it. So, I would say, it took 20 years to balance out what file sharing in Napster did and that's what we're looking at now.

Peter: Right. I want to dig into the weeds a little bit, if I may, I was listening to the recent podcast you did and I'll link to that in the show notes, you're talking about the music and creators and you can...I want to talk about how smart contracts are kind of incorporated here. On your show you gave the example of someone creating an original piece of music and then someone else could have taken that original piece and then adapting it to their own and having a new original piece, but the original creator also gets a cut and it's all done through smart contracts. Can you explain a little bit about the mechanics there.

Lex: So, it all starts with why Ethereum and programmable blockchains are valuable. They're valuable because they are digital property rights enforcement system and that's useful when you have economies. Like the reason finance has been the first use case on Ethereum is because economies and trading and market are very natural to the system which says this is real, this is not, you know, here is money and here's instruments. And so, it is naturally the case that the economic features of the creative industry are what is the emergent, the obvious case coming out of here.

You know, it's not about like how can I look at digital art, it's about how can I have exchange and venues of exchange and then royalty payments or commissions against this art. It is software capitalism, I mean, there is going to be a lot of people from the remix culture of the 2000s or a digital artist, a digitally native artist who bristle at NFTs because they grew up on file sharing, free remixing, copy left, you know, like hate the lawyers, finally we're free of that. And this goes the other way, this brings back....this is DRM [Digital Rights Management] to the max, you know, it brings back power to the artist, but it is participatory and optional, like you don't have to buy the original print of the CD, you can just always listen to it on Spotify.

I think what you're referencing, it applies both to art and to music where let's say you have a piece of art that you've made and you've posted it on a platform like OpenSea or Rarible or one of the other ones and you're the author. And so, you might specify that you as the author get a 5 or 10% commission in all secondary markets, every time it's resold, you get a commission. So, let's say you sell your first piece for \$100, you get the \$100 and somebody else owns it and then two years goes by and you're super famous, you're amazing, you're really big on Twitter and so whoever owned your piece is now able to sell it for \$100,000, even though they bought it from you for \$100.

That's a life changing event for that owner of the digital asset, then you're also getting 10% so you're going to get \$10,000 on that, essentially, commission or royalty payment in perpetuity. Every time the exchange happens that revenue comes back to you as the creator. That is basically the collapse of the entire creative media intermediation value chain from a financial perspective which, again, is obvious if you think about fintech. Fintech has been cutting out intermediation for commerce and for trade and so on and this is what's happening here. Same thing for music, right, music is unbelievably.....I did a research in to this last week.

Music, the structure of royalty is an ownership and who gets paid for what and if it's used in a commercial versus if it's used on a Spotify stream, a massively complex economic structure, you know. But, to simplify it to the basics, the artist gets a very small percentage for the streaming or the usage of the piece of music and often they might not even have to rights to the actual thing that they perform. Their music label might have given them the song they perform and the music label also gets paid for the usage of the information in the song and you only get for the performance rights.

Anyway, there are now DJs and musicians who are minting their CDs, like the original CDs to their fan base and then there are mechanisms by which, you know, royalties from the resale of

that music go to the musicians even when their fans purchase it .So, we're very early in these dynamics, they're very much not polished, but that is the promise I think for the disruption inside of the value chain in the creative industry.

Peter: I just saw an email like Kings of Leon, I think it was, just on the weekend how they released their new album as an NFT so that's groundbreaking in and of itself. I want to ask about Square and Tidal which you wrote about recently. I read so many articles about it and I felt like most did not have any idea what the hell Jack Dorsey was thinking when he bought, he spent this money on Tidal.

You've got this long piece about that, love to sort of get some of your thoughts on that because the way I look at it, you put in this piece, you saw how broken and the financial industry.....the financial part of the music industry is where these people are getting a third of a cent for one play on Spotify and you just can....whereas he could have made a decent living selling a few thousand records or 10,000 records back in the 80's and 90's. Now, you have to be a megastar to make a living there.

Just maybe touch briefly on why you thinkwhat Jack Dorsey is thinking by acquiring Tidal which, for all intents and purposes, was really a second tier or third tier player in the music streaming space.

