FinXTech How To Workshop

From Idea to Impact: A Guide for Banks to Collaborate with Fintechs to Drive Growth

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FROM IDEA TO IMPACT

A guide for banks to collaborate with fintechs to drive growth

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Richard is chair of the FinTech and Regulation Practice and was one of the first lawyers to focus on the regulation of blockchain and digital assets. He is considered a thought leader in the FinTech space.

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Brad Rustin chairs the firm's Financial Services Regulatory Practice. He began his career as a litigator focusing on consumer financial services litigation and defense of regulatory claims against chartered and non-chartered financial institutions, finance entities, and money services business.

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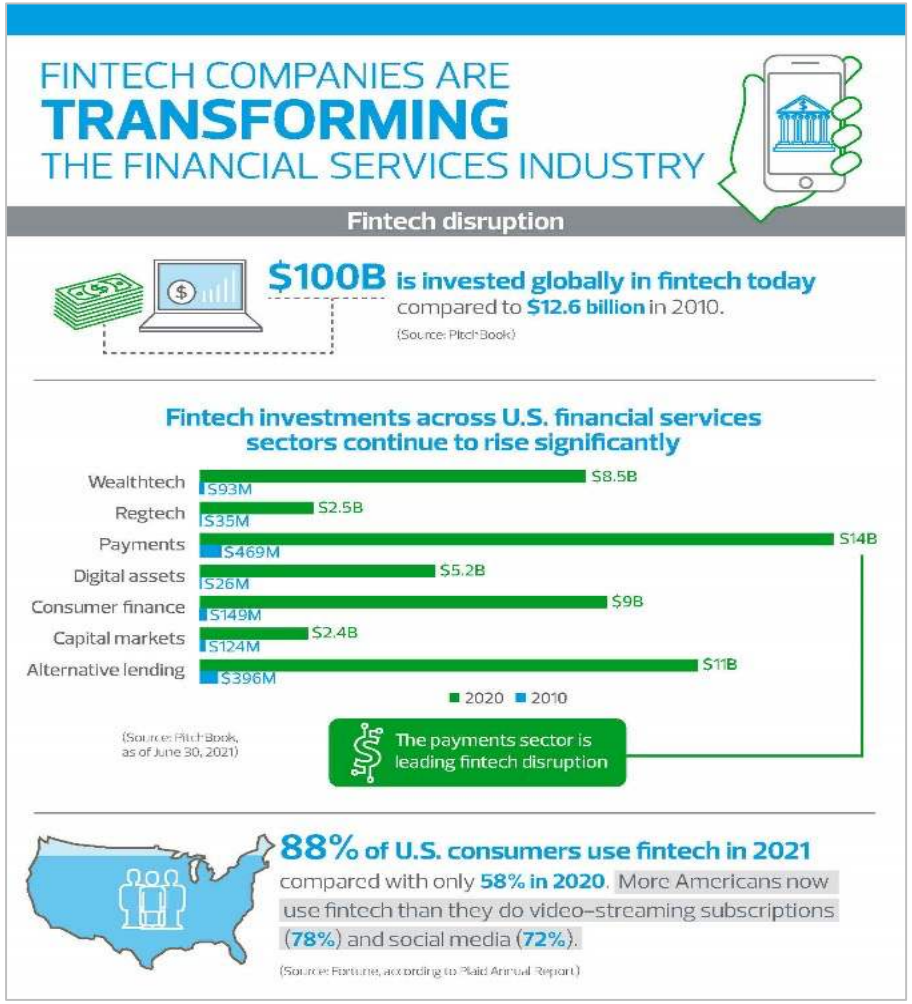
FINTECH OVERVIEW

Fintech as the driver for automation



FINTECH AS A MOVEMENT

And how to build a road map for the path forward

- Does the company have a digital agenda and/or strategy?
- Are there segments of the business that the company wants to heavily digitize?
- Does the company have a chief digital officer or customer experience officer who can address the long-term sustainability of the business?
- Build, buy or rent? Assess options for responding to disruption, whether through building fintech solutions internally, making strategic acquisitions or partnering with fintech companies.
- How is the company evolving to meet customer demands and stakeholder needs more broadly?

