

Podcast 142 Alex Johnson Fintech

March 2023

By Alex Johnson

Lisa Hochgraf 00:04

Welcome to the CUES Podcast where leaders and experts discuss the top topics in credit unions today.

Lisa Hochgraf 00:10

Our conversation with Alex Johnson will give you lots of inspiration and ideas for how to track and take action on fintech developments. Alex is the creator and author of the Fintech Takes newsletter. My name is Lisa Hochgraf, and I'm CUES' senior editor, as well as your host for this episode.

Lisa Hochgraf 00:31

In today's show, Alex provides some solid tips about how credit union leaders can best track key trends and developments in the fintech arena. Perhaps even more importantly, he provides useful perspective on making sure any actions your credit union takes with fintech are strategic and supportive of member service, not just reactive and trying to keep up with another financial institution in your market.

Lisa Hochgraf 00:56

In this show, Alex also talks about

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his favorite reading materials related to fintech in addition to his own Fintech Takes newsletter

Lisa Hochgraf 01:04

how to discern hype in the fintech market

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potential impact of chatbots like chat GPT on financial services and

Lisa Hochgraf 01:13

why fintechs are not credit unions' enemies.

Lisa Hochgraf 01:17

I think you're going to be really heartened by this down-to-earth conversation about the realities of fintech.

Lisa Hochgraf 01:23

So let's get started.

Lisa Hochgraf 01:27

Hey, welcome to the show. Alex.

Alex Johnson 01:29

Thank you so much for having me.

Lisa Hochgraf 01:32

Now, before we jump into talking about fintech, I'd like to help our listeners get to know you a little bit. Would you happen to have a professional mantra or quote that you live by that you'd be game to share with our listeners?

Alex Johnson 01:44

That's such a good question. Um, yeah, I mean, I think there's a quote, I really like that I think it was Emerson maybe who said, "There is no knowledge that's not power." And I that's always stuck with me for some reason. And I think it's been maybe the mantra that's kind of guided my professional career just in that I've jumped around a lot of different roles in different areas within fintech and financial services. But, you know, I've always tried to indulge my own curiosity, even if there wasn't like an obvious reason to do it. Or maybe sometimes even if my bosses would wish I would just sort of buckle down and focus on my core job and not go get distracted by this other thing. But I've always sort of viewed learning about financial services or fintech or technology to be a good use of my time because you know, there is no knowledge that's not power. So.

Lisa Hochgraf 02:35

No knowledge that's not power. As an employee of CUES, which is a talent development organization. I also love your mantra. Great idea to get more knowledge will make you more powerful, help you grow your career.

Alex Johnson 02:46

Yeah.

Lisa Hochgraf 02:47

Cool. So I noticed a recent tweet of yours was kind of a rundown of things that had happened in the fintech space like the previous week. And there were a lot of things on that list. It seems like things are happening all the time in the fintech space. How do you keep up?

Alex Johnson 03:05

Well, it's funny you ask. The reason I wrote my newsletter originally, I started my newsletter, probably three months before the COVID-19 pandemic started so it was very end of 2019. And I started it really as a forcing function to solve that exact problem, right. I was at the time responsible for helping the company that I was working at keep up with everything that was happening in fintech. And it was really hard because, you know, depending on the day or the hour, there was always some new news announcement or some new company getting funding or some new bank fintech partnership, or credit unions were jumping into you know fintech and doing something interesting. And I just had a really hard time sort of digesting it all.

Alex Johnson 03:47

And so for me, the thing that proved to be really useful was basically committing myself to "Okay, every" at the time was every other week. So "every other week, I'm gonna write a summary of what I think were some of the most important, interesting things to happen in fintech over the last span of time. I'm gonna force myself to not only sort of regurgitate the headlines, which is kind of what I had been doing, but to actually have a take on it. That's why I called it fintech takes. And so I wanted to force myself to have an opinion on a particular sort of week or a couple of weeks' worth of news. And in order to have an opinion and to write about it, I really had to synthesize that information and sort of understand it deeply, right. I think anyone who's listening would know that if you've done a podcast or you've written something, the act of like creating content about something really forces you to understand it well, right. Like, a lot of times I'll approach writing about a topic and fintech in the newsletter, and kind of think I have a pretty good understanding of it. And then as they start to write it, I'm like, "Oh, God, like, there's a gap here. I don't understand this. That sentence made no sense at all." And so it forces you to go back and learn more and dig deeper. And so for me you writing about fintech has been the way that I've been able to keep up with it. And you know, the more than I've done it and now I do two newsletters a week and a podcast every week. So it's a lot more frequent than I used to do. But that seems sort of rhythm of on a regular basis, I'm going to look at what's happening in the fintech space, and then try to do that synthesizing and writing about it, that really helps sort of crystallize the most important things, and it just sort of puts everything in context for me.

