James Robert:
Hey, it's James Robert. Thanks so much for joining me for a special Inside Digital Growth episode where I'm going to be sharing insights from a conversation that I recently had with Mary Wisniewski, banking editor at Bankrate along with Jeffrey Kendall, CEO of Nymbus about the opportunities for financial brands to create and capture, capitalize on when it comes to niche banking because I truly do believe niche is the new local, and new starts now.

James Robert:
Greetings and hello. I am James Robert Lay and welcome to the 111th episode of the Banking on Digital Growth podcast. Today's episode is part of the Inside Digital Growth series. And it's a special episode because I'm going to unlock access to a fireside chat that was recently hosted by the financial brand, where I was a guest joining Mary Wisniewski banking editor at Bankrate along with Jeffery Kendall CEO of Nymbus, who has also been a previous guest of the Banking on Digital Growth podcast going back to episode number 71. During this fireside chat conversation, Mary, Jeffrey, and I, we really focused the discussion around three key areas.

James Robert:
Number one, why leveraging speed is necessary for banks and credit unions to move ahead, instead of just catching up to the digital curve. Number two, we talked about how to avoid the takeout menu of features and services, and instead provide real customer, real member value. And then number three, we talk through the risk versus reward perspective, what that looks like for banks and credit unions striving to achieve meaningful digital growth, meaningful digital transformation. Now, to be really fair with you, I want to give you a heads up that this episode runs a bit longer than the normal 30 minutes or so that we normally take here as part of the Inside Digital Growth series.

James Robert:
But the extra 30 minutes on the back end are so worth it. And because this is a special episode, I also want to do something very special, something extra special for you that stick around after the fireside chat conversation. Normally, I answer a question from the digital growth community as part of the Inside Digital Growth series. But today, I'm going to turn the tables on you, I'm going to ask you the most important question that you can ever ask yourself, that you can ever ask your team, that you can ever ask your financial brand. And it's a question that can massively maximize your financial brands future digital growth potential. Let's get into it.

Mary Wisniewski:
Before we get into the heavy of it, I just thought we'd set up a little bit of the backstory. Digital transformation is something we've been talking about for years, and so it's hard to feel like it's just as important as it was a decade ago. But a lot has changed, a decade has happened. We are in this moment in time where we've been in a pandemic for more than a year, digital banking has been accelerating, and also the numbers for community banks have been positive by FDIC's count. So it almost paints this positive picture. But we're in this industry, we know there are cracks, we know there are problems, we know there are challenges for the consumer experience, but we also know there are more opportunities.

Mary Wisniewski:
So instead of talking about doom and gloom, we're going to be talking about possibilities, how to grow your customer base, markets that you might not think about but could be really helpful for growing your customer base. And with that as the landscape I wanted to kick it to Jeffrey to just not only tell us what's at stake here, but also what are the possibilities here?

Jeffery Kendall:
Oh, thank you, Mary. And James Robert, it's great to be on another webinar with you guys-

James Robert:
Always.

Jeffery Kendall:
... [crosstalk 00:04:40]. And these were always really, really fun conversations. Lots of good different perspectives here, so I'm so excited about it. But one of the things, when I say when I think about where banks and credit unions are today with regard to growth, I think one of the challenges is there's really two large amounts of pressure that are coming on banks and credit unions. One is the competitive angle from large money center style banks that really have unlimited amounts of money when it comes to budgets to putting together really, really robust digital transformation programs. And so, I think there's an advantage there with the large banks that tier two and tier three banks don't necessarily enjoy to that extent.

Jeffery Kendall:
And then on the flip side, there's a lot of new challenger banks and neobanks that are coming up, and even non-traditional financial institutions that are creating financial services for people that may take away from the need to have all your money tied up with a community bank, or a credit union, or a regional bank. And so if you're in the middle, and you're getting squeezed or compressed by both sides of that equation, you have to look for new opportunities to grow your customer base, as well as grow the number of products that you can distribute to those customers, to those channels.

Jeffery Kendall:
And so, that's one area that we as a company have been really, really focused on, which is saying, there are more opportunities for new customers and new product opportunities for banks and credit unions than they meet the eye. And we think that some of those possibilities are enabled through digital banks, and digital products, and digital brands. And so, we're big advocates of thinking about market segmentation, and going to market, and creating new digital channels so that you can serve new customers and new products. And so, we think there's a tremendous amount of opportunities, and I know we'll get into some of those details through this dialogue.

Mary Wisniewski:
You just made me want to get right into it. Now, I've heard the phrase out, well, I guess I created this more of the term of the hobby bank, but I know from Nymbus standpoint, it's the niche bank. And you're seeing this from the FinTech side of things, as you mentioned, challenger banks they're getting more competitive. But now you're also seeing them go after very niche markets. You're seeing Daylight going after the LGBTQ community. Purple is a new bank that's helping people with disabilities, and it's getting more precise. But also Nymbus has been doing this as well, you have some brands here that have been very niche. Let's talk about them, just so the audience has an idea of what we mean exactly by market segments.

Jeffery Kendall:
I know that James will have a lot to contribute to this topic. But I think great companies, even outside of financial services, great companies focus and start with the customer. And they start with the customer needs, and that's really where I think the whole concept of niche really, really plays out. So the idea is, for decades, and maybe even centuries now, banks have traditionally gone to market and thought about

their customers with relation to a geography. It was ABC Community Bank that's downtown on Main Street, it was First Interstate Bank in Idaho, or things that we're very, very focused about going to market in a geographic way.

Jeffery Kendall:
But the challenge with that is that as consumers, our financial needs don't emanate from our geography, our financial needs emanate from our personalities, and from our lifestyles, and from the things that we value and care about as consumers. And so, the opportunity for niche bank marketing is to say, how do you connect with a group of customers based on that next level of deep financial need that comes from the fact that maybe they're a lawyer and need access to a bank that provides specialized products that serve law firms. One of my favorite examples of banks that we've launched in support is Bank MD, which is a bank that's focused on recently graduated med school students. Those are our niches, and qualities, and personality characteristics of people that you can see needs for their financial services and financial products generate from that piece, not just the fact that they live in Central Texas or something like that. So I think that's what we mean by niche.

