



THE STATE OF THE UNION IN

Bank-Fintech Partnerships

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COMMISSIONED BY



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EXECUTIVE SUMMARY

Bank-fintech partnerships have taken the banking industry by storm. Most banks and credit unions now consider fintech partnerships to be crucial to their future success. But what kind of partnerships are we talking about? And what drives the success of these partnerships? This study from Cornerstone Advisors, based on a survey of 290 U.S.-based senior bank and credit union executives and interviews with execs with experience with fintech partnerships, finds that:

- **Bank-fintech partnership activity is heating up.** Nearly two-thirds of banks and credit unions entered into at least one fintech partnership over the past three years, and 35% made an investment in a fintech. Of those that haven't partnered or invested, 37% plan to partner in 2022, and 18% expect to make an investment in a fintech in 2022.
- **Fintech partnerships may be falling short of financial institutions' (FIs) objectives.** Few FIs report that their partnership efforts have produced significant gains in loan volume or productivity, or in driving revenue from new products and services.
- **Technology integration is a big challenge for bank-fintech partnerships.** Integrating with the core and ancillary systems is the biggest hurdle, while many FIs cite digital banking platform integration and lack of application programming interface (API) experience as major challenges.

Successful fintech partnerships require financial institutions to develop new approaches to 1) organizational structures, 2) new product development and deployment, and 3) integration.

INTRODUCTION

According to Scott Woepke, the former global head of financial services strategy at Acxiom:

“[Bank-fintech] partnerships are not just an emerging trend. They are a new core competency for financial institutions. As partnerships continue to grow in number and evolve in structure, including fintechs, big techs, co-brands and others, collaboration with marketing, sales and customer service becomes critical.”¹

The importance of this statement can't be overstated: Bank-fintech partnerships have evolved from technology experiments—what Alloy Labs CEO Jason Henricks likes to call the “fintech petting zoo” where financial institutions pilot meaningless projects with fintechs to impress the board of directors—to become critical components of financial institutions' growth strategies.

For many mid-size banks and credit unions, fintech partnerships are becoming the primary form of innovation for those institutions. According to a report from the Federal Reserve titled *Community Bank Access to Innovation through Partnerships*:

“Community banks are increasingly partnering with third-party financial technology companies (fintechs) to access innovation. Under the right circumstances and with the appropriate guardrails, partnerships with fintechs can provide community banks with this access, enabling them to better serve their customers and deploy innovations that may be too costly to develop independently.”²

The Federal Reserve study identified three types of bank-fintech partnerships:

- 1. Operational technology partnerships.** In these partnerships, a bank deploys third-party technology to its own processes or infrastructure to improve efficiency and effectiveness.
- 2. Customer-oriented partnerships.** In this type of partnership, a bank partners with a fintech to enhance various customer-facing aspects of its business, and the bank continues to interact directly with its customers.
- 3. Front-end fintech partnerships.** These partnerships combine a bank's infrastructure with technology developed by a fintech, with the fintech interacting directly with the end-customer in the delivery of banking products and services.

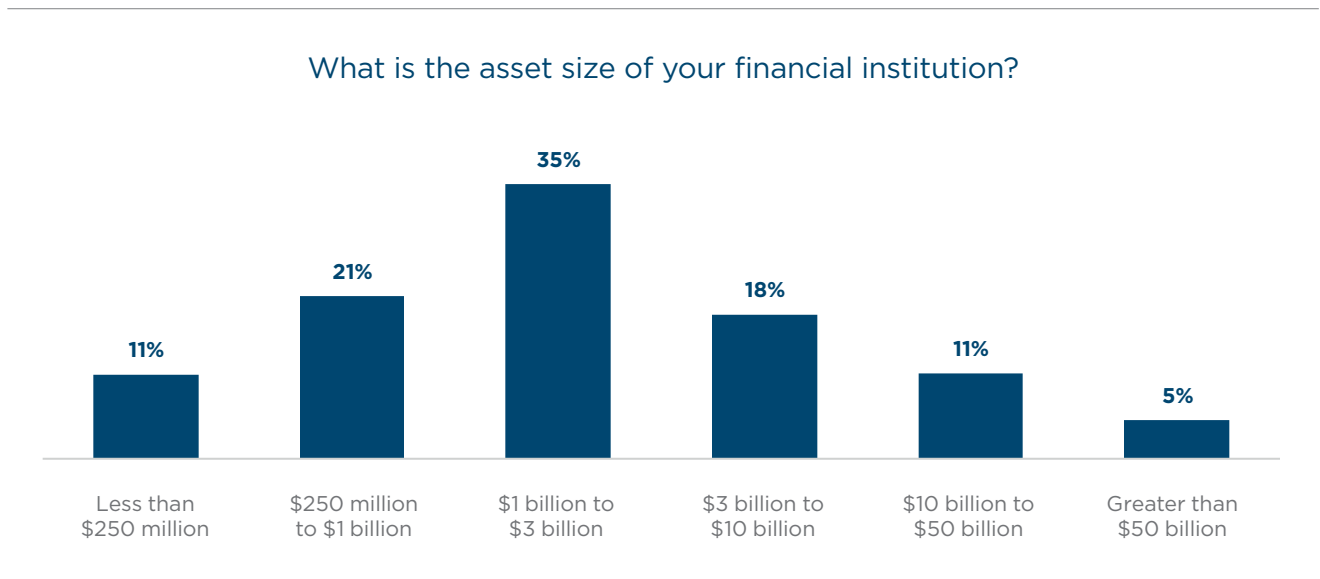
ABOUT THE REPORT

This report intends to take these definitions and identify the state of the union in bank-fintech partnerships—how active are financial institutions in fintech partnerships, banks' objectives for fintech partnerships, the business impact of partnerships, how FIs staff for partnering, and FIs' future plans for fintech partnerships. The report concludes with recommendations for successful partnerships.

