Barefoot Innovation Podcast with Itai Damti, CEO & Co-Founder of Unit, and Alex Acree, Chief Legal Officer of Unit

*Note that transcripts may sometimes contain errors and that transcript timing notations do not match the posted podcast

Jo Ann Barefoot:	Yeah, I'm really excited about today's show. I am in California for a conference, and I've had an opportunity to sit down with some of the leaders of unit. We have Itai Damti, the CEO, and co-founder of Unit, and also Alex Acree, my good friend for a long time. I'm thrilled to have you with us today.
Alex Acree:	Thank you. It's great to be here.
Itai Damti:	Great to be here.
Jo Ann Barefoot:	Wonderful. I love to have the opportunity to sit down and we're doing that. We're at a very, very interesting, thought-provoking conference, which actually has been talking about some of the topics that we're going to be exploring. So, I think all of our minds are really highly engaged in where we're headed. I'd like to start by asking you to tell the story of Unit. First tell me about yourselves, each of you. Why don't we start with you? Itai, what's your background? Then we'll talk about Unit.
Itai Damti:	Yeah. I'm based in New York. I'm originally from Israel and I spent about five years in between in Hong Kong. I've been building fintech companies for 15 years now, and Unit is my third. We can tell you more about Unit.
Jo Ann Barefoot:	Yeah, let's come back to that in a moment. How about you, Alex?
Alex Acree:	Thanks Itai and thanks Jo Ann for having us. My background is as a bank regulatory attorney. I've been a practicing attorney for a long time, but I've had a diverse career in financial services. I've also been a venture investor and a consultant in this space, and now I'm having a great time as an operator here at Unit and I'm our chief legal officer.
Jo Ann Barefoot:	Wonderful. Tell the story of Unit's founding. Why did you found it and what does it do?
Itai Damti:	Unit helps banks and tech companies connect and build together and enter partnerships that benefit both of them. Today we're a team of 160 people. We're a compliance first company in the sense that we try to introduce a lot of knowledge into these relationships and strengthen both the banks and those tech companies in doing business together and doing it compliantly. We are based out of New York. The company is headquartered out of New York. In

terms of what motivated us to start the company, it was in 2019, we were two co-founders who, we've built this previous business together. We had both been in fintech for more than a decade, and we wanted to help with the problem of financial inclusion. We wanted to be able to help people build better businesses and we wanted to help banks serve them well. We thought about the fintech industry as two distinct waves of innovation, which today I think most people can see. But back in the day, it was a novel thought.

The first wave of innovation, we think, started roughly around the global financial crisis, and that's when companies like Chime and Lending Club and Venmo and others try to do something better and cheaper than the big banks and the incumbents. You can look back at this wave of companies and you can see that some of them have succeeded, but there are many companies that try to innovate and try to compete with the big banks and might have failed in that wave. We think that wave has come to an end. People no longer, on average, start consumer challenger banks or even business challenger banks. We think a second wave, which we think is more profound and bigger in importance is now starting or has started back then. And we call this wave fintech 2.0.

What is fintech 2.0? When software companies introduce financial services like accounts, wallets, cards, payments into their ecosystems to be able to serve their end customers in a better way. Behind the scenes, partner banks work with these companies and are the originators of these financial services. So, the tech companies distribute financial services that those banks manufacture. We think that companies that represent this wave are companies like Toast that makes a point of sale system for restaurants and now delivers more than just software. It delivers other kinds of services like business financing. We look at companies like Shopify that help millions of sellers sell online and do it in a simple way. Now, Shopify provides to them payments and other forms of financial services. We look at companies like Uber that have wallets that they give to the drivers that work in their ecosystem so they can get paid faster and get more high-quality access to financial services.

We think those companies represent that wave, but we see a bright future for this mode of partnership between banks and tech companies. We looked at the first wave of companies. We looked at how the Chimes of the world and how the Lending Clubs of the world were built, and we saw a lot of friction. We saw a lot of friction for the banks that supported them and had to oversee, with very high effort, how they were distributing the bank services. We also saw how hard it was for these companies to comply and do it cost efficiently and really meet all of the requirements and enforce that they're actually doing what they're supposed to do. We built Unit as an operating system as a layer of technology that banks in our network use to enter into partnerships with fintech companies. And we can talk about the specific modes of enforcement and consistency that we provide and oversight that we provide back to the partner banks, but we think that this type of operating system is needed for the financial technology ecosystem to continue to grow and to do it efficiently and scalably.

