



Community Bank Access to Innovation through Partnerships

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Preface

Community banks in the United States are increasingly partnering with third-party financial technology companies (fintechs) to access innovation. The Federal Reserve supports responsible innovation that provides community banks access to new technologies, while ensuring safety and soundness of the institutions and protection of consumers. Under the right circumstances and with the appropriate guardrails, partnerships with fintechs can provide community banks with this access, enabling them to better serve their customers and deploy innovations that may be too costly to develop independently. In a 2020 speech, Federal Reserve Board member Michelle W. Bowman stated that “the successful integration of financial technology into the community bank business model is proving to be enormously valuable to enable community banks to enhance the services they’ve already proven they can deliver effectively. Access to technology and services to meet customer needs is critical to ensuring community banks remain vibrant.”¹

This paper is intended to serve as a resource for community banks as they embark on responsible innovation. It provides an overview of the evolving landscape of community bank partnerships with fintechs, including the benefits and risks of different partnership types, and key considerations for engaging in such partnerships. While these lessons may apply broadly to the community bank sector, each institution should evaluate how fintech partnerships fit into their own strategic objectives based on their research, risk profile, and third-party risk management practices.

The insights in this paper are based on engagements with a variety of outreach participants and do not reflect the view of the Federal Reserve Board of Governors, the Federal Reserve Banks, or the staff of the Federal Reserve System.² This paper does not establish new or interpret existing guidance related to third-party risk.³ The information in this paper was obtained through conversations held outside of the supervisory process for exploratory purposes and does not contain information that could be used to uniquely identify individual institutions or partnerships. For further innovation work completed by the Federal Reserve Board of Governors, or to contact Federal Reserve staff about this paper, please visit the Federal Reserve Board’s Innovation web page.⁴

¹ Michelle W. Bowman, “Empowering Community Banks” (speech at the Conference for Community Bankers, Orlando, FL, February 10, 2020), <https://www.federalreserve.gov/newsevents/speech/bowman20200210a.htm>.

² The content of this paper is informed by a series of meetings held by Federal Reserve staff with representatives of over 40 U.S. community banks, fintechs, and other industry stakeholders in the first quarter of 2021.

³ See SR Letter 23-4, “Interagency Guidance on Third-Party Relationships: Risk Management” (June 7, 2023), <https://www.federalreserve.gov/supervisionreg/srletters/SR2304.htm>.

⁴ See www.federalreserve.gov/aboutthefed/innovation.htm.

This publication has been updated to reference final guidance issued in June 2023 by Supervision and Regulation (SR) Letter 23-4, “Interagency Guidance on Third-Party Relationships: Risk Management.”

Executive Summary

Community bankers are committed to meeting the diverse needs of their respective communities. Many of the skills that have long enabled them to meet these needs are also strengths in identifying, accessing, and implementing innovative technologies. These key skills include a focus on relationships, agility in meeting evolving challenges, and an understanding of local context. While innovation is already prevalent within pockets of the community banking sector,⁵ there may be additional opportunities for innovation through partnerships with fintechs.⁶ Community banks do not view innovation as an isolated or risk-free initiative. They instead consider responsible innovation as part of their overall strategy and risk management framework. They identify and implement solutions tailored to the needs of their customers, while maintaining sound banking operations and appropriate consumer protections.

The paper is divided into two main sections: the [first section discusses broad partnership types and their associated benefits, risks, and challenges](#); and the [second section discusses key elements of success as stated by outreach participants](#).

Community bank partnerships with fintechs can vary depending on the strategic objectives and risk profile of the bank. Three broad categories of partnerships emerged during the outreach discussions:

- **Operational technology partnerships**, wherein a community bank deploys third-party technology to its own processes or infrastructure to improve efficiency and effectiveness.
- **Customer-oriented partnerships**, wherein a community bank engages a third-party to enhance various customer-facing aspects of its business, and the bank continues to interact directly with its customers.
- **Front-end fintech partnerships**, wherein a bank's infrastructure is combined with technology developed by a fintech, with the fintech interacting directly with the end-customer in the delivery of banking products and services.

