Barefoot Innovation Podcast with Darragh Buckley, CEO of Increase

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Jo Ann Barefoot: Today's show is going to fascinate everyone listening. My guest today is Darrragh Buckley, the CEO of Increase. Darrragh, thank you for joining me.

Darragh Buckley: Cheers. Thank you very much for having me today.

Jo Ann Barefoot: I'm really happy we are face to face here in Washington. D.C. on a beautiful spring day. You're in Washington for a few days, so we got a chance to sit down together. I really want to share with the audience, your perspective on what's happening with smaller banks and their technology challenges. But to start, tell us about yourself, and don't leave out the fact that you were employee number one at Stripe.

Darragh Buckley: Cheers. Thank you for calling me out on it. My banking journey began the 2010 timeline. That was early days Stripe, where we were trying to build on top of the existing financial infrastructure. It was a fascinating time to be exploring and building.

It was also interesting to see what data and capabilities were exposed by existing banking partners. A lot of the early stage of Stripe was built on top of Wells Fargo, and they were fantastic for helping us get up and running. It was fascinating to see what was exposed. Such that our machines could talk to their machines, and such that we could automate money movement and automate reconciliation, and what wasn't. Stripe thankfully, has been pretty successful and grown and helped a lot of folks.

My journey there ended about 2016, and took some time off after that before starting my current company, Increase. Increase aims to help folks expose all of the functionality of US-depository accounts by API. Programmatically, having your machines talk to my machines, in order to be able to spin up depository accounts. Be able to send and receive transfers, and be able to automate reconciliation and accounting. And expose all of the fun, little details that traverse the networks but usually aren't exposed.

It may not be appealing to everyone but to who it's appealing, it's pretty appealing. I imagine it's appealing to your audience. There's a lot of fun things that can be exposed within the financial networks. The stable identifiers that traverse the ACH network, the reconciliation identifiers. Everything that can help with programmatic accounting, reporting, reconciliation, and keeping your house tidy but in an automated way.

Jo Ann Barefoot: We're going to talk about Increase in a moment. Did you start at Stripe in... Did you know the Collison brothers? You're from Dublin originally, right?

Darragh Buckley: I'm from a small town called Limerick, and yes, they're also from Limerick, and in the spirit of Ireland, parents were friends, et cetera. We actually spend more time probably together when we were all at school in Boston than we did necessarily in Ireland, but that was also a fun journey.

Jo Ann Barefoot: It seems likely that you probably didn't realize at the time. That being employing-number one at Stripe was going to turn out to be something that people would be impressed with your whole life.

Darragh Buckley: It's a fun adventure, and I was happy to be part of it and to contribute a small bit.

Jo Ann Barefoot: You started talking about what you're doing, so tell us about Increase directly.

Darragh Buckley: Indeed. Increase works with banking partners but connects directly to the various underlying networks. We built what's known as our own core, so our own maintenance of transactions and balances, and connect directly to the various rails that underlie the US economy. Within the Federal Reserve, that's FedACH, Fedwire, Check 21. Within our card-issuing product that's connecting directly to Visa, various depository networks, and also some of the newer networks like the clearing houses and real-time payments.

Our users are, it's people who sit in seats in which I once sat. It's a lot of financial-technology companies looking to build on top of our APIs for their own products. Typically, that's things like payroll, business payments, consumer payments. Just a lot of money movement and money-storage services.

Jo Ann Barefoot: Did you say when you founded it?

Darragh Buckley: About 2019.

Jo Ann Barefoot: Okay. One thing that we haven't talked about yet, is you're also on the board of a bank.

Darragh Buckley: Indeed. Yes.

Jo Ann Barefoot: Tell us about that a little bit.

Darragh Buckley: Well, I'm very interested in the technology side of banking. That is obviously a very small component of banking. How the electrons and the dollars move, is important, but certainly no one calls that actually banking. One of the ways to help me grow there, was joining a bank board. It's been fascinating seeing the roles and responsibilities, and to learn from the other group or the others on the board, also.

Taking that oversight role very seriously and understanding what information should go to the board, what shouldn't. How that interacts with the regulator, but also interestingly, how that interacts with the underlying technology. Making it easier, such that a good-quality, management-information system, information surfaces to the board. The board is aware of all risks, improve risk and performance metrics. It's fascinating how that influences what code gets written and what technology gets built.

Jo Ann Barefoot: What's the asset size of the bank?

Darragh Buckley: It's a small Washington-state bank. About $110 million.

