

Q2

Banking as a Service

3 Requirements for Offering Banking Services (Without Being a Bank)



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There's a lot that goes into becoming a fully chartered and FDIC-insured bank. It's not something that most fintech companies have the willingness or bandwidth to pursue. But finding a way to offer basic banking products like debit cards or savings accounts could be a powerful way for companies that are not financial institutions to level up, drive adoption, and grab more market share.

The good news is that it is possible to offer banking services without jumping through the compliance hoops required to become a bank. It just takes the right technology and the right partners. In this white paper, we'll present three crucial pieces to offering banking services without being a bank—as well as a brief description of CorePro, the simple API that links them together.

Until recently, there's been no way for fintech companies to offer real FDIC-insured bank account products like deposit and savings, as well as debit card accounts. Prepaid cards have been an option for fintech, but with their associated fees and lack of regulation, they're a limited and problematic imitation of authentic and compliant debit cards.

So, with banking products off the table, fintech has spent the greater part of a decade building brands around single, simple solutions that fill specific needs like planning and aggregation—needs that banks haven't effectively met. In spite of the inability to deliver banking services, fintech has made an enormous impact on the financial services ecosystem. There are currently more than 1,500 fintech companies involved in payments, lending, and financial management alone.¹

At the same time, banking has arguably grown more monolithic, with fewer and larger banks controlling more assets. But fintech isn't done changing the ecosystem. By pairing the right technology and partnerships, fintech developers can now offer debit card accounts, savings accounts, and other everyday services that have previously been restricted to financial institutions (FIs) alone.

This might seem like a daunting prospect. But, if your users trust you to aggregate financial information and manage account services, why wouldn't they also trust you to handle the everyday financial services that are normally reserved for banks? It could be a game changer for everyone involved—and, though it's only recently become a possibility, it is possible.

As we see it, there are three crucial requirements that fintechs need to meet to offer bank account products:

¹ <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/financial-services/us-dcfs-fintech-by-the-numbers-web.pdf>

1. A banking partnership

Offering bank account products requires highly specialized expertise and a charter. As a non-bank entity, the capital, compliance lift, and long lead time necessary to become an FDIC-insured financial institution is not something most fintech developers are in a position to take on. But by aligning with a bank, fintechs can gain the ability to issue compliant, FDIC-insured accounts without investing in everything it takes to become a fully chartered bank.

Partnering with an FI—or possibly a network of FIs—gives you access to the necessary security and compliance infrastructure. Think of it as “banking as a service,” or “charter as a service.” Pairing compliant infrastructure with your user experience acumen brings together the best of both worlds, to the benefit of all involved.

2. A system for handling deposits.

To make your FI partnership work, you’ll need a shared technology stack that supports both the bank and your fintech—something that allows the development of the front-end products you want to offer, while serving as a compliant system of record for the bank.

Unfortunately, most of the legacy technology infrastructure utilized by the bank is optimized for full-service banking and does not support this kind of partnership well. But a handful of technology providers offer core banking systems that can:

- Operationally separate the fintech line-of-business from the full-service operations of the bank
- Serve as a system of record for all of the data needed to onboard, maintain, and manage customers’ accounts, balances, and transactions
- Generate documents, statements, and reports required for regulatory and service purposes

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- Accrue and pay interest
- Provide a user interface for administrative purposes
- Export data as necessary

3. A way to manage scale.

Scale is difficult to manage when partnering with financial institutions. Without getting too far into the regulatory weeds, there are some “sweet spots” to be maintained when partnering with FIs. Also, banks with more than \$10 billion in assets earn a smaller percentage of interchange revenue from debit/credit card usage. So, while you’re champing at the bit for growth, too much of a good thing can destabilize your FI partner’s balance sheet.

To keep the regulators and FIs happy in the face of deposit growth, the partnership and technology you take to market needs to provide the ability to scale without putting the bank at risk. Scale can be managed by fractionalizing deposits across a network of FIs; this distributes growth so that fintechs and FIs alike will enjoy the benefits in a way that scales without complication. To make this happen, fintechs will need a technology that handles this distribution, as well as a strategy that incorporates multiple FIs or an existing network of institutions capable of managing scale.

CorePro API

Q2's CorePro provides compliant bank account core processing in one simple API.

Any development-capable organization can use this cost-effective core processing platform to develop and deploy bank account and debit card products.

CorePro gives you everything you need to design, launch, and support banking products:

- Account and routing numbers
- ACH processing
- FDIC insurance
- Reporting and statement generation
- Security and compliance
- Administration controls

With CorePro, you can build and offer goal-based savings accounts, high-yield savings accounts, branded debit cards, and more.

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For more information go to [Q2.com](https://www.q2.com) or call (833) 444-3469.