

NY-based Stash is one of few neobanks to build its own core banking system

Article

The news: NY-based neobank **Stash** this week introduced **Stash Core**, its proprietary core banking platform, [per](#) a press release.

How does it work? Stash, with \$3 billion in assets under management and 2 million customers, now has [full control](#) over its core banking operations.

- The new core allows it to manage the ledger for every one of its customer accounts.
- The neobank can also now more easily support and launch new products without needing to conform to standard core systems offered by other providers.
- While the upfront costs of developing the core were steep, Stash can benefit from lower back-end costs and reduced risk through decreased reliance on a third-party core provider.

US Banks' Core Systems Technology Spending, by Bank Asset Size, July 2021

% of bank's technology budget



Source: Bank Director, "2021 Technology Survey" sponsored by CDW, Aug 31, 2021

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Stash also has updated its stock-back debit Mastercard, which allows customers to earn shares in companies they're buying from, and it has entered into new partnerships with **Mastercard** as well as with **Stride Bank**, which provides banking services; **Marqeta**, which powers the banking platform; and **Mambu**, which supports the Stash Core ledger.

Why it's worth watching: Only a few neobanks have built their own core banking platform, like **Current** and **One**. Many rely on core services from fintechs like **FIS**, **Fiserv**, and **Jack Henry**. But partnerships with fintechs are now drawing increased scrutiny,

- Earlier this month, the Office of the Comptroller of the Currency (OCC) ordered Virginia-based **Blue Ridge Bank** to better monitor its fintech partnerships and better manage the risks they impose to customers.
- Also in September, OCC Acting Comptroller Michael Hsu warned that the loosely regulated fintech sector is introducing systematic risk into the banking industry, and that risk could escalate into a major problem or even a financial crisis.

The more operations that a neobank can control, the less it exposes itself to third-party risk.

Core banking on the cloud: One notable detail went missing from the press release: Was Stash Core developed using cloud technology? Mambu, which is powering the ledger, is a

cloud-first partner, and many of the connections to Stash Core are made through APIs, but it's unclear where Stash Core itself is housed. Stash could have missed out on a [big opportunity](#).

- **82% of respondents to an Accenture [study](#) on core banking cloud migration said they plan to move more than half of their mainframe workload to the cloud.**
- The study also reported that motivators for moving off the mainframe include greater speed and agility (according to 43% of respondents), improved security (41%), and new capabilities that enable them to grow revenue (37%). **Seventy-three percent expect an internal rate of return of up to 15%.**

Strategy for Growing Digital Competition According to Banking Executives Worldwide, Jan 2022

% of respondents



Source: Economist Impact, "Threat Assessment 2022: Digital Competition in Finance" commissioned by WSO2, May 11, 2022

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Our take: Less reliance on fintech partners and reduced exposure to third-party risk could also spare Stash from increased levels of regulatory scrutiny. And though it's not clear whether Stash Core lives in the cloud, the core banking platform will provide value if Stash decides to seek a buyer if it runs into trouble (less than 5% of neobanks are able to [break even](#)). [Newly launched](#) or recently formed neobanks with strong tech resources could take a page from Stash's playbook and differentiate themselves with a proprietary core banking platform.

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