

FINTECH DIFFUSION AND THE FUTURE OF COMMUNITY BANKING

Due to higher costs of doing business, the number of community banks has dropped from 7,000 ten years ago to roughly 4,600 today. Can fintechs help slow down this decline?

Since the pandemic, many banking customers have moved to digital banking. A typical person under 35 years old might have five different financial accounts (a bank account, Venmo, Chime, etc.). How can community banks, which rely on a relation-based banking model, compete against large banks and fintechs in the digital banking age?

Jonathan Scott used Conference of State Banking Supervisors Annual survey data and interview data from community bank CEOs to assess how community banks can meet these new challenges.

Scott finds that many community banks partner with fintech firms to enhance their technology platform, implement improvements to loan processing, and provide mobile banking platforms. Still, community banks remain cautious and tentative when engaging with fintechs.

A smaller number of community banks are engaged in Banking as a Service, which grants fintechs access to the community bank's balance sheet and banking payment system. Fintechs use this information to market the banks' products.

Moving forward, community banks that do not rely on BaaS must find ways to preserve relationships with consumers using multiple financial accounts. Furthermore, community banks must identify the right tech partners to implement their digital strategies.

MAJOR TAKEAWAYS:

- Community banks need to invest in digital banking to meet the changing demands of their post-pandemic customers.
- Banking as a Service allows fintech companies to market their products using a community bank's balance sheet and banking payment system.
- Banking as a Service requires a significantly larger investment in technology and so far is limited to small number of community banks.

WHO NEEDS TO KNOW:

- Community banks
- Financial service consumers

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- The Risks and Rewards of Providing Banking as a Service.
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