JP Nicols:

Let's be honest. Banks, credit unions, they sell 95% of the same products at 95% of the same pricing, backed by 95% of the same policies, procedures. And yet, my favorite conversation with bankers is always, "Well, our market's a little bit different."

James Robert Lay:

Greetings, and hello. I am James Robert Lay, and welcome to the 95th episode of the Banking on Digital Growth podcast. Today's episode is part of the Exponential Insights series, and I'm excited to welcome JP Nicols to the show. JP is a top-rated speaker, advisor, and podcaster. He is also the co-founder of FinTech Forge, as well as the co-founder of the Alloy Labs Alliance, and has been named one of the top fintech influencers in the United States. Welcome to the show, JP.

JP Nicols:

Well thanks, and thanks for having me.

James Robert Lay:

I'm excited for this conversation. You've been thinking a lot, writing a lot about innovation. But before we get there, what is one thing that you are just excited about right now, whether that be personally or professionally?

JP Nicols:

Well personally, I'm excited that it's soccer season again. Not only playing horribly a little bit every weekend, but my beloved Seattle Sounders are back in action and off to a good start this year.

James Robert Lay:

You're getting back in the game yourself.

JP Nicols:

Yes.

James Robert Lay:

Playing 11 on 11 again, right?

JP Nicols:

Yeah, for the first time in 37 years.

James Robert Lay:

And how is that going? How you feeling?

JP Nicols:

I'm exhausted. It's a lot of running. The good news is, on the full field like that, there are times when the ball's a mile away from you, so you can actually stand and catch your breath a little bit. But when you have to run, you really have to run.

James Robert Lay:

Absolutely. I've been getting asked to go play basketball. I played basketball growing up, and they asked me to come back and play on some leagues. And I'm like, "I have four small kids. I've got this business and everything else. I would love to, and so I'll just keep doing my running thing in the short term." But no, I feel you on that out of breath.

JP Nicols:

The only good news is I qualify this year for the over-60 age bracket, and I'm at the lower end of that. So I finally found a peer group I can keep up with.

James Robert Lay:

Well there you go. And I want to talk about this idea of peer group because that's an interesting segue into some of the work that you've been doing, really over the last year, 12, 15 months since this pandemic surprised us all. Let's talk collaboration. The need to collaborate in an environment like this, versus trying to continue to work independently amongst one another. Where are the opportunities there for collaboration?

JP Nicols:

There are so many. I mean, when you think about the industry, let's be honest. Banks, credit unions, they sell 95% of the same products at 95% of the same pricing, backed by 95% of the same policies, procedures. And yet, my favorite conversation with bankers is always, "Well, our market's a little bit different." And I'm always still waiting for, explain to me the part that's really different. Right? You have customers that have financial needs, and we have to take care of them. And so there are so many things that every bank is creating on their own, where it would be much cheaper, much faster, and a better outcome if they were collaborating with others. And that's one of the reasons why we started the Alloy Labs Alliance.

JP Nicols:

We started with 12 founding banks in 2018. We've got about 50 today who are working together to bring new ideas to market and together make investments in the future, adopt new ideas. And the pandemic actually proved to be a good time for that, because they were really faced with some complete uncertainties. Banking as a profession has been around hundreds of years now, and so many of the so-called best practices have been around for decades, if not centuries. And we were talking before we recorded about some of the teaching I do with the graduate schools of banking. And they're all about teaching those best practices, the same things that everybody else is doing. And the pandemic really threw out the playbook for everybody. And they had to adapt to that, banks.

JP Nicols:

Even the biggest laggards that were holding off on digital transformation suddenly found, well, if none of my branches are open and I still have customers that I need to take care of, we're going to have to find some way to do that. So it really kind of opened things up over the past year or so.

James Robert Lay:

Yeah, and you think a lot about this idea of innovation in financial services. You wrote an article. It was titled Banking's Apollo 13 Moment. And in that, you had shared for more than a decade now, I've been trying to convince bankers that innovation is not optional and that organizations that were not innovating were slowly dying. So I want to go back a decade. Because you talked about this idea of centuries and decades. Let's go back a decade and review what has happened around innovation in banking. And first off, what really spurred the idea for you to focus on innovation to begin with in the first place? What inspired you?

