



## Balancing Fintech Partnerships & Regulatory Compliance

regulatory fintechs

**Summary:** The number of partnerships between financial institutions and fintechs is increasing with technologies advancing and competition intensifying. Community financial institutions interested in these partnerships may be keen to hear from their peers. So, we give you two successful examples along with the regulatory lay of the land.

It is believed that the Olmecs (living in what is known as Mexico now) were the first people that consumed chocolate in 1900 BC. They drank their chocolate from round jars called tecomates. Little did they know that this substance would be blended with whipped cream, coffee, and ice into Frappuccinos some 4K Ys later! They probably wouldn't have a clue how to keep up with their tecomates!

For community financial institutions (CFIs) trying to keep up with digital technologies and innovation, fintech partnerships and mergers are often the way to proceed. Yet, the shifting fintech arena makes staying competitive without straying outside the lines of regulatory guidance a bit tricky, particularly as regulators also try to adapt guidance to reflect evolving fintech usage.

We show how two CFIs are successfully balancing fintech partnerships with regulatory compliance to stay ahead in the market.

### CFIs & fintech partnerships

**In NJ.** A larger \$13B-asset CFI in NJ is making an assertive move into fintech through M&A and partnerships. In April, it inked two partnership deals, one with a real-time payments fintech and another with an online financial health service for consumers to underserved communities. As the CEO said in their press release, *"This natural partnership will help Americans reach and realize their potential, as they both build and gain access to credit while saving for the future."*

The institution has taken several other actions that it says are designed to make it a cross between a traditional bank and a technology company. In June, it purchased a data and risk analytics firm to help manage lending risk and started a venture capital arm to invest in fintech startups. This CFI intends to continue making strategic tech purchases and partnerships, particularly in payments, lending, and fintech. Still, this institution continues to provide traditional banking services and in April opened a new branch in Brooklyn, NY. The CFI stresses its commitment to compliance on its website, *"We understand the complex, ever-shifting regulatory environment of global banking, and view the Compliance Framework under which we operate as a benefit and protective umbrella for our customers, employees and shareholders."*

**In FL.** Another peer, \$7.7B-asset CFI in FL, advanced its wealth management business in May 2021 by partnering with a digital wealth management firm. The institution invested \$2.5MM to provide digital robo-advising to clients as an alternative to personal wealth advisors. In the same month, it partnered with a digital lending platform that provides the institution with new automated business lending capability to speed up and ease the loan process.

## Regulatory scrutiny

Regulators are aware that the digital revolution in banking presents new challenges for compliance. Since transparency is imperative to properly determine compliance, CFIs need to make sure they understand the elements of their digital solutions, in order to stand up to regulatory scrutiny.

**The Office of the Comptroller of the Currency (OCC).** The OCC has already set up an [Office of Innovation](#) to support what it terms “responsible innovation.” The OCC offers a Responsible Innovation Framework as well as guidance to financial institutions seeking to use innovative methods. But regulatory issues around fintech are far from settled. It is imperative to stay on top of continuing guidance in this area.

**The Federal Reserve.** The Board of Governors of the Federal Reserve System has a website specifically providing resources for “stakeholders interested in engaging with the System on innovation-related matters.” Specific FRB agencies are providing additional information on innovation and compliance for financial institutions and fintech partners too. For instance, the [FRB SF has a fintech web page](#) that includes relevant podcasts and fintech-related events. Also, the [Philadelphia FRB hosted a virtual fireside chat](#) on innovation in June 2021 to provide relevant information to the financial industry. Informing and educating fintechs and their partners is an important element of regulatory compliance.

The challenge for CFIs is that financial innovation is moving much faster than regulation. For many institutions, the way to stay competitive is through mergers and partnerships with fintech, then using available best practices to maintain compliance and manage risk. All the while, closely monitoring the latest moves by regulators on financial innovation. It’s a tough act, but a necessary one in the era of financial innovation.

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## ECONOMY & RATES

Rates As Of: 09/15/2021 06:06AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.04	0.00	-0.05
6M	0.05	-0.01	-0.04
1Y	0.07	0.00	-0.03
2Y	0.22	0.01	0.10
5Y	0.80	0.03	0.44
10Y	1.29	-0.02	0.37
30Y	1.85	-0.09	0.20
FF Market	FF Disc	IORR	
0.08	0.25	0.00	
SOFR	Prime	OBER	
0.05	3.25	0.07	

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