Jo Ann Barefoot: Yeah. Yeah. That really is an unusual combination, to be working in a tech infrastructure and core-type work, and at the same time having the perspective of the community bank. That's part of what you were bringing to this conversation.

Darragh Buckley: Indeed.

Jo Ann Barefoot: Is that fair to say?

Darragh Buckley: I think that the interesting part for me within banking, is how to build more reliable, more legible, more understandable compliance functionality. Know this is near and dear to your heart. It's interesting to me how, and of course as you're building any product, the interaction with the user and the feedback from what you're building is the actually important thing.

Especially these days when building software is so fast and quick, and the actual hard part is understanding whether or not you're building the correct thing. The easiest way to be trying to build the correct thing is to live the life of your user and who should be consuming it. Getting to see that perspective from the board, at the same time as writing the code to help with that, hopefully builds better product.

Jo Ann Barefoot: Keeping these two perspectives in mind and generally your experience, talk about the situation today of community banks. What are the challenges? What should we be worrying about because a lot of us are worrying about them? What are the main issues on their plate?

Darragh Buckley: This isn't going to come across as particularly insightful or anything else. But I think that it's hard being at a smaller-sized community bank is a difficult venture these days. To qualify smaller, it's just call it a billion dollars.

You're going to have to grow, and many of your traditional revenue lines are no longer your revenue lines. You may or may not appeal to consumers as much. Your auto loans probably went to credit unions. You're probably seeing more and more risk from even in the traditional small to medium-business space of great products and technology like Brex and Ramp putting cards in people's hands.

Similarly with things like Square and Stripe, the merchant-processing relationships have gone that direction. But also things that are closely aligned with the merchant-processing relationships, like working-capital loans and those being able to be repaid by payment-card proceeds.

There's a more and more narrow market to focus on, and you're left with the choices of how to grow. If you need to grow in size and there is lessons to concentrate on, you might be tempted to look at your potential growth avenues. One potential growth avenue is to be very competitive on rates, and that can be tough.

Another potential avenue, and this is the traditional differentiating point of community banks, is to differentiate yourself on service. I know and understand your business. I'm able to tie together the various product lines. Your business might have a different shape than perhaps a large bank is attracted to, but we know and understand that street and that business well. Of course, we would love to support you. Or you differentiate on product, and products can look like depository products or cards or something similar.

The accessible route to banks is probably somewhere within the first and the second. The first and the second being rates and service. I think things get exciting when you introduce how technology and product can help, and especially when you look at it as a growth factor for smaller financial institutions.

That's not easy though. Right? It's not a traditional core competence of smaller institutions. Traditionally, a lot of the technology product was outsourced to one of the cores. It gets hard to differentiate yourself when you're buying the same core as everyone else.

Jo Ann Barefoot: What do you do about that?

Darragh Buckley: Right? The fun nuggets to get to. I think that more technologists should get into banking, and I think that more bankers should get into technology. It's not the case that one knows all the details or anything else. It's the case that we both need to share more knowledge between us, and that we can build better product when we're both trying to understand each other's worlds.

I don't expect that's all actually controversial a statement. Right? Oh, it would be better if the engineers building the systems had read the details of the Bank Secrecy Act is not probably an overly insightful detail. Or wouldn't it be nice if we all completed our digital-transformation journey that have been talking about for the last 10 years? It's probably not going to get you invited to speaking at many national-banking conferences, but there are the reasons why we don't do that yet.

Banking is validly a trust-based network within the interaction between bank-management board and regulators. Entering a trust-based network, it's hard just because it requires developing that trust over years with others. Having more technologists join bank boards or more bank-board members or bank management be interested in the implementation of technology, I think, is where we'll actually get to lean somewhat more on that third-growth vector of differentiating based on product.

Jo Ann Barefoot: I think a lot of people agree with the concept, but feel like to actually get the skills under their own roof, they can't afford them. What did you say? You had an $142 million bank or so, isn't going to probably hire Google engineers itself, and they worry that the tech people will not be interested. There's a perception that banking, especially the compliance part of banking, is bureaucratic and boring and that type of thing.

Darragh Buckley: I think we know different engineers. Maybe I'm in a particular crowd, which has self-selected towards interest in what might be perceived as the boring minutiae. But certainly, there are many considerations for building software within a regulated environment.

To hit the easy one, there is a classification form that goes to the Federal Depository Insurance Corporation in advance of examination. Which helps to understand whether or not there is software being built and run internal to the four walls of the bank. That materially changes a perception of an institution as it should.