Lisa Hochgraf 05:27

Wow, well, I love that I'm a writer, I do the same thing, right. I do a lot of research. And then I think about it. I don't typically take an opinion on it but it helps me maybe ask questions that are useful. What would you say credit union leaders who you know, are also managing the lending group and the C-suite and helping the board with their decision-making and strategic planning? What should credit unions be doing to keep up with the fintech space?

Alex Johnson 05:53

Yeah, that's a great question. Um, you know, I mean, I think that at a minimum, just making sure that you're staying up with all of the news and analysis that's done on it. I won't plug my own newsletter, but I will say that there are many, many other newsletters and podcasts and great resources in the space ... almost too many to keep up with. And so I think, you know, gorging yourself on fintech news and analysis is something that you can do. You can do it for free. A lot of these resources don't require a subscription or anything. And so there's a lot of really great content out there that I would definitely consume.

Alex Johnson 06:28

I think the next step beyond content is to try to involve yourself somehow in the fintech ecosystem, right. And I think that from what I've noticed, the most sort of successful credit union executives when it comes to keeping up with fintech and staying ahead of fintech and not being disrupted by fintech, they don't sit on the sidelines, right, they actively get involved in some aspect of fintech. And there's lots of different ways to do that, right. There are organizations that will take investment from credit unions as as investors and then go invest in the fintech space. I think participating in those investment firms can be a really great way to get involved in fintech. And if you're actually writing a check, it just forces you to

be more sort of involved and to pay more attention. You, we talked a lot about partnerships as it relates to credit unions and fintech companies. And I think a lot of times credit unions will have sort of a "Oh yeah, we partner with fintech companies when it makes sense," but it's really more just a thing that you say not a thing that you do. But if you're really involved in in fintech and trying to find good partners, you know, you go to fintech trade shows and conferences, you set up a lot of meetings with fintech companies, you just get to know all of the companies in the space. And one thing I tell people a lot about fintech is even though it's a massive industry, and it's moving really fast, and there's a lot of money going into it, it's also a weirdly small industry, right? It's the same thing as credit unions. It's a small space. And once you get to know a lot of the key people and companies in the space, it gets a lot easier to keep up with and to not feel like you're behind on. So I think taking the plunge and learning a lot about fintech and getting to know people in fintech, whether it's through partnerships or going to conferences or invest in whatever the mechanism is, you have to sort of force yourself to get off the sidelines and actually get to know people in the space.

Lisa Hochgraf 08:22

I love that idea of not only reading and maybe looking for some things that aggregate a little bit like you do you read a whole bunch and then you try to synthesize it every so often. But also getting to know people and doing some networking because those, those may be the thought leaders that you can get the next thing to focus on from. Thank you for that.

Alex Johnson 08:42

Yeah.

Alex Johnson 08:43

So CUES recently reprinted your article about what you've called wildly optimistic visions of P2P. And thank you for that. listeners. Check it out at CUmanagement.com/0123p2p. Alex, in addition to P2P, what are some other areas of fintech that you think are overhyped at the moment?

