Podcast with Lamine Zarrad of Joust

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Automated:	00:00	This call is being recorded.
Jo Ann:	00:03	We have a wonderful show today, because my guest is Lamine Zarrad, who is the CEO and co-founder of Joust. Lamine, welcome.
Lamine Zarrad:	00:14	Thank you for having me, Jo Ann. I'm really excited to be here.
Jo Ann:	00:17	Well, we're excited to have you on the show. You have such an interesting background and such an interesting company, and I know our listeners are going to be fascinated by it. For starters, tell us about yourself. As I say, you have a very interesting background. What's the journey that brought you to what you're doing at Joust?
Lamine Zarrad:	00:40	Certainly, certainly. I do agree, I have a rather unusual background for a technology startup founder and in FinTech, as well. I'm an immigrant. My family and I came to US from former USSR. I was born in the country of Azerbaijan, then a republic of the Soviet Union. My mother is half Armenian, half Azeri, and some of the listeners may know, in late '80s, early '90s, when the Soviet Union began to fall apart, some of the ethnic tensions that existed in the region for centuries rose to the top. So Armenians and non-Azeri's in the region were targeted, and we fled Azerbaijan to Moscow as refugees, leaving, virtually, everything but clothes on our back and a few toiletries, and so we spent-
Jo Ann:	01:32	How old were you?
Lamine Zarrad:	01:33	I was 10 years old.
Jo Ann:	01:37	Okay. Wow.
Lamine Zarrad:	01:37	Yeah, 10 years old, so certainly at an age where you're receptive to the environment around you and formative years, and definitely left an impression, but not even the experience of fleeing, but rather the experience of living as an undocumented refugee because we ended up in Moscow. It was still the Soviet Union at the time, albeit informally, and so Moscow as a capital is where you went if some civil unrest took place. But, what we found is that there was no longer a country, there was no safety net, there were no systems to support influx of refugees and we kind of had to fend for ourselves and find housing.

Several of us banded together and found a dilapidated structure that used to house several laboratories, including Lithium Laboratories, that were no longer used by Soviets, and so we moved in and we spent the better half of six years kind of making that our home and living and being creative and surviving the rapidly changing world around us. Then immigrating to the US, which is a journey in its own right, and a story that could probably take an hour at least to retell.

Jo Ann:	02:57	How old were you when you came to the US?
Lamine Zarrad:	03:02	I was 16. When we left Moscow, I was 16. I spent two years finishing up high school and then joined the Marines. The rest is also a very interesting, very lengthy story.
Jo Ann:	03:21	Did you say you were deployed to the Gulf?
Lamine Zarrad:	03:26	Post-Gulf. I was deployed to Iraq. I joined the Marine Corps in 1998, and of course, post-9/11, I was still in the Marines at the time. We engaged in several conflicts, and one of them was in Iraq, and I, actually, got out in 2002 to attend college, but a lot of my friends stayed in and deployed, and I felt a sense of duty and obligation, so I resigned. I dropped out of college in 2003, a year later, and went back into the Marine Corps for two more years and deployed to Iraq, spent time in the Al Abar Province that was most recently kind of overtaken by ISIS, patrolling the region, and working on stabilizing that space. It was certainly an eye-opening experience, as an experience I cherish. Interestingly enough, this is first time I really put my entrepreneurial skills and drives into reality by convincing a colonel, a Marines Corps colonel who ran the base, to let me help him optimize some of the supply chain and implement some of the crazy ideas I had at the time at risk of being sent to what's considered a punitive duty for stepping out of line.
Jo Ann:	04:48	Wow. That is an amazing story, and that's not all, so keep going. I know you took some other interesting turns.
Lamine Zarrad:	04:58	Sure, sure. The Marines Corps was a formative experience as well. The Marines Corps really helped me integrate into American culture, albeit from a very interesting angle. It gave me an opportunity to move up the social ladder, right, and so the military and the G.I. Bill were very much, still very much a tool for social mobility for folks like myself. Anyone can serve and leverage, and I did that. I served, and I went back to college,

I studied business and finance. I landed in finance right after college with Merrill-Lynch before Bank of America at the height of the financial crisis. That was another amazing experience, being at the heart of it all as the system was falling apart, and that's where the interest that I developed later in life was sparked.

I wanted to know why, I wanted to know what was going on, and I wanted to know how sustainable is our system, as a financial sector, specifically. The US, historically, has been a manufacturing country, right, and this is still part of the political discourse where people want it to become a manufacturing country again, and an industrial nation, but it's no longer that, right, so the Wall Street, the investment heartbeat, is very much the engine for economic growth, and I recognized it back then, and it certainly is today, and I wanted to know how to make it more stable and sustainable.