ABOUT THE DATA

In September 2021, Cornerstone Advisors surveyed 290 U.S.-based senior bank and credit union executives to understand their institutions' experiences and plans regarding fintech partnerships. Among the respondents, 58% were from banks, 42% from credit unions. Roughly one in five respondents was from an institution with assets between \$250 million and \$1 billion, 35% were from institutions with \$1 billion to \$3 billion in assets, and almost one in five was from an institution with \$3 billion to \$10 billion in assets (Figure 1).

FIGURE 1: Asset Distribution of Survey Respondents

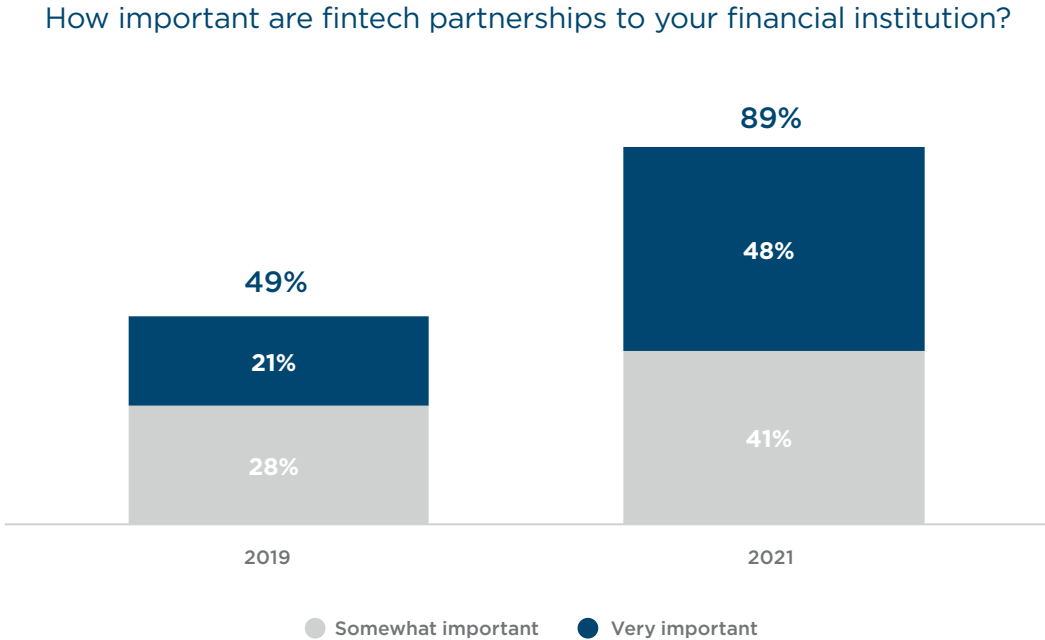


Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

BANK-FINTECH PARTNERSHIPS

There's no question that bank-fintech partnerships are top-of-mind for many bank and credit union executives today. When Cornerstone surveyed executives back in 2019, only about one in five said fintech partnerships were very important aspects of their overall business strategy. Today, nearly half rate partnerships as very important, and roughly four in 10 say they're somewhat important (Figure 2).

FIGURE 2: Importance of Bank-Fintech Partnerships



Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

Furthermore, 44% of credit unions and a quarter of banks see fintech partnerships as a strong driver of growth for the next few years. Just 4% of credit union executives, and 16% of bank execs, don't see partnerships as a driver of growth (Figure 3).

