# Going Out West To Explore Fintech

by Steve Brown

There is a western joke that goes "A cowboy rides into town and shoots an artist." The sheriff asks him, "Why did you do that?" The cowboy answers, "I thought he was going to draw." Now you know why we are bankers and not comedians, but hopefully you enjoyed this bit of humor.

The growing importance of financial technology (fintech) in banking has given rise to partnerships between banks and fintech firms. While these firms can deliver some slick new services, some are lightly capitalized, may largely ignore banking regulations, are brand new companies without a track record or may change their product faster than you can follow. Regulatory scrutiny here runs high, so community bankers should exercise care when exploring these products.

That does not mean you have to avoid such firms, it just means because you are a bank and they are not, that you will have to make absolutely sure you have covered all of your bases. Regulators give little quarter to banks that move into new products or services without doing a proper risk, vendor, model, cyber and counterparty review to name just a few.

Bankers have been closely monitoring things in fintech for some time, because many seem to be focused on disintermediating banks, while others are too murky to know perhaps. The rise of fintech solutions in areas like small business and consumer lending has been swift. In response, the OCC launched an Office of Innovation last October and soon after that, they decided to begin offering charters to fintech companies. The move opens the door for fintech companies to move into banking and perhaps allows banks an easier long-term way to work with such companies. After all, a common regulatory standard could level out the risk-reward equation and ensure everyone adheres to the banking rules and regulations.

The question at this point is whether these new standards and regulations will complicate life for fintech companies beyond their limits. However, by offering a federal stamp of approval to qualifying fintech firms, the new rules may help all banks to see these companies as potential partners (or as clear competitors). Who knows, but the future here is interesting.

Some fintech partnerships can be quite beneficial to both sides. Consider research by Deloitte on the subject. They found achieving the right balance between the fintech profile of higher risk tolerance and more unpredictable investors, with the more stable profile of a bank can produce benefits. Mobile payments, big data and streamlined lending are all areas where this mix seems to work fairly well together.

To better understand the fintech landscape, bankers sometimes may feel like they are drinking form a fire hose. After all, there are an estimated 12,000 fintech companies vs. only 6,000 banks. That means banks are outnumbered 2 to 1, so keeping up can be quite difficult indeed. To get going, attending industry forums and events may be a good place to start. Given there are so many fintech companies, there are also over 40 conferences already scheduled globally this year, so there is plenty to choose from.

Of course, dabbling in the fintech arena only makes sense if your team also understands and properly addresses all of the potential regulations you may encounter here. The rules are the rules and the regulators are pretty clear they will closely look at documentation around all new services, so be thorough and bring in experts to assist as needed, to avoid issues later.

For its part, the OCC is breaking new ground with these national fintech charters and will most likely move slowly to ensure there are no missteps. However, knowing these charters are now available should be a sign that fintech firms can no longer be ignored. The good news for community bankers interested in partnering with fintechs is that once this all gets settled, firms with these new charters must now follow the same standards and rules you do so they should be a more stable partner.

Until then, understand fintech in some ways still mirrors the Wild West, so strap on your gun and load it up with silver bullets, just in case you have to use it. Yee-Haw.

# BANK NEWS

**Rate Hikes**

Marketplace commentary from multiple Fed officials in the past few days (Kaplan, Williams and Dudley) suggests a Mar rate hike is possible. As such, the markets have built in about an 80% chance of that occurring at this point.

**M&A Activity**

1) Iberiabank ($21.6B, LA) will acquire Sabadell United Bank ($5.8B, FL) for about $1.03B in cash (78%) and stock (22%).

**Online Lending**

Consumer lending platform Prosper has landed a deal to sell up to $5B of loans to a group of investment companies over the next 2Ys. Given strain on the sector, however, the deal comes with strings attached that let the group buy up to 35% of the company if they buy the full $5B in loans.

**Healthcare**

The Department of Health and Human Services reports the 10% of Americans who are the sickest account for 64% of all health care costs in the country.

**Millennial Insight**

Jennifer Mueller, University of San Diego professor focusing on creative change, said in an interview with Wharton that she has found out some interesting things about millennials. She indicates that while people expect this cohort to embrace creativity, that the opposite is true. Further, she finds this group is only about as good as any other generation in generating original ideas. Finally, her research finds that they have a more difficult time elaborating on those ideas. Interesting, no?