I did bounce around a bit in finance, trying to figure out where I fit best. I worked for a regional bank called USAA here in Texas. I worked for a hedge fund called Tudor, Pickering, & Holt, which is an [inaudible 00:06:43] and a merchant bank, so many different angles in terms of finance. Then I went to grad school and studied public policy, and I realized that what I really wanted to do is be in the heart of public policy development, perhaps regulatory implementation of sorts, and I accepted a role with the Office of the Controller of the Currency and became a National Banking Examiner with the OCC, briefly. That was certainly another, I would say, unique experience and a vantage point like I never had before in terms of understanding banking.

Working for Merrill-Lynch is siloed and the product line even division at best, when you have a very limited view on what's going on around you. The cog in the wheel, you're contributing, and sometimes you can be a very potent contributor, but nonetheless, you're a very small minor contributor. Working at the OCC, despite limited abilities to influence things, informally, you are very much at the top. You have the vantage point where you can see institutions interacting, you can see all the best practices and in every exam, you have the opportunity to distill a better practice that a financial institution could adopt. It's not just gratifying, and not just gratifying, it's also incredibly fulfilling, and if you care about stability, you're very much a contributor to developing a better system.

Jo Ann:	08:18	Yeah. Some of our listeners know that I was deputy Controller of the Currency long ago. I never was field examiner, but I have such respect, as you're saying, for the profession and the perspective that our examiners get, precisely as you say.
Lamine Zarrad:	08:18	Indeed, you know first hand.
Jo Ann:	08:38	I do. What came next?
Lamine Zarrad:	08:42	With the OCC, my field office, for instance had, I believe, a little over 36 financial institutions and quite a few of them were in the Midwest, in kind of a mountain region. As you know well, in 2015, interesting things were happening in certain states with legalization of marijuana, and quite a few of our financial institutions were exposed to that new industry and have very different stances, positions and they started to ask questions. There's two co-memorandums at the time that essentially stated that the Federal government is going to look the other way as long as you don't necessarily trip one of those considerations, one of the priorities, as James Cole put it. Those are really common sensical things. Don't sell to minors. Don't aide and abet unlisted enterprises. Don't do anything bad. If you don't do anything bad, the DOJ is not going to come after you.
		Of course, financial institution as you know well, need something a little more concrete when it comes to guidance in absence of regulation and so they were lobbying us. They wanted to know where does OCC stand? Where does FDIC stand? What does the Fed think about this? We went to FinCEN, Financial Crimes Enforcement Network, and somebody who worked with them on distilling their version of the call memorandum, which is not a difference in guidance. We developed our position at the time in 2016 as an agency, and essentially met our own defense and guidance of the Cole Memorandum, saying, "Look if you were a national chartered institution, that we care about, you can in fact, engage and provide services to these businesses as long as they're legal, as these businesses comply, with respect to laws and regulations.
		But, you have to institute, not just enhance the diligence in monitoring, but really surveillance, and I knew that most banks did not have tools at the time to engage in that type of surveillance. It's almost a political move on our part in saying, yeah, sure, but here's that unattainable goal with all kinds of ways for us to come back at you and then show it. [inaudible

00:11:07] you're actually the best, if they don't let you for strange reason. The truth is, a lot of us know banks, many of the banks just never only do anything remotely similar to the type of businesses the cannabis industry created, and so they needed to be... They needed supervision, very close supervision, and a couple of them made a few mistakes right away.

I thought instantly that what they needed a tool, that, for instance, intelligence community uses. I spent time in the intelligence community, and I was familiar with the tools like Talentsphere. Talentsphere is a [inaudible 00:11:43] product for instance modified for a number of agencies, and it's not a perfect tool, and its [inaudible 00:11:51] mostly consulting firms, but the intent is certainly there. I thought, would it be great if a tool specifically for onboarding risk management for high risk [inaudible 00:12:02], high risk clients, and perhaps we could then extend the online industry and use this as a laboratory.

The idea came to mind. I started my research an aside, and I started to build the coalition of folks who are interested in working with me on this topic and some places like Talentsphere and Microsoft, the Central Intelligence Agency, folks who spent time with the National [inaudible 00:12:26] Agency, and we're going to put our heads together and we thought of the tool, and we purchased Gestalt. Gestalt was supposed to be... Think of it initially as a POAKYC product that allowed us to not just onboard their merchants but onboard their clients as well, beit suppliers or customers who shopped that merchants physical location, kind of a KYCC tool.