Alex Johnson 09:07

Yeah, that's a great, great question. There was a sure lots of people who listen to this are familiar with Cornerstone Advisors, a company I used to work for, and they they publish a great report every year called "What's Going on in Banking?" where they survey a lot of bank and credit union executives. And I'm always interested in the results of that survey because it really they've been doing it for a few years so they can show sort of what the results are and how they've changed over time. And a lot of the technology things that banks and credit unions are interested in and are focused on are things that they've been working on for a while now. Right? So like to give another example, digital account opening is one that comes up right whenever you ask credit union executives, you know, what's your sort of top technology priorities for the year, digital account opening almost always comes up at or near the top and it has been for the last four or five, six years consecutively. And what I've sort of come to realize about that is that if it's coming up that often, every single year like clockwork, you probably have some problem, right? It's kind of the definition of insanity is doing the same thing over and over again and expecting different results right? I mean that's if you're constantly focused on digitization, or digital transformation, or, or sort of these key sort of points in the customer lifecycle, like, "Oh, we have to have digital account opening," I worry that you're maybe spending a little bit too much time focused on

the technology and not focused on understanding the needs of your customers or members, right? And so this was kind of my critique of P2P payments as well. P2P payments is fine, right? It's fine to offer Zelle or some other P2P payments functionality; can make a lot of sense for customers. But what I've noticed is that a lot of financial institutions will offer P2P not because they think it's absolutely critical for their customers or members, but rather because they see all of their other peers doing it. And they get a sense of FOMO, fear of missing out, and they decide they really want to offer it and they make it a priority, sort of regardless of any other considerations. Regardless of how much customers are asking for it. Regardless of how good or bad the thing is that it's replacing, regardless of how much it costs. All of those considerations kind of just get tossed out the window. And these organizations will say, you know, fintech, we have to keep up with fintech, and they'll just sort of go crazy and kind of just run in all of these directions. I think that's where financial institutions get into a lot of trouble.

Alex Johnson 11:43

And so you know, I think when you're trying to decide sort of what's hyped or overhyped or maybe not hyped up enough, I think it needs to be done through the lens of what, who are members or customers and what problems are we trying to solve for them? And how does this technology contribute to that goal?

Alex Johnson 12:01

And, you know, Lisa, you and I were talking about ChatGPT, and chatbots as another thing before we started recording. I think that's another good example, right? I think ChatGPT has really become a very hot topic within financial services within banks and credit unions, largely because I think it's broken through mainstream consciousness. And we all are aware of it. You were saying that your son and husband are like really liking to kind of tinker with this.

Lisa Hochgraf 12:31

They are! Oh, yes.

Alex Johnson 12:32

And I think that's true for a lot of people, right? And so I think what happens is bank and credit union executives see this technology breakthrough, and they think, "Okay, well, this clearly is the next like, cool thing in technology, we need to have a chatbot strategy; we need to have a large language model; we need to, you know, leverage ChatGPT or one of these other tools in order to do something for our customers." They don't know exactly what that something is, though. And they're just like, oh, we just we have to do it, we have to do it. And, again, I think that's a mistake, I think you're gonna see a lot of credit unions really jump with both feet into "chatbots," with quotes around it, not necessarily understanding what the different types of chatbots are, or what they're best suited to solve for.

Alex Johnson 13:18

And I think in the case of ChatGPT, as amazing as the technology is, it still has a lot of errors, right? It still makes a lot of mistakes. And quite frankly, it makes the mistakes very confidently, right? It'll do things where it's like, I got into an argument with ChatGPT, where it's like, "No, no, this is true. And I knew for a fact that wasn't true. And I was like, arguing and yelling at the chatbot, which probably isn't the right thing to do. But I couldn't help myself. That doesn't sound like a super great fit at the moment

with financial services, right? If you're making a credit decision, or you're, you know, resolving some important customer service issue, or you're giving investment advice. These are things where we have a very low fault tolerance, right, we can't make mistakes, maybe large language models and ChatGPT will get to a point where its error rate goes down, and it'll be a better fit for some of those use cases. But I would actually be kind of nervous about deploying that right now, despite all of the hype, because of some of those sort of fundamental problems.

Lisa Hochgraf 14:15

So knowledge is power, track it, know what's going on, learn the different types of chatbots. Sounds like that's something I need to study because I don't know what I would say in answer to that. But don't just jump in willy-nilly. Go strategic, see how it fits the need, see how it feels in your member experience? Yes?