Jo Ann Barefoot: Before we go deeper on that... Go ahead and add something, then I have a question for you.

Alex Acree: Yeah, absolutely. I was just going to build on those comments, Itai, which I agree with. I think at the same time as we see those trends on the technology company side, it's important to think about where banks are today, whether community banks, regional banks, and larger banks that are getting more and more involved in the technology ecosystem. Just as there has been expansion of banking across state lines and across the United States in brick and mortar locations, I think we're seeing a similar pattern take place as banks are starting to offer their services and meet those demands, that bottom-up demand, and customers on those digital channels. These two trends are coming together, and I think Unit is here to try to make that easier and safer for the banks and for the technology companies that want to work with them.

Jo Ann Barefoot: I think this is such a great insight because as you say, in the first wave, the magic word was disrupt. The fintechs were going to disrupt the banks and take their place maybe. A lot of talk like that. The banks were very defensive toward it too, either dismissive or defensive. Today there's so much understanding that the two segments need each other really. They're very, very complimentary. Before we go deeper on Unit, Alex, let me just ask you, we have a lot of listeners outside the United States, can you just quickly give us the legal lay of the land on the U.S. legal and regulatory structure that leads to the need for partner banks or the advent of partner banks as a model?

Alex Acree: Yeah, absolutely. I could talk about this all day, so I'll try to keep it short and not bore folks too much. But in the United States we have a dual banking system. We have banks that are supervised at both the state level for those that are state banks and some that are national banks. We have a number of federal prudential regulators as well as state banking regulators that oversee the banking system here in the U.S. And then we have other specialized regulators like the CFPB that focus on consumer protection and a variety of other regulators in the U.S.

In terms of the regulatory system here and why partner banking is so important, you have technology companies here in the U.S. that are not themselves banks. So, in order to be able to offer certain kinds of products and services, be able to offer deposits to customers, the opportunity to place deposits or access to the payment system, you need to be a bank in the United States. And banks are subject to overarching supervision, which helps to keep them safe when they do those activities. The way that partner banking has arisen is technology companies that want to offer those banking products and services need to work with those chartered institutions in order to do so. That's usually done via contract between the technology company and the bank.

Jo Ann Barefoot: It's an emerging space, so lots and lots of questions and challenges and opportunities around it. So go a little deeper in how you're going about this and what you're trying to accomplish, where you're headed.

Itai Damti: I think we can explain some of the early design choices that we made at Unit. I can actually credit the most important one to Alex, which is we knew from the get-go that banks and those technology companies have to enter direct relationships and they have to be encouraged to connect directly both legally and operationally. We designed Unit as a technology operating system that helps them make those relationships easier and more compliant. One example is when you open an account with one of our bank partners through this technology, you no longer have to generate statements like companies like Chime and Lending Club had to back in the day. There is a layer of technology that generates statements at the beginning of each month and provides the statement which is ready for distribution to that tech company. We have a lot of consistency baked into this ecosystem, and the operating system makes sure that this consistency persists, and those features keep on getting better.

We build more of them, and we make them better over time. There's the legal structure that we chose, which is direct relationships. There is the importance of making software enforce and keep things consistent. Statements being just one example. I can give probably five or 10 more. We also have a team at Unit that works directly with our bank partners to make the software better. As an example, in the last couple of months we have delivered electronic tax forms, the 1099-INT forms that banks have to make available to the banks and those tech companies to make the relationships even easier. And we have a lot more that we develop for them. I also think we made a lot of important choices in our early hires. Alex was a very early hire at Unit. Our first two employees were compliance minded employees. One of them is our chief compliance officer, another one joined us from Promontory and handles the operations of the company.

It's very important for us to embody the compliance first mentality that this ecosystem needs to maintain. We don't ever replace compliance teams, but we give very, very high degree of attention and value to all compliance and risk functions that the banks are required to implement. We try to give knowledge to our ecosystem, both the banks and the technology companies that helps them make those ecosystem connections more compliant and safe.

Alex Acree: I would just build on that. I mean there's a lot of talk these days about, quote, unquote, BaaS companies, or embedded fintech players as-

Jo Ann Barefoot: Banking as a service, yep.

