

Does a banking license equal digital trust?

Article

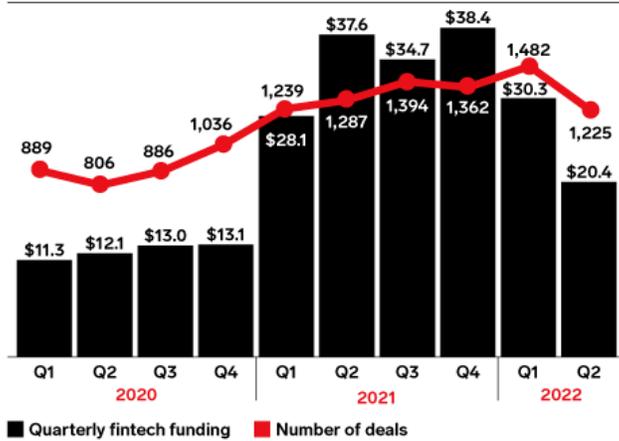
What we've been thinking: Digital trust is delicate, especially when it comes to personal and financial information. Building and maintaining trust is vital for customer retention. But it's becoming even more important for neobanks and fintechs. Our 2022 report [US Neobank Digital Trust](#) highlights why:

- Fintech funding, which fell 32.7% in Q2 2022 from the previous quarter, will cause fintechs to raise fees, eliminate incentives, and cut features to tighten their budgets. They'll rely on trust more than price to keep their customers on board.

- Increasingly sly cyber attacks will cause neobanks and fintechs to double down on cyber security. When shown a variety of security features, neobank users were more than twice as likely as incumbent bank users to say none of the features would make them feel more secure when using digital banking.

Quarterly Fintech Funding Worldwide, Q1 2020-Q2 2022

billions and number of deals



Note: fintech covers subcategories of banking, lending, payments, wealth management, insurance, and capital markets; equity financings into private companies only; includes the investment made in the quarter for tranching investments
 Source: CB Insights, "State of Fintech Q2 2022," July 19, 2022

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We see a trend of neobanks and fintechs leaning on a banking license to earn—or rather buy—that trust. Here we look at three different digital players’ pursuit of a banking license.

Why get a license? Earlier this week, Delaware-based **The Bancorp Bank** announced that it obtained a national bank charter from the Office of the Comptroller of the Currency (OCC). The fintech company has been providing banking and lending services to nonbank entities for more than 20 years.

In the [press release](#) about the new license, CEO Damian Kozlowski expressed satisfaction with having a new regulatory partner, the OCC, and emphasized safe and sound innovation of banking services.

With fraud running rampant, traditional and nontraditional asset markets behaving erratically, and loose fintech regulations creating risk for consumers, The Bancorp Bank felt **obtaining a banking license would reinforce its dedication to regulatory compliance and consumer protection.**

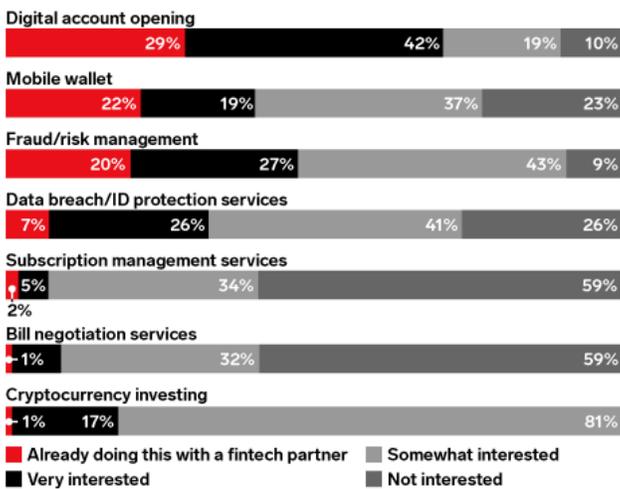
Is a license worth it? In an [interview](#) with TechCrunch this week, **Varo's** CEO Colin Walsh detailed all of the work and costs that went along with getting a banking license. Varo became the [first](#) nationally chartered digital bank in 2020, and Walsh said it was “100% worth it.”

- Walsh said a banking license allowed Varo to offer lower-priced products and services to consumers. Varo says its main mission is helping those with less money gain opportunities in the financial world, like building and accessing credit.
- The banking license also gave Varo greater control over its regulatory compliance. Because Varo doesn't need to partner with a bank to offer its services, it doesn't open itself up to third-party risk.

Varo's primary reasons for obtaining a banking license revolved around **good customer service and customer protection—which builds trust with consumers.**

Level of Interest in Fintech Partnerships According to US Bank Executives, Dec 2020

% of respondents in each group



Note: n=260; numbers may not add up to 100% due to rounding
Source: Cornerstone Advisors, "What's Going On in Banking 2021," Jan 26, 2021

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What if you can't get a license? **Revolut's** ongoing battle for a banking license shows the complexity of this process. After applying for a UK banking license in January 2021, the digital challenger is still trying to [prove](#) itself to regulators. Areas of concern include the neobank's dealings in cryptocurrency and its risk controls around anti-money laundering. Its quest is unlikely to be helped by this week's news that Revolut was the victim of a [cyber attack](#) which revealed the data of over 50,000 users.

- It's believed the hacker gained access to data such as full name, email address, payment card data, and account data through social engineering
- Revolut stated that hackers failed to access card details, PINs, passwords, and customer funds.

Though the breach surely did not bolster customer trust, it's unlikely a banking license would have prevented the attack. But a license paired with protections like FDIC insurance could, however, provide customers with some peace of mind.

Can trust be bought? A banking license could also bring some intangible perks as well as its obvious functional benefits. But what really draws consumers to a particular financial institution? And what keeps them there? The answer likely doesn't lie with a banking license.

- The average consumer may not even know if their financial institution holds a banking charter. For a tangential example, when **Coinbase** [disclosed](#) that investors could lose all of their money because the assets were not FDIC-insured, many customers panicked over a routine disclosure that was nothing out of the ordinary.
- Inertia could be why some customers stay with a financial institution. In the US, **77% of adults have not moved their primary account to a new bank in the past five years**, [according](#) to CivicScience. Inaction is also the reason why employers implement [automatic enrollment](#) into retirement plans, knowing many employees won't opt out.

*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.*

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