But more importantly, instead of just staying, here's the static data profile for this merchant, and here's a series of static instances of these merchants and customers, about the business, we created something that was dynamic and something that could contextualize the entire relationship. This is why we pulled with Gestalt, not to get nerdy and esoteric, but we like symbolism. Gestalt is a 19th century Berlin School of experimental technology that pointed to the human mind's ability to literally meet [inaudible 00:13:31], right? We know that as humans are very capable of making decisions that lack when you're logic in computer's need, right, to make the decision.

For instance, I think our political environment is a testament to our ability to create our own narrative. However, and [inaudible

00:13:48] that that's a... Analogous to be evaluating, for instance, our complex environments or complex situations or clients, they have to rely on their Gestalt abilities to connect the dots. Quite frequently, an analyst reverse engineers risk by looking at that clients relationship or series of relationships, and then connects those dots. That's what Gestalt set out to do. They set out to create this sort of a user friendly portal where an analyst for the financial institution doesn't have to deploy their Gestalt frequently, where the computers are basically organizing a lot of data, sorting it, color coding it, and creating this tolerable picture with very simple, very intuitive color metaphors, red for risk, blue for trust, and everything in between.

When you look at the clients, let's say a business, you can see a web of their relationships in this color-coded format and then you can instantly deduce whether the client is risky or not, and it's targeting the investigations, stat triaging, escalating, deescalating, and so forth. That's what we set out to do, and we realized, as you know well, working with Hummingbird, sales cycles for financials institutions are very long. Building a product like that requires capital, requires effort, requires access to networks, and we thought, "Well, when we build our own payments and banking tool, and then let Gestalt power it, and then we can create enough of the data asset, and perhaps we can raise more money, and perhaps it'll lend itself to more financial institutions." I'll pause here. I know that's a lot.

Jo Ann:	15:31	Wow, so that's where Joust came from?
Lamine Zarrad:	15:36	That is the genesis, yes.
Jo Ann:	15:37	Great, so tell us about Joust now.
Lamine Zarrad:	15:42	Yeah, absolutely. Long story short, the company would create a list of [inaudible 00:15:48] open. We had a successful launch and a very successful pilot. We have a number of clients both in the cannabis industry and financial institutions that work with us. Then, for selection, the political climate, despite the fact that regulatorily nothing's changed, the political climate became a bit unstable, and we kind of follow the writing on the wall. The banks were really nervous.

We said, "Let's leave Gestalt over token assets, but we need to keep the risk catching IT, and then move beyond this one industry into an SMB space." But, SMB space is pretty

complicated. It's large. It's not a monolith to quote many different industries. There are many different pain points, and a banking tool that's not differentiated wasn't going to do anything. It's not going to add any value. We started our research, and we realized that interestingly enough, the SMB space is evolving too, and rapidly, and what I mean by that is that labor in general, the way that people work is changing. It's almost cliché these days. Their [inaudible 00:16:54] is dedicated to Workforce 2.0. I laugh at these things, but it's true.

Then fundamentally, what's changing, is it's labor economics. Historically, a corporation, the very paradigm of the corporation is industrial in nature. Industrialists realize that the economy is scaled in matter. The bigger and faster you grow, the cheaper things become, and more people we have, the more streamlined the process needs to become. Bureaucracy is one of those tools, right? It streamlines your experience of processes. It's an important tool in large corporations.

But, in today's world, technology is sort of eroding that concept, empowering individuals to engage in commercial activities that were previously unavailable to them, right? [Keto Tio 00:17:44], whether you like him or not, and this is not a value statement whatsoever. But, he once stated that technology freed us from the tyranny of the plague. If you think about it, it's a powerful statement. Technology really did open up a lot of doors and ushered them into globalization at a very different pace.

However, there's another side of that coin, and that side is are there many sides here? Many negative side effects there, but one of them is that when you assess a person, become a business, without any knowledge of being a business, you expose yourself to a lot of risks, and one of those risks that we've identified is non-payment. If you're a company, and your client doesn't pay you, their tools and mechanisms and laws and policies in place, please collect on the payments. But, when you are a person, and another company or another person doesn't pay you, there's almost no recourse. Yes, you can take them to court and for $1,000 invoice, it's not the best option [inaudible 00:18:44] with a small claim.

We thought, "That's a very interesting key point, very specific, but it's not niche. It's actually self-employed, contractors, freelancers, and SMB's." We thought that what if we focused Gestalt on this particular problem, and move it away from the world of A&L into the world of counter play the rest of this

[inaudible 00:19:11], but using the same approach for contextualization of a transaction. Perhaps, we could make an efficient decision that's cost-effective as well and it's a scalable fashion, and perhaps we could then quote/unquote, ensure each individual invoice, right? If you could do that, that would be rather missionary, right? We could send an invoice and not ever have to worry about collecting on that invoice, and that was the genesis of Joust, and that was the idea. We've evolved quite a bit since then. But, that's what moved the needle, and then put us to work in terms of this consult.