Alex Acree: Banking as a service, yep, sorry.

Jo Ann Barefoot: It's okay.

Alex Acree:	Yeah, as intermediaries and middleware. There's terms like intermediary middleware that are thrown around a lot. When we were designing Unit, and I've been working with Unit since the time it was incorporated, we made this decision, as Itai mentioned, to facilitate direct relationships between banks and the technology companies that they work with. Unit is a service provider to our bank partners, but as Itai said, we're giving them tools to be able to more easily and oversee the banking activities that they're offering through their third-party partners. It's just a really important point to make clear that Unit is very much... We see ourselves as providers of direct relationships between bank partners and technology companies and bank partners and their customers. I would say that point first. And then to the point about statements. One of the ways I think about what we are doing here at Unit, there are a ton of really important and critical functions that need to be done well in order for a third-party partnership to work. These third-party partnerships are critical for banks that are getting a lot of... They have a lot of interest and are being responsive to the demand to offer their products and services through digital channels. And that's really what we're trying to facilitate. But there are all these important and critical things. A lot of times we think about things just because they're important, that they need to be hard. And I think we are really trying to challenge that mindset, not by in any way reducing the importance and the focus on these critical areas, but by trying to just work our way through a list of hard things. How do you oversee marketing materials? How do you issue statements? How do you calculate the various interest and account-related details? We're trying to make those things easier. That's how I think about our mission here. We're trying to make hard things easier, and by doing so, allow high-quality financial services to reach more customers across the internet.
Jo Ann Barefoot:	When we love technology, that's what it's doing for us, isn't it? Making hard things easier a lot of the time. The end users are small businesses. Talk about what this does for them. What are the benefits, at the end of the day, to real people?
Itai Damti:	This is why we're all here. This is why this work matters. They're individuals and independent workers and businesses that depend on high quality access to financial services, both in the forms of storing money for themselves and being able to spend and move money as well as being able to get access to financing in the case of businesses. When we think about our extended ecosystem or the bank partners relationships with the end users, we think about restaurants, coffee shops, construction companies, people who have hourly work schedule and need to get paid at the end of a shift in order to feed their families and be able to pay rent and manage their finances. So, we see those technology companies creating tailored financial services for their customers and basically

giving the money meaning. Just one example of before and after, if you were a gig economy worker 20 years ago, you worked hourly shifts.

In some cases, you would never get banked. Your employer would pay you with a check. And those people depend sometimes on local businesses to help them cash those checks and they depend on these type of access to survive. The timeliness of getting access to funds and being able to spend funds to pay rent or to buy groceries and feed your family was very, very important. That's 20 years ago today. Today, there are many platforms that help you sign up for factory work or restaurant shifts in your city and they give you wallets and those wallets speak your language. They might give you cash back for gas because you depend on gas spend to get to your workplace. At the end of your shift, they will pay you for the shift that you might have just ended. The end users are top of mind for us, and we see how those companies that offer financial services often give money meaning, move money faster for the benefits of the end user, and help them manage their financial lives in a better way. I can speak to businesses, I think there is a fascinating discussion about how-

Jo Ann Barefoot: Yeah, if you've got any stories to tell, it would be great to hear them.

Itai Damti: One of the really interesting applications of our ecosystem is we see some companies in the business formation space, so very reputable, very notable, large companies that help you incorporate your LLC. If you want to be a lawyer or if you are a yoga teacher or a local business and you want to incorporate an entity, they allow you to do it. It used to be the case that you then took your business formation document and had to walk into a Chase branch or apply for some bank account online, in many cases, those banks would reject you because they might not have visibility into the business that you just formed. We see some of these companies that help you form an LLC also getting into the practice of offering you a convenient and competitive bank account immediately afterwards, subject to of course completing the incorporation process and providing all the right documents. I think we see those experiences being weaved into helpful processes for the end users and financial management is just an aspect of all of that.

