The BaaS Association
Part of The BHB Network

BaaS Banking: Benefiting the Community Bank, the Fintech, and the Consumer

Table of Contents

Introduction

Banking-as-a-Service (BaaS) Bank-Fintech partnerships or BaaS continues to evolve and have accelerated with the widespread consumer adoption of the smartphone and mobile banking.

This whitepaper by The BHB BaaS Association describes some of the high-level benefits of a bank-fintech partnership. These features, when established properly, help the BaaS sponsor community bank, the fintech partner, and the consumer.

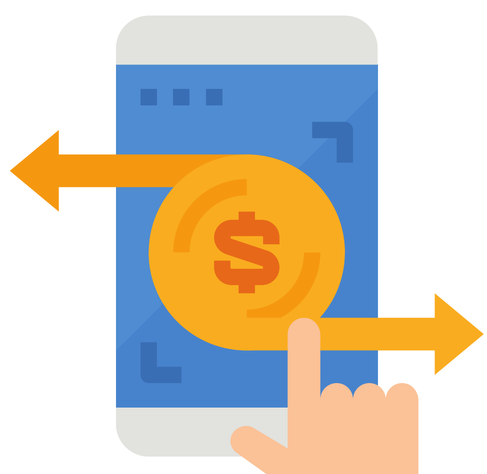
*"Look, bank-fintech partnerships, they're here to stay… **This is the future**, so let's do the future right."*

-Michael Hsu, Acting Comptroller of the Currency

Fintech Defined

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

(n) a **Fintech** is any financial technology company that is offering a product feature or banking function that requires a chartered FDIC-insured depository institution to perform. A sophisticated business client that uses the infrastructure of a BaaS Bank in exposing banking features of the BaaS Bank to its end users.



How Bank-Fintech Partnerships Create Competitive Advantages For Community Banks and Fintechs

The substantial growth of BaaS partnerships can be traced back to the rules and guidelines established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or more specific, the “Durbin Amendment”.

BaaS banks can diversify their deposit base and they can also increase fee income on loan side.

Unrestricted interchange income helps community banks compete in the competitive financial services marketplace where the top 10 largest banks in the U.S. by asset size (0.2% of all banks) control 51% of all U.S. deposits. The size of the larger U.S. banks demonstrates how scale can reward certain players in the financial services marketplace, sometimes to the determent of the consumer and overall market competitiveness.

Fintech firms help community banks compete against the largest banks by bringing certain advantages and overall scaling capacity. These advantages include:

- EXTREMELY LOW CUSTOMER ACQUISITION COSTS (CAC)
- ENHANCED USER EXPERIENCE (UX)
- ABILITY TO SOLVE FOR A SPECIFIC PROBLEM AND/OR SOCIOECONOMIC TARGET MARKETING (NICHES, COMMUNITIES, HOBBIES, ETC.)

WHY FINTECH IS A THREAT TO THE BIG 4

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. The reason why is because fintechs:

1. **Are Non-Geographic**
2. **Have Nimble Technology**
3. **Collectively Take Marketshare** (from the big 4)

BaaS partnerships are built for community banks and their partner fintechs. This is a reason why 63.5% of all U.S. Fintechs offer a debit card.