Outreach participants generally believed that fintech partnerships were most effective when three elements were present: a *commitment to innovation* across the community bank; *alignment of priorities and objectives* of the community bank and its fintech partner; and a *thoughtful approach to*

⁵ Community banks serve businesses and consumers throughout the country, in both rural and urban areas, and are leading providers of credit to small businesses. For purposes of this paper, community banks can be defined as those with less than \$10 billion in assets.

⁶ Fintech partnerships are broadly defined in this paper as partnerships undertaken to improve or expand an aspect of bank operations, technology infrastructure, or products and services. Fintech partnerships include a range of relationship structures, including traditional vendor partnerships where a bank receives a service from the third party and exclusive arrangements in which the community bank and fintech share objectives and outcomes.

establishing technical connections between key parties, including the bank, fintech, and the bank's core services provider.

- Community banks that have **committed to innovation** expressed that their senior management and boards of directors are prepared to make meaningful investments of time and resources in technology. Before making investments in technology, leadership identifies the problem to be solved and the gains they hope to realize from these investments, often using key performance indicators and concrete goals.
- **Alignment of priorities and objectives** between the fintech and the community bank—which participants viewed as the foundation for building and maintaining effective partnerships—can include but is not limited to agreement on the appropriate use of customer data, the establishment of effective risk management standards, mutual emphasis on compliance with bank regulation, and a shared belief in the importance of frequent and direct communication.
- Community banks that have **thoughtfully approached connectivity with fintechs** have considered trade-offs across flexibility, cost, breadth of partner selection, and convenience before establishing technical connections. Connections with fintechs are considered part of an integrated process where information can flow across systems, and siloed bank processes are eliminated where possible.

Fintech Partnership Types and the Associated Benefits, Risks, and Challenges

The landscape of bank-fintech partnerships is broad, with a wide range of associated benefits, risks, and challenges. The examples discussed by outreach participants generally fit into three categories: operational technology, customer-oriented, and front-end fintech partnerships (see figure 1). While the three partnership types have several overlapping considerations, outreach discussions highlighted how each type targets specific strategic needs and objectives of community banks.

Operational Technology Partnerships

Operational technology partnerships with fintechs aim to enhance a bank's processes, monitoring capabilities, or technical infrastructure. As these partnerships involve improvements to banks' internal systems, they may not be evident to bank customers. Operational technology partnerships may be established to streamline existing processes or to improve the bank's ability to comply with regulatory requirements (also referred to as "regtech" solutions). For example, technology that automates aspects of the loan origination process can save both time and resources and can lower the cost of credit underwriting. In addition, technology that enhances fraud detection or provides more reliable customer authentication can strengthen a bank's ability to comply with Bank



Secrecy Act/Anti-Money Laundering (BSA/AML) requirements. Operational technology solutions aim to reduce potential for error, create efficiencies, and allow for the reallocation of resources to other bank functions. These partnerships may also be simpler to implement than other partnership types, as they typically require less complex integration with existing technology infrastructure.

Several bankers participating in the outreach noted that they began increasing operational efficiency by using software services to simplify one specific business process, such as customer relationship management or marketing. After introducing these technology solutions in one area and seeing initial success, these bankers incrementally expanded them to other bank departments or functions. For example, one banker worked for a year to implement a workflow solution. In the two years following implementation, the workflow system became an essential input into decisionmaking and balancing staff workloads in the bank's loan operations division. As a result, this banker replicated the same workflow system across other departments within the community bank. At another bank, a CEO used software services to introduce a loan servicing queue within the bank. With the queue, task prioritization occurs via a ticketing system. These examples illustrate how certain solutions may take time to implement but can offer benefits over the long term, occasionally requiring iteration along the way.