Alex Acree: Yeah, just building on that, I got into financial services through the Community Development Financial Institution path, helping to start a de Novo CDFI. My interest in financial services has always been motivated by the actual, concrete human impact that financial services can have, positive or negative. I think what Unit is doing, and one of the reasons I'm here is because we are a mission-driven organization and the power of better financial infrastructure to affect people's lives, it can be truly transformational. I think as a country, we're getting to a place we're not quite there, but we're getting to a place where access to financial services is or does seem to be improving. We can start to move a little bit beyond thinking just about access and whether you can get a bank account in the first place and more about thinking about what's the quality and the convenience of those financial services that you are accessing. Sure, maybe you

have a bank account, but is it interwoven into your experience in a way that gives you the optimal experience? And I think that's really what we're trying to do here at Unit.

Jo Ann Barefoot: Yeah.

Itai Damti: I'll just develop on this point of infrastructure. The problem space of infrastructure has fascinated me since I was a kid because I see infrastructure is a great way to elevate living standards and create a higher bar for ourselves. We don't often talk about the importance of electricity and water. We take them for granted. We don't often think about the railroads and the roads and hospitals and universities that train and move people around. I think financial infrastructure is often neglected. There is a difficulty to access high quality financial services because the infrastructure is not where it needs to be in many cases. We enjoy working on a set of hard problems that when solved or when solved well can create benefits for a large population. It's fascinating to see how a small change in our system that benefits our bank partners, and the end users can really trickle to an ecosystem of many, many, many people.

Jo Ann Barefoot: This is a new type of effort and I'm sure it's full of challenges. I know there's a dynamic regulatory environment around it, and we'll come back to that in a few minutes. But before we go there, what are the biggest challenges facing how you're building this and the development of this kind of solution?

Alex Acree: I'll start. Itai's heard me talk about this a lot. Banking is a hugely important area. I mean, it's highly regulated for the reason I mentioned, which is the potential impact of people's lives and livelihoods. And I think when you're trying to build banking technology, which is what we do here for our bank partners, we're constantly asking ourselves, do we have the right people, process and product to best meet our bank's needs and our shared customer's needs as well? I think one of the things that I am hugely proud of here at Unit is our product-driven culture, where we are constantly looking for ways to transform what have potentially or often traditionally been very time-consuming activities into products that are auditable with decision workflows for the responsible parties.

                     I think we're doing a really good job of creating those kinds of resources. But I would say yeah, I think one of the challenges is how can we do this better? These problems are hard. It's not like these solutions are always obvious. So, as a company, we're asking ourselves, how can we build products to make those hard things easier? I would say that's probably one of the main things. I don't, Itai, what were you going to say?

Itai Damti: I will maybe lead with two themes that I find fascinating about our space. One is the theme of the sheer surface area that banks have to oversee when they oversee programs and by extension that we have to build technology for. The second one is really how do you make oversight a direct and real-time experience for the banks? Just some of the founding story of the company, when

we started the Unit, we met 50 partner banks as potential partners or as potential partner banks on our ecosystem. I spoke to some of them, and they had 20 fintech partners in market before Unit was even born. I asked them, "How do you oversee all these programs?" Because I learned over time that banks have to oversee identity and disputes and statements and reconciliation and tax forms and fraud reserves and reports- There's such a wide surface area in all these cases. Those banks actually did not have great answers five or 10 years ago. They gave technology companies a single account, also known as an FBO account in our ecosystem. And they trusted that those tech companies were managing payments in and out or managing identity and managing reconciliation, generating the right statements, providing accurate forward reports. But it was a very manual and very low frequency process. When we built Unit, we basically decided to design the system with banks at the heart of it. We asked ourselves what would be the best oversight experience for a partner bank? And unfortunately, the answer is you have to build a lot to give banks direct oversight into all these matters.

You get into this ecosystem thinking that it's all about account creation and money movement in and out and some reporting around it. But at the end of the day, if you don't master identity disputes, statement generation, reconciliation reports, tax forms, fraud and other kinds of reports for the bank, you cannot give them a truly comprehensive picture. To me, one of the mind-boggling things about our ecosystem is just the amount of surface area that banks had to oversee before Unit and that again, we had to master it, we had to build to help them oversee more effectively. The problem of oversight is still, I think, pretty poorly understood in our ecosystem. You see how the early infrastructure companies, companies like Galileo and i2c and others, Marketa, how they've really focused on one aspect, which is card issuing or ledgering.