> *"When most people think about fintech, they think about startup companies disrupting the landscape of financial services," says Peter Brady, RSM US national financial services leader. "And while that's true, the bigger story is in how the landscape is responding to the fintech companies."*

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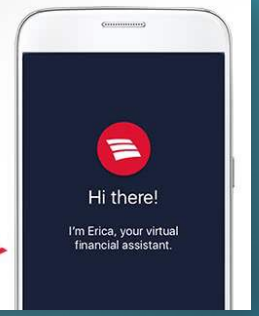
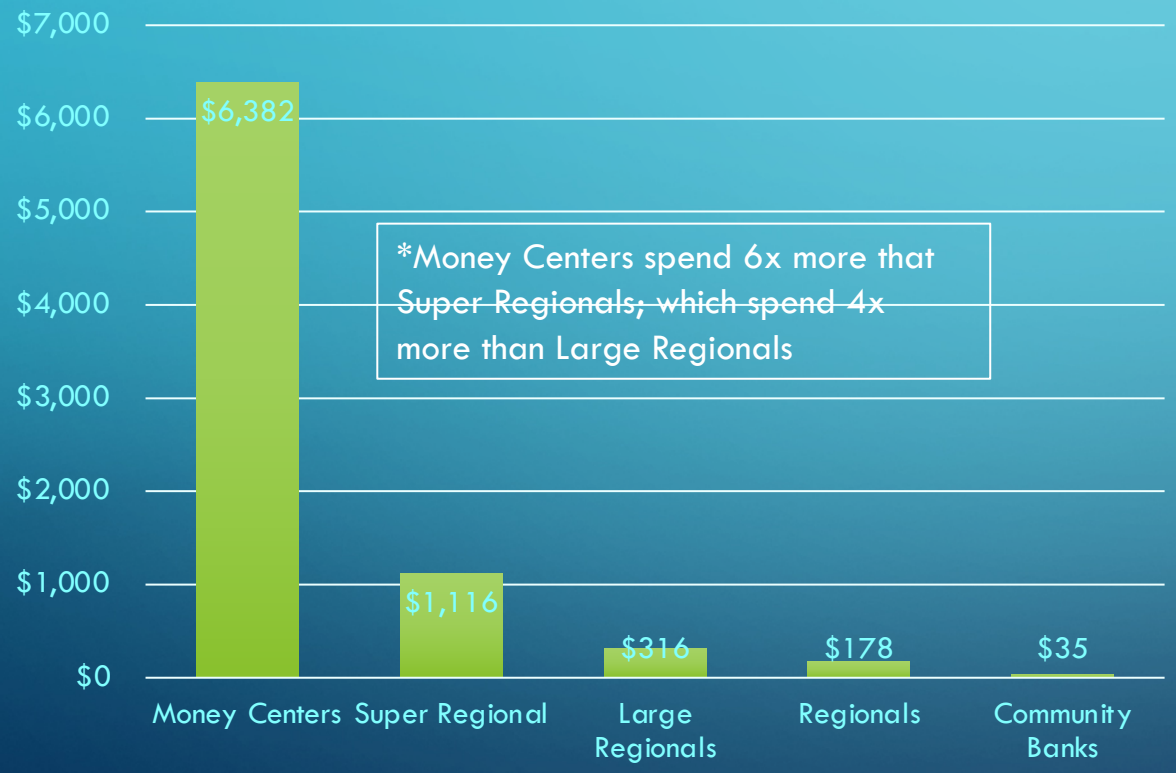
BANKING IN 2025

*BofA's Erica has resolved over 15MM customer inquiries in less than 6 months.