Operational technology partnerships have allowed banks to improve processes pertaining to their core business in addition to improving workflow and customer relationship management. For example, several bankers described exploring loan origination system automation. These arrangements can require several third-party partners, and bankers who successfully deployed these systems emphasized the need to manage multiple relationships and to understand the technical connections among them. Others have explored the use of credit underwriting models developed by fintechs. These products may enable the bank to offer smaller retail loans by lowering the cost of underwriting in addition to offering the potential for new customer acquisition through the fintech partner.

The benefits of operational technology partnerships with fintechs can be considerable. However, bankers noted that these relationships require them to understand a new suite of products and services and their inherent operational and security risks. For example, when integrating third-party technology into lending processes, bankers expressed their need to understand and get comfortable with key drivers of loan approvals and terms. The use of third-party technology or platforms for loan origination can, in some cases, increase the potential for human error—for example, where implementation requires manual loan entry to multiple systems. In the BSA/AML space, several bankers noted in the outreach that they had adopted third-party solutions but were aware of their limits and sought to address them. One banker who recently adopted a fraud detection solution still recognized the need for continued monitoring and other process enhancements, such

as multi-factor authentication. Several other participants felt similarly, noting that digital account opening solutions continue to be a common challenge within the industry.

Outreach participants noted that the adoption of operational technology partnerships may also require new types of expertise. The introduction of software services to a business, for example, may require hiring staff with knowledge of the specific software and its related platforms. Several participants expanded their search for technology experts beyond the banking sector upon adopting new fintech solutions. They expressed that they often prioritize technical knowledge over a banking background for strategic technical hires. Others invested in staff development and training to expand in-house proficiency with third-party solutions.

Customer-Oriented Partnerships

In customer-oriented partnerships, the community bank engages a fintech to enhance various customer-facing aspects of its business. For example, several community banks shared that they are partnering with fintechs to explore online account opening tools, facilitate access to goal-based savings applications, integrate applications that simplify person-to-person (P2P) money movement, or enhance their existing mobile deposit platforms.

Customer-oriented partnerships can improve community banks' abilities to meet and exceed customer needs and expectations. In the 2020 Conference of State Bank Supervisors Survey of Community Banks, more than 63 percent of respondents said that adopting new or emerging technologies was important or very important for meeting customer demand.⁷ For example, partnerships with fintechs may help establish a digital front-end for community banks to facilitate initial customer authentication, account opening, and loan origination without requiring customers to visit a physical branch location. Developing a comprehensive suite of digital banking services can be useful for nationwide deposit-gathering. In some cases, this model has also allowed banks to branch into specialized loan products for geographically dispersed borrowers.

In addition to supporting growth of a community bank's core business, bankers noted that customer-oriented partnerships can improve their agility in serving customers. Nearly all participants noted the importance of a customer-friendly digital banking environment in the context of the COVID-19 pandemic. In response to the COVID-19 pandemic, many community bankers partnered with fintechs or with their core providers to rapidly develop and roll out Paycheck Protection Program (PPP) application modules for their clients. Several bankers expressed that during the COVID-19 pandemic they saw value in products they might not have considered in prior years, such as bank teller video chat capabilities (see [box 1](#)).

⁷ Conference of State Bank Supervisors, *Community Banking in the 21st Century*, 2020 Research and Policy Conference, https://www.csbs.org/system/files/2020-09/cb21publication_2020.pdf. The annual conference is co-sponsored by the Conference of State Bank Supervisors, the FDIC, and the Federal Reserve System.

Box 1. High-Touch and High-Tech

Personal touch and customer relationships are a source of pride for many community bankers.