Jo Ann:	19:51	It's identifying... It's evaluating the risk of customers that the business is taking on?
Lamine Zarrad:	19:58	Yeah, yeah, so if you recall the token use case, we would help financial institution onboard a dispensary, and then we would help them to mitigate the risk of money laundering as far as financing by creating a surveillance over dispensary activities. Every time someone would use their [inaudible 00:20:18] token of a wallet, we knew exactly who they were, how old the were, where they were shopping, and so forth. We were able to pull 10 years of the background using first name, last name, and their phone number, contextualize it, and pull it into the master profile for that [inaudible 00:20:33].

Same approach here. We realize that our users, small businesses, need a banking solution. But certainly you can use any other banking solution. A bank is a bank is a bank. It's a transactional account and that's a place to put your money. People don't care about banks. They don't want another bank, but they need it, because they have to keep their money somewhere. They also need an ability to accept payments.

If you perform a service, or sell a product, you need to accept more than just cash [inaudible 00:21:10], especially if it's a remote [inaudible 00:21:11]. You have to be able to accept credit cards. You have to be able to accept bank transfers. There's not a solution out there that does it all for you. There's not a bank, for instance that gives you a bank account and a bunch of merchants services. You have to apply separately, you have to look at separate KYC processes. You have to go through separate evaluations. It takes days, sometimes weeks, and it's costly, and what we've noticed is that most small businesses use 10 different tools just to invoice their clients.

What I mean by that is this. If you're too... Perhaps you do consult for instance, tomorrow, and you have a personal account, I'm sure. But, the bank account, and you probably have an account dedicated for your business. Sometimes, it's an actual business bank account, although among small businesses, they are rare, because business banks accounts are costly. You get another personal account, just [inaudible 00:22:07] if they're sophisticated. Then, the layered the payments [inaudible 00:22:11], or get a PayPal account, or bill.com that makes sense for them, or say Stripe, or something similar. Then they're layered with bookkeeping, analytics tools, invoicing tools, timekeeping, mileage keeping tools, and it takes you seven hours a week to keep track. That alone is a problem, right?

Jo Ann:	22:32	Yeah.

Lamine Zarrad:	22:34	We said, "What if we consolidate some of those tools? What if we consolidated banking payments and invoicing into one?" That's a huge value added. It streamlines the experience, helps you exploit things faster into your analytics tool and does it all in one sitting. You go for one thing an onboarding, and other two minutes you have only to make [inaudible 00:22:53] at no extra fees. That was the stock pay, so B to follow shortly. Well now we have a really, unique view of that business life cycle. We can see their balance, we can also see their external balance that we can link their internal backgrounds and most people do. We can see their... We can see their receivables because we're giving the merchant accounts and process them. We know exactly what, who's paying, and how much they're paying, because we did an invoicing tool, a we can also see their clients, and then validate their clients the way it was [inaudible 00:23:25] the token, and then to ensure that this client's A, real, and B, credit worthy, which is more, arguably a lot more difficult to do.

Then we can contextualize that relationship in every transaction and give them and develop a risk score by that initial fund, that's where we are today. That was kind of a floating, multi-action [inaudible 00:23:47], or multi-composite risks for that sort of resembles the cycle for micro-business. Based on our risk score, we can then extend credit-like products. At the moment, it's invoice financing products, so we send an invoice to a Joust using our invoicing tool, you can even guarantee it instantly, or fund it right there on the spot in real time, so it should act as your cash flow rates. Put together, that Gestalt

risk engine is really driving liquidity into a space where none exited before. Trade liquidity, associated with [inaudible 00:24:24] is previously nearly completely liquid. That's our unwitting way and stumbling into something really cool and really interesting. That's what Joust does.

Jo Ann:	24:33	Interesting. Where are you in life cycle in terms of fundraising and customer base and so on?

Lamine Zarrad:	24:46	We're finally just like... We launched our beta products, in January of this year, on iOS initially, and then shortly after, on Android. We're mobile only at the moment, although we are seriously considering a desktop application as well. We have approximately 3,000 small business users on the platform today. We stopped acquiring completely in May, in order to adjust a few things.

One, we want to have an evangelical following. We wanted to increase the engagements through the product, folks who are accessorizing with Just instead of using other accounts, and we wanted to make sure we could prove a thesis that a small business will consolidate all of their financial activities with Joust, and so we would do deep dive with as staff in the past six months, ask a lot of questions about what is it that they like about Joust, what is it that they love about Joust? What do they hate about Joust? What can we throw away? What can we tear out? What can we improve? [inaudible 00:25:44] informed us very quickly of what we needed to provide to our customers. Initially, just threw a bunch of features into a pot and said, "We've got to an MVP, and threw it out."