But in order to rethink this ecosystem, you need to build a lot and you need to master pretty deep knowledge in all these areas. To me, that's one of the hard things, just teaching a team of 160 people to really understand the nuance of all these aspects and to build better systems for the bank partners.

Jo Ann Barefoot: And in a dynamic environment where it changes as you go along. I know. What is the typical size or the range of size of your partner banks? Are they pretty small?

Alex Acree: To date generally, they've all been relatively small. In the scheme of things, they would all meet the definition, probably, of a community bank. But it is interesting to see just the wide array of conversations that we're having with different banks of different sizes. One of my predictions is that we will start to see larger banks participating more in this space just given just the pervasiveness of the technological solutions that are needed and the banking solutions that are needed by various kinds of technology companies.

Jo Ann Barefoot: One thing I'm curious about is that we know that smaller institutions have legacy technology that is notoriously old and some aging. Does that present a

challenge? If you're creating this digital cutting edge connection between pretty traditional tech scenarios and what's happening in these new markets, is that easier or hard?

Itai Damti: I would say technology is one aspect of how hard it is to serve banks in this ecosystem. Over time, because we thought about Unit from the beginning as a core system, banks actually adopted this core as their mode of operating in fintech, and basically create connection between this core and their traditional core. We did have to overcome some tech challenges. I think the bigger question is culture and operations, helping those banks really internalize how to use the systems and how to engage best with this ecosystem and how to basically keep growing in tandem with their business growth in this space. That's something that every bank needs to think about when they operate in the space. And banks don't always have traditional process or formula because it's a relatively nascent ecosystem. That's one aspect.

Alex Acree: I would just build on that. In a lot of cases, not all, but in a lot of cases, banks that are interested in participating more in the digital ecosystem and offering their banking services through digital channels, for many of them, this is the first time that they're doing that. And it's not the same. It's just opening up another physical branch. It requires different areas of expertise, new controls that need to be put in place, different perhaps engagement on the corporate governance side. It does require, in a lot of these cases, a significant organizational transformation. I think one of my things that has been really impressed with through my experience with Unit is just the courage of a lot of these smaller banks to try to reimagine themselves and to adapt to a digital world.

This BaaS to me is not some separate thing. It's not some, oh, we're going to get into BaaS. It's not that it's a participation by these banks in the digital ecosystem. At Unit, we fundamentally believe that participation in the digital ecosystem for banks, smaller banks should not be discriminated against in their ability to do that. And that's what we're really trying to enable here.

Jo Ann Barefoot: We certainly have many times talked on this show about... I'll speak for myself. My own view is that with a few exceptions, where there are banks that have some sort of niche strategy, basically the small banks are going to have to get good at delivering digital services because that's what the customers want. Exactly. And they're not going to do it by hiring Google engineers or whatever in most cases. These partnerships are really a huge solution, it seems to me.

Itai Damti: And we've seen some of our partner banks interestingly using Unit as a way to serve core customers, so they see how much power there is in these-

Jo Ann Barefoot: I was going to ask that, that's interesting.

Itai Damti: ... technology relationships. They ask themselves, "Well, what if we could serve the business next door with the same level of technology, the same level of

access and ease?" And some of them do choose to adopt this as their native digital solution that they use for their core customers.

Alex Acree:
Exactly. The difference there is just it's the bank's brand and they're the ones that are doing the marketing. But yeah, no, we're starting to see a lot of interest in that, and that's great for us. We are really happy to see that. I just wanted to build on one thing that Itai was saying. When I think about the compliance and oversight challenges and opportunities, as Itai was saying, there's a very broad set of things that banks need to do to get this right and their partners. I looked at the information security world for the analog here. In the Infosec space, you hear a lot about threat surface areas. This is fundamentally about how strong are your information security controls relative to the surface area for attack. I think the same analogy can be applied to other types of controls in thinking about what is the surface area for oversight and for compliance risk.

We do a lot of thinking at Unit about the actual nature and scale of the underlying risks in trying to build controls that are appropriate to those risks. When I think about the work that we're trying to do, I really think about it fundamentally as trying to shrink that surface area, not shrink it artificially by ignoring it. That's not the answer. But by building product and processes that hopefully make it easier for banks to do the necessary oversight.