Several bankers emphasized that improving digital products enhances their abilities to build strong customer relationships instead of diminishing them. For example, while the COVID-19 pandemic drove customers toward digital adoption, several bankers expressed that it also created a stronger desire for personal interactions. One banker noted that call center volume increased by 700 percent during the COVID-19 pandemic, a trend that continued into 2021. Some senior managers of digital community banks emphasized the importance of a personal touch, such as a phone call to notify a customer of a loan approval, and other community bankers have found value in videoconferencing technology that became essential during the COVID-19 pandemic. While videoconferencing technology adoption may not have been a central priority before the COVID-19 pandemic, these bankers expressed that this additional dimension of communication enhanced their customers' experiences, and they believed its use would be likely to continue even after physical interaction with customers resumed.

In introducing new products, some bankers cautioned against rushing to market to remain competitive, focusing on the reputational risk associated with introducing customers to a product that may not meet their standards. Bankers also emphasized the need to ensure that customer-facing interfaces include required disclosures to avoid exposing the bank to potential Unfair or Deceptive Acts or Practices (UDAP) risk. For instance, one participant shared that his bank had received a volume of consumer complaints because of design elements of customer-facing products developed by a fintech partner. The bank worked with its partner to improve later versions of the product and reduce compliance risk.

Adopting multiple customer-oriented third-party solutions without creating silos in technical infrastructure can present a challenge for community banks. For example, requiring bank customers to visit separate digital platforms to access information about their mortgage and their credit card can create a disjointed customer experience, regardless of the digital platform's quality. One banker cited a fintech's ability to integrate within the bank's existing customer-facing platforms as the central determinant of the decision to establish a relationship. He stressed the importance of incorporating the service within the bank's own website without loss of functionality.

Front-End Fintech Partnerships

Separate from and less common than customer-oriented and operational technology partnerships, some community banks have engaged in relationships where a fintech interacts directly with the customer in providing banking products and services. These partnerships represent an evolving business approach that has at times been referred to as "Banking-as-a-Service." These partnerships generally involve the combination of a bank's infrastructure—specifically, the ability to accept deposits, access payment rails, extend credit, or issue debit and credit cards—with the technology of a fintech. These relationships encompass a wide range of practices with respect to

technical connections between the banks and fintechs, the strategic objectives of both parties, and the ways in which compliance and risk management frameworks are established across the relationship.

These partnerships offer several potential benefits to community banks, including the opportunity to reach new or broader customer segments that the bank might not have reached through traditional or established channels. These new customers can potentially drive increased deposit collection, diversification of existing lending portfolios, and the generation of additional non-interest income, such as transaction fees. These partnerships may also provide more intangible benefits. Some community bankers cited front-end fintech partnerships as an opportunity to enhance the bank's existing technological capabilities while partnering with fintechs with a growing digital customer base.

Participants noted the unique characteristics of front-end fintech partnerships can result in heightened third-party risks, as the fintech partner essentially acts as an extension of the bank from the perspective of the end-consumer. Some community bankers noted enhancing their third-party risk management practices to mitigate the potential risks of these partnerships. For example, one banker described evaluating a potential fintech partner using the bank's existing credit risk identification program. This approach strengthened the firm's standard due diligence process. Another community banker noted that early and frequent discussions with supervisors clarified how existing third-party risk management expectations fit into their framework for fintech partnerships.

Several community bankers who are engaged in front-end fintech partnerships noted the relative inexperience of some fintechs with bank supervision and regulation. To ensure compliance with bank regulations, they enhanced oversight of their partners and further built out their existing third-party risk management programs. As with customer-oriented partnerships, these partnerships could expose a bank to UDAP and other compliance risks. For example, one banker described a fintech partner that frequently wanted to adjust marketing materials without an appropriate review process. Some bankers have created operational and compliance toolkits or training sessions for fintech partners to educate them about bank regulation, in an effort to reduce potential third-party risks to which the bank is exposed.