JP Nicols:

Well, I spent 20 years as a banker, helping to grow a six million dollar bank to a 400 billion dollar bank. Today that's known as U.S. Bank. And in 2007, when Richard Davis became CEO, he said, "You know, there's a lot of great things you would say about U.S. Bank." They were then as they are now. Active peer group, right? A leader of the peer group, of the top 10 banks. Number one in ROA, number one in ROE, number one in efficiency ratio. But they weren't very innovative at the time.

JP Nicols:

And Richard wanted to change that, and I found that really exciting. I mean, I had a full-time day job. I was chief private banking officer. But I was asked to join a group of people to build what would end up being the first enterprise innovation office, led by Dominic Venturo, who's now leading all of that across the whole firm quite capably. And I really got onto this idea that we just spend so much time doing the same things a little bit better, a little bit better. And that's important, too. I don't mean to denigrate incremental innovation.

James Robert Lay:

Yeah.

JP Nicols:

It's important to continue to improve the things that you're already doing. But there just weren't enough of us thinking enough about, how do we do something completely new? How do we look at, 10 years ago, we were still pretty early in the rise of fintech. But fintechs were starting to come out and solve problems that people really had that banks weren't thinking about yet. And we can go through any number of the biggest innovations of the last decade or so, and I don't know if I can think of one that originated at a bank.

James Robert Lay:

It's interesting that you talk about incremental innovation versus what I would consider exponential innovation, or more of that 10X thinking versus 2X thinking. And when you think about this, and this is something that you've written about, change happens in two phases. Gradual change and then change that happens suddenly. Which gradually, it takes time, decades, from a horizon line. And then suddenly, we've seen that with COVID being the accelerant, when we think about the story of Apollo 13, when the crew uttered the famous words, "Houston."

JP Nicols:

"Houston, we've had a problem."

James Robert Lay:

"We've had a problem." You feel banking has had a problem. How would you frame this problem, and what is that biggest challenge confronting banking right now?

JP Nicols:

Well, I wrote that post a year ago because we were on the 50th anniversary of that and it was kind of timely. But I saw parallels to the pandemic. The Apollo 13 mission left Cape Canaveral, Cape Kennedy with one of the most ambitious missions ever. They were going to do a lot of research on geology on the moon and looking at flight paths and orbit paths of the moon and some of the other things that were happening in space. And they really went very ambitiously. They had done however many trips to the moon by this point, and kind of didn't seem as risky, right, as Apollo 11. Meh, we've done this a couple of times already. Let's just get up there and let's do all this research.

JP Nicols:

And suddenly, one little thing changed. An oxygen leak that threatened the life of the crew. And so suddenly, the mission of Apollo 13 and all of NASA, in fact all of the nation, I would argue, really focused on how can we bring those three men back to earth safely? And I think the pandemic did that for the banking industry. Where people did their strategic planning in the fall or early in 2020, and all of that got thrown out the window. And suddenly they had to improvise. And one of the stories about Apollo 13 is the ground crew in Houston were mocking up a way to use the oxygen tanks from the lunar escape module to be used in the command module. And it didn't quite fit. Just another analogy to banking technology, right?

JP Nicols:

The pieces didn't always connect very well. And they literally were using duct tape and covers of manuals. And at one point they said, "Stuff a sock down in the bottom to fill it up." Innovation is often messy like that. And bankers are kind of not wired to think about messy and duct tape and stuffing socks and things. And they really want to believe it's something that we could put our best minds around a big conference table at a nice resort somewhere and say, "Boy, we've got a good strategic plan. Now let's go after it." And it really threw a wrench into that. So I think the pandemic exposed this lack of real commitment to digitization that is right in front of all of us. We live our lives, so many of us, pretty digitally. Watching whatever we want on demand, ordering whatever we want.

JP Nicols:

And that only increased during the pandemic, from food to merchandise delivered contactlessly to our home. And to kind of hide all of that and say, "Well, yeah, begrudgingly I guess we should have a digital account opening. But I'm not really going to change in anything else." And I call that putting digital lipstick on the analog pig. It just isn't good enough.

James Robert Lay:

I would say the same thing. Yup. Same thing. And I think this idea of change and transformation, you hit the nail on the head when you say that most of the core functions of banking have not and probably will not change. We'll continue to take and hold deposits, make loans, provide liquidity, move money in and out, provide financial advice and products. But even though the what won't change, you believe it's the how. The how a financial brand delivers these core functions, for example, back to this point. The way we buy and consume media, movies, music, even food now, post-pandemic, groceries. It's the how that has transformed the most. And so when we look at the how of transformation, what are those opportunities there for financial brands, for banks, for credit unions?

