



Forming a Partnership with Fintech

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By Jeff Marsico

We've all heard the reasons why banks should engage with fintech. Millennials demand technology. Branches are headed the way of the video store. Banks must adapt or die.

But one of the most compelling reasons to partner with fintech is that it may enable you to stop turning away the kind of business that builds high-value relationships with the customers you need most. Here's what you need to think about—along with some specific tips on making it work.

Recognize that your best potential customers aren't always "bankable."

According to the [Electronic Transaction Association](#), the average small business borrows three times over a five-year period, with an average of \$25,000 per loan.

These loans are not prime real estate for community banks. Bank underwriting processes for such loans tend to mirror those of larger loans. And as we know, bank revenues are typically driven by the size—and not the number—of loans. So the spread from a \$25,000 loan would not be enough to cover the cost to find, underwrite, book, and service that loan.

Yet every business from GE to the local flower shop started with an idea and zero dollars in revenue. Imagine the owner of that flower shop brings your bank a healthy deposit relationship, along with a built-in demand for multiple bank products—personal and business accounts, mortgages, credit cards—whatever you offer. Now imagine having to look that customer in the eye and say, "Sorry, you're not bankable."

Not bankable is a real term—I heard a bank CEO use it just last week. It refers to transactions that are too risky or too costly to make sense for your bank. That may include providing small businesses with three \$25,000 loans over a five-year period. So you say no to the flower shop owner's request for a loan, and risk losing a valuable relationship.

Yet these types of loans are the bread and butter for marketplace lenders like Kabbage and OnDeck. Partnering with these or similar fintech firms might help you reach or retain the customers with a lot of long-term potential.

Consider your options.

I use lending as a prime fintech opportunity because it's the lifeblood of small businesses starting and thriving in our communities. But there are other areas to engage fintech, such as personal financial management, loan processing, customer onboarding, etc. This is nothing new to us. Many of us already use fintech partnerships to run our banks and deliver to our customers. Some of these partnerships are through the Big 3 core processing firms: FIS, Fiserv, and Jack Henry. These large firms may not be as nimble as the more recent startups designed to create less friction in the banking space.

On the other hand, they do score high in vendor management reports. Other more recent fintechs may not score as well. So it's safer to stick with what we know. Or is it? [Lending Club's \\$2.75 billion](#) in first quarter loan originations came from somewhere. Perhaps those borrowers are from your markets.

In a [white paper](#) released in March, Comptroller Thomas Curry of the Office of the Comptroller of the Currency (OCC) stated, "Not every innovation is appropriate for a regulated financial institution, and not every innovation that is appropriate for a regulated institution is appropriate for all regulated institutions. But avoiding new approaches completely is equally dangerous." (I know...you will have to read that twice to soak it in. Bureaucrats! But it's an important point.)

Get started the right way.

The message is clear: innovate or risk irrelevance. But must innovation be born at your bank's headquarters?

My answer: No. Not only that, I doubt you could make it work, even if your bank did develop a new technology.

Fortunately, there are myriads of fintech firms willing to partner with you to improve your processes, delivery channels, and the customer experience. Here are three things you can do today to be relevant tomorrow.

1. ***Identify the customer segment(s) most important to your bank's strategy, and assess their emerging financial needs.*** In other words, pick your spots. The days of being everything banking to everyone in all your branch markets are over. Most financial institutions do not have the resources to build a robust platform, tools, and delivery mechanisms to satisfy everyone. So choose.

2. ***Align your bank's internal competencies to deliver to your target customers.*** Determine what you can do well in-house, and identify top fintech partnerships that can help you with the rest. Not everything should be outsourced. I recall a bank that totally automated and outsourced a retail customer onboarding program. It was great for consistency, but did it build loyalty with new customers? I think the bank could have done better by mixing automated messaging with personal contact. Know your bank's competencies and your customers' preferences before turning key processes to a fintech platform.
3. ***Pull the trigger and manage project implementation.*** I have seen many financial institutions purchase fintech platforms only to poorly integrate them, awkwardly launch them, and barely promote them. Personal financial management platforms come to mind. Employees must be trained to use these platforms so they can teach customers to do the same. This is why interactive teller machines are getting a slow start. Employees aren't familiar with them and neither are customers. So we revert to the teller line. Develop a plan that includes technology implementation, training, launch and promotion.

Somewhere between "ignore fintech" and "fintech will rule the world" is the sweet spot for your financial institution. Ignore fintech and you run a risk—a high risk in my opinion—of becoming irrelevant to your customers. Follow every fintech solution and you will dilute your resources to the point of inefficiency and ineffectiveness.

So choose your solutions and partnerships well, using your bank's strategy as the guide.

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Hear more from Jeff when he presents at the [ABA Bank Marketing Conference](#), September 25-27, 2016. We look forward to seeing you in [Nashville](#)!