



Why Build a BaaS Bank?



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Introduction

*“Look, bank-fintech partnerships, they’re here to stay...
This is the future, so let’s do the future right.”*

-Michael Hsu, Acting Comptroller of the Currency



Banking-as-a-Service (BaaS) has been evolving for the past 20 years and has accelerated with the widespread consumer adoption of the smartphone; and the increased comfort level of mobile banking.

This whitepaper by The BHB BaaS Association will showcase many of the benefits of becoming a BaaS Sponsor Bank. So, saddle up, lean in, and let’s take a look at many of the reasons to become a BaaS Bank.

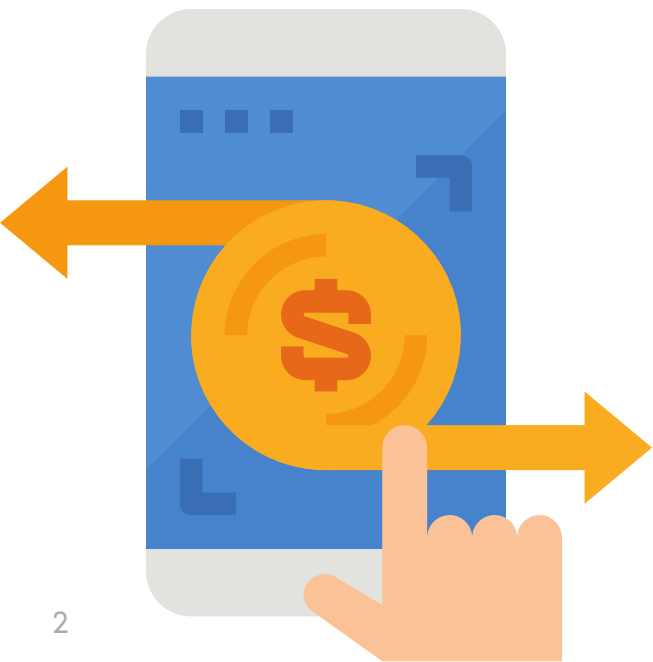
Fintech Defined

(AKA CHALLENGERS, NEO BANKS, CARD APPS, ETC.)

(n) a **Fintech** is any company that is using a banking charter to conduct bank-like services - services that can only be provided by a chartered institution.

The Fintech uses a bank charter to extend the bank's services to their own end users.

The bank that offers (sponsors) their services to the Fintech is the BaaS Sponsor Bank.



EXAMPLE

BlueVine, the Neo Business Bank, has three different BaaS Sponsor Banks:

1

Celtic Bank sponsors their Business Line of Credit (LOC) loan

2

Coastal Community Bank issues their Mastercard Business Debit Card, and also sponsors their Checking Account

3

Silicon Valley Bank processes their Bill Payments


Don't take this as literal as it sounds, as he's really scared of community bankers. He hopes you don't read this whitepaper and "figure out Fintech."

Durbin Amendment – Community Banks under \$10B in assets enjoy uncapped interchange income. BaaS is built for community banks for this reason. Did you know over 70% of all U.S. Fintechs offer a card?

Jamie Dimon is “Scared sh!7less of Fintech!”

JPM 4Q20 Earnings Call Transcript

Also, the Fintech threat is real to the Big 4 Mega Banks like JPM. The challenger/neo bank model is taking away their market share. For starters, it's because Fintech's have the benefit of:



**EXTREMELY LOW
CUSTOMER
ACQUISITION
COSTS (CAC)**

**COOL AND
EXCITING USER
EXPERIENCE (UX)**

**ABILITY TO SOLVE
FOR A SPECIFIC
PROBLEM AND/OR
SOCIOECONOMIC
TARGET
MARKETING
(NICHE,
COMMUNITIES,
HOBBIES, ETC.)**

The top 10 banks in the U.S. by asset size (0.2% of all banks) control 51% of all the deposits in the U.S. As a result, there is an overweight impact of the Fintech threat geared towards the nation's largest banks. The beneficiary of that threat is the BaaS Bank.