Jo Ann Barefoot:
Let's talk a little bit about the regulatory environment. As we said, this is a fairly young type of business model. The regulators have had some concerns. They have a lot of policies and rules that apply. From a prudential standpoint, they want to be sure the bank is safe and sound. And from a consumer protection standpoint, they want to be sure that somebody who's dealing with a bank partner is protected as well as they would be if they were dealing with a regulated bank. What are your thoughts on where we are or where we're going with some of the regulatory challenges? Do you have any insights for the regulators on what you think they should keep in mind as we go forward?

Alex Acree:
I'll start. I would say first that I think that the regulatory focus in this area is a really good thing, by and large. By this I mean the relationship between banks and technology companies or companies, frankly, non-banks is an area that's changing. We are at a pivotal moment in the history of financial services here in the United States, and this is not easy. Having regulatory engagement, I think overall, is a really wonderful thing. And we certainly welcome that here at Unit. In terms of where it's going, I think we're at a stage right now where banks, technology companies, regulators, I think we're in a stage of learning throughout the sector, how exactly should existing third-party risk guidance be applied in the digital ecosystem? These are really important questions. I think there will continue to be wonderful success stories and there will likely continue to be bumps along the way, which is, I think, consistent with other kinds of new technology change that we saw in other areas in financial services in the past.

In terms of feedback or ideas, I think the main thing that I think about... I think about a few things, I guess. One is engagement. I think engagement between regulators, between companies that work with them as marketing partners, companies like ours that are bank service providers and provide infrastructure to banks, engagement with consumer groups, nonprofits, small business advocacy groups. I think we all need to engage more, not less on this stuff to help come up with the right answers. I think that would obviously go for regulators as well. They're such an important pivotal voice to have around the table. I think another area where I think there could be some great advantages would be around developing sets of best practices and knowledge sharing throughout the sector. I'd say a focus on the actual risks, like an analytical approach to thinking about the risk surface area that we talked about.

I think a last point would be around an openness to a shift from process to product in how we think about oversight here in financial services in the U.S. I think we've had, by and large, a fairly process focused approach to oversight. And as the technologies improve, my hope is that technology products can actually do a higher fidelity and faster and more efficient job of providing banks with the oversight that they need.

Jo Ann Barefoot: Say more about that because I know what you're saying, but I also talk with a lot of people who hear this narrative about trying to go to a product mindset and it doesn't connect with the way they think about things now. Can you say more about that?

Alex Acree: Yeah, absolutely. I think about it as in a sense, a variable versus fixed cost approach. What we've focused a lot on in compliance and oversight in the past is how many people do you have on this? Where are your variable costs? How's that scaling with the number of transactions? Who approved this? Did it go to the right people? Did that committee approve it? Did someone check that the committee approved it? Are you keeping all the proper records? It's a very process-focused model of oversight. But I think again, taking a step back and saying, okay, what exactly are the risks that we're trying to address here? Let's analyze those and figure out are they really important risks that we should be spending a lot of time to develop solutions for, or is the risk not that severe? I think for those that are important, we should move towards a fixed investment into those where products can potentially do more of the heavy lifting that in the past human beings and process needed to do.

That's how I think about it. It's certainly the mindset that we take here at Unit. I think in general, my view as a longtime fan of regulatory technology, and Jo Ann, I know you are as well, often called RegTech. I think we are at the golden age of RegTech right now. Again, as a former venture investor myself and looking at a lot of the new companies that are starting, for everything that Itai mentioned, there are new point solutions and new solutions being developed every day to help with that. Oh, a shipment problem, there's a great company that works on that, or a 1099 creation, great company that can help. So, we need to have an

ecosystem here. No one company is going to be able to do it all with their own proprietary technology, but if we work together, we can pull together, I think an excellent framework of really high functioning products that can help banks and regulators get better outcomes.

Itai Damti: That's great. It's hard to add to those things. I couldn't agree more. I'll try to give maybe a higher level summary from my side. I think that there are facts that I think we can all agree on, which is new surface areas open up when services are delivered through digital channels. There are financial crime questions that pop up when you had a branch in the past, they were much less relevant. You have consumer protection questions that when somebody walked into a branch, it was much less relevant. I think there's a shared understanding that surface areas are opening up. I hope there is a shared understanding that there is a benefit to the end user and that elevation of infrastructure and elevation of this access is really good news for end customers. I think we need to establish that as a starting point for the discussion alongside knowing about the risks, eyes wide open.

