Plan for Financial Technology Success

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While attending ICBA Community Banking LIVE® in Las Vegas last month, I happened to notice that some of the more popular Learning Labs were ones that focused on innovation and digital solutions. The opportunities presented by financial technology are ripe for the picking but sorting through them all to find the solution that delivers the most value for your bank and your customers can be challenging.

To navigate this terrain, I recommend that bankers begin by prioritizing financial technology opportunities that complement their strategic plans. Opportunities could include real-time payments, digital delivery, data analytics, and artificial intelligence. They should then share these priorities with their core processors. Due to the present lack of an open banking standard in the United States, a community bank’s core processing system remains a top infrastructure element, and as such, can significantly influence decisions. Most core processors are already working with or investing in fintechs however, open, and ongoing dialogue can help guide core vendors’ investment choices.

There are three primary models that banks can follow when choosing how to develop a financial technology project, each of which comes with its own risks and rewards:

* Banks can build a proprietary solution in-house.
* Banks can collaborate with a third-party to build a solution.
* Banks can purchase a financial technology solution.

There is no right or wrong answer. Ultimately, the three T’s - time, treasure and talent - should drive the decision. When working with a financial technology company, banks will want to follow the process they would for any new vendor and should be sure to look at additional risk factors that pertain specifically to the solution they are acquiring. For example, depending on the solution, more thorough review may be required to properly assess fraud risk, data encryption standards, and KYC (know your customer – the process used to identify and verify customers). More general questions to ask include how long the fintech has been in business, whether it is connected to your core, how much capital it has, who is investing in it, and who its customers are.

Banks will also want to do their diligence to assess whether the vendor can meet regulatory expectations. Financial technology firms are not regulated like banks, so be sure to thoroughly evaluate the vendor and the solution for regulatory compliance. Ultimately, balancing financial technology utilization against the risks to consumers is the responsibility of the bank. It is vital to put compliance and regulatory issues at the forefront of any financial technology deployment, whether the bank builds, collaborates, or buys the solution.

ICBA recently released its Fintech Strategy Roadmap for community banks as they increasingly work in partnership with fintech firms to deliver services to their customers. The roadmap, written in collaboration with Hunton & Williams LLP, offers a look at how community banks can successfully create, collaborate or invest in fintech partnerships while providing necessary considerations to ensure these strategic decisions fit within regulatory risk parameters.

The Fintech Strategy Roadmap is [available exclusively to ICBA members](https://www.icba.org/advocacy/reports)and is the first community bank resource that takes a deep dive into the legal and compliance elements associated with fintech partnerships.

ICBA also offers [a number of resources](http://www.icba.org/advocacy/reports) for our members that deal with core processor best practices and are designed to help community banks understand important aspects of managing the core processor relationship to maximize the return on their technology investments.