FIGURE 3: Partnerships as a Driver of Growth

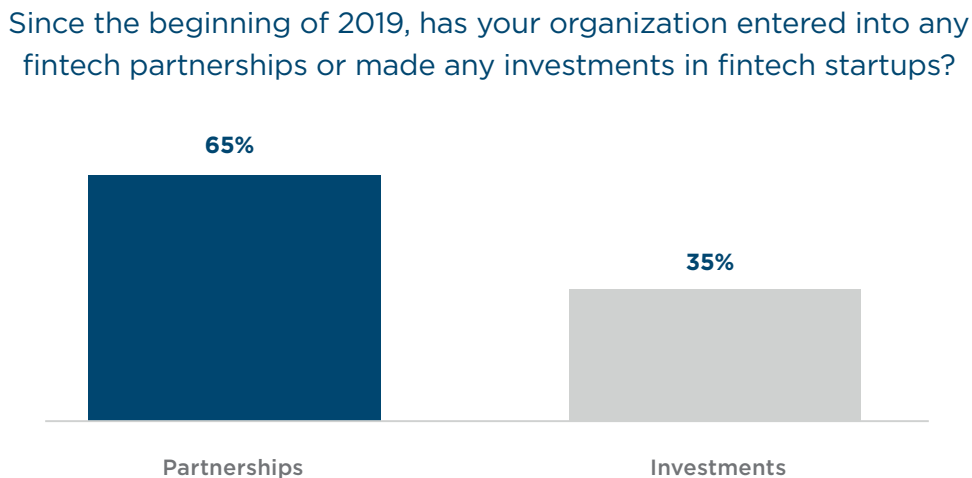


Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

FINTECH PARTNERSHIP ACTIVITY

Overall, 65% of banks and credit unions entered into at least one fintech partnership over the past three years, and 35% made an investment in a fintech (Figure 4). Of those that haven't partnered or invested, 37% plan to partner in 2022, and 18% expect to make an investment in a fintech in 2022 (Figure 5).

FIGURE 4: Bank-Fintech Partnership and Investment Involvement



Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

FIGURE 5: Bank-Fintech Partnership and Investment Plans

If you haven't entered into any fintech partnerships or made any investments in fintech startups, do you plan to in 2022?

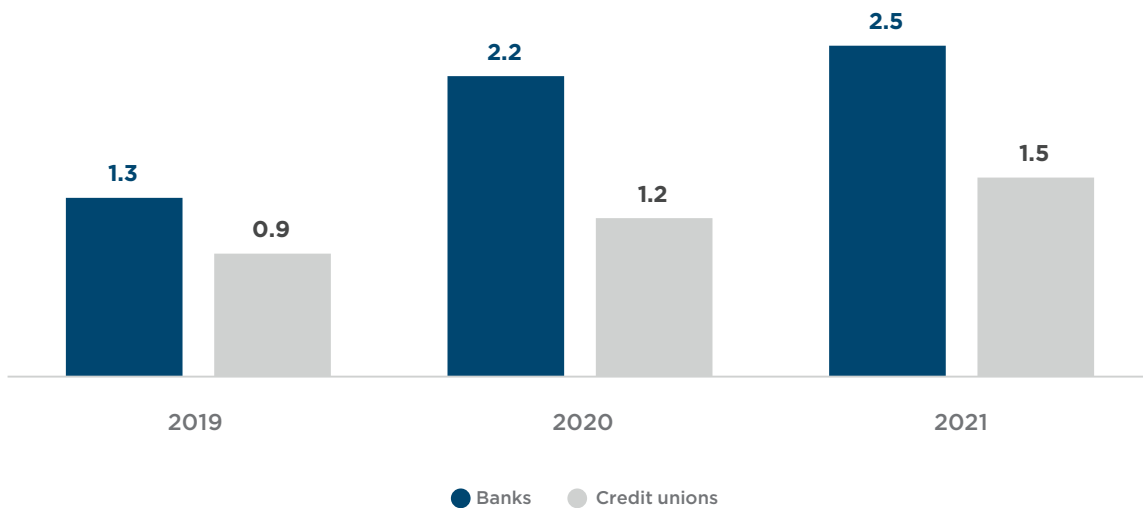


Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

Fintech partnership activity has increased over the past three years, particularly among banks. In 2019, banks that partnered with fintechs averaged 1.3 partnerships per institution. That number grew to 2.5 partnerships in 2021 (Figure 6).

FIGURE 6: Number of Fintech Partnerships per Institution

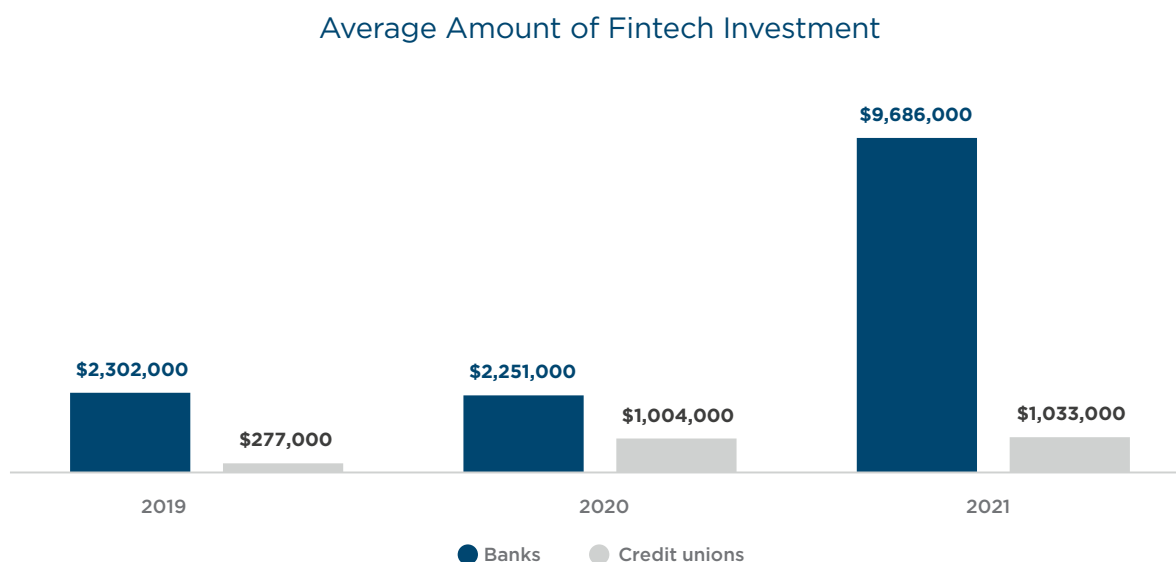
Average Number of Fintech Partnerships per Year



Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

For the institutions that have invested in fintechs, the average investment has increased over the past three years, as well—again, particularly among banks. Banks’ average investment in fintech has grown from \$2.3 million in 2019 to nearly \$10 million in 2021 (Figure 7).

