

# GOING DIGITAL



## **Community banks are the hearts of local economies. They need to digitize to stay competitive.**

In a panel moderated by Federal Reserve Bank of Philadelphia Senior Economic Advisor Julapa Jagtiani, five fintech leaders discussed how community banks can navigate digital lending companies. The panel included executives from Treasury Prime, LendingClub, Funding Circle, Blend, and Upstart.

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It's no secret that access to loans is a core need for small businesses. This has been especially true during the last year, when federal Paycheck Protection Program (PPP) loans helped keep roughly 700,000 businesses afloat, including many small businesses.

Community banks were at the heart of PPP loan dispersal, responsible for about 40 percent of the overall value of loans issued.

But as critical as community banks are to local economies -- they collectively hold more than \$3 trillion in assets across the U.S. -- they often struggle to digitize their services. Part of this is because individual small banks lack the economies of scale that have enabled larger institutions to make greater investments in technology.

Banks have no chance of keeping up if they don't come up with a digital strategy. Still, smaller financial organizations may be fearful about making the wrong move by spending big on fintech solutions that quickly fall out of date.

"You don't want to be stuck with a bunch of buggy whips a year before the invention of the Model T," said Philadelphia Fed CEO and President Patrick T. Harker.

That's where banking as a service (BaaS) providers come in. These intermediaries handle the hard work of keeping up with a changing fintech landscape, so that banks can focus on what they do best: Serving their customers.

For small chartered banks to continue to play their crucial role as lenders, they need to keep up with new lending technology. Here's what community banks need to know as they embark on their digital journey, according to one of the panelists, Treasury Prime CEO Chris Dean.

## **Chartered banks will always be essential**

"I don't think anyone really thinks that chartered banks aren't going to be important, that they aren't going to be the ones who are the essential players," said Dean.

Fintechs need chartered bank partners to provide the core services and financial security their end users need. The challenge comes with the culture gap between highly-regulated financial institutions and new, fast-moving fintech companies.

“We're trying to bridge that gap. We have a technology platform that fintechs to banks ... to bring them both deposits and credit opportunities. We think this is a huge change in how the market can work, and we're here to help banks benefit,” said Dean.

## **Community banks need the right fintech partners**

When it comes to compliance, “the bank is the one who's responsible for this at the end of the day,” said Dean. That's why banks invest in building the right systems and procedures, and having the right people in place, to make sure their governance models adhere to regulations.

“You can't really do this well without a partner” to run the technology platform said Dean. For every regulatory problem “the bank is on the hook, right? And they have to be comfortable with” what the fintech is doing. The bank must make sure that their governance model and entitlements are being followed at all times.

This is an area where the right BaaS provider plays a key role. You want to work with a BaaS intermediary who will connect you with fintechs you can really know and trust, who not only connect you with new customers and markets, but who also do so in a safe and secure manner.

## **Digital tools make compliance easier**

Banks sometimes worry that digitizing will complicate or interfere with their compliance processes. But when your system is digital, you have all the data you need easily accessible.

“It's actually much easier to do a lot of the regulatory reporting when you're purely digital,” said Dean. “It's really easy to generate every single touch point that the client has ever had with the product or with the bank itself.”

## **BaaS partners can help you navigate the world of APIs**

There are a lot of banking APIs out there “because there are a lot of activities today,” said Dean. The U.S. has a huge number of banks, and that makes it hard to create one unifying standard. Navigating this web is where BaaS providers like Treasury Prime come in.

“What Treasury prime does is try to present a consistent API to all its banks,” said Dean, adding, “Banks are great at lots of things. Technology development is usually not one of them.” But that’s a problem Treasury Prime can solve.

[Contact us](#) to discuss how Treasury Prime can help your bank grow with fintech clients.