JP Nicols:

Well, maybe I'll hit a quick threat first before I talk about the opportunities. Because sure, what you described there, the medium is invisible. Right? It's not that I want to be staring at my phone or my iPad or whatever. It's that I want to watch that new series on Amazon, and the phone makes it possible. And so for banks that are used to being that third party between borrows and depositors, between counterparties and transactions and so on, the distribution of finance with the middleman being taken out is an existential threat.

James Robert Lay:

Yeah.

JP Nicols:

And I think the opportunities... First of all, I'll say I think that's one of the things that's hardest for leaders to understand. They look at their customer satisfaction scores, because they often ask the wrong thing. "Hey, you came into the branch. How did that go?" And people go, "Yeah, that was pretty good. Everybody's really nice, and I did exactly what I wanted to do." We're not asking the other questions. Well what if that could've been done automatically? Not only done on your phone, what if you didn't even have to come in at all and it already did it? And so that's pretty daunting to a lot of leaders. But to your question about the opportunities.

James Robert Lay:

Well, before we get there.

JP Nicols:

Yeah.

James Robert Lay:

I actually want to give an anecdotal story, because I think this would make a lot of sense.

JP Nicols:

Yeah.

James Robert Lay:

Like you talked about the medium is invisible. Let's go back. The year is 1996. What are you doing on a Friday night? Where are you going? If you have kids, for the dear listener, where are you going yourself with your significant other? You walk into this place, and what are you going to rent?

JP Nicols:

Yeah. Right. You're alluding to Blockbuster, which is an overused analogy and yet under-examined in my opinion.

James Robert Lay:

It's the under-examined piece of this.

JP Nicols:

Yeah.

James Robert Lay:

That I want to dive into.

JP Nicols:

Yeah.

James Robert Lay:

Because-

JP Nicols:

So if you think about the home entertainment market, the home video market, all right? That was a super fragmented industry. Mom-and-pop shops, couple hundred square feet, couple hundred titles in stock. And Amazon, sorry, Blockbuster at the time executed that business model better than anybody else. Right? So they invested in 10,000 square foot stores in grade A spaces, trained people to make recommendations. They put massive investment into quantities of the movies so that the ones you wanted were in stock. They had regional warehouses with barcodes.

James Robert Lay:

Because it was horrible. You'd walk in there and you want to get the latest release, and all the films would be gone.

JP Nicols:

Yeah.

James Robert Lay:

It was a bad experience.

JP Nicols:

Well I used to joke. You would walk in all excited after work to come home with Beverly Hills Cop, and then you walk out with Camp Beverly Hills. Right? Because that's the best you could do.

James Robert Lay:

Right.

JP Nicols:

And so Blockbuster changed all that, and they at one point had 40% global market share of the home entertainment market. I mean, it's easy to laugh at Blockbuster now. But that was not just a good company. It was a great company.

James Robert Lay:

Yes.

JP Nicols:

And if you think back to the first major competition, what would end up putting them out of business, Netflix, and think about what their original business model. Remember, it was red envelopes.

James Robert Lay:

Correct.

JP Nicols:

And I often use this as an example in the board room and in the classroom. I ask people to put themselves in the shoes of the leadership or the board of Blockbuster. And somebody says, "Guys, we have to pay attention to this. We've got this new competitor." It would be completely normal and rational to laugh at that.

James Robert Lay:

Yes.

JP Nicols:

And say, "They're mailing a DVD? And I'll get in a few days? Look at our customers who are just thrilled at walking around on Friday night. It's packed in here, and they're buying Twizzlers and popcorn along the way. We understand what the experience is."

James Robert Lay:

But what was the pain point?

JP Nicols:

Yeah.

James Robert Lay:

A pain point.

JP Nicols:

Well, the apocryphal story supposedly is the egregious late fee. Right? That supposedly, now Reed Hastings has sort of disavowed the story. But that he returned ironically Apollo 13 and had a massive late fee, so began to craft a new competitor for this. Now also apocryphally, or supposedly, he also had an eye towards digital all along. And I don't know if this is a little bit of retconned history, but supposedly, the story goes well we knew that this was going to be all digital at some point. The technology just wasn't there yet, so we were building our database and building out the long tail where nothing was ever out of stock, because we could always have it here. You might have to wait a few weeks to get it. But it's completely understandable how Blockbuster missed that. And you probably also know this part of the story, that Netflix had a hard time scaling and offered to sell themselves.