Participants noted that front-end fintech partnerships can also pose heightened reputational risk for banks as the fintech partner assumes responsibility for interactions with the end-consumer. One participant noted potential turnover risk associated with fintech partners. If a fintech partner fails because of a lack of funding or support from its investors, the bank partner is often responsible for unwinding the customer relationship. Some community bankers noted the importance of careful contingency planning in advance of engaging in a front-end fintech partnership.

Establishing technical connections to various fintechs involved in these partnerships was another challenge community bankers described. In some instances, community banks built new digital infrastructure to meet the requirements of their fintech partners. The digital infrastructure of these partnerships can be developed and maintained in several ways, including internal development with a robust team of technical engineers, the engagement of additional third parties specifically focused on technical connections, and working with existing technology partners to enhance systems to meet the needs of the front-end fintech partnerships.

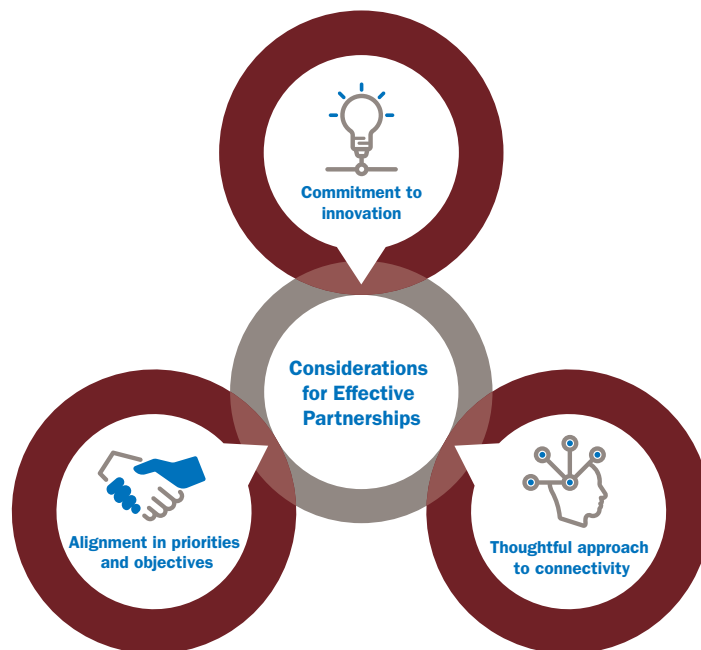
Considerations in Establishing Effective Fintech Partnerships

Though each fintech partnership presents its own challenges, several considerations in pursuing and entering partnerships were common across our outreach discussions. Specifically, participants said that bank [commitment to innovation](#) was an important foundation for fintech partnerships. They spoke of the need to understand what the bank would be solving for with potential partnerships and the need to secure buy-in from senior management and the board before pursuing them.

When selecting fintech partners and building relationships with them, participants cited the importance of [alignment in priorities and objectives](#) and a [mutual emphasis on collaboration](#). These partnership elements facilitate banks' abilities to build detailed roadmaps for product development and implementation. Finally, community banks that have [thoughtfully approached connectivity with fintechs](#) have considered trade-offs across flexibility, cost, breadth of partner selection, and convenience before establishing technical connections (also see [figure 2](#)). Community banks and

Figure 2. Considerations for effective partnerships

Three major themes emerged from the Federal Reserve's outreach effort to community banks and fintechs.



fintech partners often strive to eliminate siloed bank processes and ensure that information can flow across systems in real time, but also consider the context of existing technical infrastructure and third-party relationships.

Commitment to Innovation

Participants noted that a bank culture that prioritizes innovation is most effective when bankers can identify the gains they hope to realize from technology. Many participants in the outreach effort explained that having a general idea of what it means to be an innovative bank is not sufficient. They emphasized their need to know what they are solving for with a prospective partnership. One banker stated that he begins the search for prospective partnerships by identifying areas where his bank could improve efficiency the most, followed by understanding the universe of fintechs that offer those services.