Now, we know how to structure, what flows work, and what don't, whether a period after word in a message actually creates a funnel drop off or not. There's a unique nuance thing that we could have never guessed in a million years until we got the product out there. That's one thing right? We were about to release Joust 2.0 in November, with all of the feedback kind of adjusted and created now into an application and features. But, number two problem that we encountered, was prospective or attempted fraud. I'm proud to say that we haven't lost a lot of money. Overall, since we went into market, we've exposed less than $5,000 into fraudster scan, and everything else was sort of caught, and what we've been doing is doing a lot of manual work.

The problem was that our KYC system that we used, wasn't perfect, and the tools that allow prospective fraudsters into our environment, and then we developed our own stack in the back end, to identify prospective fraudsters, and so we were left with this dilemma. We were left with a dilemma of... Do you remember that film Minority Report with Tom Cruise-

Jo Ann:	27:23	Sure.

Lamine Zarrad: 27:24 ... where you can predict crime and then you were able to act on it in the future, and so we couldn't [inaudible 00:27:30] the Minority Report structure. We knew that this potential customer is probably going to commit an act of fraud or attempted fraud. But, we couldn't fire them until they tried something. We were left with a lot of monitoring, and that was just incredibly inefficient, and so what we've been working on actively is working with our banking partners to improve that front end KYC tool, and to help us really throttle allowing potential fraudsters into our system.

Then on the back end, we developed a whole slew of really unique tools, and completely custom tools that hardens our anti-fraud efforts, and we've been building on top of Gestalt, and creating this [inaudible 00:28:15] attribute model, the full data that identity-related from KYC attributes. It's pulling business data from KYB attributes, to form transaction monitorings and operations data. It's pulling marketing data, and then it's been a whole slew of other data points, into one master profile that's helping us combat fraud, and it's now helping us scale as well, and we can be releasing this new application for that new model next month.

Jo Ann: 28:45 Okay. How do you acquire your customers? You said you're trying to have an evangelical following. But, what's your customer acquisition strategy?

Lamine Zarrad: 28:56 Yeah, great question. Before we wrote the first one at code, we knew that we had to solve the custom acquisition problem, right that most new tech startups are facing especially in kind of a consumer focused type product and although we are quote/unquote B2B, our customers are... They're in a great space between being a consumer in terms of their behavior and where they live in the digital space and then those needs that are business. We knew that going online and buying customers on social media was a non-start. It's not a good way to get out

there with a product like ours. We knew that we had to build partnerships with platforms that housed our customers.

Our first effort was building a relationship with Freelancers Union in New York City. We've known about Freelancers Union for quite some time. They've done amazing things for freelancers for decades. They were the first organization that extended insurance to freelancers before there was ACA. We knew that they had trust. They had a brand that was incredibly potent. They engaged in a lot of advocacy for freelancers. They are the only organization that passed, or helped pass law in New York City. New York is the only municipality in the world that has a law that protects freelancers against non-payment. We knew that they care about non-payment as an issue. They gave a lot of research that pointed to the fact that it's one of the top problems with freelancers.

We approached them and said, "Hey, we have this idea. It's kind of bizarre. We didn't have a product but we had this idea. I think we can solve this problem. Would this be of interest?" They're like, "Yes." We kept our relationship, we kept doing it. Then when the beta product was ready, we basically entered into an agreement where they put Joust into their own wording flow and test files and acquisitions and it just added value to their users.

Sure enough, a lot of our users came from Freelancers Union, or where they're not members, but they read that Freelancers Union and Joust partnered, and so they let... It's probably an association that sort of developed instantly, because they knew it was a reputable brand, and they wouldn't be endorsing a new app if it wasn't a value-added freelancer. That was our first major partner. We've since then built a number of different partnerships in the pipeline, and [inaudible 00:31:33] exciting kind of [inaudible 00:31:35] out where we're in the process of releasing an API that's going to integrate into marketplace platforms and various tools that freelancers use, where Joust lives in the kind of native environment. That is definitely a part of our work strategy going forward.

Jo Ann: 31:54   Great, so you talked earlier about the fact that when you were at Merrill Lynch, you were wondering what makes a sustainable post-industrial economy and labor market. My sense is, and correct me if I'm wrong, but that this is part of what Joust is thinking about is the future of labor is going to increasingly be

entrepreneurial rather than corporate and that's... Is that the waves that you plan to ride? Talk about that.