14:34

Yeah, that's exactly right. I mean, I and I think, you know, this is something that is something that will resonate very much with most credit unions out there. We don't have unlimited resources to throw at this stuff, right? We don't have an unlimitedly large technology staff or sometimes any technology staff at all. You know, we don't have a huge budget for this stuff. And so you do have to pick your spots very carefully. And I think if you ever find yourself making a decision around technology or fintech that is in any way motivated by a feeling of, you know, "We're missing out," "Oh, it's embarrassing that we don't have this and our peers do." That's just a terrible motivation. And I would try almost to sort of train your brain to recognize that motivation, because it's very natural and it creeps in that drives all of our decision-making all the time. But to the degree you can identify and sort of stamp out that motivation when making these decisions, I think that'll help in focusing on the things that really are strategically the most important.

Lisa Hochgraf 15:33

I love that. It was making me think of my parents asking me when I was a teenager, "So if all of your friends drove off a cliff, would ya follow 'em?" So

Alex Johnson 15:41

Yeah

Lisa Hochgraf 15:41

There's there's wisdom in in looking internally at your strategy and who you're serving and then making your choices.

Alex Johnson 15:48

Yep.

Lisa Hochgraf 15:48

You mentioned Cornerstone advisors. And they happen to be a CUESolutions provider, provides also a lot of great content to us. And their report that you mentioned just came out fairly recently. And it's the kind of thing that I can put in the links for listeners so that they can download that from the website. So

in addition to the recent Cornerstone report, are there other publications or specific resources that you would direct the listeners of this podcast to?

Alex Johnson 16:15

Wow, that's a great question.

Lisa Hochgraf 16:17

I mean, besides Fintech Takes, which you should all check out.

Alex Johnson 16:20

Yeah, FinTech Takes is great. But in addition to FinTech Takes, yeah, there's a lot of really great resources out there. Um, you know, I think that one of the ones I've been looking at recently that I've really liked actually is Andreessen Horowitz, which is an investor in fintech. They publish a lot of really great insights and research into the next areas in fintech that they're looking at. And I think they're really interesting because they give hints at other places where financial services, not just fintech, but banks and credit unions as well can potentially get some breakthroughs, right. So for example, they recently published a very long piece that was sort of outlining the opportunities for fintech as it relates to health care and the health care industry. And I thought that was really interesting because there, there are a lot of, and I think this is very relevant to credit unions that have been operating a lot of these, you know, kind of other industries for a long time, there are a lot of financial services or financial services-adjacent problems to be solved in industries like healthcare, right. And this piece does a really good job of explaining, you know, not only what some of those core problems are, but how you have to go about solving them with more than just your standard products that you offer, right. And so you can't look at a space like healthcare and go, "Well, we offer business checking accounts, we offer credit cards, we offer commercial loans, we'll just take those products and then go like sell them into this new vertical or this new area" like health care or construction is another one that comes up a lot. I think the secret to serving new niches or new verticals, or finding new ways to serve your members, is to sort of understand that you have to kind of transform the products that you're offering in order to just sort of better fit them into the workflows and the ways that those other industries or other customers do business. And so I thought this piece by Andreessen Horowitz was a really good example of the ways in which banks and credit unions need to almost transform themselves to serve customers or members that they maybe haven't been serving before that they haven't been serving enough. But to do it in a way that's not just falling back on sort of traditional bank products. So I think Andreessen Horowitz has a really good job of talking about that kind of stuff.

Alex Johnson 18:39

There are plenty of other great newsletters in the fintech space that I would definitely recommend. This Week in Fintech is a great sort of summary of a lot of different news items. It's how I keep up with everything that's been happening in fintech. Fintech Business Weekly by Jason Mikula's great. It does more of a sort of deep dive into the regulatory side and kind of what's going on with all these different fintech companies and how they're doing in the market. And then FinTech Brain Food is the third one that I really enjoy. So tons of newsletters, but those are a few that I would I would definitely look at.

Lisa Hochgraf 19:11

Thank you for helping to narrow the field for our listeners. It can be really overwhelming to look and see what's out there

Alex Johnson 19:17

Of course.

Lisa Hochgraf 19:18

So you were talking earlier about staying in tune with your strategy and paying attention to who you're serving as a way to frame your actions within fintech. So in that bigger picture sense, are there one or two fintech trends that you see right now that you would recommend credit union leaders track more closely than average?

