Partnering with Neobanks — Yes or No?

branch strategies strategic planning

Summary: CFIs can grow loans, deposits and non-interest income through partnerships with neobanks. It's a potentially smart partnership, but one that CFIs should consider carefully before cementing. We give you some ideas to consider before deciding to partner with a neobank and how to increase the chances that this new relationship will thrive.

What are some classic combinations that instantly come to mind?

Milk and cookies. Peas and carrots. Peanut butter and jelly. Abbott and Costello. George Burns and Gracie Allen. Edgar Bergen and Charlie McCarthy. Now, how about community financial institutions (CFIs) and neobanks?

Neobanks need bank partners, and CFIs can grow loans, deposits and non-interest income through these partnerships. It's seemingly a combination as natural as milk and cookies.

But not every CFI is a good candidate for a partnership with neobanks. Before looking for a match, it's important to think over the issues that can make or break the partnership.

What's a neobank, anyway?

Neobanks are fully digital alternatives to traditional banks. They're a similar to digital banks, but entirely virtual and with technological nimbleness at the heart of their business model.

They employ artificial intelligence to keep costs down, while offering customers personalized financial services. Furthermore – and one of the reasons that makes them a lucrative consideration – they're able to invent new features and launch new partnerships in response to evolving customer needs faster than most traditional financial institutions can.

Neobanks are multiplying as they target an often underserved market of small- and medium-sized businesses, plus retail customers that are comfortable with digital platforms. By 2026, the global neobanking market will be worth an estimated $333.4B, a compound annual growth rate of just over 47%.

Why consider a partnership?

Despite their name, neobanks aren't actually banks, in that they don't typically have a bank charter. They rely on partnerships with chartered financial institutions, paying for banking platform access, compliance validation and monitoring solutions. If the neobank offers debit or credit cards, it splits interchange income with the CFI. Though this may not be clear to the end customer, the CFI partner is the true holder of the neobank's deposits and loans.

The CFI's customers also get access to the neobank's technological innovations, while the CFI improves its ability to integrate with third-party service providers.

It's a potentially smart partnership, but one that CFIs should consider carefully before cementing. To succeed in this pairing, you should examine your institution's core values, management style and other aspects to see if this type of partnership will work. Here are a few elements you should consider:

• **Commitment to innovation.** A general commitment to innovation isn't enough. To thrive in partnership with a neobank, a CFI should have a clear idea of the gains it hopes to realize through the technological innovation that a neobank can supply. You might begin by identifying areas where you'd like to see greater efficiency, then take a detailed look at the fintech companies that offer technologically innovative services in those areas.

Be as detailed and specific as possible about your goals. For instance, maybe you identify P2P movement as a place where a neobank might improve your efficiency. Depending on your priorities, you might care most about customer adoption, transaction speed, real-time settlement, or the ability to import a mobile payment request into your existing ACH process. Choose a neobank partner that can offer what you want most.

• **Priorities and objectives.** Most CFIs are happiest in partnerships where priorities and objectives align. Look at whether a potential neobank partner has a similar business model, strategies and risk profile. You'll also want mutual agreement around adhering to banking regulations, meeting customer service expectations and directly accessing senior leadership to work out any problems quickly.

• **Approach to connectivity.** To perform well, neobank offerings need to integrate well with existing CFI infrastructure, rather than creating an island of technology that limits the CFI's ability to analyze data or offer a coherent customer experience. Plan for an end-to-end integration that avoids silos.
By considering these factors before choosing a neobank partner, CFI's can greatly increase the chances that this new relationship will thrive.

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ECONOMY & RATES

Rates As Of: 07/14/2022 05:48AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	2.39	0.67	2.33
6M	2.96	0.45	2.77
1Y	3.24	0.46	2.86
2Y	3.23	0.27	2.49
5Y	3.10	0.06	1.83
10Y	2.96	-0.05	1.45
30Y	3.11	-0.07	1.21

FF Market	FF Disc	IORB
1.58	1.75	1.65
SOFR	**Prime**	**OBFR**
1.53	4.75	1.57