FIGURE 7: Financial Institutions’ Investment in Fintechs



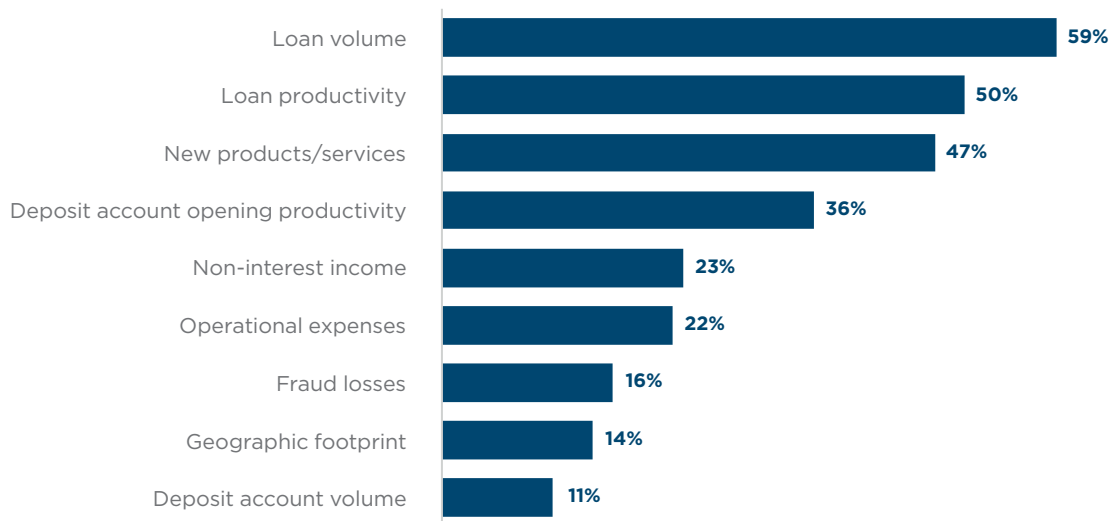
Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

FINTECH PARTNERSHIP OBJECTIVES AND IMPACT

Why do financial institutions partner with fintechs? Increasing loan volume and loan productivity are the most frequently cited objectives. Not far behind, however, is developing new products and services, mentioned by nearly half of respondents (Figure 8). This is a big change from 2019, when we found that just 32% of financial institutions said new product development was a fintech partnership objective.³

FIGURE 8: Fintech Partnership Objectives

What are your organization's most important fintech partnership objectives?

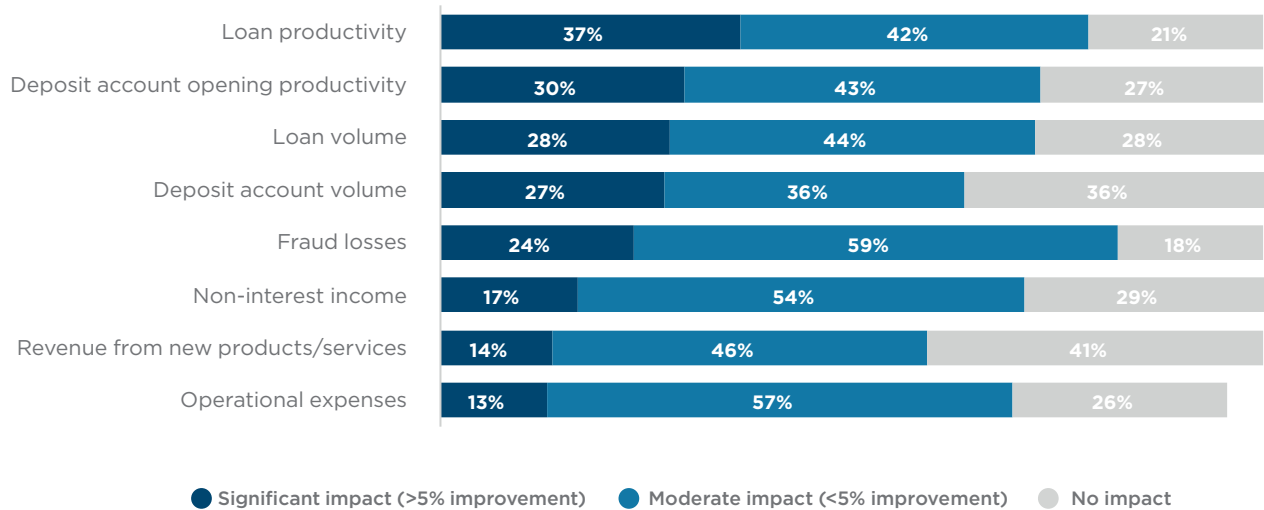


Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

Fintech partnerships may be falling short of financial institutions' objectives, however. Just 28% of survey respondents said partnerships have helped increase loan volume by more than 5%. And only 14% said they've seen at least a 5% gain in revenue from new products and services from their fintech partnerships. The strongest gains have come in loan productivity, where 37% of FIs have seen a significant impact from partnerships, and in deposit account opening productivity, where 30% of FIs have realized strong improvement (Figure 9).

