

# FinTech Partnerships Are in Trouble:

*Flexibility is Key to Reducing Costs  
& Increasing Compliance Readiness*

**Tuesday, February 28th @ 1PM EST**

**Hosted by:**



**Michael Glotz**  
SRA



**Edward Sullivan**  
Trust Exchange



**Al Palmer**  
SRA

# Speakers



**Michael Glotz**

CEO & Co-founder  
Strategic Risk Associates



**Ed Sullivan**

CEO & Founder  
Trust Exchange



**Al Palmer**

Chief Risk & FinTech Officer  
Strategic Risk Associates

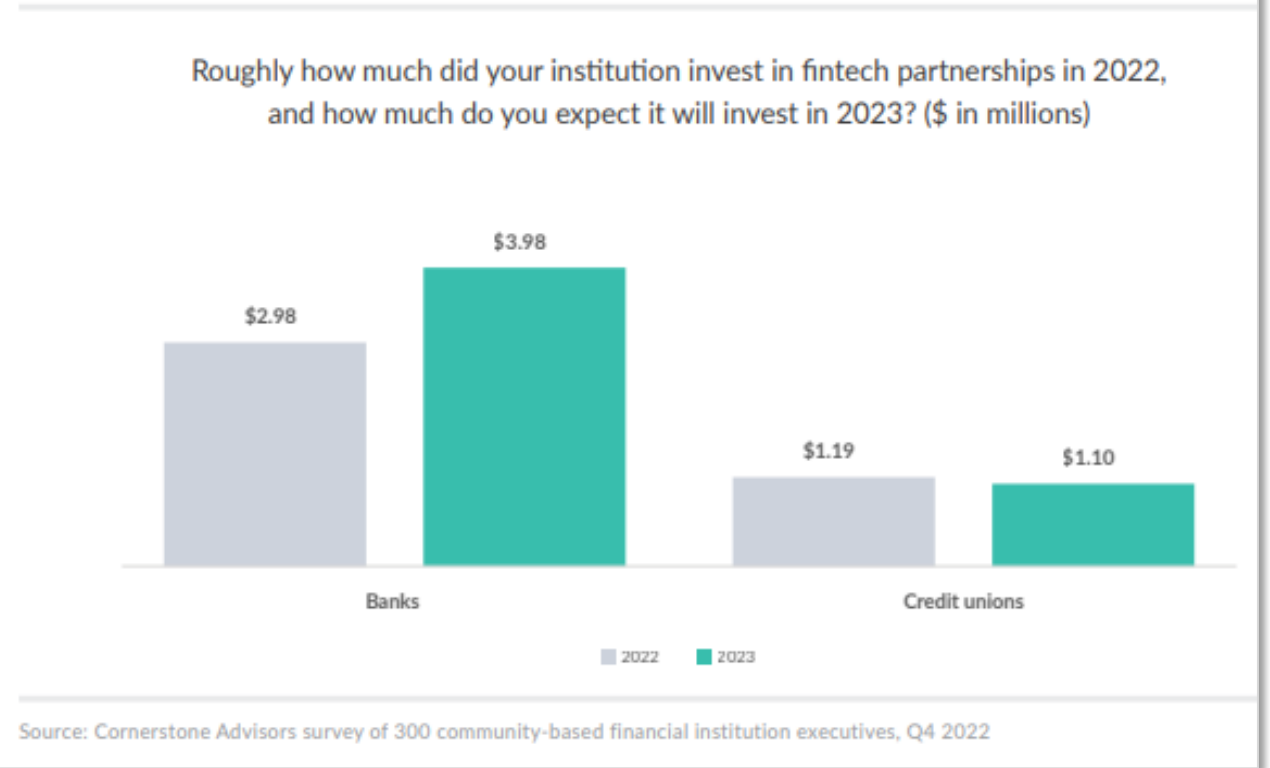


# Industry Landscape

*Most Banks, Credit Unions & other FS companies now consider FinTech Partnerships to be crucial to their future success*

- ✓ There has been a **steady increase in the number of FinTech companies entering the market** and competing with Banks and other Financial Service companies.
- ✓ Many in the Industry see them as a threat and others see FinTech Partnerships as an **opportunity** to offer new products/services and footprint and stay competitive