James Robert Lay:

Yes.

JP Nicols:

For 15 million. They were literally laughed out the room.

James Robert Lay:

Yep.

JP Nicols:

By Blockbuster management. We'll just watch you die.

James Robert Lay:

Yeah.

JP Nicols:

So you asked the question, what's the pain point? And it's not always obvious.

James Robert Lay:

Mm-hmm (affirmative).

JP Nicols:

And so where I try to help people spend more time is really digging deep beyond those surface questions of, hey, how was the branch transaction today? Oh, it was good, so everything's good. We don't need to change everything. I'm a big subscriber of jobs theory.

James Robert Lay:

Yeah.

JP Nicols:

People hire products to do jobs for them, and the more you can understand that job, the pains they're trying to avoid and the gains they're trying to achieve, and it's often several layers deep. And the customers don't know. Supposedly, Henry Ford never really said, "If I would ask my customers, they would've said they wanted a faster horse." But that's too good of a story to let go, so I continue to repeat that story, too. It's not just asking the customers, "Hey, what about this?" There are so many opportunities. And where we're focused right now, the banks we work with, is what my partner Jason Henrichs has been calling the edge of money. And his point is that financial institutions have been focused on being the center of money.

JP Nicols:

And the opportunities are really on the edge. Because at the center of money, it's debits and credits and dollars and cents. And we're really good at managing that. We're really good at that. What we're not so good at is understanding the context and the subtleties, that the reason I'm here applying for this loan is not because I want a banking experience. It is because I need a new home, because I'm relocating or my family's expanding or whatever.

James Robert Lay:

Well, when you think about being at the center of money, think about Blockbuster. They were at the center of that movie rental, entertainment experience.

JP Nicols:

Right.

James Robert Lay:

And we remove the middle-man out of the equation. You're starting to see that now trending with crypto, because now I can pay directly, blockchain, all of that. And so, I like this idea of moving from the center out to the edges. I can't help but think of another film analogy of Mr. Miyagi. When you walk in the middle of the road, actually when you walk on the left side you're okay, when you walk on the right side you're okay, but when you walk down the middle. Just like grape. So this is, yeah.

JP Nicols:

Right.

James Robert Lay:

That's a great point right there, about moving from the middle to the edge of money.

JP Nicols:

And that's where the blue oceans are, right? That's where the opportunities are to do something different. Everybody's playing in the middle of all that. And I just don't have a lot of brand promises to make about, hey, don't worry. We'll move your money quickly and efficiently and cheaply and we won't lose a penny. Well neither is any other bank. It's kind of like so many, and I know marketing's your domain and not mine, but I think about just like automobiles. Hey, I want an automobile and I need to have power windows, and I need to have power brakes and airbags and a navigation system and all of those kinds of things. Well, any car will do.

James Robert Lay:

Yep.

JP Nicols:

That's not what marketing is all about. It's about a much bigger and more esoteric brand promise around that, and that's hard to do. And I know a lot of financial institutions have tried that, and they try fluffy marketing around feel-good moments and all that kind of stuff. But it has to be met with solving some problems that customers actually care about.

James Robert Lay:

That's where jobs theory, I think, comes back into play. And Derik Sutton and I over at Autobooks, we just had a really good conversation about that a couple of episodes ago. Because it really is about, what are the people's biggest questions and concerns? What are their hopes and dreams? And then what jobs are needed to perform to bridge that gap between? And so when you look at the edge of money, what are those opportunities at the edge that you're seeing for financial brands?

JP Nicols:

Well first of all, I would say Autobooks is great. We love Derik. We're actually working with him with a number of our members, and I assume he talked about this with you. But they're really looking at paying the invoice. That ought to be the center. Right? That's the key job that small businesses have. I think there's so many opportunities for the small business. We're still in the early stages of all fintech and consumer banking, but we're really just barely out of the starting gates on the small business side.

James Robert Lay:

Yes.

JP Nicols:

And customers have so many needs around moving money. And 81% of businesses don't have any employees. Derik may have talked to you about this, where I talked to him about this recently. And he's talked about looking at banks and finding customers hiding in consumer accounts.

James Robert Lay:

Yep.

JP Nicols:

But they're making business transactions because they're blending that. They don't want. Yes, they can go open a Xero or QuickBooks account or whatever. They don't want to. They don't want to be a CFO. They want to make furniture or sell hats or whatever their business does.