Alex Johnson 19:36

Yeah, absolutely. So I think one that hopefully some credit union leaders have been noticing and kind of looking into but it's definitely what I would recommend is the trend in fintech towards what I call niche neobanks. So if you think about the sort of first-generation of these digital neobanks from fintech companies, like Chime or Current or Cash App by Square those kinds of ones. Those ones were designed to really attack the market broadly, right. And so if you think about who Chime's customer base is, it's really any customer in the US. They specialize in serving younger consumers. They specialize in serving lower-income consumers, but there's nothing about their products that that wouldn't generally be applicable to everyone, right. Like they offer, you know, two-day early access to your paycheck. Everyone would want that, right. And so it's a very sort of almost-generic approach to serving the market. It's not segmented at all.

Alex Johnson 20:38

However, there are a bunch of sort of newer fintech companies that are building neobanks that are focused on serving a much more specific niche of customers. And those niches can be defined in lots of different ways. Sometimes it's defined based on your profession. So there are neobanks out there now for doctors, dentists, nurses, musicians, architects, there's all of these different I actually recently went on a podcast and asked someone to create one for teachers, because I think teachers could use a better digital bank. So there are ones based around profession.

Alex Johnson 21:14

They're also ones based around identity. So there are, you know, digital banks like Daylight for LGBTQ consumers. There are similar ones for Black consumers, for Asian consumers. There are neobanks specifically built for women. So there are all of these different sort of segmented approaches to neobanking. Some of them haven't worked as well as other ones have. But I would say the ones that have worked the best are ones that have homed in on a set of problems that that specific segment of customers has, and it's not like, "Oh, you know, my bank doesn't respect me enough" or "Like my bank, you know, I don't like my bank." That's not like a real problem. They're focused on like, actual tangible problems.

Alex Johnson 21:59

For example, I mentioned Daylight before, they recently launched a new product that is never sort of existed before the financial services space, that's designed to help LGBTQ couples navigate the family planning and fertility process, which is generally much more sort of rigorous and onerous than it is for non-LGBTQ couples. And so that I think, is a really interesting example of honing in on a problem. It's financial services-adjacent, right, because it's expensive to have kids via surrogacy or adoption. But it's also frustrating and has a lot of other like workflows and information that need to be pulled together. So I think that's a really good example of this problem that can be solved for consumers when you hone in on what maybe makes that segment of consumers unique. And what are some of the financial services challenges that they may have.

Alex Johnson 22:54

And the reason I bring it up is it reminds me a lot of credit unions, right? Credit unions, their whole thing is we have a field of membership, and we serve these members better than anyone else. I think a critique I would have of credit unions over the last, say, 10 years is that we've gotten a little flabby about how we define our membership base, right. And there are valid reasons for that. And there are valid reasons for expanding the field of membership to include more people. And I understand all of the sort of components that go into that. However, I think it's really important to never lose sight of who is the segment of consumers that you can serve better than anyone else, because you know them better, you can empathize with the problems they have better. And by focusing on just serving them, you can sort of concentrate your limited resources on solving problems for them, right. So it's not a, "We're gonna be everything to everyone" strategy, it's a "We're gonna be this one thing to this one set of customers, but they're going to be loyal to us for a long time because we know them and serve them better."

Alex Johnson 23:54

You know, just doing that based on "Oh, you know," geography or doing it on some very loose affiliation with some field of membership but without any real sort of teeth in it, I think that misses an opportunity. And I think these fintech companies that are sort of coming out with these niche, neobanking strategies, they're sort of illustrating that there is more of an opportunity there. And so I think that would definitely be an area I would pay attention to, if I was a credit union executive is "What are some of these almost segments within our field of membership, that we could hone in on and serve better if we were sort of more focused on our strategy?"

Lisa Hochgraf 24:30

You know, some of the segments that you mentioned that the neobanks are ... you called for a neobank for educators. There are lots of educators credit unions across the country. So that may be an alarm, actually, for some credit unions, that their membership is being targeted by neobank right now.