**Figure 30: Financial Institutions' Investments in Fintech Startups**



"Cornerstone Advisors What's Going On in Banking 2023"

# Regulatory Reaction

As expected, Regulators have taken notice of these changes

- **Regulatory Guidance:**
  - *FRB, FDIC, OCC August 2021 – Conducting Due Diligence on Financial Technology Companies*
  - *FRB September 2021 – Community Bank Access to Innovation through Partnerships*
  - *Additional Interagency Guidance on Third Party Risk Management*
  - **Consent Orders and Formal Agreements** have been issued
- Banks, Credit Unions and other regulated Financial Services Companies are **accountable for the actions of, and issues related to their FinTech Partnerships – Extension of the Bank's Infrastructure**
- **Comprehensive upfront due diligence / risk assessments**
- **Ongoing risk-based monitoring programs**
- **Creating Transparency is key**

# Strong FinTech Risk Management Capabilities are Critical for Success

## Many banks face risk infrastructure challenges



Technology



Talent



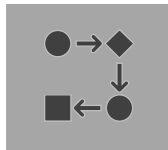
Security



Regulatory Compliance  
(AML/BSA - Fair Lending)



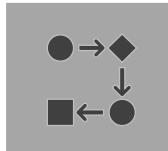
Different Data Quality Levels



Ability to Operationally Monitor Risks and Controls  
(Third Party Vendor Management)



Change Management, Agility & Responsiveness



Insight into FinTech Operational Risk Profiles



# FINTECH REGULATORY GUIDANCE

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# OCC, FRB, FDIC – Conducting Due Diligence & Monitoring on Financial Technology Companies

## Raised the Bar on FinTech Risk Management in Banking

### Bank Responsibilities for Each Individual FinTech – *Upfront Due Diligence & Ongoing Monitoring*

- ✓ Business Experience & Qualifications
- ✓ Business Strategies & Plans
- ✓ Qualifications & Backgrounds of Directors & Company Principals
- ✓ Financial Condition
- ✓ Market Information
- ✓ Legal & Regulatory Compliance
- ✓ Risk Management & Controls
- ✓ Audit Results & Remediation Status
- ✓ Information Security
- ✓ Operational Resilience
- ✓ Reliance on Subcontractors



# OCC, FRB, FDIC – *More Details*

## Bank Responsibilities for Each Individual FinTech – *Upfront Due Diligence & Ongoing Monitoring*

- ✓ **Business Experience & Qualifications:** Evaluating business experience, strategic goals, and overall qualifications enables a bank to consider a FinTech company's experience in conducting the activity and its ability to meet the bank's needs.
- ✓ **Business Strategies & Plans:** Understanding strategic plans provides insight on key decisions under considerations, new products / services, partnerships or business combinations and the potential impact on the bank.
- ✓ **Qualifications & Backgrounds of Directors & Company Principals:** Understanding the background and expertise of the company's directors and executive leadership.
- ✓ **Financial Condition:** Banks must understand the current and projected financial condition of the FinTech, including understanding how they fund current operations as well as funding sources for future needs.
- ✓ **Market Information:** Understanding the FinTech's competitive environment can provide additional insight on the company's viability. Information on their client base can assist in determining whether there is too much reliance on certain key clients.
- ✓ **Legal & Regulatory Compliance:** Banks must understand the form of the FinTech's legal entity structure, where is it licensed to do business and for what products / services. The same holds true for its Compliance Management Program.
- ✓ **Risk Management & Controls:** Assessing the adequacy and effectiveness of the FinTech's internal controls and risk management practices is critical to ensure that controls are in place and that the risk appetite of the company is in line with that of the Bank. FinTech's are more likely to outsource Internal Audit functions and it is important to understand the nature and scope of Audit coverage
- ✓ **Results & Remediation Status:** The results of Audits and other control reviews and status of remediation activities can provide insight into the adequacy and effectiveness of the systems of internal control.
- ✓ **Information Security:** It is critical to understand what security framework a FinTech employs to manage cybersecurity risk. Scope, frequency and results of information security control assessments (penetration testing, vulnerability assessments) provide key information on the strength of the Information Security Program.
- ✓ **Operational Resilience:** Review of FinTech's business continuity, incident response, disaster recovery plan and related testing are key to understanding their ability to continue operations in the event of a disruptions
- ✓ **Reliance on Subcontractors:** FinTech's may be more likely to rely on the services of other providers. Understanding who these providers are and the processes in place for monitoring their controls and performance is vitally important.