James Robert Lay:

It's the rise of the gig economy, too.

JP Nicols:

Yes.

James Robert Lay:

I think we're going to see more and more of this going forward.

JP Nicols:

Well, and the rise of the gig worker and the needs that they have are barely being addressed. So much of the banking industry is still built around, you work for a company for 35 years and have a pension and a 401(k) and a regular paycheck. And all of those kinds of things that are less and less true every day for everybody. So there are so many opportunities around understanding what are you actually trying to achieve here, and is there a better way of doing it? The other classic story outside of banking we talk about a lot, Swiffer. Right?

James Robert Lay:

Yep.

JP Nicols:

For years, manufacturers made more water-absorbent mops, less absorbent mops, ergonomically designed buckets and all this. When the final solution came about, it wasn't a mop or a bucket. The Swiffer is a category in and of itself. Multi-billion dollar category for Procter & Gamble, because they understood there was a job to be done. Yes, cleaning the floor, but a good enough job that's really quick and doesn't make me messy in the meantime. It's those subtleties around things like that.

James Robert Lay:

And that's why it's interesting to see what players like Shopify are doing. Right? So that's the e-commerce side, but then they have this whole new line that they're bringing on. And when you look at the website, it almost is framed around the jobs to be done.

JP Nicols:

Right.

James Robert Lay:

Like start a business, sell online, market your products, and manage. And under manage, you have payments, shipping, and capital. So it's really framed around these different jobs that a business would need to do to make money.

JP Nicols:

Right. And I think Square and PayPal do that really well.

James Robert Lay:

Yep.

JP Nicols:

And some banks do, but there's still a lot of opportunity for traditional financial institutions, banks, and credit unions to really, every rock hasn't been turned over yet. There's lots of opportunity out there.

James Robert Lay:

Absolutely. And when you think about innovation in financial services and think back over the past decade or so, what is a commonly-held belief that others might have, that even the dear listener might have, that you just might passionately disagree with?

JP Nicols:

I think financial institutions take much higher stock in their very definition. Hey, we're a community bank and that really means something to people. Or we're a credit union, and that really means something. It means something greater than zero, right? They're not completely wrong about that.

James Robert Lay:

Yep.

JP Nicols:

I mean, this came up recently with the ruling against Chime and apparently pending against some of the other neo-banks. They can't call themselves a bank. And I tweeted out a joke that the laggard banks are going to say, "Ah, checkmate. Game over." Right? Can't call yourselves a bank, now what are you going to do? Well they're going to continue to have 12 million customers who are really happy, and they're going to continue to grow. And so, I think the labels matter far less to consumers.

James Robert Lay:

Yes.

JP Nicols:

Than the financial institutions think they do.

James Robert Lay:

And you think this idea of legacy, and this is from a marketing perspective. The position around the best place to work in the city. And that's part of their go-to market strategy. And I come in from the outside. I'm like, no one cares. Now, maybe best place to work from a recruitment and HR, absolutely, that's important. But if you're talking about growth and acquisition and retention, does it really matter?

JP Nicols:

So personally, I think there's some value in that. And the people that I know in the industry are really sincere about this. They really do care about their communities, and they really do invest in their communities, and that's wonderful. I don't want them to stop that. All I'm saying is there are probably about 48 other things that consumers value higher than that.

James Robert Lay:

Oh, I agree.

JP Nicols:

And you need to pay attention to those things.

James Robert Lay:

I agree. And when you talk about paying attention and looking for areas to focus around, you teach a framework about innovation through the work that you're doing over at Alloy Labs, called FIRE. And I love acronyms, because that's how this ADD mind can actually remember things. And so we have a lot of acronyms that we use over here as well, and FIRE is an acronym for fast, iterative, responsive experiments.

JP Nicols:

Right.

James Robert Lay:

Can you briefly break down this framework and really this idea of experimentation?

JP Nicols:

Sure. Well I'll hit each one quickly, right? First is fast, and that's really important. I often joke that financial institution leaders tell me, "Hey, we're a fast follower." And I often reply, "Well, you're half right. There's nothing fast about anything you're doing, but you're definitely a follower." And I get that very few institutions want to be out on the bleeding edge to launch something nobody's ever done before. And that's fine. But you've got to be reasonably fast. There was literally a bank in 2019 that was practically bragging to me about how you were going to soon be able to take out your phone and take a picture of checks and actually make a deposit through their mobile app. Can you imagine this, right? What an incredible innovation they had.