And then I think we need to continue to, as Alex said, educate. I think regulators would benefit from studying the landscape, even solutions that existed 20 or 10 years ago in the card issuing space or in the fraud space or in other types of point solutions. And then I think as Alex said, let's take an analytical approach to understanding the risks. Let's try to understand which areas are the most sensitive and potentially the riskiest, and let's try to think if there are solutions that can help minimize them. One example is we know how sensitive marketing is and you'd have risks, and we have-

Jo Ann Barefoot: Unfair and deceptive acts and practices for non-U.S. audience. Go ahead.

Itai Damti: Yes, just the fair and compliant marketing to end customers. And there are solutions out there that really enforce marketing guidelines and campaigns at scale that our partner banks are using, and it's great to see that. I think trying to understand which areas are the sensitive ones and which tools might be able to solve for them. Sometimes it's a simple thing, Alex said it not everything that's important has to be complex statements, again is a small example, but one that I like using because I think we all agree that the compliant generation of statements by a core system is a general good idea. That's something that our old cores do, and that's something that purpose-made new generation of cores should probably do as well. How do we take this big scary question of what opens up and try to break it into small components and try to give really high-quality point solutions to each area?

Jo Ann Barefoot: Let me invite you if you want to, I'm not trying to put you on the spot, to talk a little bit about where we're headed. If we were to imagine 2030 or something like that, five or ten-year time horizon maybe, how will the industry landscape look different because of the kinds of things that we're talking about? And nobody's going to check in retrospect.

Alex Acree: Do you want to go? I'll go first, yeah. I would start with one that I feel pretty confident in which is to say what may be viewed as novel today in terms of banks being able to access digital channels through partners will be commonplace. I think that banks, in order to tap the growing segments of our economy online, banks are going to need to make that kind of adaptation and evolution that we were talking about. I think we're still at that kind of learning and early adopter phase of that, but I think within 10 years or five years, I guess, there's going to be just widespread... It's going to be assumed that banks will be able to have digital partnerships and be able to access these digital channels. That's one.

Itai Damti: Two comments from my end. I'll start with the consumer expectations. This is something that has always fascinated me. When I was a kid in Israel in late '90s, I tried to buy things online and I asked my dad to give me his credit card because I didn't have one. And he was so scared of using his credit card online. You blink and it's 10 years from that point, and he's buying everything online with his cards. I think we sometimes take for granted the experiences in front of us as consumers. We forget just how fast expectations change. When instant money movement became a possibility in digital products, all of us changed our expectations. I think there's still three to five years of rapid increase in small business expectations from their financial services and consumer expectations. And I think the moves of Apple into financial services make it very clear that this landscape is about to change for the better, more quickly than we anticipate.

                              This is something that I have no doubt will play out in the next few years. I think the other angle is the bank partner angle. I lived in Israel and Hong Kong before I moved to the U.S. In both of these countries, the number of active banks is actually pretty small. Call it 10 to 15 in each place.

Jo Ann Barefoot: I think we're unique.

Itai Damti: The U.S. is extremely unique, extremely unique. And I came to really appreciate the critical and vital role that these banks play in their ecosystems and regions. And I learned what was the historic assumption around the distribution. We want to create more competition. We want to create more opportunity for innovation and service, and we also want to distribute power and allow smaller institutions to serve their local economies, and everyone benefited from it. I think there is an unfortunate decline in the number of community banks.

                              So, my prediction is that community banks are going to live up to the original expectation of being maybe focused on a specific group, but it used to be in the form of geographic focus. It used to be in the form of serving my neighborhood, my district, my city. I think in 10 or 20 years, it's going to be in the form of having a really solid business that serves construction companies nationwide. Because I'm working with 10 technology companies that have big construction software, and I help them offer financial services like financing and banking inside. I might be another bank that specializes in gig economy workers, and I might serve a

massive nationwide population. So, I think about the original purpose of community banks as targeted and specialized, and I think it's no longer going to be in the realm of geography. I think it's transitioning into the realm of maybe more specific groups of people and groups of businesses that need their specific needs met.

Jo Ann Barefoot: I asked you about insights to share with the regulators. Do you have any insights to share with banks? Any thoughts on if you were a bank executive today, what would you be thinking about as you face the future?