James Robert:
Obviously, I can't help as you're going through, you talked about the legacy way of a go to market strategy, Jeffrey, it was traditionally... And we can go back to the Industrial Revolution with this because it was always product centric. We're going to build a product, and then we're going to go to market, and then we're going to try to find people that identify with that product. But now we've heard terms of Human Centered Design, or what I call even human centered growth, to where geographies, we see this with COVID borders have fallen by the wayside, zip codes have blended together., and niche has become the new local, and that niche really is in the mind of the consumer, their questions, their concerns, their hopes, their dreams. And when you take a human centered growth approach, you put people at the center of all of your thinking and doing, and then bring a product to bear wrapped around as the prescription and the cures to those people's pain points.

Jeffery Kendall:
100%. And that's where banks and credit unions have the opportunities is to start with the market, because the art of the possible with products is pretty broad. And once you understand the mindset of a customer, that's when you can create great profitable high growth products very hard to go to market. As you know James, you and I have talked about this a million times, which is if you're trying to be everything to everyone, you end up being very little to everyone.

James Robert:
I can't help but think of a book from Seth Godin written, I think, it was back in 2011 called, We Are All Weird. And Seth Godin was tapping into the differences that we all bring. There are common patterns across market segments, demographics even. But then the deeper that you can go in is where you really find the formulaic approach to growth framed around a unique person's group or group of people, those specific opportunities right there.

Jeffery Kendall:
Completely agree.

Mary Wisniewski:
I've heard this in a previous interview that an executive had mentioned, he viewed this as a renaissance of the credit union model for digital banking brands. I wondered if you think it's a throwback with a little twist here?

Jeffery Kendall:
Yeah, I'll let you go, James. But definitely I have a point of view on that, too.

James Robert:
It's interesting, if you go back to the credit union model, it was started traditionally with a SEG a select employee group. And there was a built in affinity tied to that. But then what happened is community credit unions went regional, and they got further and further away from that select employee group where there was a built in affinity. So it's almost like the old proverbs, there's nothing new under the sun or what is old is now new again, to where the affinity is not necessarily with an employer, but lifestyle choices, belief systems. The very pieces that make human beings what human beings are.

Jeffery Kendall:
Absolutely. And it can be something that... What I think is interesting about niches is that as individuals, our needs and what affinity we belong to might change over time. Sometimes we belong to a niche for a very short amount of time, and sometimes it's for an extended period. A bank that we just launched this week, the announcement, the pre sign up for the bank is called Hitched. And Hitched is a bank for newlyweds and to help people who are coming together in a relationship understand how that affects their financial product needs, and the dynamics of finances with a newlywed couple. And so, that's one of those ones I say, "Okay. Well, you're not a newlywed forever." Eventually the honeymoon is over and you get into the long term side of these things.

Jeffery Kendall:
But it's even interesting for banks to say, "I might develop a relationship with a person at this point and this stage in their life with very targeted products and marketing, but then I need a strategy to help them migrate through the rest of their life journey." And what I love about that approach is it starts with the customer. It's doesn't start with, we need more deposits, we need better non-interest income, and things like that. It starts with, what's the real need, and how can we as a financial institution help someone at this point in their life journey?

James Robert:
And that opens up so many more opportunities when you start with that human centered growth approach to solving a person's problems. And take the newlywed model, it also allows deep level expertise to be a part of your go to market strategy to complement the banking component as well. And it also allows for alignment with others who are now serving that newlywed market as complimentary to their services as well. And I can't help but just think about my wife and I. We do pre marriage counseling for couples that are getting married, and finances. And there's a program called Prepare and Rich, and it's a diagnostic of sorts to where you can identify where there might be some pain points with a couple. Finances is traditionally one of the very top pain points that we see. So I see even alignment opportunities with brands serving that similar market segment.

Jeffery Kendall:
Absolutely. I remember back to what I was first married. There's a difference in how you look at money. We're all as individuals our relationship with money can be very different, and trying to combine two people at different points of view on money can be a challenge so you're definitely spot on.

Mary Wisniewski:
You guys bringing me to a small aside, I remember I went to a Christian Louboutin chat, and he was referencing his wife was hiding her purchases of Louboutin from her husband. He said something like,

"She just said that was for her gynecologist." They're just different ways you're communicating when you're in a relationship or you're not. So I think it's just so curious of what tools are beneficial and what tools are not beneficial. But also with this, when you really know your market, I mean of course, you're bank, you're IDing your customer, and you get a bunch of data about them. But there seems to be another data opportunity here where you're learning even more, which can help with product development, but also marketing. And I'm curious what you two think are some of the data advantages.

Jeffery Kendall:
There are advantages, once you understand the spending patterns, and the financial patterns have a very specific market or consumer group. And one of the things that I'm seeing is the amount of interest and the amount of large consumer brands who are understanding now if they get more deeply embedded into the financial side of their customers lives, that that creates an opportunity to have a lot more data about their customers. So even large retailers who traditionally have had no financial services products, or maybe at best a co-branded credit card with loyalty points or something like that. They're starting to say, "If I could have half of my customers use banking products that I could understand the data from, the roadmap of somebody's financial life that I could see and understand from understanding their transaction history, or their banking patterns."

Jeffery Kendall:
Consumer brands, who traditionally are very, very aware of market segmentation and understanding consumer are looking to get into financial services because they see the huge advantage of what they can get from the data about financial services for their customers. It's a little bit different. If you're a bank or credit union today, you should be thinking that that is going to be a competitive pressure coming into the market. But it's also a testament that, people even outside of our industry are lathered up, and very, very ready to get into that data when given the opportunity. And it's coming.

James Robert:
And you bring up an interesting point, because as you started your thoughts previously, you mentioned the big bank who has just, an unlimited budget to tap into, you have the FinTech space, but now you're introducing a new villain, if we may-

Mary Wisniewski:
We may.

James Robert:
... which is a consumer brand. And I think it's something that a lot of us have never really thought about before as a potential threat, but it makes a lot of sense. Another area that I'm seeing as well, is really on the accounting side, the HR side, brands that are coming into the space that are now offering financial products as well, because it all comes back to this point, as you mentioned, Mary, it's the data. And it's like we know more about the lives of our account holders, we have the potential to know more about the lives of our account holders than they probably even know themselves, because as you mentioned, Jeffrey, this is all about pattern matching, pattern matching, can then fall back into habits.

James Robert:
And when you can identify the habits, it really begets the next level of that human centered growth approach to make those products even that much better, because they're framed around what people are actually doing, and not just what they're saying. Because what someone says is one thing, but what someone does that's the actual truth of the matter.