FIGURE 9: Fintech Partnership Impact on Business Metrics

To what extent have your fintech partnerships impacted the following metrics?

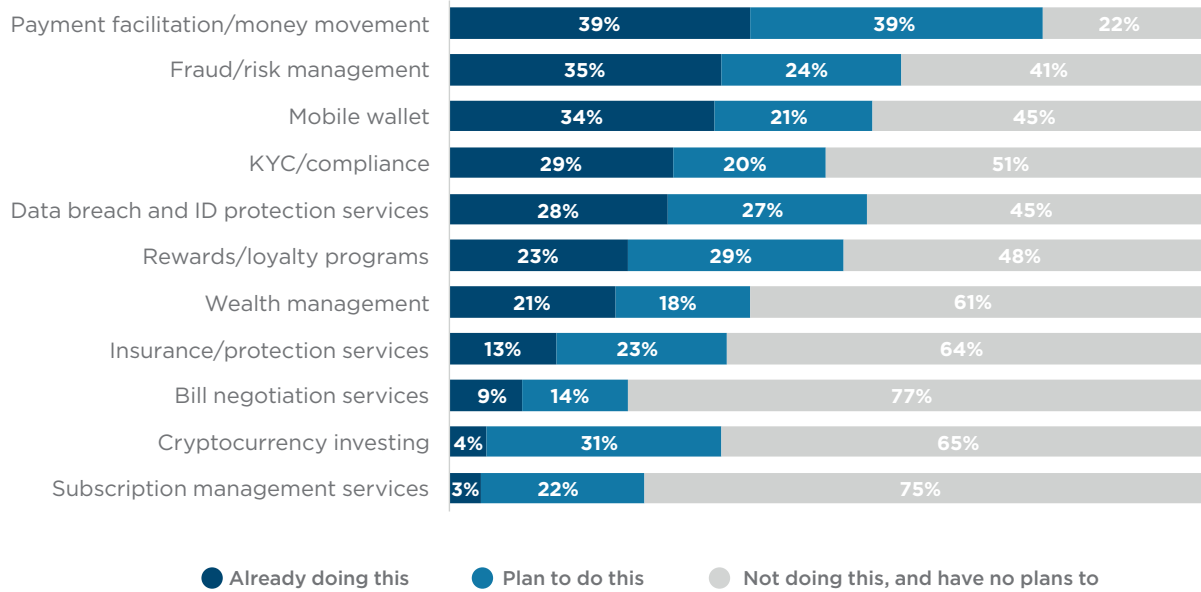


Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

Beyond loan- and deposit-related partnerships, payment facilitation/money movement is the most popular type of fintech partnership, with four in 10 institutions partnering in this area, and a similar percentage planning to do so. Fraud and risk management is the second-most popular, with six in 10 respondents partnering or planning to partner for this capability. In addition, although just 4% of financial institutions have currently partnered to provide a cryptocurrency investing service, 31% plan to partner with a fintech to offer the service (Figure 10).

FIGURE 10: Fintech Partnership Product and Service Areas

For which of the following has your FI entered into a fintech partnership?



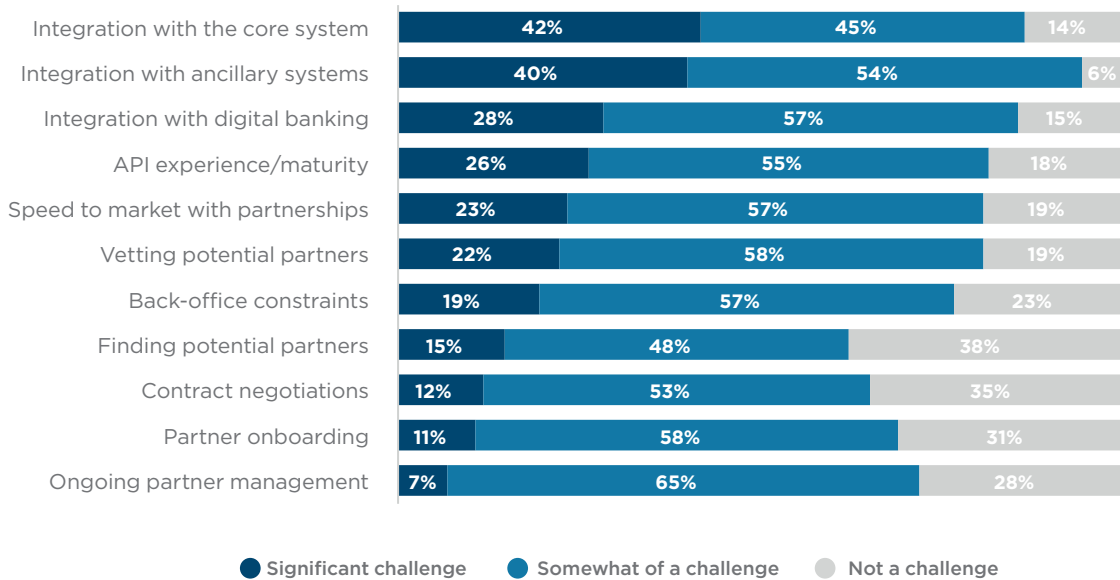
Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