Taking time to identify concrete goals and key performance indicators can simplify the process of selecting third-party partners. Successful outcomes may be bank- and strategy-specific. For example, multiple participants spoke of facilitating P2P money movement through third-party partnerships and facilitating money movement meant something different to each one (see [box 2](#)).

Several bankers expressed that a shift in mindset was necessary as they embraced innovative technologies and fintech partnerships. For example, improving technology within community banks can be a resource-intensive endeavor that may not bear immediate returns. It may take several years for banks to realize gains from significant commitments to technology. Yet these bankers

Box 2. Varying Approaches to Facilitating Person-to-Person Money Movement

Bankers described varying approaches to facilitating person-to-person (P2P) payments, each aligning with their strategic objectives.

Some bankers found that their core providers offer payment products that suit their needs or have successfully worked with their core providers to develop these products. Others chose to partner with fintechs, or to invest in the development of a new application. For example, one banker prioritized customer adoption, aiming to introduce a P2P product that customers would use. After considering the landscape of existing P2P payment applications and consulting with other community bankers with a similar objective, this banker chose a partner with a product that already made significant inroads with one of the bank's target demographics.

Other bankers cared most about the speed of transactions, offering options to accelerate the settlement of payments between customers. One bank worked with its core provider to offer real-time P2P settlement to any debit card holder. Another contracted with a third party to develop a payments application that could import a mobile payment request into the bank's existing automated clearing house (ACH) process, an effective method of near-real-time settlement using its existing infrastructure.

stressed the importance of senior management and the board prioritizing access to innovation in the long term. The specifics of these commitments vary across banks, but several bankers described hiring technology-dedicated staff, ensuring buy-in at the staff level, and searching for fintech solutions that meet the bank's idiosyncratic needs and allow for product distinction.

Bankers who have effectively prioritized innovation within their banks felt it essential to create an environment in which technology professionals are part of the bank's strategy and broader team. One banker found it necessary to recognize technology professionals as partners in driving revenue, instead of focusing on the costs of a robust technology program. In their view, technology-dedicated staff should not operate in a silo. Several bankers spoke of the importance of cross-functional teams for building a roadmap to achieve strategic objectives, and some also focused on enhancing staff flexibility by training existing employees in new technologies and allowing them to shift job types more easily. Others noted the benefit of hiring staff with extensive experience in the technology industry, even though they may have less relevant banking experience than a senior manager would typically look for in potential hires.

While a mindset shift among senior leadership may be necessary for improving access to innovation, it may also be insufficient for implementing innovative solutions if staff uptake is lacking. One banker cited the importance of staff buy-in because staff are usually the end-users of new technology. This banker had spent time and money to obtain a new customer relationship management product he felt was innovative but considered its rollout a failure because no staff member had entered a comment in the system for several years. Another banker expressed that shifting attitudes among staff took time and education at his family bank, which had previously cultivated a traditional and risk-averse culture.

Alignment in Priorities and Objectives

Many community bankers rely on the same strengths that allow them to succeed in relationship banking to select fintech partners who share their priorities and strategic objectives. While business models, strategies, and risk profiles vary across community banks, bankers generally expressed that they preferred to work with fintechs that understand what it means to be a fiduciary and a financial services partner.

For many participants, being a financial services partner meant a mutual emphasis on the importance of compliance with banking regulations. Some bankers noted that their fintech partners maintain their own compliance staff and engage in independent fraud monitoring, building a system of redundancy. They were generally encouraged by an emerging trend of fintechs retaining staff with banking experience and expertise. Others were willing to educate their partners about bank regulations and supervisory views but stated that they would only partner with fintechs that would adhere to the bank's risk management standards, deferring to the bank in its area of exper-

tise. Several participants suggested that as community banks build innovation into their cultures, more technology providers could benefit from integrating banks' emphasis on consumer compliance into their own cultures.