Jeffery Kendall:
Completely agree. Yeah, no, it's interesting, because people always ask me, they're like, "What happens when we run out of niches to go after?" And I say, "That's a big hypothetical, because I can't see the end of there being an end to the niches." Some of the things that we hear every single day are so creative. But I do tell people that not every niche is a good niche to go after either. And so, we could all come up with very radical, crazy ideas. I think part of what you have to think through as you're thinking about whether a niche opportunity is number one, what's the TAM? Can you actually put a number around how many people are in that group?

Jeffery Kendall:
Because if you create a niche, and there's only 50,000 people in the US who match that pattern that may not give you the volume, and lift, and the capability to go there. So understanding what's the minimum size that you could define a group of people from I think it's really important. And then, the second thing is what's going to be the hook. We talk every day, hours a day at Nymbus about what the hook is. And for us, the hook is what's the compelling feature, product, or capability that's going to make it worthwhile for someone to switch their account from, say, Wells Fargo over to the niche bank. What's that piece of it? And sometimes that's a financial product. Sometimes that's access to expertise as James Robert was mentioning earlier. Sometimes it could just be an incentive. Maybe it's free Red Sox season tickets or something like that. But it's got to be strong enough and tied in to the thesis of the bank that it really connects and makes sense.

Jeffery Kendall:
And so, one of my favorite niches is the gig economy, with the growth in this country and globally, about people who choose a career now that it's gig focused, either transportation, or sharing assets like your house, or delivery, or... COVID has really brought this concept front and center, and it was even prior to COVID. So I like the idea of focusing on people that differentiate financial needs in the gig economy. And some of those things might be when you choose the gig economy as your career, taxes are a big issue, because you're an independent contractor. Managing your long term savings and retirement is an issue because they don't have the concept of a 401k program that maybe you enjoy in a traditional career. Health benefits. All of these things come in, and you start understanding the mindset of somebody who drives an Uber for a living, and now you can create these really interesting products that are meaningful to them. So that's one of my favorite niches that's out there. James, I would like to hear yours.

James Robert:
Yeah. Mine revolves around sports. Because there's such a built in affinity. Right now we've got the NCAA tournament, March Madness, anything that drives emotion like an emotional pool of sports, very closely aligned with that is dogs and cats, pet lovers. Because there's something about the emotion that drives so much buying behavior. If you think about dogs and cats, you have chewy.com. You could go and buy the same products off of Amazon. But the question is, is why do people choose, and it's a choice, to shop at Chewy? And a lot of it comes down to affinity. Sometimes it comes down to expertise as well. Another example of this is REI, because it's a built in community of like minds who are all journeying towards, literally with REI, this outdoor lifestyle. So when I think about niche, I think about strong emotional tie, that really helps to move the needle for someone emotionally.

Mary Wisniewski:
I love that. So attendees, he's got some ideas now to riff on, so again drop it in the chat. And I want to dial up for the gig as well because also that kind of individual won't even know how much they're making on any given day necessarily, or the income volatility is wild. So that is such a ripe opportunity to

innovate in. And I can only think of a few examples. I think PNC was building Numo. I don't know where that stands right now, but it's definitely a ripe area as our emotional anything.

James Robert:
Well, as you mentioned the up and down of... I can't help but think of a SpotMe integration to where, "Hey, I need to bridge this gap in the short term. I know that I'm going to make it up, can you just SpotMe this?" And emotionally, that's going to take some pressure off of someone. Because when those emotions start to rise, we don't necessarily make the best of choices. But when we have that sense of calm and peace, that someone's going to take care of me and watch that reinforces, "You know what, they took care of me." And that increases brand loyalty. And oh, by the way, I'm going to go tell all of my other gig economy friends and my gig workers that, "Hey, this is what this brand did for me, I think you should maybe consider them." That's the most powerful marketing channel in and of itself, even in this digital world that we're living in right now. The referral.

Mary Wisniewski:
Yeah. And you can see that, being very vibrant from like Chime, Varo, and again, these are broader challenger banks, but I know they are getting crazy referrals just from either early stimulus, or being able to get that spot me, or the early payday it seems to be the hook as you were talking about Jeffrey to bring in a wider audience. But I think it's just so important. A checking account is very much commodity products. You need to lure in someone by solving one of their problems, one of their serious problems. I think that's a great...

Jeffery Kendall:
Well, you bring up some it's really interesting, which is let's just take Varo and Chime as two challenger banks that have emerged as digital only players, and they got there because there were special features, or capabilities, or hooks to draw them in like early wage access. One of the things that we do a lot of thinking about is, how long can that last? So if the differentiating is an easy product to emulate or to copy, then you got to keep ahead of the curve. And I think some of the early digital banks that were founded as just digital brands were so broad, and their hook was really around convenience, like Simple, for example, they were the pioneers in digital banking. But five years after they were founded, the traditional banks and credit unions had woken up and really gotten their digital capabilities and self-service tools into a point where it wasn't really that different.

Jeffery Kendall:
I had a Chase checking account and a Simple checking account, and frankly I couldn't tell the difference between from a product and an offer perspective at one point. And so, I think what happens in these banks is if you just have a weak hook, or one that you're completely dependent on like early wage access, you have threat of being disintermediated because then people just add that product into their bank, [inaudible 00:25:15] looking not very different. And so, I wonder if Chime and Varo just over time, if they're their brand, and their approach is so broad, that they'll end up just being just a normal bank, that just doesn't happen to have branches, and that sort of thing.

James Robert:
I've got two thoughts to that. One is on the Simple side, because we were studying Simple, right as they were coming out of the gate, and study them for probably about five years, even to the point to where about 100,000 of those accounts that it was all through referral acquisition. But the niche market, one could argue it was maybe more of the techie people, the early adopters, the first mover, but then it went a little bit more broad. Varo, Chime one that we're following now is Aspiration, and you mentioned Wells Fargo from, how do you get people to move their money from Wells Fargo? Well, Aspiration is leaning

into the pain points. And a lot of people don't know where their money is being invested in, and so Aspiration is being very bold by saying we're not going to invest in oil, and we're not going to invest in guns. Very hot political topics.

