



Digital-Only Spin-Offs For CFIs?

business customers fintechs digital banking

Summary: As big banks JPMorgan Chase and BBVA pulled the plug on their “digital-only” brands, Finn and Simple, you would think community financial institutions would stay away from this endeavor. Yet, a peer in MA recently launched its own “digital-only” brand. Is this something for other community financial institutions to consider? Here are some of the advantages for your consideration.

In the world of television, a spinoff show can sometimes become more successful than the original one. (i.e., Frasier from Cheers and NCIS from JAG). Similarly, as an increasing number of financial institutions (FIs) launch their own “digital-only” brands or neobanks, there is great interest whether these can meet or possibly exceed the success of the main FIs.

For a while now, large banks around the globe have been spinning out their “digital-only” brands, aimed at wooing the more online- and mobile-friendly customer. In recent years, several large US FIs have taken this leap as well — like JPMorgan Chase, Citizens Financial, and BBVA/PNC. However, this is an area where bigger is not always better. While these banks were the first to create digital-centric satellites, they also have become high-profile failures. Cases in point: The shuttering of Chase’s Finn and BBVA’s Simple.

Believe it or not, community financial institutions (CFIs) may have an opportunity to succeed where bigger competitors have stumbled. One MA-based CFI with \$5B in assets decided to give it a try and launched its digital-only brand in July 2021. While it is still in the early days, there are already rumblings of other CFIs following suit. With that raised interest in mind, here are three advantages that CFIs have over their larger competitors in spinning off a neobank.

Three advantages for CFI neobanks

More nimble and responsive. It’s often said that it’s easier to turn a small boat than a big ship. That has proven true for CFIs. CFIs have fewer layers of bureaucracy to cut through and typically a less complicated backend — both of which can be big hindrances to larger financial institutions trying to spin-off an independent digital institution, while maintaining a connection to the main FI. As a CFI is working out the kinks of a new digital-only brand presence, it will be easier and faster to make the changes necessary to save time and money.

More engaged and trusted by customers. With some younger and digital-savvy bank customers still wary of large banks after the effects from the Great Recession, CFIs have a better chance of connecting with those new customers. Many small business customers believe that CFIs are eager to work with them and accommodate their needs, which is expected to translate into digital features. Nearly [four out of five of all SMBs that have worked with a CFI said they were “satisfied”](#) with their experience (79%), compared to just 66% of those working with large banks, according to the Fed’s Small Business Credit survey.

More promising partnerships with fintechs. The [number of US financial technology startups jumped 52%](#) between 2019 and 2020, which means more opportunities for CFIs to partner with more fintechs. Since CFIs

will need technology development for their digital-only spawn, they will need to rely on fintechs. These partners provide, not only the range and caliber of digital services expected, but also speed to market. For fintechs, especially those in the early stages, working with a CFI (as opposed to a larger FI partner) gives them a lot more freedom to innovate, work within a more well-defined market, and with less bureaucracy, and a faster-time-to-market. In short, the [CFI-fintech partnership](#) is beneficial for both parties, which is more likely to lead to success.

Still, a digital-only brand is definitely not a decision to make lightly. The costs can be high, regulatory scrutiny is intense, and security considerations will need to be extensive. We will be watching to see how the MA-based CFI fares with its digital-only spin-off and if other CFIs follow suit.

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ECONOMY & RATES

Rates As Of: 09/20/2021 05:57AM (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	0.23	0.02	0.11
5Y	0.83	0.06	0.47
10Y	1.32	0.01	0.40
30Y	1.85	-0.08	0.21
FF Market	FF Disc	IOER	IORR
0.08	0.25		0.15
SOFR	Prime	QBER	QBR
0.05	3.25		0.07

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