Bankers also sought fintech partners that would approach customer service and strive to meet customer expectations at their level. As an example, one community banker expressed concerns that a prospective fintech partner offering a PPP loan application platform would sell small business customer data. As a result, this banker explored other partnership options and ultimately chose to partner with a fintech that agreed not to collect or retain the bank's customer information. The trade-off between speed-to-market and product quality was also a concern for some bankers. They noted that fintechs often excel at introducing a customer-facing product quickly, sometimes to the detriment of a complete or reliable product.

Some community bankers expressed a reluctance to be first to engage in a relationship with a less established fintech, with many participants articulating a strategy of being on the "leading edge" instead of the "bleeding edge." For some community bankers, this hesitation to engage with less established fintechs reflected concerns about solvency and a prospective partner's ability to remain a going concern while their products were being developed or implemented. For others, this hesitation reflected general concerns about partnering with an unknown entity, reluctance to compensate for a fintech's inexperience with compliance or regulatory requirements, or doubts that a fintech was aligned with the bank's objectives. This deliberate approach to partner selection reflects the importance community bankers place on trust in their fintech partners.

As a third party moves from prospective partner to an established relationship, community bankers view the formation of strong relationships as a vital element to their shared success. Community bankers generally demonstrate strength in developing and maintaining business relationships with their customers and pride themselves on being accessible, and many participants expected the same of fintechs. As an example, a handful of community bankers noted a key consideration with a prospective partner was the ability to reach the fintech's senior leadership through a simple phone call. In addition to being the preferred method of communication for several community bankers, those phone calls were paramount in working through inevitable hurdles through the partnership process, including those related to technical connections (see [box 3](#)).

Thoughtful Approach to Connectivity

Integration of third-party technology into a community bank's existing environment varies widely across banks and reflects individual banks' responses to trade-offs across flexibility, adaptability, cost, breadth of partner selection, and convenience. Where feasible, community bankers strive to build third-party connections that will integrate seamlessly into bank processes and explore real-

Box 3. Building a Roadmap for Implementation

Translating strategic objectives and success metrics to tangible outcomes often requires significant stakeholder input.

Community bankers work with other bankers, their partners, and a diverse cross-section of staff to plan technology implementation. Each technology solution comes with its own implementation requirements but often the weight of the implementation effort can be a significant deterrent for a community bank with finite resources.

Benchmarking expectations for technology implementation against other community banks' experiences was a useful exercise for several community bankers. One banker engages with banks like his own to better understand how products are working for them before adopting new technologies. For example, when his bank was considering shifting key processes to a fintech's open banking platform, he sent a team to visit another community bank that had recently completed the process. He expressed that this visit allowed his team to better understand feasible timelines for product implementation. If his bank has established a 12-month timeline for product implementation, he would eliminate from consideration products that other banks adopted over two or three years.

Several bankers also described the importance of "whiteboarding," or technical integration planning sessions that include a cross-disciplinary group of staff and often fintech partners. In these sessions, a team plans stages of implementation, identifying key milestones and the use of financial and staff resources necessary to complete them within a specified timeframe. One banker emphasized the importance of convening experts from all functions for these sessions and stated that senior management as well as representatives of his bank's compliance, risk, information technology (IT), and operations divisions participate in whiteboarding. Multiple bankers found it essential to include staff with extensive knowledge of their core provider's infrastructure in these conversations, as fintech relationships often require data to flow between the fintech and core provider. These sessions can help management identify potential implementation issues in advance, and can be useful for understanding data flow, identifying application programming interface (API) or other connections that may need to be established between banks and third parties, planning a proof of concept, and clarifying staffing needs.¹

Whiteboarding sessions may also include a plan for verifying the viability of a product or service before officially introducing it to the bank's customers. In customer-oriented partnerships specifically, bankers focused on customer satisfaction and retention were aware of the reputational risk they could incur by making faulty products available for use. Several participants described protocols approved by senior-level committees to reduce the risk of introducing incomplete or otherwise defective products, including building testing, staging, and production environments, and creating pilot programs for a subset of customers or bank employees.