Alex Johnson 24:45

Hopefully, you know, I think competition makes us all better. So I think there will probably be more but yeah, I think that teachers is a good example, right? Because there are lots of credit unions that serve teachers. But you know, some questions I would have for those credit unions would be things like, "What is it about your products, not just your marketing or your field of membership, but your products that is better designed to serve teachers than the average bank or credit union product, right?" So for

example, most teachers, they get the summers off, obviously, and most of them in most school districts get paid for those summer months all up front as a lump-sum payment upfront. I don't know if most people knew that but that is true. What happens when teachers get paid up front and a lump sum at the beginning of the summer is a lot of them, particularly newer, younger teachers will spend all of that money on vacations or on whatever, and they'll get to like September, and they actually won't have enough money for the things they need right? They will struggle to pay their rent, they'll struggle to pay their mortgage, not because they're not good for the money, but just because the unevenness of their cash flow over the summer left them a little short. Well, if I was a credit union serving teachers, I would have a checking account with a built in short-term lending capability that would allow us to give a payday advance to those teachers in the fall when they're coming back from summer and maybe a little shorter on cash or didn't save quite enough money that they're going to need for the next month or two. So there's lots of those little examples hiding in there. But I would tend to doubt that most credit unions working with teachers have products that are tuned in that way. And that's what's going to happen when fintech gets into these different verticals.

Lisa Hochgraf 26:32

Thank you for that example. It really pulls it out as concrete when you put it into the context of educators credit unions and how they might serve their members better in the light of the fintech space encroaching on it.

Alex Johnson 26:46

Absolutely.

Lisa Hochgraf 26:47

So thank you so much for all your time so far. I don't, I don't want to abuse your generosity there. But before we wrap up, I do want to ask you, what question didn't I raise that you would like to answer for our listeners?

Alex Johnson 27:00

That is a great question. Um, you know, I think probably the question that you didn't ask would be, from a credit union perspective, should we be partnering with fintech companies? I think is probably the the question that I get a lot of times from, from credit union executives that I speak to, and the worst thing that you can do when it comes to partnering with fintech companies is to do it halfway, right? Because again, going back to what I said before, we all have very limited time and limited resources. And so doing anything halfway, I think is a mistake. But in particular, fintech is one of those things that can suck up a lot of your time and attention without really producing a lot of benefits. And so, you know, approaching partnerships with fintech companies in a halfway point is really just a way to waste time and resources. And so I do think that credit unions should be partnering with fintech companies. I think that given the slowdown that's happened in fintech from a funding perspective and just sort of an overall valuation perspective, fintech companies are kind of struggling right now. And so I think there actually is a lot of appetite on the part of fintech companies to partner with credit unions to be better partners with credit unions. They they're a little less arrogant than they used to be. And so I think there are opportunities to have really productive partnerships. And so I think that, you know, credit unions should explore that. And if they decide to do that, they should jump into it with both feet and approach

the task with a lot of seriousness. I would try to hire someone to sort of attack that problem full time. I wouldn't make it just sort of a part time responsibility for one or several people. And if you're going to do it, really try to do because I think there is an opportunity there right now.

Lisa Hochgraf 28:45

So knowledge is power, learn all you can. And then if you get in, get all the way in, otherwise, it'll not work out as well as it possibly could.

Alex Johnson 28:54

Exactly, exactly.

Lisa Hochgraf 28:56

Thank you so much for all this insight, Alex. Thanks for being on the show.

Alex Johnson 28:59

Yeah, thank you for having me.

Lisa Hochgraf 29:03

I would like to thank you, our listeners, for taking time out of your busy schedules to listen to today's episode of the CUES Podcast. And many thanks to Alex for sharing so many useful insights.

Lisa Hochgraf 29:15

To sign up for his Fintech takes newsletter, visit workweek.com. Click fintech. And then FinTech Takes.

Lisa Hochgraf 29:24

If you enjoyed the show, you might benefit from attending CEO Institute: Fintech, which begins this month. Learn more and register at cues.org/slash/ceo-dash-institute-dash-fintech.

Lisa Hochgraf 29:37

To act on Alex's suggestion of looking to adjacent industries for great ideas to apply to financial services, check out CUES' new offering, CEO Dialogue at cues.org/ceo-dialogue.

Lisa Hochgraf 29:56

Find a full transcript of this episode at CUmanagement.com/slash/podcast-142. You could also find more great credit union-specific content at CUmanagement.com.

Lisa Hochgraf 30:09

Thanks again for listening today.

Lisa Hochgraf 30:12

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