Lamine Zarrad: 32:34 Yes. I mean, it's another excellent question. That's certainly the wave we plan to ride. I have a personal thesis about efficiency and not just in economics and human interactions, though when it comes to commercial activity, but general political organization in human society. Without getting too deep into details here and ideological arguments, I believe that we as people generally tend to gravitate towards simple, almost tribal like distance, right, where people around us are the ones we trust, we care about, we want to do business with, and then we can create, we can project those relationships in those associations digitally across the board into similar groups.

There's a famous kind of renaissance thinker from Russia named Peter Kropotkin, so he is interesting father of modern anarchism and communism somehow. But, he has a fascinating book called Mutual Aid. In Mutual Aid, he observes animals and Russian [inaudible 00:33:52] that cooperate, but they also cooperate at the group level, not necessarily individually. Humans are on a different, I believe, and sort of this micro group cooperation, and we can see in social media today and then, I think our politics are being influenced by it. Today, I think exposing people to in those micro-groups to messaging. It could be harmful, but as we kind of develop mechanisms to protect folks against false narratives, and so forth, I think this could be the platform to get them to move forward socially and politically as a society. Without digressing too further into that mindset, we certainly believe that labor is going to follow those patterns, where people are going to bond around common interests culturally, right, and there's been many different factors that are involved with these groups and then these groups are going to interact with other organizations.

Technology is going to be sort of a catalyst for that, for that [inaudible 00:34:55] interaction marketplace platforms. Everything is sort of moving toward a platform format. Those monolithic behemoths of yesterday, but still [inaudible 00:35:08] and companies like Google, that's on its way out. We see that. Alphabet, the parent company of Google reported that 60% of their labor is contract labor. It's fascinating.

It is absolutely fascinating as a statistic, and so that sort of validates that thesis, and so we feel that in the future, folks are going to be independent. But, when you're independent, you

have to have those bionic suits that protects you as you're going to float through space through the cosmos, the digital cosmos, and we want to be that. We want to be that bionic suit for floating [inaudible 00:35:48], or how do you... This is awfully poetic, I apologize. But, generally speaking, that's what we're thinking, so we think that Workforce 2.0 is going to be mostly independent. I think the affiliation is going to be more related to your affinity groups and not to corporate structures, and we know policy and regulation is going to be decades gone, because it's very slow to change. We feel that technology, although not a perfect solution, will be that bridge and tool.

Jo Ann: 36:24 Great. I want to move to the policy and regulation, but before we do that, [inaudible 00:36:30] notes to the book by that... Shoot, I'm blanking on his name, which I know very well. It was a book called Unscaled, and his thesis is that we're going to unscale, move away from the corporate structure and onto platforms, partly just because of AI. It's really, very, very worth reading and hearing him speak as well, if people are interested in it. But, I think this, as you were saying, is a profound shift underway from the centralized hierarchical corporate and government structures into these much more flexible and modulate platform design where people can build what they want and then get to scale by plugging into the platform.

Lamine Zarrad: 37:22 Absolutely, and yeah, I'd love to check out this book. It sounds fascinating.

Jo Ann: 37:26 Yeah, definitely. Talk about the policy side. One of the reasons I was looking forward to talking with you is because you are a former examiner, where you had said you got very interested in the policy issues long back. You just said the policy's going to lag decades, years and decades behind. If you were thinking about this from a policy maker standpoint, what are the things that you think that Congress and regulators ought to be prioritizing on it or trying to do?

Lamine Zarrad: 38:03 I wish I had the answers or solution I could propose. It's such a complex problem, and I don't envy the policy makers and to be in in this position. There are so many forces that are currently creating friction and a lot of them are cultural. But beyond that, let's focus on one of these issues. Let's start with the fact that this new labor force... let's kind of move away from banking for a second. We can oscillate back into banking. But, this new labor force, that is largely independent, let's say this thesis holds and 20 years from now, 80% of our population gets

engaged in sort of a platform-based independent market place, right? Let's pretend to... What does policy war look like? What laws do I have on books to protect folks?

I mean, really dealing with some of those issues with maybe platforms of today, like Uber and Airbnb. If you drive for Uber or you're an employee, if you are treated like an employee, should you have access to benefits? Should you have access to benefits associated with the sort of corporate privileges that Uber holds? Will there be corporate privileges in the future for a platform? Should it be treated like a corporation, right? Should you take advantages of the system that is designed for something that it's not, like a large industrial operation? All those questions aren't answered. I have a lot of questions. I don't have answers to those questions.

