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Fed official calls for the inclusion of fintechs in bank merger competitive analysis

Article

The news: A Fed official suggested updates to big bank merger rules to account for increasing competition from fintechs, per Market Watch.

What are the updates? Fed Governor Michelle Bowman called some of the rules regarding big bank mergers "outdated" and said that the Federal Reserve Board should consider updating them to reflect the impact fintechs now have on the banking industry. The merger rules were last updated in 1995.

- Specifically, Bowman called out the Herfindahl-Hirschman Index thresholds to determine market competitiveness.
- To do this, the Fed uses the Herfindahl-Hirschman Index to look at the concentration of bank branches that would result after the merger.
- But this analysis excludes fintech companies, which compete through alternative channels. This analysis gap allows fintechs to proliferate while hindering banks from making strategic merger decisions.

Bank mergers on the brain: Bank mergers have been a popular conversation topic this year. Nearly all bank merger deals since 2003 have been approved, which led the Biden administration to slow down the reviews and look at overhauling the approval process.

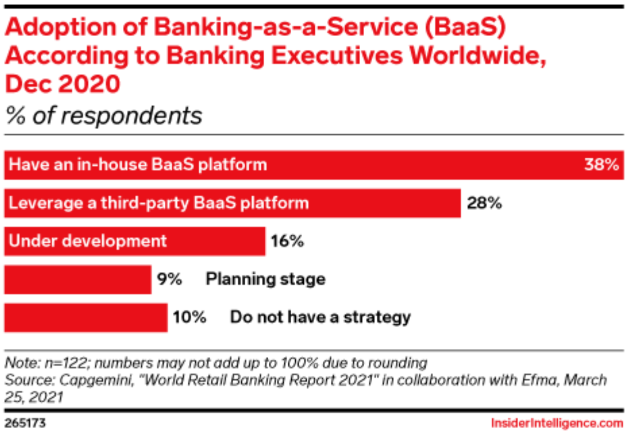
- Acting Federal Deposit Insurance Corp (FDIC) Chairman Martin Gruenberg said **the agency is reviewing its process for evaluating bank mergers for the first time in 25 years**.
- The Justice Department (DOJ) and the Federal Trade Commission (FTC) are conducting a joint inquiry to combat illegal mergers, while the DOJ's antitrust division also requested public comment on bank mergers last winter.
- Additionally, The Federal Reserve, Office of the Comptroller of the Currency (OCC), and the FDIC have collaborated on a proposed update of the Community Reinvestment Act (CRA). But their move to modernize the act noticeably leaves out fintechs and nonbank entities.

A new landscape emerging: Digitalization, consumer tastes and preferences, and new entrants have significantly changed the banking landscape over the past decade. Consumers have more options for meeting their financial needs than ever. That sometimes results in their interacting with multiple companies, rather than relying on a single bank for everything.

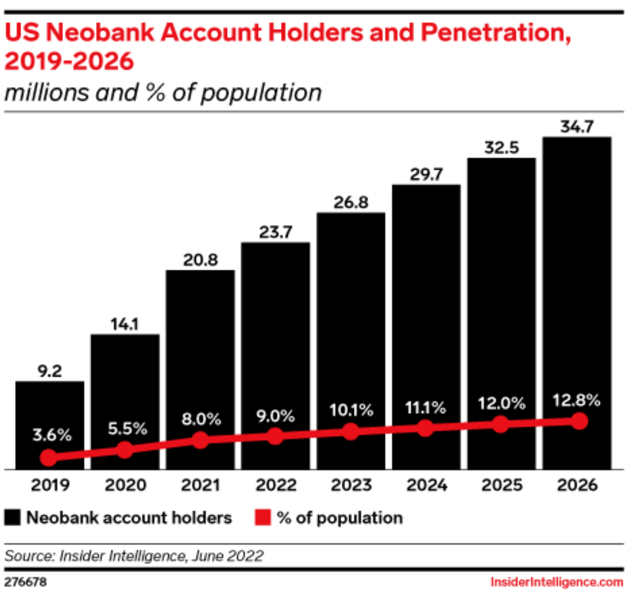
- **Neobanks:** At the beginning of 2022, approximately 400 neobanks served nearly one billion customers worldwide.
- **Fintech lenders:** Nonbank lenders now dominate the mortgage space. **Rocket Mortgage** originated more than 1.2 million loans worth $340 billion in 2021. The closest bank to Rocket

Mortgage was **Wells Fargo**, which originated 376,000 loans worth $159 billion last year.

- **Banking as a service (BaaS) providers:** The fintech ecosystem is demanding that banks open up to sharing consumer data to better enable open banking capabilities. These capabilities are powered largely by BaaS providers. The US BaaS market will top $25 billion in annual revenues in 2026, according to Cornerstone Advisors estimates.



Our take: The proliferation of fintech and nonbank entrants within the banking space has increased competition and prompted calls for tighter regulation of these entities. As US watchdogs modernize their rules and review processes, they must ensure they truly reflect a financial services environment that's brimming with fintech and nonbank competitors.



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