

Chime to stop calling itself a 'bank' to settle legal action

Article

US-based neobank Chime will no longer refer to itself as a bank after it agreed to a [settlement](#) with the California Department of Financial Protection and Innovation. The regulator took action against the US neobank in 2020 because it doesn't have a state banking license. The settlement calls for Chime to add clarifications about its operations to its website and

advertising by May 15. Moving forward, Chime will state that it is a fintech and that it partners with outside banks to provide its offerings.

Some of the neobank's licensed competitors argue that their licensing helps bolster their reputations, which would also come with the ability to offer deposit products without needing to partner—or share revenues—with a sponsor bank. Green Dot CEO Dan Henry [said](#) in an earnings call that its ability to market itself as a “bank” means that it is a “legitimate financial institution,” while Varo CEO Colin Walsh [said](#) having a charter allows it to build trust with consumers.

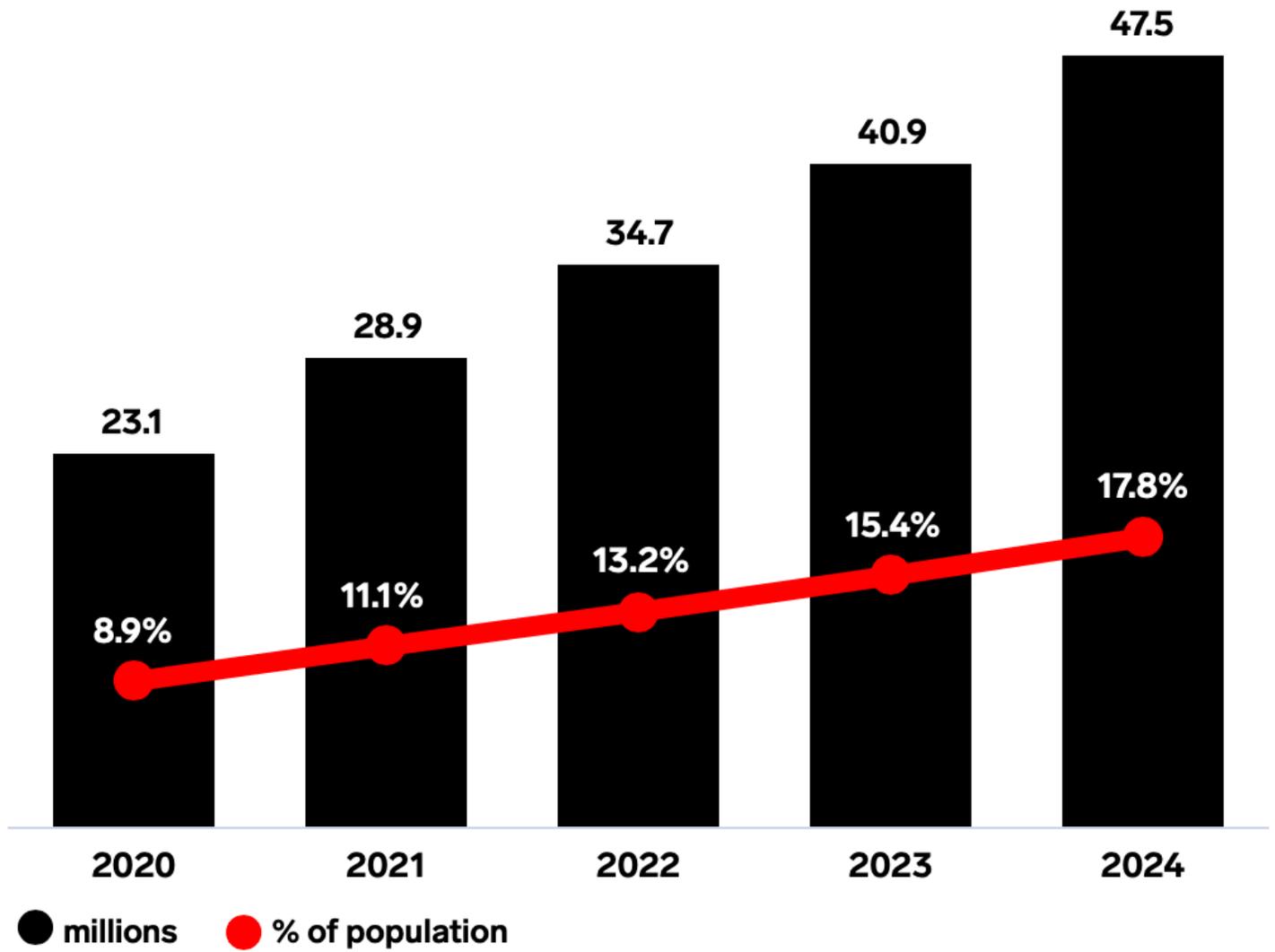
Several banking challengers have recently obtained charters as they have expanded, taking different paths to get there.

- **OCC charters:** Varo was the first neobank to [get](#) a national charter when it won Office of the Comptroller of the Currency (OCC) approval last August. However, the process [was](#) long and costly for Varo, taking three years and \$100 million due to capital requirements.
- **Industrial banking licenses:** Square, which offers payments services to small and medium-sized businesses (SMBs), [got](#) approval for an industrial banking charter in March 2020 and launched a small business bank a year later. Having a bank allows Square to collect deposits from its SMB customers, giving the fintech access to affordable funds that it can later lend out to SMBs.
- **M&A:** In March, US-based alt lender SoFi [agreed](#) to pay \$22 million for Golden Pacific Bancorp Inc., a community bank headquartered in California. The deal gives SoFi a banking license as it [plans](#) to go public. SoFi got its charter through the M&A route after trying two slower paths: a 2017 [attempt](#) to get an industrial banking license in Utah—which it pulled—and a preliminary [approval](#) for a national charter that it got last October from the OCC.

Chime's settlement may prompt more neobanks to look closer at getting charters as a trust-building move. For challengers willing to invest the time and capital, the ability to legally call themselves “banks” in marketing could help increase trust with prospective and current customers. This is a lucrative benefit, given that there is greater customer satisfaction among digital banking users with above-average digital trust in their banks than among those with below-average levels, Insider Intelligence [found](#) in a survey of US digital banking users, along with more frequent usage of online and mobile services. A greater proportion of customers with above-average digital trust levels also say they would open their next account with their current bank.

Digital-Only Bank Account Holders and Penetration

US, 2020-2024



Source: eMarketer, June 2020

eMarketer | InsiderIntelligence.com