# Regulatory Scrutiny & Focus

April 2022

## CFPB Invokes Dormant Authority to Examine Nonbank Companies

The CFPB announced that it is invoking a largely unused legal provision to examine nonbank financial companies that pose risks to consumers. The CFPB believes that **utilizing this dormant authority will help protect consumers and level the playing field** between banks and nonbanks.

August 2022

## CFPB Takes Action Against a Company for Lying to Consumers About Its Automated Savings Algorithm

The order enjoins the Company from making any misrepresentations related to its auto-save tool. Had to provide at least **\$68,145 in redress to consumers** who were denied overdraft fee reimbursement - Pay a **\$2.7 million penalty**

October 2022

## OCC Announced Office of Financial Technology

The Office of the Comptroller of the Currency announced it will establish an Office of Financial Technology early in 2023 to bolster the agency's expertise and ability to adapt to a rapidly changing banking landscape. The Office of Financial Technology will build on and incorporate the Office of Innovation, which the OCC established in 2016 to coordinate agency efforts to support responsible financial innovation. This resulted from the significant increases in Bank & FinTech Partnerships.

# Regulatory Scrutiny

August 2022

## OCC Formal Written Agreement with a National Bank

*OCC found unsafe and unsound practices including those related to third-party risk management, Bank Secrecy Act / Anti Money Laundering risk management, suspicious activity reporting, and information technology control and risk governance.*

### Requirements:

1. **Establish a Board Compliance Committee** to monitor and oversee compliance with the Agreement
2. **Provide Quarterly Progress Reports** & review effectiveness of the program annually
3. **Adopt, implement and adhere to a written "Third-party Risk Management Program" and "Bank Secrecy Act Risk Assessment Program"**
4. **Ensure BSA compliance risk assessments are comprehensive** and include all activities of Bank and third-party fintech relationship partners
5. **Adopt a revised independent BSA Audit Program**
6. **Ensure BSA Department is appropriately staffed**
7. **Review and assess capabilities and qualifications of the BSA Officer and BSA Department staff**
8. **Adopt, implement and adhere to revised and expanded risk-based policies, procedures, and processes** to obtain and analyze appropriate customer due diligence, enhanced due diligence, and beneficial ownership information
9. **Develop, implement, and adhere to an enhanced written risk-based program** to ensure the timely identification, analysis, and suspicious activity monitoring and reporting
10. **Action Plan to conduct a review and provide a written report of the Bank's suspicious activity monitoring ("SAR Look-Back")**
11. **Implement and adhere to an acceptable written program** to effectively assess and manage the Bank's information technology activities

# Regulatory Expectations: The Must Haves...

- ✓ Executive and Board Governance of FinTech related activities at the Financial Institution
- ✓ Documented FinTech Risk Management Framework
- ✓ Financial Institution clearly understands the Risks of their FinTech Partnerships
- ✓ Clear understanding of the controls and risk management processes in place at the Financial Institution and at the FinTech
- ✓ Evidence that the Risk Management and Controls are in place and working effectively over time
- ✓ Ongoing risk-based monitoring of FinTech related activities

*Collaboration between the Financial Institution and FinTech Partners / Platforms is required*