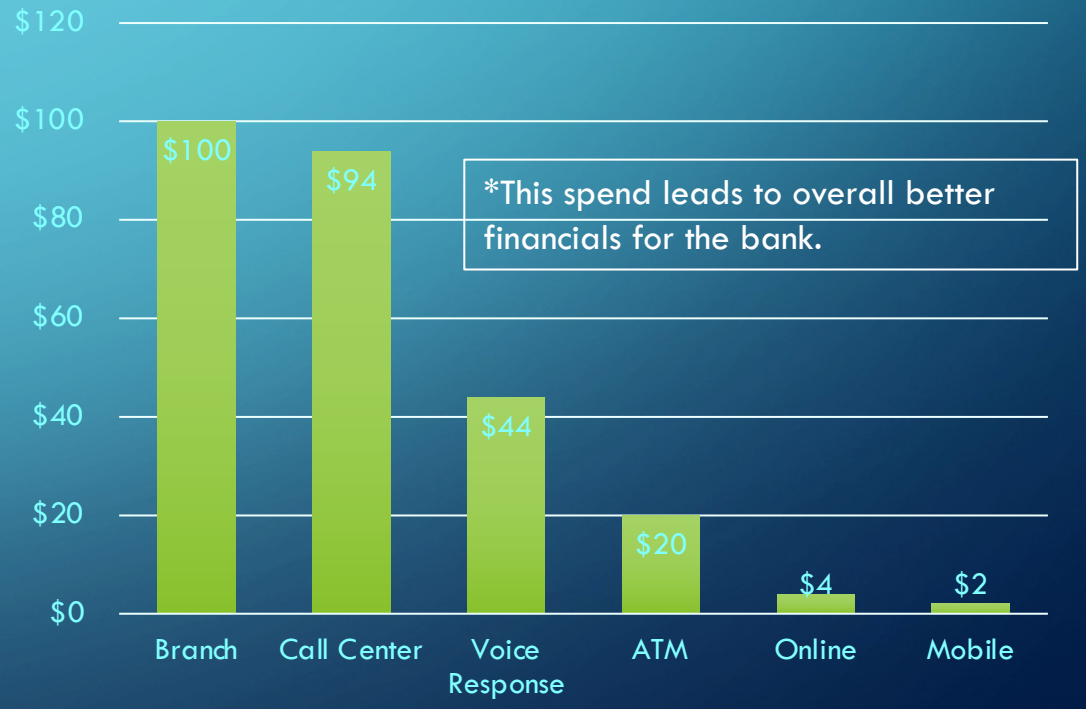
Bank of America

Average Technology Spend ($MM)



*Money Centers spend 6x more that ~~Super Regionals; which spend 4x~~ more than Large Regionals

Relative Transaction Cost by Channel



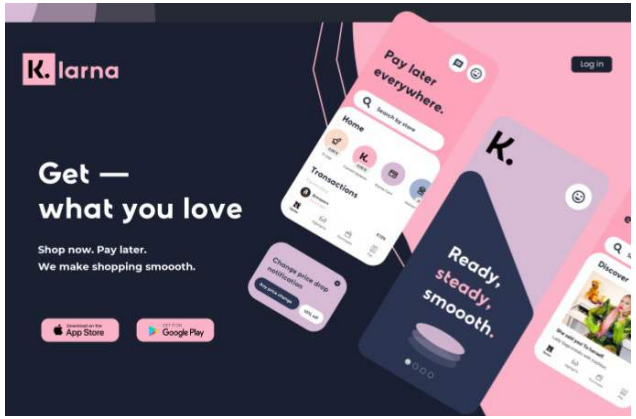
*This spend leads to overall better financials for the bank.

Emerging trend – Embedded finance

Embedded finance is the native integration of financial services into a traditionally non-financial service or product.

- Embedded finance is everywhere: payments, card payments, lending, investments, insurance

Uber



TESLA | Insurance

- Embedded finance is estimated to offer a market opportunity of over $7 trillion by 2030.

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Emerging trend – Supper apps

A supper app is a single application that enables a user to access multiple products in an integrated way

- Typical functions of these super apps include QR payments, peer-to-peer transfers, debit accounts, checking accounts, direct deposits, stock trading, crypto trading and more