FINTECH PARTNERSHIP CHALLENGES

Why aren't FIs seeing stronger results? Respondents identified some challenges associated with fintech partnerships. Four in 10 FIs said integration with core and ancillary systems is a significant challenge. Roughly one in four cited digital banking platform integration, API experience, and speed to market with partnerships as major challenges, with more than half listing these factors as somewhat of a challenge (Figure 11).

FIGURE 11: Fintech Partnership Challenges

To what extent are the following challenges when partnering with fintechs?



Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

FINTECH PARTNERSHIP STAFFING

Nearly half of banks and credit unions have no personnel dedicated to fintech partnerships. Among all respondents, 17% have a centralized team dedicated to partnerships, and 24% have dedicated personnel distributed across various departments and lines of business. Just 12% have both a centralized team and decentralized personnel dedicated to fintech partnerships (Figure 12).

FIGURE 12: Organizational Approach to Fintech Partnerships

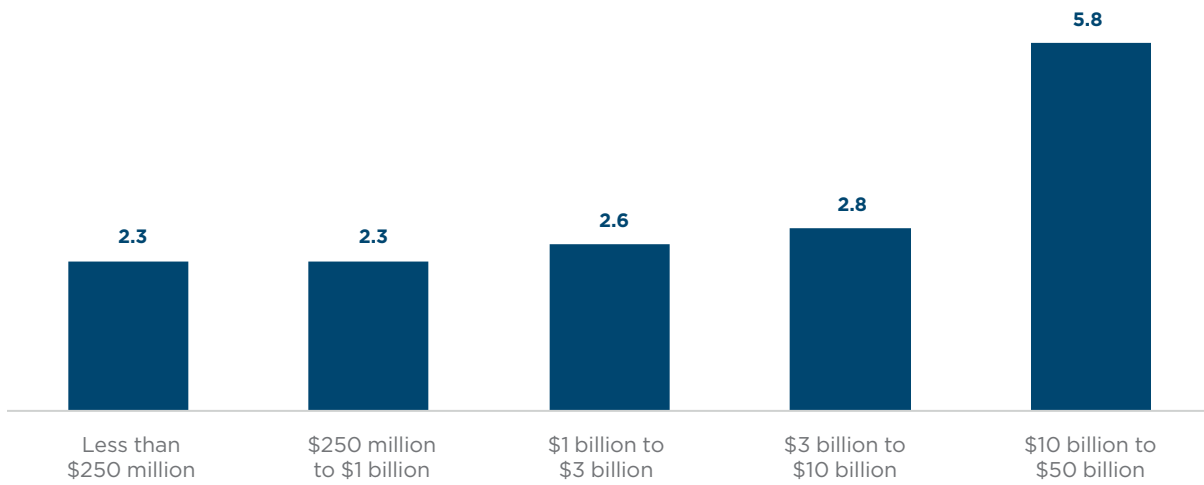


Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

Overall, banks participating in the survey averaged 3.7 full-time equivalents (FTEs) dedicated to fintech partnerships, while credit union respondents averaged 2.6 FTEs. Both numbers represent increases from the 2019 survey conducted by Cornerstone. Not surprisingly, fintech partnership staffing varies by the asset size of the institution. FIs with less than \$1 billion in assets average 2.3 FTEs, increasing slightly to 2.8 FTEs among FIs with \$3 billion to \$10 billion in assets. From there, the number of fintech partnership takes a big jump to 5.8 FTEs among FIs with \$10 billion to \$50 billion in assets (Figure 13).

FIGURE 13: Number of Fintech Partnership FTEs by Asset Size

Average Number of Fintech Partnership FTEs by FI Asset Size



Source: Cornerstone Advisors survey of 290 U.S.-based bank and credit union executives, Q3 2021

IMPLEMENTING SUCCESSFUL FINTECH PARTNERSHIPS

To identify, vet, negotiate, deploy, and scale fintech partnerships, banks need to create a: 1) hybrid organizational structure with personnel dedicated to fintech partnerships; 2) new approach—and mindset—to new product definition, development, and justification; 3) process for effective partner due diligence; 4) highly integrated partnership structure; and 5) fintech partnership portfolio.

1) NEW ORGANIZATIONAL STRUCTURES

Almost half of survey respondents have no personnel dedicated to fintech partnerships. Among the institutions below \$10 billion in assets that do, on average they have about 2.5 FTEs dedicated to fintech partnerships.

With an overwhelming percentage of financial institutions looking to fintech partnerships as a driver of growth, that's a tall order for 2.5 FTEs to fill, no?

The fact that just 12% of FIs have both a centralized team and decentralized fintech partnership personnel is problematic, as well.