James Robert Lay:

Wow.

JP Nicols:

And I said, "Yeah, that'd be great if this was 2009. Right? Not in 2019." So if you don't have remote deposit capture, by all means, go do it. But don't tell me that that's game-changing for you. Right? That's catch-up spending. So that's fast. Iterative meaning that we want to continually tweak. It's not think really hard, launch, and success. It's that we're continually learning from the market, learning from customers, and adapting from that. Responsive meaning that what's driving those iterations is data. I also like to joke that in the absence of data, what we have to go with is what we call the HIPPO. It's the highest paid person's opinion.

JP Nicols:

And I think of Jim Barksdale when he was CEO of Netscape. And he used to say, "Look. If we're going to go with data, let's go with data. But if we're going to go with opinions, let's just go with mine." And sometimes you have to do that. Sometimes you just need to make a leap, and the leader has to make a decision. But leaders can make better decisions the more data they have. And finally, experiment. And the important thing about experiment is, it means you don't really know what the outcome is. You have a hypothesis, and you want to test it. So the key is testing it as quickly and as cheaply as possible to find out. And the analogy I use here is often talk about playing poker.

JP Nicols:

And I often joke around, if I'm in the classroom or the board room. And I'll say, "Hey guys, does anybody here play poker? I'm learning, I'm watching it on television, and I understand that what you are supposed to do is push all your chips into the center of the table at the beginning of the game, and you stand up, and you say 'I'm all in.' Is that how you play?" And of course, anybody that understands poker laughs, and somebody usually says, "Oh boy, I'd love to have you at my game if you think that's how it works."

James Robert Lay:

Right.

JP Nicols:

And so it's a little bit of a Socratic dialogue to get them to understand that look, you want as little money on the table as possible when you don't have any cards, because cards represent data. I have no idea what's going to happen. What's the minimum I can do to get in this game?

James Robert Lay:

Yeah.

JP Nicols:

And then once I get cards, I get data. And if the data looks good, I want more money on the table. If the data looks bad, I'm going to fold and come back and try something else, a different experiment. Now, it's not a guarantee. Even if I hold four kings, I can still be beaten. But at least that's where I want to put more money. And so, it makes so much sense in the context of poker. But yet that's not how we do strategic planning. We think that when we look at big projects with big risks and big budgets, that the idea is to think harder, ask more questions, create a longer set of due diligence questions or an RFP to try to get all the technical questions answered. And then threaten somebody with, this is your tail if this doesn't work. And then cross our fingers and launch.

JP Nicols:

And reality is, it's a lot less risky if we figure out how to break that down into a series of smaller bets and try things. And so, that's really the art of FIRE, is how do we break these things down into small experiments and learn along the way?

James Robert Lay:

Yeah. MVP, minimum viable product. 80%, get it 80% of the way, get it out, test it, iterate it. Just had a conversation with Joe Pulizzi, who was the CEO of the Content Marketing Institute, who wrote a great book that he's re-releasing now called Content Inc., Second Edition. And there's a lot of this thinking that can be applied in multiple areas of the financial brand, whether that be on the innovation side, whether that be on the marketing side, the technology side, the sales side, the op. I mean, so literally, we can keep thinking about this idea of fast, iterative, responsive experiments.

James Robert Lay:

When you go in and you're teaching this, what are the some of the mental blocks that might hold an individual or a team back from really saying, "You know what? I get it, I understand it philosophically." And I love the idea of Socratic discussions. That's a conversation for another day right there. That's the teacher in me coming out. But what holds people back from really accepting and acting on this type of thinking here?

JP Nicols:

Well I think there's a lot of things. And we're fans of the work of Carol Dweck and the growth mindset.

James Robert Lay:

Growth mindset.

JP Nicols:

Yep. And anytime you're an incumbent in an industry and especially a mature industry, it's really easy to have your mind framed by look, there's a empirically right answer here. And we're doing the best practices and we're looking at our peer group and we're measuring all of these things, and we're missing all of those things that are happening on the other side. There's probably another layer of financial services in particular, a business where you have to be right 99 point something percent of the time in your credit decisions. And that's the number one driving of earnings, is net interest income.

James Robert Lay:

Yep.