Itai Damti: I think one comment for me is that it is a time of elevated scrutiny to financial technology. And I think a lot of banks are doubting if this industry will live up to the expectations, and as a result, they might ask themselves, do we need to participate? Is this a viable business strategy? As Alex said, I believe we're at the inflection point of financial services in the U.S. and I believe that the future is bright. I think maybe a counter-intuitive advice is there's definitely a very, very large feature ecosystem in this space. And having the courage to be part of it and participate in it thoughtfully is a type of advice that I would encourage people to consider.

Alex Acree: Yeah, I would agree with that. As Itai said, we wouldn't be here if we didn't think the opportunity was great for the banks that we work with. We serve our bank partners, and we jointly serve our clients together. So, we think the opportunity, as Itai mentioned, is very bright, but I would encourage bank executives to, when they're thinking about this space, to have it be part of a coherent and well thought through strategy. I think what we're seeing here right now is that the opportunities are big, but there is potentially, depending on the current state of the bank, some form of organizational change that may be needed to accommodate the safe participation in the digital ecosystems. I think every year that goes by, it will become easier, but I think there will be real advantages to bank that are... To build that expertise earlier on versus being the mass adoption that I would expect to see as we get closer to that 2030 timeframe.

Jo Ann Barefoot: Is there anything we haven't talked about that we should?

Alex Acree: I think I'd be curious to ask you a question, Itai, I guess. One of the things that I've learned a lot from you has been about the emphasis on simplicity. And I was just wondering in the context of this conversation, if you might share that view on the emphasis on simplicity that you try to bring to this business. You and I, we talk a lot and we're like, "Geez, this is one of the most complex companies I've ever seen." And I've looked at thousands of fintech companies in my career. But I think fundamentally, I view our mission as one of simplifying critical things. I don't know if there's anything you'd like to share about your philosophy.

Itai Damti: We live in a complex ecosystem. I don't think we can dramatically change this, and we have to accommodate the complexity to thrive and to empower our partner banks. I think about our main job as simplifying and packaging simpler

products to the end users. One of the things we have in the company is we don't use acronyms. I actually use UDAP.

Jo Ann Barefoot: I think acronyms are such a plague in our space. It's like an insider language that people keep picking up.

Itai Damti: I think there's definitely gravity towards complexity in our space. This is something that you can think of as the curse of knowledge. The more time you spend in a space, the more immersed you are in the challenges and the status quo. Sometimes it's an advantage to be an outsider and try to re-envision spaces. Some of the really successful companies that have grown in financial services in the last decade were actually started by non-financial services people. The founders of Stripe, notably, were not coming from a financial background, but they thought they had an insight on how to simplify things. So, I think being someone that has built fintech for many years, I try to resist the tendency to complicate things, but at the same time, we have to honor the intense amount of complexity in our ecosystem, and we have to maybe contain it, but try to bring something simpler to the end user.

I think many companies have been doing it successfully. If you're a customer of Venmo or JP Morgan, you probably have a pretty simple relationship with your money. While these institutions have to work really hard to comply. If you use Apple products, you are really enjoying a radically simple ecosystem. But those companies, the Apple, had to master tremendously complex supply chains and hardware challenges as well as software challenges. I think being in this space, one of the challenges is how do you package something simple while, you know you operate in a very complex market?

Alex Acree: Thank you, Itai. I think from my perspective, I really think we are, as we talked about, at a historical crossroads or for financial services in the U.S. where fintech was this topic of curiosity and it was small, and it was a lot of experimentation that was going on. And now we're really starting to see the financial technology permeate the everyday lives of folks as they interact with their banking services digitally. I don't know, I think that's really one of the things that most excites me about the work we're doing here.

Jo Ann Barefoot: Where can people get more information about Unit?

Itai Damti: They can Google Unit or visit us at unit.co.

Jo Ann Barefoot: Good.

Itai Damti: And find us on LinkedIn as leaders.

Jo Ann Barefoot: Itai Damti and Alex Acree, I cannot thank you enough for being our guest today. I know I have found this conversation fascinating and enlightening, and I know the same is true for the audience, so thank you.

Alex Acree: Thank you so much, Jo Ann, for inviting us. We really appreciate it.

Itai Damti: Thank you, Jo Ann.