Lex: So, I write this for The Fintech Blueprint which is my weekly newsletter and then it gets the long take so syndicated on CoinDesk and you wouldn't believe the amount of flack I got from the crypto community for this NFT article about ...where I framed it through the perspective of Square and Tidal, you know, telling the NFT story through the perspective of this deal rather than trying to tell it through the perspective of Ethereum.

Torn to shreds for not schilling ETH which is, you know, maybe check the body of my work, but the core outline is this, it's not A to B, it's like logic steps A through Z. So, title is maybe A Third Tier Streaming Service, it does print \$170 Million in revenue and it has 2 million users so if they were a fintech it'd be 3 billion so there's that. I think even on a cash flow basis, it's not a terrible deal at all, it's good for Jay-Z who I think bought it for 50.

Anyway, so it is a music streaming service and it's got really cool people involved, they're just cool. The main point is that they have a huge audience and Square has an interesting history, Ark Invest talks about this very, very well in their research. How did Cash App totally....how did they completely run around Venmo. Venmo was so far ahead and was growing a really fast clip. Out of nowhere, it felt like Cash App came out and caught up and overtook their growth curve, now being the primary P2P money movement app, we will put Zelle to the side.

And so, how did they do that and the answer is they did it through really clever growth hacking which is they partnered with the hip-hop community and with the influencer community and instead of spending money on Google Ads they let the influencers and the artists do giveaways. So, hey, I'm a musician, if you want \$100 tell me what your Cash App wallet is. You drop the link through Cash App wallet and that person sends you the giveaway so like I don't know which

<http://www.lendit.com/>

artist, but it'd be cool for like Jay-Z to send me \$100 and all I have to do is drop a line with my account to Cash App on a Twitter thread and this is what worked for them unbelievably well, really smart, clever marketing.

I think it was definitely connected to...I'm guessing it's connected to Jack's understanding of social media because of running Twitter and understanding people psychology on Twitter and all of these and so that is the Square growth hack. Of course, Square also has Bitcoin as an asset that you trade inside the app and there are teams specifically dedicated to crypto development, I think both inside of Square and Twitter and it's no secret that Jack is an enthusiast for crypto infrastructure, more generally. And so, if you kind of connect the lines, what can you do with Tidal.

First, you've just bought yourself your go-to-market strategy, you actually own your go-to-market strategy because you understand how to market through the artists who are cool. No other fintech really, outside of a couple of teenager ones using TikTok, understand how to do this and reach the populations served by these artists. So, that's number one.

Number two is you're a small business bank if you are Square and oh boy, are there a lot of small businesses inside of Tidal. Every single musician is a small business that can now have every single financial service as part of their streaming experience, and I think that's really important. I think they're also buying an additional customer base for their B2B side, but then if you take one step further in terms of thinking through NFTs and the economics of scarce digital art and music, you can kind of paint forward a vision of the world where title is integrated as a bank, but is also a wallet of the authentic music, of the actual music objects.

So, the streaming stuff is a way to pay publishers, it's a way to pay royalties, it's the mathematics that creates royalties and if you own both the bank and the streaming service and you have the direct relationship with the artist and you're able to transform the publisher into a blockchain-based smart contract and therefore, you don't need an intermediary to do the artist relationship and so on, it becomes a really novel and strange and weird, but it's like a bundle of options, right. In a Black Swan event where this intuition is right, this is a massively valuable company and I think that's probably underneath it.

Peter: Right, right. Anyway, we've gone over time, but before we leave it here, I do want to get you to paint a picture, if you would, about the future of finance. I feel like we are in this fascinating time right now....the last ten years of fintech, we've had some really good incremental change. There's been a lot of good work done and I think some really impressive developments, but it feels like in this time of potentially just re-wiring the cord of the whole financial system, maybe you could just give us your vision of what this is going to look like as sort of DeFi, NFTs, obviously they are related, as they become more mainstream.

Lex: Trying so hard to be precise. The mistake of the last decade of fintech, which is really fintech, using that word, is thinking that a digital storefront is enough. Yes, Netflix started out by mailing you DVDs, who cares, that embarrassing, it's wrong, it's done, it's over, nobody cares,

right. I spent a chunky six years of my life building wealth tech software for financial advisors so they can deliver websites to their clients or an app to their clients.

