



**Written Testimony of Michael Hiles, Founder & CEO of 10XTS, Inc.**

**Before the United States House of Representatives  
Committee on Small Business**

**Hearing on “Transparency in Small Business Lending”**

**September 9th, 2020**

**Preface**

Trust-enabling technologies like blockchain can now secure and automate financial records about identities, entities, assets, and transactions like lending and payments.

With a lifelong career of deploying technology solutions that help organizations work better together with automated, trusted information record networks, Michael Hiles is an advocate of using software and data to solve complex problems.

Cincinnati, Ohio, has a tremendous legacy of technology firsts. Recognized as the first independent software vendor in history, Cincom Systems<sup>1</sup>, is where Michael’s father worked in the 1970s and 80s, exposing him to early mainframe computers and software development as a child.

In 1976, the Cincinnati Stock Exchange was the first to adopt electronic trading, which has defined capital markets standards ever since.<sup>2</sup>

Then in 1977, Cincinnati-based Fifth Third Bank launched the first ATM funds transfer network, Jeanie. The Jeanie network was revolutionary as the first standardized electronic ATM (automated teller machine) network for moving money at the retail consumer level without requiring a physical branch location visit during operating hours for a human-powered process. That gave birth to the entire Electronic Funds Transfer (EFT) industry and ultimately how consumer banking entered the digital age at scale.

Michael’s remarks today will focus on 1) how the SBA is negatively impacted by the current tidal wave of disruption in the financial services industry; 2) why the legacy financial services industry is struggling with technology; 3) how the expectations of younger consumers are changing the nature of banking and ultimately the future of how small business borrowing will work; and 4) recommendations about how the Administration and Congress can facilitate digital transformation and operational efficiency and excellence.

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<sup>1</sup> <https://cincom.com>

<sup>2</sup> <https://www.investopedia.com/terms/c/cincinnati-stock-exchange.asp>

Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee,

Thank you for the invitation to testify at this hearing. My name is Michael Hiles, and I am the CEO of 10XTS, a Cincinnati-based fintech / regtech company building blockchain solutions for financial records.

The SBA’s admirable effort to rapidly mobilize financial stimulus through EIDL and PPP loans demonstrates how small business funding is clearly an essential lifeline to a thriving economy.<sup>3</sup> When American small business is unable to access capital, single moms, immigrants, and regular, ordinary people suffer.

The SBA has historically partnered with banks as the origination and servicing agents for lending programs. While this approach has generally allowed the SBA to serve a wider market, the Administration can only be as effective in delivering services and support as their partners.

Therein lurks the problem faced by the SBA.

The PPP program experienced significant delays in delivering financial relief to small businesses due to many bank’s inability to adjust business operations in an agile fashion, and fairly deliver funds in a diverse and inclusive way. We directly experienced these frustrations.

Legacy banks are already in the throes of compressive disruption. They are not in a position to quickly respond to rapid, disruptive changes in the market. The resulting permanent branch closures and downsizing has been an alarm bell for many.<sup>4</sup>

In 2018, Gartner published a report indicating that by 2030, 80 percent of traditional financial services firms will close, become commoditized, or exist formally but will not compete effectively in the market.<sup>5</sup>

With so many consolidations, banks have struggled to merge redundant, legacy IT systems. The largest banks are a hodgepodge of “too big to fail” technologies strung together with little to no standardization.

As a result, institutions are weighed down with inefficient, fragmented processes. Our hypothesis at 10XTS is that a bevy of problems are mostly based on how information, records, documents, and data are stored, managed, shared within, and between other organizations and customers. Trusted information is still mostly another human vouching for the authenticity of documents and data.