Banks and credit unions committed to growing through fintech partnerships need a hybrid organizational approach to partnering: 1) a centralized team that can identify, vet, and negotiate with potential partnerships, and that can determine the technical integration requirements, and 2) decentralized fintech partnership personnel who report into the lines of business that own the partnership relationship and accountability for business results.

2) NEW PRODUCT DESIGN, DEPLOYMENT, AND JUSTIFICATION

Banks' and credit unions' lack of interest in partnering for consumer services like bill negotiation, subscription management, and cryptocurrency investing is troublesome. Why? Because:

- **Financial institutions have a bill pay problem.** Make that two problems: 1) just 14% of consumers use their bank's or credit union's digital platforms to pay their bills, and 2) those that do are predominantly older consumers. As a result, FIs are missing opportunities to help their customers make smarter decisions about their financial lives, which would (should) drive loyalty and relationship growth.
- **Managing subscriptions is a pain for many consumers.** On average, Americans subscribe to roughly 13 services (that's also the median—half have more than 13). Although there are several mobile apps available to track subscriptions, few integrate with banks' mobile banking apps, losing the opportunity to integrate tightly with consumers' payment accounts.

- **Many cryptocurrency holders would use their bank to invest in cryptocurrencies.** Among consumers who hold cryptocurrencies, 60% said they'd definitely use their bank if it offered them the opportunity to invest in cryptocurrencies—and another 32% said they might do so. Just 4% of current crypto owners said they wouldn't use their bank to invest in crypto because they wouldn't switch from the exchange they're currently using.

These aren't new or original ideas. But the fact remains that few banks pursue them. Why? Many industry observers claim it's because banks don't have a "culture of innovation." That's not the cause. The real culprit: ineffective decision-making and investment approval processes.

Proposals for new products and services must meet high ROI and revenue hurdles at many banks. The process leads banks to go after the "home run"—that one big product that will attract hundreds of thousands (if not millions) of customers.

What banks need is a decision-making and investing process that funds a lot of "singles"—products that will attract thousands (possibly tens of thousands) of customers. In the past, this wasn't feasible because of the high fixed costs associated with new product deployment.

Today's world is different. Banks don't need a "culture of innovation"—they need to use fintech partnerships to diversify (and pump up) their revenue streams.

3) PARTNER DUE DILIGENCE

With, on average, 2.5 FTEs dedicated to fintech partnerships, it's hard to believe that many banks have a well-honed partnership capability. Central to developing this competency is having an effective partner due diligence process. Mitchell Lee, head of risk at Synctera and former director of fintech at the Federal Reserve Board of San Francisco, recommends banks take the following actions:⁴

- **Review the current due diligence process against proposed guidance.** Assess the current diligence process along six key dimensions of an effective due diligence process (Table A). Regulators don't require the process to be precisely organized by those areas, but understanding how the bank's process maps against these areas will be useful for future regulatory discussions.

TABLE A: Six Key Dimensions of Fintech Due Diligence

Key Area	Description
Business experience and qualifications	Operational history, experience (e.g., client references, complaints), legal and regulatory actions, and strategic plans including for new products, arrangements, etc.
Financial condition	Financial analysis of the fintech's ability to remain as a viable business operation and market considerations (e.g., client base, competition, geopolitical risk)
Information security	Infosec framework including documented and enforced data security controls, incident response, breach notification processes, and information systems programs and design
Legal and regulatory compliance	Compliance and training for privacy, consumer protection, fair lending, anti-money laundering, etc.
Operational resilience	Business continuity planning, and incident response (disaster recovery, tolerances around downtime, failover data centers and replication sites) service level agreements
Risk management controls	Effectiveness of risk policies, procedures, process, training, reporting, and general ability to align with the bank's risk appetite, appropriate laws, and regulations

Source: Synctera

- **Tailor the due diligence process to the maturity of the potential partner.** For example, a seed stage, pre-product fintech's projected financials may not carry as much weight as its business model, management team, and sources of funding (as well as burn rate). In addition, understanding the lead investor at an early stage, a venture capital-funded fintech may be a helpful signaling mechanism as VCs perform their own intensive diligence of companies before deploying their capital. This may contrast with the approach toward a larger fintech with an established customer and revenue base. Existing financials and projections may be more credible, while understanding their historical control environment could be a helpful leading indicator on their approach toward risk and compliance.
- **Have a clear understanding of when to say no.** A recent report from the Board of Governors of the Federal Reserve System titled "Community Bank Access to Innovation" focuses on the importance of aligning the bank's diligence and decision-making on partnerships with its broader strategy and risk appetite. The report provides an example of a bank that decided not to go with a particular partner due to its handling of customer data. Each bank should have principles and criteria regarding the types of fintechs it is willing to partner with, which may be based on factors such as product types, industry/sectors, maturity, and sophistication of controls.

4) THREE-PRONGED INTEGRATION

Bankers we spoke with complained that their fintech partnerships often took as much as 18 months to integrate. The view from the other side isn't any better. Brian Greehan, chief revenue officer of DadeSystems, told us:

"It generally takes a year to get integrated with a bank, and throughout the process we have no visibility into the pipeline, but have to be ready to support the client when a deal comes in."