James Robert:
But Aspiration put their flag in the ground to where now they're literally wrapping their whole product even around, swipe your card, plant a tree. So it's very purpose driven. And I think that's where this conversation goes, at least in my mind, coming back to your point, Mary, about is this like the renaissance of the credit union model, niche markets. We're having to re-examine why we're doing what we're doing in the first place, number one. And then number two, who are we doing this for? It's the why, the who, then the what, then the how.

Jeffery Kendall:
Well, it's funny, it all comes back to basics, doesn't it? This is why I love talking with you, James Robert, because you understand marketing. And you understand that marketing is universal. And we talked about these prior bits. It was interesting, five or six years ago, people started saying, "Well, banks are technology companies. All they really are is technology companies that are providing assets to people." And I actually have a different perspective now, I think banks are marketing companies. And if I already ask 10 CEOs of banks whether they're a marketing company, I bet I'd hear zero yeses. But it's almost like, well, you need to be a marketing company. That's why Chime and Varo have done such a great job is because they've really over indexed on understanding how to go to market and do customer acquisition, and things like that. So I think for people on this call, I just say, I think that banking is going less about being tech, that's an enabler, that's a tool. But you have to really understand your consumer, your product, and the basics of marketing 101.

James Robert:
Tech is just a multiplier, it gives you leverage. But it all comes back to this idea of marketing, which I would even frame from the sense of growth, acquisition, positioning, uniqueness in the marketplace. And what does that, if we're going to keep simplifying this and coming down to the zero sum. It's understanding human behavior, people, what drives them, getting even more basic Maslow's hierarchy of needs. What do people want? They want to feel healthy, they want to feel wealthy, and that's not being a bazillionaire, it's just I don't have to worry about money. And they want to feel happy. But money is the thread that connects all of those different points together because an unhealthy wallet leads to... And this has been proven multiple studies. Unhealthy wallet leads to unhealthy physical fitness. Unhealthy wallet leads to mental challenges. And so it's almost like, if we can transform a person's, truly transform their wallet, we can really have the potential to transform their lives.

Jeffery Kendall:
Love that.

Mary Wisniewski:
I want to zoom in back, Jeffery, when you were talking I think my dog was barking to underscore your message, and then I put the [inaudible 00:29:09] to make him go run in my closet. That's what he does. But-

Jeffery Kendall:
[inaudible 00:29:12].

Mary Wisniewski:

Yes. But it's that cut and paste that always comes up in this industry. You do something edgy, then the big bank with all that money is just going to do the same thing. Even when I log into Chase now, I see a lot of this like, you can link in your other bank accounts, you can do auto save in a more interesting way. I used to think there should be a segment, you stole my look, but it would be FinTech versus bank, or bank versus FinTech because it's such a-

James Robert:
Who wore it best.

Mary Wisniewski:
Yeah, who wore it best. I could be a judge. But it's just such a problem that seems almost inevitable. But as bankers are going after a more specific audience, it seems like a loophole to this and I'm curious if that's how you think about it, too, or how do you think focus on a very specific audience might help with this ongoing dilemma?

Jeffery Kendall:
It definitely, it comes back to getting that product offer right and understanding it. I mean that's why I really encourage people it's like, "If you don't have a strong marketing team right now and you're a CEO of a bank, today go start figuring out how to make a super strong marketing team." Because exactly the question that you just asked would only be really able to be answered by a professional and shark marketing team. Which is, how do we get ahead? How do we make a differentiated offer? And how do we identify the target that we're going to go drop that on to? And that's where the advantage is. And there is a speed to market, and a time to market component of that.

Jeffery Kendall:
And one of our things is so important to us and our value system is getting banks launched quickly. That's why we focus on getting it done in 90 days. Because we believe that's the speed that the market is moving at. And if you really want to go own a segment, you want to own a niche, you got to start now, or it will be gone. And one of the things I see right now is there's a ton of offerings of new digital banks that are serving the Black community. It's like, "Okay. Well, how are you going to do..."

Jeffery Kendall:
And there's four or five in the wings waiting right now who haven't launched, they've announced that they're launching, they're coming to market, and I'm sitting there with popcorn waiting on who's going to come out with the real hook that's going to matter, that launches them into success. Because they're not going to be all of them. I tell people all the time, I say the end of the road of digital banking is littered with failed banks. Simple, they're now basically defunct, and it's really sad, but there's a reason that these things come up and shut down, and will do that, and will continue to do that in volume.

James Robert:
Well, it comes back to something that I've seen doing this almost 20 years now that I diagnosis R&D. And that's that research and development, that's rip off and duplicate. Someone see something and they want to bring that in. I was so-

Jeffery Kendall:
I appreciate that one, James Robert. I love that.

James Robert:
I was so inspired. I was a freshman in high school. It was Miss Bongos AP English class. And she had a poster on the wall, and it was the old poem, "Two roads diverged in a wood, and I took the one less traveled and that has made all the difference." But I always looked at that poster, and I didn't want to go down either path. I've always wondered, well, what if we rewrote that and said, "Two roads diverged in a wood, and I blazed my own trail down the middle." And I think this idea, that's where... It's like let's go down the middle of the woods and see what's there, do some exploratory work first to see if there's a market opportunity. And it comes back to getting really good at asking people just good questions, is really at the foundation of all of this. And then, let their answers, people will tell you what they want, and what they don't want, and then watch 90 days, and then come back, learn, optimize, iterate, make it even that much better.

James Robert:
But this whole idea is a very different way of approaching the market, of just approaching growth for that matter. Because if you think about building a branch, you build a branch. It's done. You can't really optimize the branch, maybe you can change the colors. But this is just continuous learning, evolution, and that's what leads to exponential future growth, I believe.

Jeffery Kendall:
Absolutely. And it starts with the interesting thing. So I'm new to Nymbus. I became the CEO starting in October. And when I came here, one of the first things that I did was invested in building out a world class internal digital agency, is what we call them. And we gave it a name called Nymbus Labs. And we just did a press release on it this week. But we've been working with Nymbus Labs for the past couple months. And one of the things that we have majored on... And the reason it was a challenge is I'm CEO of a software company, and when you start doing things like building out digital agencies, investors and people look at you with the RCA dog, tilted head like, "What are you doing? I don't understand that."

Mary Wisniewski:
I'll do it. That's me doing it.