The bank's abilities to rely perhaps on, or industry standard, service-organization-control reports exists, but is somewhat limited and I think also validly. There are just different needs and expectations of regulators about the correctness and availability of data that traverses banking networks. All of these details are fun. All of these details are the kind that appeal to people who enjoy the click of the Lego blocks together. That satisfaction of being able to know and understand the system appeals to many.

Jo Ann Barefoot: Yeah. This is music to my ears. A lot of our listeners know how I feel about this. But there is this stereotype about traditional finance being too confining, too regulated to be interesting. The regulators have an even more acute version of that problem. People think of who would want to go to a regulatory agency that's going to be a big bureaucracy and so on.

The truth is, as you're saying, it's the opposite. These are really interesting problems, and tech people like interesting, hard problems. They're also important problems. They're worth working on. I agree with you. We should be optimists about getting the two sectors together more.

Darragh Buckley: I think there's another interesting dynamic that's even happened in, call it, the last 10 years. Which is technology tooling has just gotten so much better compared to when Stripe started. The infrastructure that's available and the things that can be assembled off the shelf, are so much more powerful, which means a single developer can do so much more. I think, certainly, I'm not advocating that a small-community bank with 25 people, 10 of them would be engineers or any such thing. I think there's a lot that smaller teams, engineers can do that they couldn't 10 years ago.

Jo Ann Barefoot: Do you think AI is going to make it even easier?

Darragh Buckley: I think it gets fascinating. Certainly, my day-to-day use of ChatGPT is more through one of the tools called Copilot, which helps write code faster. It's been revelatory to see how much more effective each individual engineer can be.

One of my potentially contentious point here, will be one of my favorite things about what ChatGPT does. Is because it's so good at generating verbosity, you take a single line and say, "Can you turn this single line of a policy into three paragraphs, please?" It hopefully will make us value verbosity less and clarity more.

Your Bank-Secrecy-Act procedures, which may have been 15, 20 pages. But truly an expert who is reading it, would differentiate down to the salient points of not amassing more than the page. It can just be a page now, and we can fill in the necessary nods and verbosity afterwards. I really hope that lead to us to value the true differentiating content more than the surrounding details.

Jo Ann Barefoot: I do too. I agree with you, it's too early to tell, but we can definitely hope there's new powers here, for sure. Let's go back and put ourselves in the shoes of the leader of a small bank. Who realizes that she or he needs a way to connect to tech services of all kinds, tech partners and vendors. You already talked a little bit about this, but what's in the way of doing that?

Darragh Buckley: Yes. Yeah. The federal regulators have done a fantastic job in the last two years, of adding clarity around third-party risk management. Before then, we're all reading between the tea leaves, of consent orders and what happened. We're still seeing many consent orders, but the third-party, risk-management guidelines were a fantastic clarifying element.

That's a lot to expect a smaller-community bank to do. That can be fair if it's a new service that you're unsure whether, or not this can provide the services in a safe, sound and fair manner. Giving banks of every size a path is very valuable.

An alternative structure, and this is actually novice to I think at least twice within third-party, risk-management guidelines, is to centralize some of that due diligence. You could imagine that one avenue of centralization is a private consortium, or executed it similar to the service-organization controls that have gone through accounting firms.

Another area of potential centralization would be directly with the regulator themselves. This already exists with particularly large-service providers. We see this, that the cores are independently assessed, and that assessment can be passed on to the bank. Certainly the bank's obligation to do the diligence on the core, but it's certainly nice when the federal regulator has poked around and told you where the sharp edges are and how to hold it.

I recognize there are all sorts of difficulties with appearing to endorse particular forms of technology. But centralizing the costs, as is not a two within the actual third-party, risk-management guidelines itself, I feel like, would be beneficial. It would allow more community banks to choose vendors, perhaps outside of the default three.

Jo Ann Barefoot: Let's put ourselves in the shoes of the regulators then. If they wanted to embark on that journey, do you have thoughts on where they should start? How far they should go? How should they go about it?

Darragh Buckley: Yeah. It gets interesting. Because some of these organizations can certainly be smaller than would traditionally have attracted the attention of the regulators and validly so. They're concentrating on much larger issues and the rest.

Also, how would you pay for it? It's the new 20-person company wanting to approach federal regulators to say, "Are we missing anything? Let's go through the Federal Financial Institutions Examination Council, information-technology guidelines. We think we have done everything. What have we missed? What should we fix up before we start selling through a bank?" I think there'd be many companies of that size and stature that would happily pay for it, just the same way that we already do for the service-organization control. I'm not saying that regulators always need a revenue stream attached to the thing they do, but let's solve that problem too.