Banks should look at partner integration from three perspectives:

- **Technology.** New startups are emerging—companies like Synctera, Moov, and Treasury Prime to name a few—that enable financial institutions to integrate their fintech partners more easily and more rapidly with their core and ancillary systems. The promise of these new startups is that faster time-to-market will offset the additional cost of integration.
- **Business process.** Integration of business processes—with insights into the operations of both partners—is critical as well, however. According to Curt Queyrouze, CEO of TAB Bank:

"Both parties should lean into being as transparent as possible. Fintechs are typically sitting on intellectual property and are protective of that, while banks are overly protective of process and data, usually driven by fear of regulatory scrutiny. Our smoothest launches have come when both sides trust each other."

- **Strategic vision.** Amit Parikh, head of banking platform services at Green Dot, echoed Queyrouze's sentiment and emphasized the need for a shared vision for a bank-fintech partnership:

"Selecting a partner with deep experience embedding seamless, safe and scalable solutions, and managing costs and speed to market, is foundational. But equally important is establishing and maintaining a clear shared vision of the customer experience you're delivering, as well as trust in the team you're working with."

5) THE FINTECH PARTNERSHIP PORTFOLIO

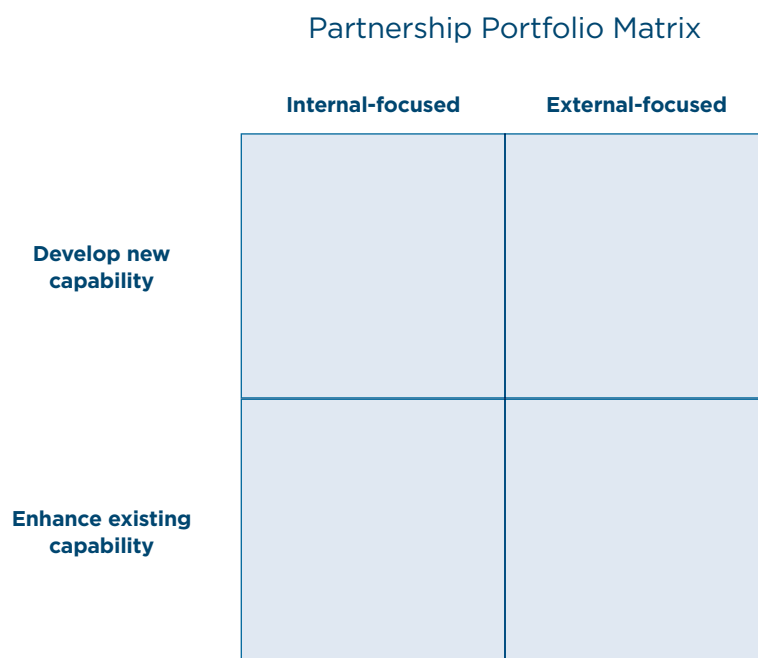
According to Synctera's Lee:

"Regulators continue to emphasize concentration risk in the proposed guidance. Just as a portfolio manager might assess the correlation and concentrations across their investments, banks should evaluate whether they have fintech partnership that are concentrated in specific customer segments or industries and the impacts of a potential downturn."

In Cornerstone's experience, many banks' partnership strategies are overly focused on internal capability building—specifically regarding digital account opening—and not focused enough on new product deployment and revenue generation.

Slotting existing and proposed fintech partnerships into a simple 2x2 matrix can help the management team and board of directors easily see how the partnership portfolio is focused across key business objectives (Figure 18).

FIGURE 18: Partnership Portfolio Matrix



Source: Cornerstone Advisors

ENDNOTES

¹ <https://thefinancialbrand.com/92859/marketing-strategies-fintech-bank-partnerships-data/>

² <https://www.federalreserve.gov/publications/files/community-bank-access-to-innovation-through-partnerships-202109.pdf>

³ What's Going On in Banking 2020 Report

⁴ www.synctera.com/blog/fintech-due-diligence-guide-for-community-banks






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Ron Shevlin heads up Cornerstone Advisors' fintech research efforts and authors many of the firm's commissioned studies. He has been a management consultant for more than 30 years, working with leading financial services, consumer products, retail, and manufacturing firms worldwide. Prior to Cornerstone, Shevlin was a researcher and consultant for Aite Group, Forrester Research, and KPMG. Author of the Fintech Snark Tank blog on Forbes, Shevlin is ranked among the top fintech influencers globally and is a frequent keynote speaker at banking and fintech industry events.

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ABOUT

CORNERSTONE ADVISORS

At Cornerstone Advisors, our goal is to deliver tangible business impact to financial institutions and fintechs. We know that when institutions improve their strategies, technology, and operations, enhanced financial performance naturally follows. Because we live by the philosophy that businesses can't improve what they don't measure, we show banks, credit unions, and fintechs how to use laser-focused measurement to make smarter technology decisions, reengineer critical processes, and develop more meaningful business strategies.



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ABOUT

SYNCTERA

Synctera brings banks and fintechs together via a marketplace model and provides a technology platform that allows them to partner more effectively and efficiently, reducing risk and speeding up time-to-market. Launched in 2020, the company was co-founded by CEO Peter Hazlehurst, former head of Uber Money, head of Google Wallet, and CPO at Yodlee, as well as CTO Kris Hansen and Head of Product Dominik Weisserth. For more information, please visit www.synctera.com.



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