JP Nicols:

I was just with a group of students a couple of weeks ago, and we got into a little bit of this discussion. But I said, "You know, I find it ironic." I said, "Please tell me if there's one I'm not aware of, because I can't think of a single bank that failed because of their innovation program or their digital banking." Right? Every bank that's ever failed has failed because they've taken on too much of the wrong kind of credit. And isn't that ironic, that's the part that they know the best? The part that's been perfected of the whole industry is taking in deposits and marking it up and lending it back out. Yet that's the number one cause of failure. But I guess it's just the devil you know.

James Robert Lay:

Yep.

JP Nicols:

Versus the devil that you don't know. And so there's just a lot of fear around the uncertainty of things. Technology creates another layer of fear and uncertainty, and so many of our leaders today in the financial services industry don't have a strong technical background. And I don't know that you have to be a programmer, necessarily. But you do have to be comfortable with technology. And so what they often do is then delegate important strategic decisions to the tech team. And I'll never forget a CIO that once told me, "My worst day is when the CEO goes out to another tech conference and comes back with

10 business cards. 'Hey, these companies are all cool. We ought to work with them and go talk to all of them.'"

James Robert Lay:

Yeah. Shiny object syndrome.

JP Nicols:

Right. And so then you have all of these disconnected projects that aren't moving the needle anywhere. And we've seen this. We've talked about over the past decade or so, one of the other things that's kind of common, sort of gone, is the rise of the chief innovation officer and an innovation team. Right? All the big banks have them and still have them. Most of them have turned over. Some of the smaller banks have tried it and have said, "Well, that was a whole big waste of time." Because they thought it was about thinking really hard and finding the next big idea, not finding a little idea and iterating on it till it becomes meaningful.

James Robert Lay:

Yeah. I just heard a great conversation from Jeff Bezos talking about this idea of innovation at Amazon and how all of the massive failures, and he was talking billions and billions in failures, one success, though, covers all of that and then some. I want to bring this all the way back to the beginning. And JP, this has been a great conversation. Appreciate the thinking and the insights that you've shared today for the dear listener. But to start this conversation, you said innovation is messy. Innovation is messy. And when we think about this idea of change and transformation, incremental, start small, progress is greater than perfection, what is one small step, one small recommendation you can leave the dear listener with today that they can take action on just to take one step forward in their innovation journey?

JP Nicols:

Just start running experiments, right? Even if they're not framed very well, just try some things. And then the key there is, there's a misunderstanding that risk is binary. Things are either risky or not risky. So think about what are the degrees of risk. If you're going to test this thing, what's the biggest question you have? My partner Jason likes to call it the killer experiment. Right? If this one thing isn't true, nothing else matters. So go test that. And so most often, that probably has something to do with customer acceptance. And instead, we see so many institutions spend all of their time on the technical feasibility. Unless you're doing something incredibly experimental, it's probably technically feasible.

James Robert Lay:

Sure.

JP Nicols:

Maybe at a price you can afford, maybe not. But I would really encourage everybody to focus their experiments on the customer and just try some things. And that you don't have to build it, you can build brochureware and vaporware. I can't tell you how so-called quote websites I build on PowerPoint. Just say hey, it would look like this and you click here and it does this. Tell me what you think. And really-

James Robert Lay:

Rapid prototype development.

JP Nicols:

Exactly. And just trying some things. And then talking to your customers in that way. Maybe a couple of years ago, James Robert, I might've said the answer to that was talk to your customers. And I think what I've heard a lot in those years is, oh, we do that. We do talk to our customers. But we talk to them about the stuff that we already do. And so, experiment with your customers is probably better advice. And we've seen such positive learning experiences from people that have done that and learned things that they never knew and never would've found out.

James Robert Lay:

Absolutely. And to build upon that thinking as we wrap up here, talking, yes. But people don't always tell the truth. That's why you can undercut that talking by just simply watching and observing their behavior in action in any type of these experiments. And you combine the two datasets together, the quantitative and the qualitative, and that's where I think you're going to get some massive breakthroughs. JP, anyone who's listening, they want to continue the conversation that we've started today, what is the best way for them to reach out and say hello, connect with you?

Well I'm on Twitter and LinkedIn. JP Nicols, N-I-C-O-L-S, no H. And at alloylabs.com.

James Robert Lay:

All right. Connect with JP, learn from JP, and JP, thank you for joining me for another episode of Banking on Digital Growth.

JP Nicols:

Well thanks for having me.

James Robert Lay:

As always and until next time, be well, do good, make your bet.