Jeffery Kendall:
And what I told them is, "Look, even though we're a software company, what we're trying to do is drive outcomes." And outcomes have to be measured and outcome start with data. And if we don't have a great capability of understanding market data ourselves from our customers' customer side, then we're not going to be able to help our customers as much. So we majored on investing in a team that all they do now is look at data, and demographic data, and different things to support with data some of these niche concepts that come up. So if somebody says, "Hey, you know what, I think we should start a bank for truck drivers." We can go, "Hey, intuitively, we get that. Let's go spend a week and a half really researching that segment of the market, and figure out how big is it? Can we actually go to market? Is there a route to talk to that specific segment?" And start there.

Jeffery Kendall:
And then, really help when we walk in with our bank and credit union customers, we don't have all the answers because we're not the only smart people in the world. But we can at least start with something that goes, "This is a data driven decision about how we're going to do something new and different in innovation, versus just come up with, "Oh, here's another wild idea."" It's got to be backed with data.

James Robert:
And I've seen... I'm sorry, Mary.

Mary Wisniewski:
Go.

James Robert:
I've seen that work. I've seen that work that that team is doing, Jeffrey, and it is. It all starts with the people and it starts big, and then it gets smaller, and then it get smaller, and then it gets smaller. And I think I'm curious, and maybe Mary, you were going to go here as well, because we were talking about this the other day. What is the ideal optimal size because that's how I think. I think let's start with the end in mind, and then let's back into that, and you had shared something that I thought was really, really important because truck drivers. Okay, what's the market segment look like? Two to three million. What are that two to three million, how many people do we actually have to acquire to say, "You know what, this is a worthwhile strategy to continue to explore and invest in?"

Jeffery Kendall:
Yeah, and it's interesting. I think it's a moving target, but when we go in, and we talk about a new niche, whether it's consumer focused, or whether it's small business focused, or corporate focused, obviously makes a difference in the quantity that you need to really say, "How many customers do we have to have at a minimum to be successful with the digital bank?" And what we found is that on the consumer side, it's really about 10,000 is the threshold. 10,000 customers, if you have, and again what products you offer, the profitability, that can matter. But if you just took what we think of as the traditional banking products, you can make a successful digital bank if you can acquire 10,000 users.

Jeffery Kendall:
Chime has 12 million, so 10,000 is pretty, pretty tiny to do this and make it successful. And the reason it's a moving target is that that number actually gets smaller as technology brings the cost of launching a digital bank down. And I talked to people about this all the time, two years ago, even a year and a half ago, if somebody was in the market and said, "You know what, I want to start a digital bank. This is a great idea, how much is it going to cost me?" It was a minimum of 20 to $30 million, just to launch the bank, and it takes about two years to really build it out and integrate everything that you need.

Jeffery Kendall:
And so what we've done, and what we've really focused on is, we've got to continue to bring that price down from there, and now ours is in the million-dollar range to go launch a digital bank. Since we've changed the economics and cut the cost of investing down by 1/20th, it also then reduces the amount of customers in a niche that you need to make it profitable or get a good ROI on it. And so, that's where we focus a lot of our time on is, how do we control that cost? How do we get really, really efficient through scale that we've built internally for our tools and products to make it affordable, so that it becomes easy to get an ROI off of a niche?

James Robert:
So I've got a million dollars, I can go put it in the physical world and maybe staff a branch for that operations, or whatever you want to call it. Or I can open up a completely new market opportunity, a million potential... Just because math is easy. A million potential account holders, I need to get 10,000 of that. So then I can go buy access to audience, and influencer marketing, align myself with other people who are in and were serving that market segment. It just makes a lot of sense to focus in on the few to create the greatest value, but that's a very just different way. I think, when we think about growth and banking than it has been over the last 100 years.

Jeffery Kendall:
Absolutely.

Mary Wisniewski:
And I think that introduces another wrinkle. Of that 10,000, do they need to be the primary account? Because I know another trend that has been happening is banks are sharing customers with FinTechs, which makes it a bit more complicated there. But do they need to have the whole relationship when they're going after that 10,000? Or at least be the primary, assuming it's a checking account for example.

Jeffery Kendall:
No. And in fact, the assumptions are relatively low from what we've seen. Because there's one, which is okay, how many account holders? And then, there's the assumptions behind what's the activity of those account holders that are driving the profitability on it. And really, in our models, what we use is about four debit card transactions a month and an average daily balance of about $1,000. So depending on who you are, that might be your PFI. Or if you're maybe a little bit further up in the wealth and asset class, maybe that is just a side bank for you. So I think that's the way to look at it, which is what it, the underlying assumptions in terms of assets and transactions that can go in and make that work.

Mary Wisniewski:
Now, what should a bank do? They find a promising niche, they think they can get their 10,000. What's the next step? Lock and load on the 90-day rollout, or how do they see this vision through?

Jeffery Kendall:
My big thing is start with research, go validate that the good idea that you came up with in the shower was actually something that's supported there. And then it becomes finding the right partner that can really help you launch with speed. And it's interesting I get this question a lot, people are like, "Well, if your competitive advantage, Jeffery, is that you help people do this in a rapid timeframe in here. But you talk to everybody about why..." I get accused of being maybe a little too transparent about our business model and how we make this successful. And so, when people ask me, "Find a partner that can do it fast, because a lot is happening right now."

Jeffery Kendall:
And so there's two different approaches you could take. You could say, "Look, well, I'm going to go design an architecture and a technical stack, that's going to be... I'm going to bespoke design it and pick out every little piece in the stack and make it work and integrate it." That's a two to three-year project. If that's your attitude going in, you're never going to get to market on time. If you take something that's more turnkey, and start with done, and then tweak it and tune it over time, that's our advocated approach. So it's get to market as fast as you can test and lose early. That's the approach that you should be thinking about.

James Robert:
And to add to that thought, that two to three years at what cost and it's not just a monetary costs out of the pocket, it's an opportunity cost in the marketplace. And I think that's the most important thing that we should think about. Particularly when we talk about this idea of human centered growth, it's the 80% rule. I think there's so much pressure internally. And I see it, and I hear it at financial brands. "We want 100%, before we launch this thing." And I'm like, "But that's not how it works." We need 80%. We need something that's viable to the MVP, minimal viable product. We launched that and it comes back to, let's get it in and test, learn.

