3 Steps for Fintechs Seeking Bank Investments

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Varo Money recently became one of the first consumer financial technology (fintech) companies to receive a national bank charter from the Office of the Comptroller of the Currency (OCC)—marking a pivotal transaction that will revolutionize the company's service offerings. This charter allows Varo Bank (Varo Money's new banking branch) to make loans and safeguard deposits across state lines. It also greatly expands their services, giving customers access to affordable credit and cash flow management, and early access to funds.

Varo Money began offering banking services in 2017 through a partnership with Bankcorp Bank, and provides no-fee checking and savings accounts with no overdraft fees through a mobile application. Obtaining a bank charter is complicated, expensive, and time-intensive. But Varo Money saw the demand for more affordable digital banking solutions in the market, and took the opportunity. They began the process of receiving a charter in 2018, received Federal Deposit Insurance Corporation (FDIC) approval in February of 2020, and received the final seal of approval in July.

Varo was able to achieve this incredible feat by developing high-demand, quality products and services that brought value to banks and became appealing to investors. The financial support received from this relationship allowed them to focus on their overall mission of obtaining the bank charter, while continuing to enhance their products and services. Regardless of any fintech's objective, being able to obtain financial support to continue to work towards its vision is a major strength. This revolutionary transaction emphasized the possibility for more fintechs to acquire bank investment—but how can fintechs achieve this goal?

We sat down with Matt Burke, Co-President of Cape Cod Five, to gain his perspective on what fintechs can do to receive more interest from financial institutions, and what banks are looking for in potential fintech partners.

Let's Get Bankable: Tips for Success

1. Find the Perfect Partner

Not all banks have the budget or resources available to invest in fintech, so you first have to find a potential partner that can accommodate your pursuits.

"Here at Cape Cod Five, we perform needs analyses outlining products, services, or processes we want to improve. Fintechs with the expertise and innovative strategies to reform these areas would be desirable partners," says Burke. "Taking the time to research and locate banks that actively engage fintech opportunities before approaching potential investors is critical. Banks with established fintech initiatives will be more likely to accept proposals and employ your services."

2. Address Bank Needs

"Although customer-facing solutions will gain a lot of attention, understand that banks have many more needs than solely solving customer-related challenges," says Burke. "Get to know the banking industry. You want to accumulate a holistic understanding of the obstacles faced by banks. From there, you can expand your offerings and begin to generate technological solutions to all prominent challenges in the industry."

By attending industry conferences and speaking with banking executives, you'll be able to decipher unique difficulties faced by banks that need to be eliminated. Working with bank insiders can help you learn the nuances of the industry and prioritize possible deficiencies that need attention.

"You also have to ensure that your company can seamlessly integrate and smoothly operate within the bank's core processer and other systems. Easy integration will further entice the bank to engage a partnership," says Burke.

3. Align Yourselves with Banking Standards

"Banks live in an extremely regulated environment and operate on strict internal control systems—and they'll expect the same from you. Banks want assurance that their information is being handled properly, and will most likely want to enter into business with a company that has a robust internal controls posture," says Burke. "Fintechs should consider the need for a System and Organization Controls (SOC) report to affirm the effectiveness of their controls. In order for a bank to trust you with access to data, they're going to need to know that customer information remains secure."

Fintech companies can gain a competitive advantage by providing explicit evidence of proper controls in place to protect bank data and information.

Conclusion

Fintechs and banks continue to stray further from the traditional environment of competition, and are instead moving towards viewing each other as partners. By approaching fintech-pursuant institutions, offering creative solutions to inherent banking issues, and coordinating controls with the vast security and regulatory requirements of banks, fintechs can begin to develop a strong foundation to become attractive to investors.