Measuring BaaS Bank Performance

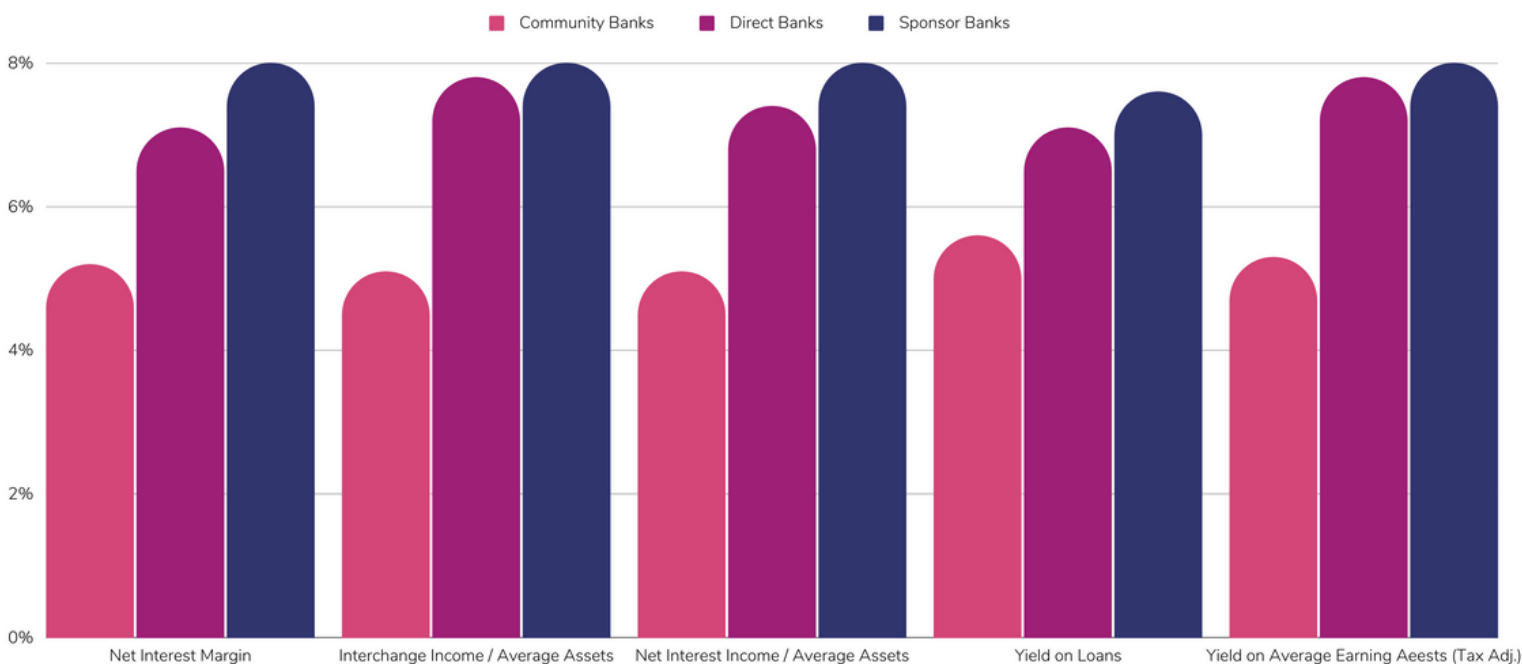
Here's the math & hard data showing that BaaS Banks are in the top 1 percentile in almost every earnings category. Keep in mind...

- As of Q3 2022, BaaS Banks make up less than 2.3% of all banks in the U.S.
- 75% of all BaaS Banks are under \$10B in assets (remember, under \$10B exempts you from Durbin for uncapped interchange).

NUFF SAID.

Community vs. Direct vs. Sponsor

Comparison on Key Financial Performance Indicators (KPFIs)





OUTSOURCED MARKETING...BASICALLY

Let's face it, these VC-backed cool kids are *really* good at marketing... Honestly, they aren't much more than a kickass marketing agency anyway, but we'll digress. Banks need to take advantage of their customer acquisition skills, and not get in the way of it.

Let them be the marketing engine, they're really good at it!

OK, so when it comes to products/features, Banks can do everything that the Fintech is doing if they wanted to. Following me here? Sure, you can offer early direct deposit, virtual cards, you name it. Those are all banking products banks created for Fintechs to use & offer to their customers.

You can look at BaaS / Fintech partnerships as an outsourced marketing strategy, in which the BaaS Bank reaps the revenue share.

Lastly, the Fintech can easily penetrate niches for you. Newlyweds, RV owners, gig workers, you name it; there's an entire community out there for every type of person or hobbyist that a Fintech can serve for you. **When employing BaaS, Community Banking is no longer defined & limited by physical geography.**

Digital “Direct” Banks

(AKA AFFINITY BRAND, DIGITAL BRANCHES, ETC.)

Another very successful method of competing (and winning) against the Big 4 Mega Banks through the use of a BaaS-like strategy is the Direct Bank model.

In this instance, the bank essentially launches their own Fintech solving for (these should sound familiar):

- **Extremely low customer acquisition costs (CAC)**
- **Cool and exciting user experience (UX)**
- **Ability to solve for a specific problem and/or socioeconomic target marketing (niches, communities, hobbies, etc.)**

The Direct Bank enjoys the exact same benefits as the Fintech challenger / neo bank model, along with a differentiated tech stack from legacy operations.

EXAMPLES

BankMD is the Direct Bank of TransPecos Banks. TransPecos is your traditional brick & mortar community bank, but they wanted to reach high net-worth physicians outside of their geographically defined branch footprint.

Redneck Bank is the Direct Bank of All America Bank. Same situation as BankMD, but targeting farmers that have cyclical needs depending on their crop(s) of the year.

Increase the Value of your Charter



Here's your last **“why”** for why to build a BaaS Bank, and it's a good one. In short, Fintechs are acquiring Banks!

It's cheaper for a Fintech to buy their banking license, as opposed to going through the atrociously long & expensive process of obtaining an FDIC banking license themselves. Also, over time, as the Fintech scales and perhaps becomes a \$1B “unicorn,” they'll want to realize more revenue by owning the banking piece for themselves...

Now, imagine how enticing your Bank charter would be if you were already set up as a BaaS Bank with Fintech relationships!

**JIKO
MID-CENTRAL
NATL. BANK**

**SOFI
GOLDEN
PACIFIC
BANK**

**BANKMOBILE
FIRST SOUND
BANK**

**M1
FNB BUHL/
B2 BANK**

ETC.

In Conclusion

WE'VE SHOWN YOU:

- 1 What a Fintech is (Fintech defined).
- 2 Why the mega banks (your true enemy) are scared of you & Fintech. Hint: Jamie Dimon doesn't want you to be a BaaS Bank. This means you should do it.
- 3 The earnings potential of being a BaaS Bank.
- 4 How to take advantage of the VC-backed cool kids' marketing skills to attract customers from across the nation in all walks of life. You are no longer defined by your geography.
- 5 An alternative, but very similar, model of BaaS called a Direct Bank.
- 6 How this all increases the value of your charter.

The BaaS Bank model is a new business unit of your bank; and provides for a diversified revenue/deposit strategy. It is also scalable.

Another intangible benefit is the attraction of new HR talent focused on API's and Fintech strategy within the bank.

Lastly, just being "fintech ready" provides significant additional value to the charter; and is much more cost effective than the legacy branch model.

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