Okay, you're talking about a value chain that many people who are growing up in Fortnite will never touch in their lives because if you are \$100 Million investor who has grown up in Fortnite, you're not using a Swiss private bank, you're just not, you wouldn't be caught dead using a Swiss private bank and I love Swiss private banks. As somebody who has like...you know, Lehman Brothers would have loved to be UBS, I spent a lot of time thinking about that model.

And so, I think what we are going to realize and see now very clearly is that digital manufacturing is much more important than digital distribution and that in every disruptive cliché, things that are at this point sort of lame to talk about which is what happened to media from the Internet and Google, what happened to transportation from Uber, what happened to music from Spotify, in all of those cases it's not distribution, it's manufacturing.

There is no Internet of paper books, there is no Spotify of CD-Roms, it doesn't work, it's a waste of time. And so, I think we are seeing that shift now where digitally native manufacturing of financial product actually is going on and digital distribution, of course. Obviously, there's going to be someone, whether a new entrepreneur, whether Goldman Sachs or whether RobinHood, that's just going bolt on their consumer footprint to the new stuff. And we also know what the outcome is in terms of price so price has to collapse because it cost nothing to manufacture and then the value chain collapses as well.

And so, to me, that industry outcome is really...it feels very clear, you know, especially in a world where Google Pay is a \$20 Million user neo bank that's sitting on top of Banking-as-a-Service and has done every sort of wiggle possible in order to not be a bank and at the same time provide all these financial services, give it five years and they are going to connect to the Amazon Cloud for Ethereum and the end like literally, the end! If Amazon is running the Ethereum Cloud with every single financial services open source protocol in it and Google is connecting to Amazon to distribute all of it, what else exists, like, I don't know.

And so, I think the challenge, the question is how much simultaneous time periods are we going to live in because...I think you're deep in the payment ecosystem as well and so, you know, there are multiple rails that are alive today at the same time. People use cash, people use QR codes, they use electronic payments, they use still point of sale terminals, they've got the card networks, there's Faster Payments, there's ACH, lots and lots of rails, it's not a winner take all and it's very possible that we're going to have just a separate economy for kind of new finance that sits alongside Wall Street and Silicon Valley and fintech can over time...like Amazon goes from 1% share to 20% share of all of commerce and I don't know what the destination is.

The anecdote I have is, you can be on the road in the US and you can have a horse and buggy and an Amish person on that road and then next to them you can have some chugger from the 90's eating gasoline and being like a very dirty car, but with a motor. Next to that, you can have a self driving Tesla that's fully electric and it's the same road and it's all the same people in the

same country, but they're living in different time periods. So, we are right at that edge of just I think a completely new financial infrastructure emerging.

Peter: Okay. We'll have to leave it there. It's a very exciting time, Lex, it was great to chat with you and really appreciate your coming on the show today.

Lex: My pleasure, thanks for having me..

Peter: Okay, see you.

I don't know about you, but my head is spinning after listening to Lex talk there for the last 50 plus minutes. We've had such amazing things happen, I think, in the last ten years of fintech. As Lex said and I tend to agree that was the precursor for what's really coming. I don't whether NFT is just going to be this fad that are going to just crash and burn, but I think the technology behind them, the smart contracts, having these things really be intelligent, you know, ways to kind of transact.

I think that concept is here to stay, it just makes perfect sense. Whether we get there in five years, in ten years or 20 years, I think this is the way finance is going that's why I wanted to make it such. I didn't want to edit it out, I made it such a long show because I felt like it was important to get into the details here.

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

Today's episode was brought to you by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. LendIt's flagship event is happening online this year on April 27th to 29th featuring many of the biggest names in fintech We will have the CEOs of Afterpay, Figure, Brex, Varo, Dave, Finicity, just to name a few, as well as many leaders from traditional finance. After a successful event in 2020, LendIt is setting the bar even higher in 2021. So, join the fintech community at LendIt Fintech USA where you will meet the people who matter, learn from the experts and get business done. Sign up today at lendit.com/usa

(music)