James Robert:
And that really requires us to rethink internally, how we view failure. Failure is nothing more when we're thinking about this than the fertile seeds that we're planting for the future growth. Now, if we don't learn anything, of if we don't do anything from those learnings, well then that absolutely is failure. But this failure must be transformed to... Let's measure progress here that we're making, and not worry about perfection. And the way that we can measure progress is every 90 days coming back to your model, every 90 days we can measure from where we've come from over the previous 90 days versus getting all caught up into all the other things that we have to do back to that two to three-year model that you were talking about before.

Jeffery Kendall:
Absolutely. Progress not perfection. It's just not going to happen.

Mary Wisniewski:
One challenge that may come up, or I'm thinking I've heard it said by entrepreneurs, I felt it in my own work sometimes. When your idea gets murdered, it's hard to go again, you're like, "What did you do?" I can just see the banker at the community bank feeling so sad about that. I'm wondering, any tips there for... It's not a failure, but yet for the person who spent so much time and imagination creating it, any tips to get back on your feet and go again. Or one thing I have found, maybe it's not now, but maybe it's a greenlight in later years, later months.

Jeffery Kendall:
For me, the biggest thing, I can always tell when we're working with customers. It's no surprise that the concept of creating an environment where people are able to innovate and free to innovate starts with leadership. So you can look at the very top level of leadership in a bank or credit union, you can tell whether or not they're going to be open to new ideas or not. It's just the reality of it. And I think, if your leadership empowers you, if your leadership encourages you to not be afraid to try new things because a failure. Those people are just going to be happier. And frankly, if you're stuck in an organization where you feel like every good idea you have hits a ceiling or a wall, that's probably an indicator of the long-term viability of that bank in this market. And so I tell people, I say, "Don't spend a lot of time waiting years and years to figure out if you're in an environment where you can continue to try to move the needle and change and innovate."

Jeffery Kendall:
So I think that's going on a lot in the market. And again, it's funny, digital transformation is such a broad term. It gets thrown around a lot, and we all... It's very ethereal, but at the end of the day it's just about people. It's about people just doing something new and using some tools to get there. But at the end of the day, you got to have the permission, and the ability to try a new idea.

Mary Wisniewski:
You just made me think that 90-day turnover would be really helpful, because at least you get to know pretty quickly. But also I know leadership changes could happen and that should circumvent that challenge too, you don't have to keep finding the right person to pitch things to. But what are you going to say, James Robert?

James Robert:
I've thought a lot about this coming out of COVID over the last 12 months. This idea and back to your point, Jeffrey, digital transformation. It's the buzzword Bingo. And I can't help but think the less that we talk about technology, and the more that we focus on the human aspect, human growth design

perspective with this, the more value that will create internally, and will create value internally by creating value externally through an empathetic lens. To that point, what I've found is all transformation of any type which transformation is really at its heart, it's just about growth.

James Robert:
All transformation begins with two things. Number one, telling the truth early, often, always to yourself and to your team, to those that you're working with about where you've been, where you are, and where you could go next on this journey of transformation and growth. And then number two, getting at least some type of training, education, awareness to help the unaware become aware of what the future could look like. Because we have to keep in mind, those that might not see what you see, it's easy for them to fall back and stay stuck in the cave of complacency because that's all they know. And so, training education to help the unaware become aware, I have found has really been a transformative exercise in and of itself. Because even this idea of FinTech, I asked, "Have you ever opened an account?" At the leadership team. "Have you ever experienced FinTech? You know about it? But have you ever opened an account and see what it feels like?"

James Robert:
No, no, that's your homework. Go open an account, see what it feels like, report back to me in a month, we have a conversation. "Oh, my gosh, this was so easy. This was amazing." "Okay. Well, let's talk about how did it make you feel?" So I think just that idea of just awareness into opportunities, it makes the fear of the unknown not so scary.

Mary Wisniewski:
I love that. Show and tell. Show and tell.

James Robert:
Yeah.

Mary Wisniewski:
I thought another interesting element of this conversation is to talk about the other growth opportunities, some banks, a handful of banks are exploring, that's to partner with the FinTechs. Like the community bank, who wants to partner with the next Chime, or perhaps Google Plex, or what the case might be. How would you highlight the pros and cons for doing something like that versus launching your own digital banking brand?

Jeffery Kendall:
Well, one of the things, actually a friend of mine, Dave Mayo from FedFis pointed out to me, and I thought was really, really relevant. He said, "Community banks are waking up to the fact that the most valuable asset that they have is their charter." And right now, I think the question is basically, do you support embedded financial products, or banking as a service, whatever buzzword term you want to put on top of it? But are you going to extend the capability to go to market to someone else, and you still manage the risk and the charter functions on the back end? And I think that is where what we're trying to do is to encourage banks is to say, "Yes, you should partner. You should figure out a way to monetize those relationships and partnering with FinTechs."

Jeffery Kendall:
Because the FinTechs can't really exist without the banks. There's some, if you don't need a charter, [inaudible 00:49:45], you're not going to have a huge market if you can't have charter backed products. And so, to some extent, if you're a forward thinking bank, you're going to be saying, "Look, there's a

huge growing market out there that can't exist without me, how do I put myself in the middle of it?" Now, I believe this firmly, which is out of the 10,000 plus credit unions and banks in the country, there's only a certain amount of those that are going to be able to be successful at being a FinTech partner, or sponsor bank, or charter bank. And up until now, it's been maybe a dozen banks in the country are really, really driving impressive business models off that.

Jeffery Kendall:
Community banks, regional banks are all interested in getting into that space, but they better do it quickly because I think the early leaders here will be the market holders long term. And then, if you wait two to three years to figure out whether or not you should help FinTechs by being a sponsor bank, the opportunity is probably going to be lost at that point.

James Robert:
I think it comes down to access to eyeballs. I mean that's really what this conversation is all around. FinTech wants access to eyeballs, who has access to eyeballs? It's banks and credit unions, community banks and credit unions specifically. And then it's like, okay, well, then if you're going to open up this idea of whatever the buzzword, banking as a service. Well, that's a whole operational conversation that you have to have internally, because then it's about scalability. Do you have the back end operations to be able to scale out something like this? So access to eyeballs. It's an important conversation to have internally because it's like, "Who do we want to be when we grow up in this digital world?"

Jeffery Kendall:
Well, it's funny, I love that you brought up the whole eyeballs thing because one of my favorite pastimes on LinkedIn is watching bankers get salty about the valuation of Chime. So-

Mary Wisniewski:
Are you sure you want to admit that? Although, I want to follow that out too.