¹ Application programming interfaces used in fintech partnerships are technical integrations between banks and their fintech partners that allow for the real-time transfer of information, such as customer transaction data.

time data transfer. However, each bank's unique approach to connectivity often reflects its existing technical infrastructure and existing relationships with several third parties.

Bankers emphasized the importance of eliminating siloed bank processes and ensuring that information can flow across systems. One banker cautioned against creating a "Frankenstein" of technology or customer experiences, where systems are patched together and lack cohesion. The adoption of products and services that perform well independently but are incompatible with other

bank technologies can create a disjointed customer experience or limit a bank's capabilities to analyze its data. Long-term planning can help ensure compatibility across products, as process implementation is often incremental and dependent on past success. For example, one banker who first offered consumer lending through a specific platform later built online business account opening and small business lending solutions using the same platform.

Bankers noted it may be helpful to envision an end-to-end automated process, where an output of one system serves as an input to another without manual interference. Even if a bank is not currently positioned to build such a process, mapping the process may help a bank to prioritize technology investments and identify data irregularities. Streamlining information flows and eliminating data silos can also improve record-keeping, enhance analytical capabilities, reallocate valuable staff resources, and simplify regulatory compliance. In addition, several bankers invested in efforts to combine data from multiple sources to a single location with the objective of obtaining a complete view of their customers and exploring targeted marketing.

The outreach effort suggests that application programming interfaces (APIs) are gaining popularity among community banks as a data transfer solution, though some community banks prefer solutions that are more easily integrated into their existing technical infrastructure. APIs enable real-time flow of information between separate entities, and several bankers noted that they prioritize hiring development staff with the skills to build APIs or engaging third parties to build APIs. One banker said real-time connectivity was his litmus test for a fintech product, while others preferred solutions they could implement faster or at a lower cost. Fintechs may offer community bank partners the option to connect through an API or an alternative that is more compatible with the bank's existing processes. For example, one fintech explained that it offers to send its bank partners text files at a regular frequency for manual upload to their existing systems, and that many bank partners prefer that option. While these manual solutions may not come with the advantages of using APIs, they may enable some community banks to take the initial steps toward more innovative solutions and fintech partnerships.

The role of a bank's core technology provider in facilitating fintech connections is shaped by the bank's individual objectives and prioritization of convenience, cost, and flexibility. Some bankers noted that they begin their search for technology solutions with products and services offered or recommended by their core providers. Several core providers have established or are in the process of establishing APIs with specific third parties, and some bankers expressed that they feel most comfortable using APIs their core provider has developed. Bankers also noted that their core providers were able to build customized APIs for third parties upon request or provided open APIs to which third parties could build connections. While some bankers felt this option was most convenient, they noted that these arrangements could be costly and in some cases the terms may be inflexible.

Other bankers explored partnerships with fintechs or developed technical infrastructure without significant input from their core providers, including through customized APIs. They expressed that these solutions could simplify and accelerate the process of partnering with multiple fintechs, and they found the relatively wide selection of potential partners appealing. However, these solutions introduce additional considerations, such as the need to uniquely identify customers across technology platforms and establish a process for reconciliation to the general ledger. Banks vary in their approaches to these considerations. For example, one bank built an API between its third-party loan platform and its core provider, other banks bundled activity from an API architecture provider and posted those flows to their core at a regular frequency, and others invested in a central data repository that could combine data flows from distinct silos.

Conclusion

As the landscape of financial technology continues to evolve, a bank's access to and understanding of that technology will play a vital part in its ability to effectively meet the needs of its community. The observations included in this paper may provide context for community banks considering fintech partnerships but do not represent the only path for improving access to innovative financial technologies. With appropriate risk management and compliance guardrails, fintech partnerships present a notable opportunity for community banks to strengthen existing operations, particularly when the partnership serves the unique strategic objectives of both parties.

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