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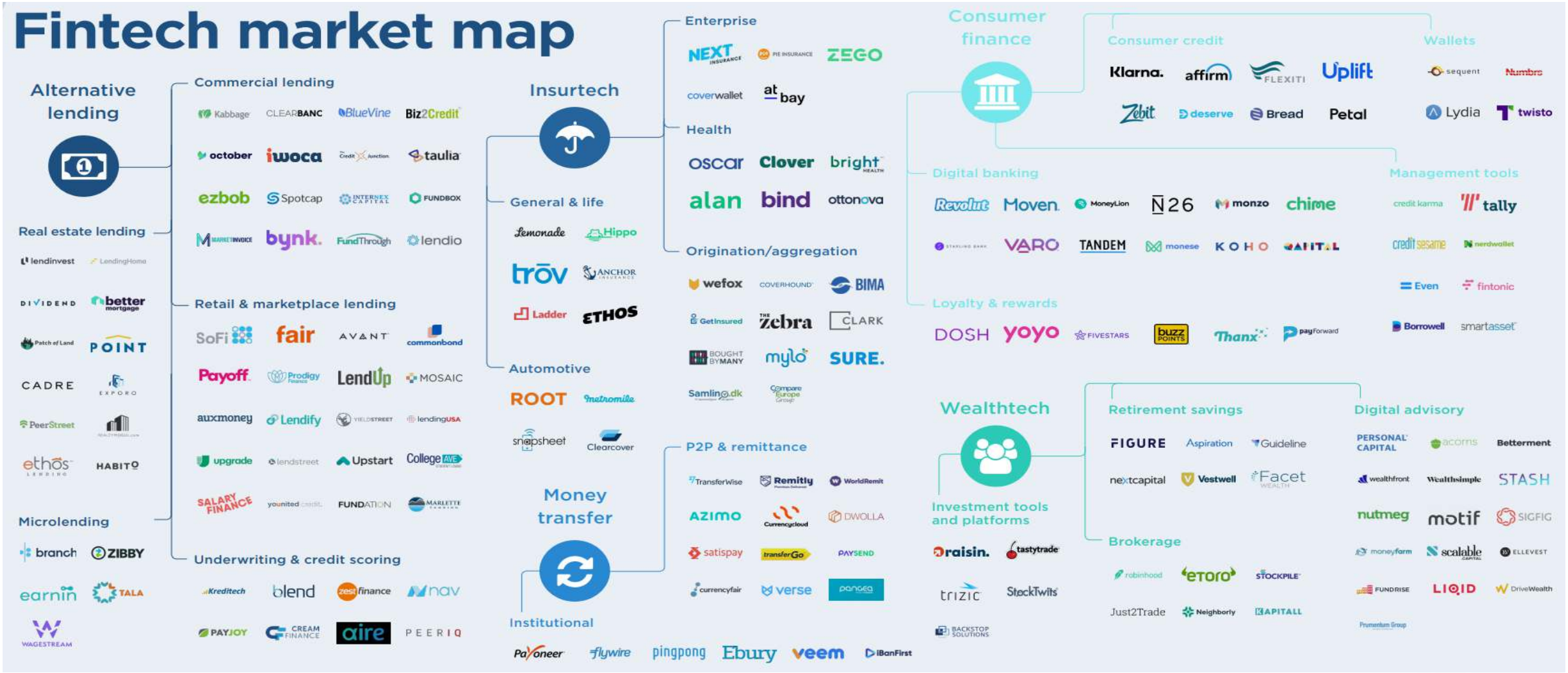
BANK—FINTECH OPPORTUNITIES

Accounts payable processing	Accounts receivable processing	Card (prepaid) sponsoring	Consumer and commercial bill payment	Cryptocurrencies
Financial management and budgeting	International settlement and payments	Investment advisors and broker-dealers	Invoicing and collections	Lending models (consumer and small business)
Merchant acquirer services	Mobile payments processing	Mobile wallet solutions	Online account solutions	SMB payment processing

BANK—FINTECH MODELS

Bank Referrals	• Bank earns revenue by sending customers to FinTech • Can be used where the bank has “gaps” in service offerings
FinTech Referrals	• Bank purchases customer leads from FinTech • Bank purchases account or loan assets originated inside FinTech platform
FinTech Investment or Acquisition	• Bank invests in FinTech that is mission aligned to bank • Bank buys key technology for private use or sale to other Financial Institutions.
Private Label Solution/SaaS	• Bank purchases the financial technology to deploy to its customers • Opens new product offerings for the bank
Bank to Bank	• Banks partner with each other to fill respective services gaps • Also includes relationships between technology and low-tech banks to offer services.
Partial Outsourcing	• FinTech assumes limited roles in process-underwriting, data collections, etc. • Allows the bank to “buy” technology or expertise missing in the institution
True “Bank Model Partnership”	• Bank serves as the lender/account issuer in FinTech themed ecosystem • Full integration in services with FinTech front-end and bank back-end