Jeffery Kendall:
It's every day. Varo comes out with their call reports and their thing, and then there's this debate by traditional bankers, "Oh, well, they're not profitable." Guess what? They don't care. That's the reality here. And the reason that it's so surprising to you is that your paradigm of banking in the past was all about net income and profit. The new players understand it's about eyeballs. That's the value, that's what's creating the multiple on the valuation of these banks, not whether or not they're profitable. And I always go back to when WhatsApp was acquired by Facebook, I think it was 2014 or so. And everybody just lost their minds over how a company that was generating almost no revenue could have a $19 billion valuation on it. Guess what? They had hundreds of millions of users, and that was what Facebook wanted. That's what people are valuing on Chime and Varo, and the other ones are saying, "Actually, the profitability is less important to me, but can you imagine if I had access to all 12 million Chime users? Wouldn't that be interesting?" And that's-

James Robert:
With all that data.

Jeffery Kendall:
That's right.

James Robert:

With all that data that comes with it. And this really brings everything that you said before. Banking, the previous paradigm was banking, they'll be technology companies, and you're saying, "No, this is all about marketing." Why? Because marketing drives audience, marketing drives building the audience, getting that access to those eyeballs. And it's more important than that, I think it's building the emotional relationship with these people. Because even like with WhatsApp, it's emotive. You're using technology to bring two people together, to form a relationship, to communicate, to stay in touch.

Jeffery Kendall:
You said that you said this earlier, it actually ties back to exactly what you said too, which is if you start with the product, and then you go search for the channel and the target market, that's really hard. And so, when people are thinking about valuations on things like Chime is, "Whoop, you have the market, I can figure out a product to put through a channel to make money if you give me an audience and 12 million bucks." That's the bet. So that's really where I think that valuation is being driven from. And the reason, again, it comes back to why I love listening to the comments on LinkedIn, or reading the comments is, people are missing the point. And it's like you're arguing football rules against baseball. You're just having the wrong conversation.

Mary Wisniewski:
I was joking. But I do appreciate the salty banker or a salty tech person. I can get in Twitter too I mean that's always a source of fun. I know we're coming up on time, so I just wanted to mention if anyone has questions feel free to drop it, I guess, in the chat. And I can field it. One thing I did want to mention, I know we talked about in our prior chat. I'm just curious how people are in different places than they might have been pre pandemic. Maybe they're in Miami, maybe they're in Montana, and maybe they're living with their parents. Is there any special considerations for when a bank is onboarding a customer who's not where they technically normally would be, or doesn't match with their IDs? Is there anything that a bank should be considering regards to this bizarre little moment? More than a little moment, but a moment in time.

Jeffery Kendall:
Yeah. I mean we definitely see it with particularly regard to KYC, because we run the KYC function for the digital banks that we support. We have definitely seen a much higher amount of, "Hey, I live with my parents now, so I don't really have an established address, my ID doesn't match my address where I'm saying I'm living, and where I need my debit card." And that's red flags all over the place for fraud management and KYC. And so, I think I'm not sure that there's a great answer for it, but there are a lot of manual things that have to be done nowadays that are making that a more expensive process. I would just say to people, automate what you can, and get prepared to do a lot of manual work on that side of the equation as well. Because I think it's going to be here for at least another six to nine months that we're going to be experiencing that in terms of onboarding.

Mary Wisniewski:
Yeah. I imagine.

James Robert:
Yeah. Falling back on the CEO of Four Seasons, one of his sayings was, "Automate the predictable so that you can humanize the exceptional." Automate what you can but you might have to humanize this from time to time.

Mary Wisniewski:

Yeah. Maybe give your employees a present, whoever is doing the manual labor there. I guess closing thoughts on the possibilities of what a bank can become in the digital landscape. I just think it can help more people solve their problems, which I think is a beautiful thing if realized. But I'm curious what you two think of what a digital bank can be.

Jeffery Kendall:
I'll let James Robert close it out. But I think that what I'm really excited about is I think transformation means looking at yourself differently, and really you've got to think that you're going to be different. And when you take the concept of, if traditional banks now start launching niche banks and going down that route. Because we're starting to see our customers that maybe came to us for one niche, then they go, "Well, that was easy, why don't we do 10 niches?" And so, now they start looking like a family of brands, and a family of niche banks versus just, here's my traditional bank and here's my digital bank. That's a becoming a quickly outdated approach. Now it's, and I've used this analogy all the time, it's no, "You're now a high end shopping complex. Your traditional brand is Nordstrom and Neiman Marcus as the anchor tenant, and you don't want to lose that brand equity." I'm not saying that.

Jeffery Kendall:
But there is this opportunity to have a food court, and there's an opportunity to have a Rolex store, and a Tiffany store, and little mall kiosks in the middle of it even that might just be the analogy to, "Here's a specific product." It's not that we're creating a digital bank, but it's a digital product, very, very focused on a specific audience. So that's where I think that when we look back in five to 10 years, these big mega Main Street brands, we're not as consumers going to want to bank in that way anymore.

James Robert:
Yes. It does come down to what I would call a portfolio of brands, and those become assets. And we might even see the trading of those assets from one FI to another. It's almost like a sports analogy. I'll give you two and I'll take one. Or maybe it's like the lunch room, I'll take your peanut butter and jelly sandwich for your turkey. Whatever the case might be, but it is going to be more specific around solving niche market segment problems. And coming back to this idea of transformation, I see four transformations that are going to happen. Number one, it all starts with the transformation of self, internally, the leader for example, the leadership team. Even marketing sells, this whole idea.

James Robert:
Then you transform the team, then you can transform the organization, why? Because an organization is made up of teams, teams are made up of individuals. So it all starts with the transformation of the self. When you can make these three transformations, then we can begin to transform the way that we position, go to market, and transform the communities that we serve, although community might no longer be bound by a border.

James Robert:
With this last insight I shared in mind during our fireside chat conversation, and thinking about how community has really moved beyond physical borders and boundaries, and how niche is the new local and new starts now with niches framed around communities of common values, likes, interest, even careers, for example. I'd like to guide you through what I'm going to call, let's just say it's a mini or it's an on demand strategic growth session. You might also find it a value to share this podcast with others at your financial brand, to do this strategic thinking exercise on their own, and then come together as a team, as a group to compare and discuss how your answers are the same, or they might be different so that you can create a plan of action. Because that's the most important thing of this all, is to take these

insights and begin to turn them into action so that you can move forward with courage, you can move forward with confidence, and then you can hold each other accountable as you move forward together.

