JUN 09

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# Financial regulatory agencies release an arguably incomplete but finalized guide to fintech partnerships

Article

**The news:** The Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, and the Office of the Comptroller of the Currency (OCC) released **a joint report that provides banks with guidance when partnering with fintechs and other third-party providers**, per American Banker.

**What does it say?** It instructs banks on how to assess a partnership's risks, and describes what sufficient risk monitoring looks like throughout the duration of the relationship.

- Banks must develop risk management procedures that cover the risks that third-party partnerships might bring to the organization.
- These should include conducting due diligence, specifying rules and responsibilities between the two parties, and creating a clear plan for terminating the relationship, if necessary.
- Because banks are responsible for risk assessment of the partnership, they're on the hook for determining if the scope of the partnership aligns with the bank's capabilities to detect and monitor relevant risks.

The report finalizes a draft the financial agencies first put forward two years ago. This version considered feedback from over 80 sources, including trade organizations, banks, and fintechs.

**Will it be enough?** Though it incorporates input from industry participants, some still think the report is lacking.

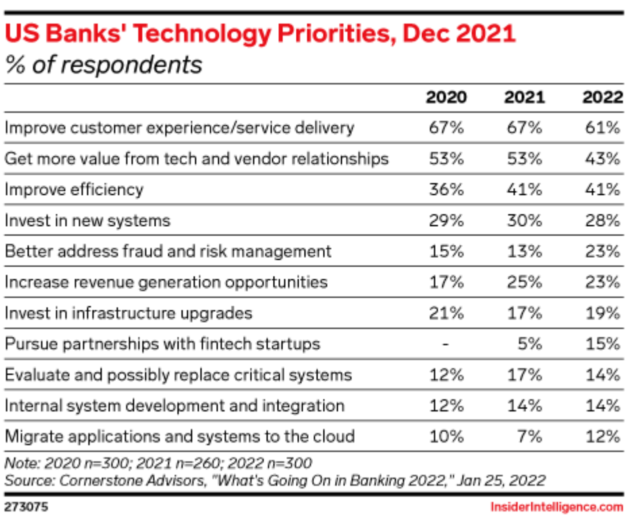
- Fed Governor Michelle Bowman criticized it for not considering the budget and size constraints smaller financial institutions (FIs) face. She argues the one-size-fits-all guidance doesn't properly help these FIs tailor their risk management strategies.
- Rebeca Romero Rainey, head of the Independent Community Bankers of America, echoed Gov. Bowman's statements and cited a 2021 comment the organization wrote in response to the agencies' original proposal.

Many small FIs depend on third-party partnerships to offer the most up-to-date solutions to their customers quickly and cost effectively. The relevant regulatory agencies said they plan to provide additional resources to assist smaller FIs with developing a risk management plan, but didn't give a timeline for when those resources would become available.

**What does this mean for banks?** The guidance makes it clear that banks are responsible for analyzing the potential risks a fintech partnership could bring to their organization. This could give banks an upper hand over how fintechs operate—if a fintech is too risky, no banks will choose to work with it.

With the onus on them, banks must be diligent in choosing their fintech partners. The right partnerships could make a big difference in their ability to attract and retain customers.

- Many consumers are looking to their FI to provide personalized advice, guidance, and tools to help them weather the economic downturn. Many fintechs have well-developed budgeting tools and other solutions that banks can tap into to offer to their customers.
- In return for those tools, consumers—especially younger generations—are more willing to share their personal financial data. Banks can use that data to better inform their product development strategies and bring on additional customers that will be more likely to stay for the long run.



**US Banks' Technology Priorities, Dec 2021**
*% of respondents*

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| Improve customer experience/service delivery | 67% | 67% | 61% |
| Get more value from tech and vendor relationships | 53% | 53% | 43% |
| Improve efficiency | 36% | 41% | 41% |
| Invest in new systems | 29% | 30% | 28% |
| Better address fraud and risk management | 15% | 13% | 23% |
| Increase revenue generation opportunities | 17% | 25% | 23% |
| Invest in infrastructure upgrades | 21% | 17% | 19% |
| Pursue partnerships with fintech startups | - | 5% | 15% |
| Evaluate and possibly replace critical systems | 12% | 17% | 14% |
| Internal system development and integration | 12% | 14% | 14% |
| Migrate applications and systems to the cloud | 10% | 7% | 12% |

*Note: 2020 n=300; 2021 n=260; 2022 n=300*
*Source: Cornerstone Advisors, "What's Going On in Banking 2022," Jan 25, 2022*
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