



# Protecting The Consumer with Strict Compliance

**To Begin** the first question should be “how do I unwind a fintech?” If you can’t do that, you have the wrong setup. For different reasons, compliance or in the event of failure, you will need to know this at some point in your journey.

## **BEST PRACTICE IS TO OWN THE ACCOUNT**

- There are multiple ways to do this.
- By owning the account and not just the sub-ledger, you have more options.
- Options are the key to a successful Banking-as-a-Service operation.

### **IF YOU USE THE FBO MODEL APPROACH:**

- BaaS Sponsor banks should receive at least daily trial balances for all sub-ledger accounts
- FBO should be set up per fintech partner
- If supporting a platform that supports additional fintechs/direct to customer entities as clients, each client of that platform should have its own FBO
- Settlement accounts should be used for each payment service (ACH, Wire, BIN, etc) with no direct access to the FBO by the fintech partner

# → Most ← Important

1

The BaaS Bank is ultimately responsible for everything.

2

Fintech brands are not business clients and should be treated like subcontractors of your regulatory compliance as a charter.

3

Start with compliance and legal.

# MIDDLEWARE / CONNECTORS

- Perceived as “the fintech solution,” middleware / connectors market themselves as a one stop shop for fintech companies – just connect to them and they will handle all the bank stuff as an end-to-end platform.
- Connectors gather banks for their “program of bank partners” and market to fintech companies for turn-key solutions and speed to market; often with the pitch of “build in minutes, launch in weeks” or even days.
- While at first glance this seems like a logical solution, it screams caution as the fintech is not dealing directly with the sponsor bank; and in some cases, FBO accounts can be co-mingled with account ledgering handled at the connector level.
- Best practice is for the sponsor bank to have the direct relationship with the fintech. The further removed from the bank, the more layers of counterparty risk creep into the process.

## CRITICAL OPERATIONS AND COMPLIANCE

- ✓ **Monthly Review Meetings**
- ✓ **Change Monitoring**
- ✓ **Regulatory Documentation Meetings**
- ✓ **Mirrored Regulatory Teams**

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