Yeah. I think it also hopefully has a benefit for the regulator. Which is you see many of the things as they are growing and being put in place, as opposed to post hoc when something goes wrong. It's nice to have a point earlier in the cycle, where you can flag them heads up with this consumer-lending program. You very much should be in front of the Consumer Financial Protection Bureau, instead of waiting for something to go wrong.

Jo Ann Barefoot: Yeah. That's a great point. Would you worry though, about not just as you rightly say, "The regulators hesitate to seem to be endorsing and so on." Although as you say, "They already do some versions of this." I think there would be also a worry about, over time, favoring large companies not only entrenching incumbents but potentially entrenching older technology.

We don't want banks working with brand new, little companies that don't know what they're doing yet, obviously. But we do want to have a dynamic market, in which the incumbents' vendors feel like they need to keep on their game, because there's hungry people coming behind them who might have something better.

Darragh Buckley: Indeed. Yes. Yeah. I expect that what would need to happen here is it's not just a single-shot certification. Obviously, you have ongoing and would be new participants and new companies asking to get certified, very similar to what we already have with service-organization control too. Similar to what we already have even at the federal level with FedRAMP, for example. Yeah. The intention being very similar to FedRAMP. Where is there a way for us to make the ramp a little shallower for banks, especially smaller institutions to engage with new and different technology.

Jo Ann Barefoot: Anything else that is top of mind for you on this challenge?

Darragh Buckley: I guess I don't want to underestimate how large a lift, and difference this would be to a federal regulator. This is a different shape than they're used to. You're really going to go and deploy a two-week cycle while you're going to send the same information requests. All of those look very different than day-to-day examiners are used to.

Jo Ann Barefoot: Yeah, that's a very perceptive comment. It's a very difficult thing to do. Our listeners know I'm a former bank regulator. Well, it's more than a two-sided solution, but we need two-sided solutions in this. Where both the regulator and the bank are using different technology and evolving together, so that the regulator is asking for information in the form that the... You're not only talking about regulation. I mean you're talking about running the bank.

Darragh Buckley: Indeed. Yeah.

Jo Ann Barefoot: But there's the regulatory component, per se, that I feel like we sometimes are in a downward spiral between the tech and the bank and the tech of the regulator. Where neither party can move forward without the other one being ready to go, and we need to break that.

Darragh Buckley: Yeah. Maybe I'm unfairly biased by the recent developments that Federal Reserve have successfully executed within FedNow, and the Federal Reserve are executing within Fedwire for the 20-022 change. Yeah. We're just seeing productive federal services, and advancing technology, and would be nice if we could also keep up with that at the other side.

It's true that I'm not leading you astray on one topic though, in particular. Which is I'm not claiming that technology is like, "Oh, look at all the smoke and mirrors of technology." And all the risk goes away. I'm not trying to suggest any sort of, let's automate this all and try to wow and impress the examiners and maybe they'll go easy on us.

I, in fact, think the examiner should have the exact same role that they should currently have with respect to bank examinations. But perhaps there's things that we can do while we're building the products and the new services to make the examiners easy on the bankers themselves.

Jo Ann Barefoot: I agree with you, and I also agree with you that regulators actually are changing rapidly. I think we're seeing an accelerating curve there all over the world, really. Because we're living in a new era, digital technology, and now AI front and center in everyone's minds and everyone's changing. Certainly regulators are smart and they are very adaptable as well. I'm optimistic about it, but you're right, it won't be easy.

Bottom line, are you then optimistic for the community banks in the United States? As you know, we have an unusual structure. We've got about 4,000 banks and 5,000 credit unions that are small. They are trying to compete against big banks that have better technology, and against fintechs that have better technology. Do we think we can level that playing field?

Darragh Buckley: I think I would be hesitant to express bullish or bearishness on them, on the entire industry. I would say that the smaller banks that can pursue different products and technologies, in combination with their traditional strength of service, I'm excited about those.I think it would be hard, otherwise.

Jo Ann Barefoot: Good. Where can people get information about Increase?

Darragh Buckley: Indeed. Increase is Increase.com and hopefully pretty convenient. We're always around to help with any questions. As a caveat, if you go to Increase.com, it's pretty technology focused and that is our users and our clients. Don't be dissuaded but I promise we're friendly.

Jo Ann Barefoot: Wonderful. We will put more information in the show notes at RegulationInnovation.org. Darragh Buckley, thank you so much for joining me today. It's been fascinating.

Darragh Buckley: Thank you for having me.