Fintech market map



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SYNAPSE

- A banking-as-a-service platform that provides payment, card issuance, deposits, lending, credit and investment products, and compliance.
- Used to extend Banks' back-end operations.
- In 2022,
  - Launched 2 new platforms (Global Cash and Modular Banking)
  - Cash flow positive
  - Passed 200 employees
  - Reached 18 million end users
  - Partnered with American Bank and Lineage Bank
- Clients have been complaining about poor user experience since 2020.
  - Empower (cash back on debit card purchases) switched providers
  - Oxygen left due to Fraudulent activity that cost them hundreds of thousands of dollars
- Known to have little to no compliance monitoring.
- Partners with Evolve Bank and Trust for core financial functions – holding customer deposits.

WHAT HAPPENED?

- In September 2023, Evolve Bank & Trust notified BaaS platform Synapse that it believed the company was in breach of contract. And on September 27th, Evolve informed Synapse of its intention to terminate the relationship.
- They have been having problems for a while. Reports of warning Evolve of a potential FOB account deficit since November 2022, but looks like this has been a problem since at least 2020.
- Currently, there is disagreement and an inability to reconcile over who was responsible for a discrepancy of $13M FBO accounts at Evolve holding customer funds.
- On September 27 a letter sent by Synapse founder and **CEO Sankaet Pathak** to **Evolve Chairman and CEO, Scot Lenoir**, and **President of Open Banking, Hank Ward**, Pathak alleged an error on Evolve's part that led to a third-party payment processor incorrectly debiting an FBO account for at least $12M.
- There has been a combination of problems that led to the end of the partnership including voided checks that were settled when they should not have been; checks that had been marked settled but were then returned; checks that Synapse did not receive settlement for but should have; checks Synapse wanted to label as "do not honor"; and checks that were numbered "0."
- In just a week's span, Evolve failed to provide ACH Return files to Synapse that resulted in approximately $,492,910.61 being returned late. A loss of $82,416.33 loss for Synapse. Just a week sample, compared to the years of partnership.
- For months, Synapse and Evolve had been discussing moving to a new, tri-party structure, where fintech clients would contract directly with both Synapse and Evolve. The new structure would allow for better bank oversight of risks in the fintech programs. But in late September, Evolve and Mercury came to a deal, ultimately cutting out Synapse completely.
- Currently, Evovle has over $16M seized as collection of the deficiency and further protection for their End Users.
- The options presented as solutions were either Synapse reporting Evolve to the regulators and paying 1.5M instead of the 3.25M accidentally received from the FBO accounts or establishing a payment plan and winding down the partnership.
- As of October 6, 2023, Synapse has issued major layoffs (40%) without severance payment.
- Evolve notified Synapse that it will cease its support of the platform by the end of 2023.

FALLOUT

- Bank regulators are already questioning banks that overly rely on technology integrators to support their FinTech strategy.
- Regulators expect that banks *will not* rely on integrators for compliance and regulatory obligations.
- Banks will fully audit their FinTech relationships' account records and will constantly require reconciliation of accounts.
- All banks should have a business continuity plan that envisions the technology integrator's failure and inability to provide records of transactions or reconciliation of funds.
- Banks should refocus diligence on business continuity and disaster planning with the FinTechs, requiring formally documented procedures and ongoing monitoring/testing.
- As soon as problems are identified, the bank and the FinTech must immediately work to address the issues. (By some accounts, these issues were flagged as early as 2022).
- Banks should be clear on any exclusivity arrangements with the FinTech and consider how multiple banking partners may impact the bank's ability to reconcile and have visibility into accounts.

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BREAKOUT SESSIONS

THANK YOU FOR YOUR TIME AND ATTENTION

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