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Bank-fintech partnerships require extensive due diligence: Here’s where to start

Article

The news: For banks, any list of best practices when partnering with a fintech contains “conduct due diligence.” But few lists actually tell banks what due diligence really comprises.

Here, we highlight what to look at when conducting due diligence, per Forbes.

Why is due diligence important? Partnering with a fintech offers many benefits: They help banks speed up their digital transformations, cut costs, diversify their customer base—the list goes on. But choosing the right partner takes work, and the wrong move could cause big problems.

- A fintech partnership will likely change the risk profile of any bank. There are many types of risk a bank should consider when partnering: operational, regulatory, liquidity, market, credit, and reputational.
- Recent events, like **JPMorgan's** partnership with fintech **Frank**, reveal that failure to conduct thorough due diligence could end up being an embarrassing and costly mistake.

So, what diligence is due?

- **Make sure the fintech can do what it says:** Ensure it can perform the desired services while maintaining proper risk controls. Also check that the partnership will add value to the bank's brand and reputation.
- **Confirm the data:** Don't be afraid to speak with references. Confirm the fintech's user base exists, and ask the firm's other partners if they are happy with the fintech's performance.
- **Don't stop at the beginning:** The facts that were verified at the start of the relationship need to hold true for the duration of the partnership. Address any concerns early, like slips in service level agreements or data breaches. This will prevent revenue hits, added costs, and wasted time.
- **Use your risk management programs and teams:** Following established risk management processes to review risks around the fintech partnership can give banks a full-picture analysis. It's also important to establish a unified implementation plan—and even an exit plan if the relationship doesn't work out.

What questions should a bank start with?

- Will partnering with a fintech benefit the bank, or will it require an unnecessary investment in staff and compliance controls that could be better used toward proprietary offering development?

- Does the fintech have its own risk management program, and is that team willing to cooperate with the bank's risk team?
- Have other banks or financial institutions partnered with this fintech? If so, have they renewed their contracts or expanded their relationship to include additional features over time?

The bottom line: Banks shouldn't take the due diligence process lightly. **Many factors can throw due diligence off the rails, like competitive threats, budget constraints, and a desire to decrease an offering's time-to-market.** Having a plan before starting can help everyone stay level-headed throughout the process.

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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