63.5%

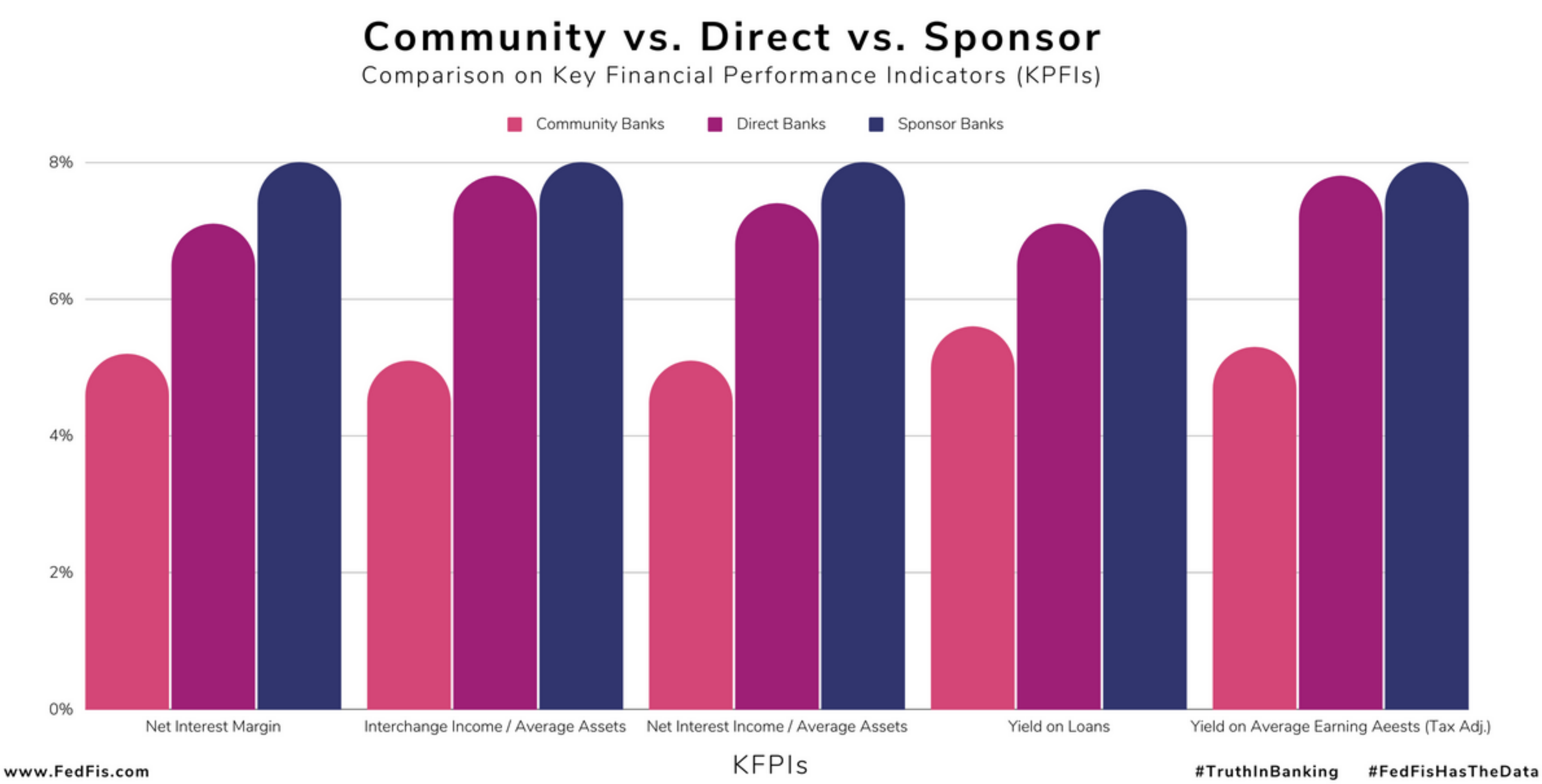
(including all types of debit cards: Consumer debit, Business debit, Prepaid GPR, Payroll, HSA)

Source: www.FedFis.com - FedFis Fintech Analytics© Database

How Each Party Benefits
From Bank-FinTech Partnerships

Community banks offering banking-as-a-service benefit:

1. Diversity of revenue: development of new revenue sources
2. Diversity of deposits: reducing deposits concentration risk
3. Diversity and inclusion: fintechs serving the underbanked (ESG/ESC)



Fintechs partnering with community banks benefit in three ways:

1. Access to a bank charter
2. Access to payments
3. Access to regulatory compliance

Consumers also are benefiting through:

1. Streamlined and unique products and services
2. Fintechs that serve markets that aren't defined by geography
3. 24/7 access to innovative and personalized financial services

When employing BaaS, community banking is no longer defined & limited by physical geography. This helps the community bank, the fintech partner, and most importantly, the consumer.

Increase the Value of The Bank Charter

A good reason for a community banks to offer banking-as-a-service is often overlooked: Fintechs are acquiring Banks! Being "fintech ready" provides significant additional value to the charter and is much more cost effective than the legacy branch model.

It's easier for a Fintech to buy a banking license, as opposed to going through the process of obtaining an FDIC banking license themselves.

BEING "FINTECH READY" PROVIDES SIGNIFICANT ADDITIONAL VALUE

Summary

The BaaS Association believes the BaaS Bank Model can be a powerful way for community banks and fintech providers to work together in a coherent manner that benefits the consumer in a compliant way.

These benefits allow banks and fintechs to offer competitive products and services to underbanked consumers and underserved communities, enabling further access of financial services.

JOIN THE BAAS ASSOCIATION TODAY

www.baasassociation.com

The Banking Helping Bankers (BHB) Banking-as-a-Service (BaaS) Association promotes and supports BaaS community banks and those affiliated with the BHB ecosystem and BaaS network.

The BaaS Association helps community banks become BaaS Banks and establish community bank-fintech partnerships.

These community bank-fintech partnerships create value for banks, their fintech partners, and the consumer in a compliant manner.

The BaaS Association provides education, collaboration, connections, and best-in-class practices that serve the unique needs of BaaS community banks and their executives.

The goal is to promote BaaS Banking that is regulatory compliant, protects the consumer, and increases regulatory visibility that benefits all. Join today!

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