James Robert:
So grab a piece of paper, grab a pen, and just clear out 10, 15 minutes, no more than 20 minutes on your calendar to really think through to write through four simple questions that are guaranteed to empower you and your financial brand to maximize your future digital growth potential. And if you don't have a pen or a piece of paper handing right now. Maybe you're listening to this podcast on the road, maybe you're at the gym, maybe you're on a run like I normally listen to my podcast on. Screenshot this timestamp, and then take a note, and make a note, a reminder in your phone to come back to listen to it and to complete this quick and simple but super powerful exercise, because it really is the most important question or set of questions that you can ask yourself, your team, and your financial brand to guide you forward along your digital growth journey.

James Robert:
So let's get started here with question number one framed around your own unique thinking, what were the top three insights that you gained from this fireside chat conversation framed around niche being the new local, and how new starts now? What were those top three insights? The biggest key takeaways that you gained? Write those down on a piece of paper, and then let's move on here to question number two. With these top three insights in mind, what do you feel are the biggest goals for growth that your financial brand can work towards to begin to turn these insights into action as you move forward and make progress along your digital growth journey?

James Robert:
And the best way to think about defining goals for growth here is to frame them around what I call the coffee or cocktail question. What I want you to do, is I want you to imagine that you and I were having coffee or cocktails, I'm buying, it's three years from now, and you're in a really good place. You're in a really good place personally, you're in a really good place professionally, you've got a big smile on your face. Life is good. What has to happen for you between now until then for you to feel good about the progress that you've made a long your financial brands digital growth journey?

James Robert:
And so, what I want you to do is leap ahead in your mind, take a sip of your coffee or your cocktail, and then look back to today, write down all of the progress that you've made on your digital growth journey over those three years, over those 36 months, thinking about the insights that you've gained through this fireside chat conversation framed around how niche is the new local. So leap ahead, in your mind, look backwards, and then write down all the progress that you've made, recalling the key insights that you wrote in question number one, to turn those insights in to action.

James Robert:
Let's move on to question number three here. And so, now that you have some clarity into your goals for growth, the future that you're working towards. What I want you to do for this question is think and write through what roadblocks you must be aware of, or what challenges you must commit to eliminate that could stand in the way of your financial brand for moving forward towards those goals, for making progress along your digital growth journey. Finally, let's move on to question number four together to think and write through. And the question is this, what opportunities do you see that are available for your financial brand to create, to capture, or to capitalize on as you break through the roadblocks and eliminate the challenges that you just noted, to move forward and make progress towards those goals for growth that you noted in question number two?

James Robert:
So what you've just done here with these four questions, is really answer the most important question that you can ask yourself, your team, your organization. And that question is this, how do I want to grow, or IGRO? Which is an acronym for insights, goals, roadblocks, and opportunities. Because we can go through life and listen to podcast, and go to conferences, and we can read books. But if we never take time to stop, to pause, to review, reflect on the insights that we gain, so it's learning, to think about how we can apply those insights by defining goals, and then what those roadblocks that might be the sit on our way. What are the opportunities to break through those roadblocks? If we don't take time to stop, pause, think review, reflect, learn, then we're always going to get stuck in this continuous cycle of just doing. It could be doing digitally, it could just be doing life for that matter.

James Robert:
And so use this exercise, how do I want to grow, or IGRO? Insights, goals, roadblocks, and opportunities as a great framework going forward for any activity that you're looking to level up, that you're looking to maximize both personally and professionally. And so, thinking further about the insights, goals, roadblocks, opportunities that you've noted here, I just like to guide you through a little bit further thinking with three specific questions framed around the potential transformations you must make when it comes to marketing, sales, and leadership strategies as you look to maximize your financial brands future digital growth potential.

James Robert:
And so here's question number one. How will you transform your marketing communications strategies to escape the complexities of competing in a commoditized and crowded marketplace? How might recalling your insights that you've documented, recalling the goals that you've noted? How might focusing on a niche market segment or niche market segments empower you to create new blue ocean marketing opportunities? Question number two, how will you transform sales and lead gen strategies that take a proactive stance, instead of taking a reactive one? A proactive stance that guides people along a digital buying journey, that guides a niche market or niche market segments along their digital growth buying journeys, beyond their specific questions and concerns towards their own bigger, better, and brighter future?

James Robert:
And then question number three, how will you transform leadership strategies, leadership strategies that help you see beyond the present moment to identity a new purpose that finally puts the transformation of people over the commoditized transaction of dollars and cents? To rise above, thinking so much about what you do, and how you do it, because that's where 95% of financial brands are stuck today. Everyone is thinking about, "Well, this is what we do, and this is how we do it." And that's exactly why almost all financial brands look and sound the same in the marketplace. And for you to truly make this transformation, for you to truly go all in to escape and break free from commoditization once and for all, it requires you to not just think about what you do and how you do it. But to first and foremost start thinking about why you do what you do, and who you do that for.

James Robert:
That's your purpose. That's your reason for being. Because once your purpose is established, along with who it is established for, why you do what you do, and who you do it for, the who being the niche, or the niche market segments that you will create the greatest value for. Once you know the why and the who, then you can use both the why and the who to inform the how you do what you do. And so, through your experiences that you bring to bear in the marketplace, being the how, and then the what, your

products. When you start with your purpose and a purpose framed around creating value in crowded marketplace.

James Robert:
So as you go through this strategic growth exercise, maybe you have some further questions that you like to get answers to. And that's why I'm excited to share, I'm launching a new series called Clarity Calls that's going to be part of the Banking on Digital Growth podcast. And it's where we will talk through questions that you have together live, and I'll answer them live. And so, I'd love to hear from you, and guide you along your own digital growth journey. So please do, if you have a question. What's one big question that you have. One big question about, maybe it's digital marketing, digital sales, digital leadership. What's on your mind right now? Text your biggest question to 832-549-5792, and I look forward to talking through that question with you to provide you with some guidance, to provide you with some clarity on an upcoming Clarity Calls episode. And remember, the only bad question is the question that goes unasked. As always, and until next time, be well, do good, and make your bed.