Facing increasing regulatory scrutiny, banks have been reluctant to drive innovation due to the inherent compliance risks. The financial services industry already spends more than \$270 billion per year in compliance and regulatory obligations.<sup>6</sup>

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<sup>3</sup> Office of Advocacy. (2019) *Small Businesses Generate 44 Percent Of U.S. Economic Activity*. Small Business Administration. <https://advocacy.sba.gov/2019/01/30/small-businesses-generate-44-percent-of-u-s-economic-activity/>

<sup>4</sup> McCaffrey, O. (2020) *People Aren’t Visiting Branches. Banks Are Wondering How Many They Actually Need*. Wall Street Journal <https://www.wsj.com/articles/people-arent-visiting-branches-banks-are-wondering-how-many-they-actually-need-11591531200>

<sup>5</sup> Gartner, Inc. (2018) *Digitalization Will Make Most Heritage Financial Firms Irrelevant*. <https://www.gartner.com/document/code/338356>

<sup>6</sup> Brock, Stuart. (2018) *The Cost of Compliance*. International Banker. <https://internationalbanker.com/technology/the-cost-of-compliance/>

Legacy systems limit simple automation and straight-through processing from the front end to the back office. Proprietary systems complicate the adoption and integration of emerging tech like blockchain, AI, robotic processing, and API-based microservices.

**In short, legacy information systems reduce a bank’s ability to innovate and improve value for their customers and partners.**

Meanwhile, there are now approximately 60 million Generation Z banking customers who control \$45 billion in annual spending. With the oldest of them nearing age 24, these young adults literally have no recollection of a life prior to the internet, social media, and mobile tech. Gen Z expects highly transactional services, placing more value upon convenience over traditional, branch-based, relationship-driven banking.<sup>7</sup>

In consideration of these and other things, I offer the following recommendations:

**1. Coordinate efforts with the U.S. Treasury and the Federal Reserve Bank in establishing a sandbox environment, and a decentralized, national network of financial records.**

Without a definitive path of its own, relying on the financial services industry to provide tech solutions means the SBA is at risk for future disenfranchisement of the growing market of digital-first business owners who rely upon tech solutions for fast, efficient business operation.

Similar to the early communications standards that became the internet and web, a collaborative approach to building a commercial lending and financial records network by the SBA, Treasury, tech companies, and banks could accelerate a more verdant, efficient, and trustworthy financial system.

Through collaboration, the SBA is in a position to establish new standards for financial document and information networks, data interoperability, robotic process automation, and exchange.

Firms that optimize customer data, robotic processes, and provide new solutions can offer timely and relevant support for the SBA’s programs. With data-driven and digital-only models, challenger firms are in a better position to adapt to rapid change and unforeseen circumstances.

**2. Leverage and improve upon Small Business Innovation Research (SBIR) programs to foster fintech and regtech innovation.**

The SBA has an opportunity to collaborate with technology companies to provide proof-of-concepts for the direct delivery of automated services. However, Federal contracting, grant, or regulatory policies can be quite prescriptive when it comes to defining technology solution requirements.

Instead, Congress should establish goals for the outcomes of innovation programs, and then strive to support businesses that offer effective, affordable technology solutions.

While contracting vehicles already exist, they can be prohibitive for small companies to pursue due to the amount of resources required. As we’ve seen with recent SBIR innovations with instant procurements and

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<sup>7</sup> Crosman, P., Din, S., Hernandez, W. (2020) *The banking tech trends that will dominate 2020*. American Banker. <https://www.americanbanker.com/list/the-banking-tech-trends-that-will-dominate-2020>

streamlined processes within the Air Force, tapping into a wider, national brain trust for innovation can be achieved through thoughtful improvements to the existing process.<sup>8</sup>

As we deliberate national small business, funding, banking, technology, and even monetary policies, Congress should invest in these opportunities, accelerate them where possible, and ensure the financial and regulatory standards and technology of the future continue to be led by American ingenuity and resolve.

Thank you again for inviting me to testify, and I look forward to addressing each of your individual questions.

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<sup>8</sup> McCulloch, A. (2019) *Instant Contracts*. Air Force Magazine. <https://www.airforcemag.com/article/instant-contracts/>