What I would propose first and foremost, is something, a policy process that is much more nimble, right, because I don't report to know, to have answers to know what tomorrow holds. But, what I do know is that to start off we can be a lot more responsive, right, just by nature of being a startup. We can make decisions fast, and I know that this has been always been my... I don't know something that's fast action or just being dissatisfied would be the part of the government organization, several of them actually, is that they move really slow. There's a counter argument there, right? Fast changed, or rapid changes in a larger organization can be damaging. For instance, DOD... Two prime examples of the DOD would be... Two of the worst heads of the Department of Defense, historically and empirically speaking were McNamara and Rumsfeld.

They both were entrepreneurs, both were innovators in many regards. Both implemented new processes really fast and broke a lot of pieces, and just there's a lot of catching up to do afterwards. I completely understand that incremental is the name of the game in policy. But, at the same time, I feel like if we can carve out some space for quote/unquote sand boxes, I think that is the way to compromise without turning that dial on the Titanic all the way to the right, we could soon incrementally change policy, but then these giant leaves can control environments that wouldn't necessarily break existing processes. Does that make sense?

Jo Ann: [41:20]   It does make sense. We often talk about that very thing on the program. They need to create the safe testing environment for government where you can put a [inaudible 00:41:33] around

the risk, and not allow it to contaminate the whole system before it's been tested out. But, you can't test things and try things you can't innovate, and as you say, it'll always be slow and lagging. That's going to be a problem with the technology accelerating at the rate it is. Yeah, I think that's great advice. Is there anything that we haven't talked about that we should?

Lamine Zarrad: 41:57 Well, we talked about banking in general. I'm really curious to get your thoughts as to where are we headed as a society and what is going to happen to banking? I'm curious to hear if you have a thesis on that, if you have a perspective. Will banking carry on as is, are challenger banks a fad, it's going to go away, right, or is it just part of some sort of a slow-moving process? Anyway, let's talk about that. That's a fascinating topic.

Jo Ann: 42:31 Yeah, I'll give you some thoughts, and then you can give me yours. I think we... Banks are not going to go away. I don't think challenger banks are a fad. I think some of them are going to break through, and some of the other small innovators will reach scale, and I think the big tough companies also will increasingly be in finance in one way or another, to scale. I think banking is going to change a lot. I think that the challenge for banks is keeping up with the technology curve.

The way to think about this in my view is that we've been... We're in a long time exponentially paced changed in tech. That developed... For a long time, it looks gradual with the character in the novel by Ernest Hemingway who asked how he went bankrupt, and he says, that first gradually, and then suddenly. I think this is what banks are facing today. They see evolving change. They know it's important. They're taking steps toward it. But, they're just working at a pretty linear pace of adjustment, and the exponential change hits a hockey stick point where it starts to just shoot upward and so entities that find themselves under that curve a few years from now, won't be able to catch up.

I am afraid we will lose a lot of community banks in the United States that can't or choose not to take on that challenge. But, I'm also very optimistic that the technology is going to solve problems for small banks just because of what you were talking about before. It's going to empower smaller entities to thrive because it's going to bring efficiency to them, both as their business and their regulatory work, and it's going to enable them to serve specialized markets and specialized way of

platform. They have a lot of work to do to create a good environment around that including in the regulatory space.

But, I'm optimistic that banks will become more and more responsive to the needs of customers. They'll have a big job toward successful financial inclusion, partly because the technology is pushing costs down and making it so much easier to reach more people, and that's of course, converging with the demographic trend, which includes the fact that millennials are the largest generation in the history of the world on our tech forward and digitally native and that there's going to be a high adoption of a lot of these newer kinds of financial products and services. I think that will really give a boost to companies that are great at fostering, a great user experience, either from their design or all the buzzwords.

Lamine Zarrad:	45:41	Oh, for sure.

Jo Ann:	45:41	I don't know what the numbers are going to be, but I think we'll have a leaner, tougher, banking system with more competition from different kinds of players a few years out. What do you think?

Lamine Zarrad:	45:54	First of all, I agree with you, with the general sentiment, especially. I do think that technology very well could be the savior for the community bank, right?

Jo Ann:	46:04	Mm-hmm (affirmative).

Lamine Zarrad:	46:04	In fact, our mantra is that what we're creating is a community bank of the future. We want to recreate that home town experience that you would have in a community bank. I recall, as a bank examiner, going into a small town with a tiny little bank, with a fantastic [inaudible 00:46:23] portfolio, because they knew everyone, right? They knew them well. They didn't have to have a sophisticated model in place. They made decisions that are fairly intuitive and there's a lot to intuition, right? There's a lot of quantitative backing there. It's knowing that we have evolution that has developed with an interaction with every human. That is completely taken away in kind of a large national institution with branches. We feel that what if we can recreate that and make human experience, digitize it to an extent, and help banks optimize it and then engage it to their customers?

