NOV 18

Jenna McNamee

Increased revenues, low valuations, and regulatory approval: Bank-fintech partnerships have a moment

Article

The news: With the US Treasury's approval of banking and fintech partnerships, banks are in a prime position to scoop up fintechs at bargain prices.

Approvals, but with warnings: The US Treasury issued a report this week assessing the impact of non-bank entrants on competition in the consumer financial markets. **The report reached a number of positive conclusions** about the massive growth of fintech firms over the past few years, **but also cited some complexities and risks**.

- Though the large number of new and innovative fintechs to the market are **adding complexity, they're also diversifying** the consumer financial markets.
- It's becoming tougher to measure competition within consumer financial markets, but fintech entrants are undoubtedly contributing to healthy competitive pressure.
- New non-bank entrants are improving the delivery of financial services to more consumers than ever, but some may be putting consumers and the markets at risk through regulatory arbitrage.
- Big Tech entering the financial markets could improve competition, but these firms' access to consumer data could raise concerns that warrant deeper review.

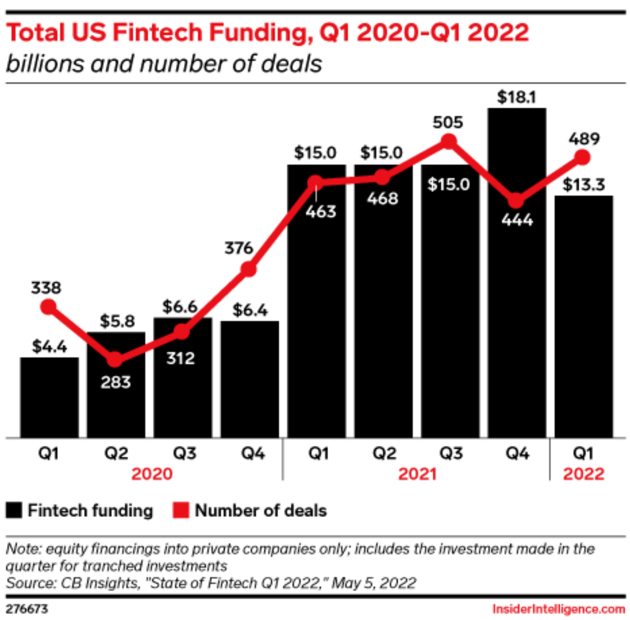
The Treasury report ultimately advocated for fintechs and banks to work together in responsibly conducted partnerships for the benefit of consumers. Its conclusion supports the Office of the Comptroller of the Currency's (OCC) vow earlier this year to step up scrutiny of bank-fintech partnerships.

Recommendations for regulators: The report also called for regulatory authorities to work together to improve oversight over bank-fintech relationships, and provided some recommendations.

- The Treasury suggested that **federal banking regulators enact a clear and consistently implemented supervisory framework** that reviews how bank-fintech relationships affect competition, consumer protection, and the safety and soundness of the financial markets.
- It also recommended that **banking regulators and the Consumer Financial Protection Bureau (CFPB) create a unified approach to the oversight of consumer-authorized data sharing**.

Bargain buys: Regulators have reached a consensus that fintechs increase competition and provide more diverse options for consumers. Banks have a green light to capitalize on current economic conditions by continuing to partner with fintechs—or better yet, outright purchasing them.

- Plunging fintech valuations and dried-up funding have made it tough for fintech leaders to run their businesses. **In 2022, fintech valuations have plummeted 70%, according to Jefferies.**
- Rising interest rates have boosted bank revenues. Banks looking to implement new digital banking technology and diversify their product offerings can cash in on lower valuations to quickly implement changes. **Acquiring a fintech is also likely easier than pursuing bank mergers,** which have been stalled this year by increased regulatory scrutiny.



What's in favor, and what's not: Not all fintechs, however, are takeover targets. Banks are favoring some over others.

- Payments fintechs and cloud-based technology are in high demand. **JPMorgan** recently made a deal with **Renovite Technologies**, a cloud-based payments fintech. And Ohio-based **Huntington Bancshares**' CEO said the bank was interested in payments acquisitions.
- Crypto fintechs have fallen out of favor as the crypto market crashed countless times in 2022. And buy now, pay later (BNPL) providers appear less attractive lately due to their potentially risky lending portfolios and a threat of possible regulation.

Our take: Banks that were previously unable to snag a fintech in 2021 due to their rich valuations now have an opportunity to pounce, with some assistance from boosted revenues. Banks should take stock of which of their current tech capabilities and product offerings could benefit from supplementing and help them better weather the economic downturn.

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

273075 InsiderIntelligence.com

*This article originally appeared in Insider Intelligence's **Banking Innovation Briefing**—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? Click here to subscribe.*
- *Want to learn more about how you can benefit from our expert analysis? Click here.*