In essence, a challenger bank in the US, unlike in Europe, that sits on top of brick-and-mortar, is not just an acquisition partner, right? It's not just a marketing and partner, it's not a façade and garnish. It is in fact a way to... It's a human interface. It's like the ACI for your [inaudible 00:47:19] customers, and that's incredibly important. We certainly see it that way. We feel that what community banks can do, is really embrace the aspect of being the infrastructure provider, and providing security and safety, and being those trust hubs on which you can build some amazing products. To an extent, I think a lot of community banks are really moving that direction, moving fast, and it's encouraging. I wouldn't... If you asked me five years ago, I wouldn't have imagined this, certainly not in this space.

Jo Ann: 47:56   Yeah, I agree with you. I do talk to community banks sometimes that just feel like it's hopeless, and they're not throwing themselves into it, but if you do, if you really plunge into the tech and try to understand it, and get some young people in the bank, and the customers engage what people are looking for, I mean, there is a lot of great options today for smaller institutions, for sure.

Lamine Zarrad: 48:27   Yeah, what are your thoughts on FinTech Charter, and just the very concept of FinTech Charter?

Jo Ann: 48:36   Yes, I am a big advocate of the OCC FinTech Charter. I have been on record many a time. I can link in the show notes to my podcast with John Ryan of the Conference of State Banks Supervisors that we debated that. I told John, I thought he did the best job I've heard anyone do of advocating the counter case against the Charter. But, I was still not convinced. As I said before, I am a former deputy Controller of the Currency. I think we would get so much benefit out of having... One, it's so... People are familiar with the main arguments on this, and especially for our listeners outside the US, just as a note of context, the Controller of the Currency a couple of years ago now, two or three years ago, probably proposed a national bank charter for FinTech Companies. That would be a special type of charter, not an easier type of charter, but different and it has been opposed by most of the states, many of the state regulators and some of the community groups.

People have had that argument about the pros and cons of it, but I think that one topic that is underappreciated is that it would provide the bank regulators with more FinTech learning

experience. In the US systems, the Federal bank regulators have no direct supervision over [inaudible 00:50:13] FinTech. They are learning about them indirectly in various ways including on their customers of banks. But, that's different from the model that we have in other countries and in the States as well. The bank regulator also regulates FinTech's that don't have bank charters.

I just think one of the things we need, and remember what we talked about before, is about the, is acceleration of the learning of the regulators themselves. I think having direct supervision over some non-bank startups would be very, very worthwhile for them. There's a number of different groups developing including there's a couple of banks that are provisionally been approved for regular bank charters that can come up purely digital, FinTech backgrounds that are already [crosstalk 00:51:11]. Maybe that'll open a different pathway. [crosstalk 00:51:16].

Lamine Zarrad:	51:16	Yeah.
Jo Ann:	51:18	Yeah, go ahead, what do you think?
Lamine Zarrad:	51:19	[crosstalk 00:51:19]. Yeah, no I completely agree with you, and I think it's... I think you're spot on, and as a Federal regulator, I definitely share your preference for a charter. It aligns, I think, public's interest with that financial corporation's interest. It creates framework, same framework by which folks should operate. I think responsible innovation, it's almost a cliché that people can affords around to incredible important, right, to innovate responsibly and the mantra of that still comes out established as moving fast and breaking things. It's not applicable on financial services. You have to find a balance there on
Jo Ann:	52:03	[crosstalk 00:52:03]. Yeah.
Lamine Zarrad:	52:03	... customization and responsibility, yeah.
Jo Ann:	52:05	Yeah definitely true. But, one of the things we should be careful of is driving all the innovation out of the banking system. It's just going to be critical that we have regulated framework around the innovation not to stifle it, but to put up appropriate guardrails and when we have a system where the banks can't innovate because they're much more highly supervised, even though their regulations are usually pretty parallel, that's not

going to be good for anyone, but for most people. This has been so great talking with you. Where can people get more information about Joust?

Lamine Zarrad: <u>52:47</u> I would direct folks to our website, and it's www.joust, J-O-U-S-T.com, very simple, and like us on all the social media channels that are tied to the website, and that's Facebook, LinkedIn, Instagram, YouTube, and we are very active where we post some dates, and share lots of news, and so that's probably the best way to find us. You can also download the Joust app if you are a small business and you need a bank account, a merchant account, an invoicing tool, and cash flow management tool. We're both on iOS and Android.

Jo Ann: <u>53:30</u> Great. Lamine Zarrad, thank you so much for being our guest today on Barefoot Innovations.

Lamine Zarrad: <u>53:37</u> My pleasure, Jo Ann, thank you for having me, and it was a blast.