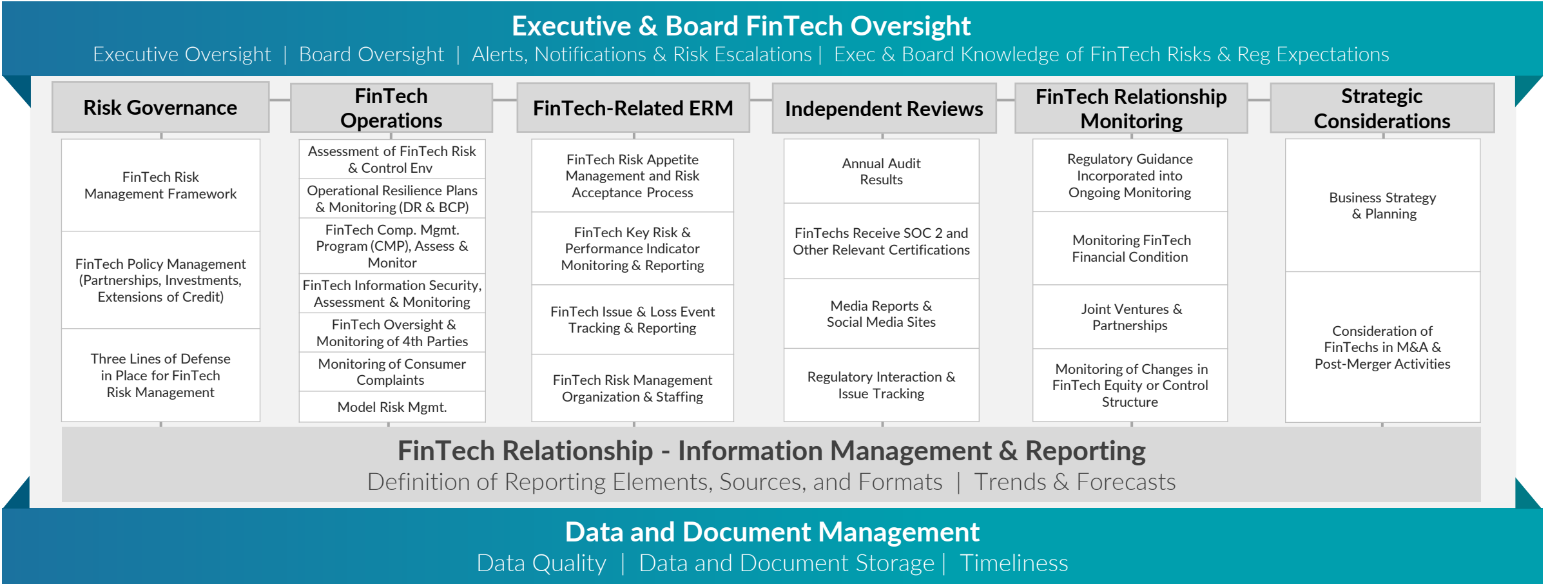
# KEY ELEMENTS OF FINTECH RISK MANAGEMENT

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# 5 Key Elements of FinTech Risk Management

- 1 Utilize a Risk Management Framework
- 2 Comprehensive Pre-contracting Due Diligence / Risk Assessment
- 3 Formal Review and Approval Criteria
- 4 Ongoing Monitoring & Reporting of FinTech Related Risks
- 5 Efficient Exchange of Information Between Parties

# SRA's FinTech Risk Management Framework Powered by SRA Watchtower



*“The objective of this Framework is to ensure that the Bank has a robust approach for FinTech risk management which aligns with Regulatory expectations for identifying and managing FinTech-related risks. The Framework maps to a Risk Maturity Assessment which benchmarks the Bank’s approach against leading practices”*

# Key Points on Conducting FinTech Due Diligence & Risk Assessment

- **Comprehensive pre-contracting diligence – clearly identify the risks based on the relationship, the partner and the Products / Services**
  - Business Experience & Qualifications (Leadership & BOD)
  - Financial Condition and Stability
  - Operational Resilience
  - Business Strategy
  - Risk Management & Controls
  - Information Technology & Cyber Security
  - Product & Service Specific
    - ✓ *Loan Origination*
    - ✓ *Deposit Origination*
    - ✓ *Money Transfer*
  - Legal and Regulatory Compliance
  - AML/BSA/OFAC
  - 3rd Party Relationships and Risk Management
- **Implement additional controls and mitigations to reduce risks to acceptable levels**



# Ongoing Monitoring of Activities and Risks

- **Frequency & Scope driven by the Risk**
- **Leverage Monitoring Results from FinTech to expand coverage but also perform independent validation or monitoring**
- **Leverage Data & Analytics where possible to increase frequency and efficiency**
- **Supplement with onsite reviews as appropriate (Annual)**

# FinTech Risk Maturity Assessment

A Foundational Framework that Evolves the Bank Beyond Paper, PowerPoint & Excel

FINTECH RISK MATURITY ASSESSMEN...

RISK FRAMEWORK

SRA DEMO BANK INTERNAL

SRA

RYAN DONELSON

MANAGE

RISK MATURITY

TRACK

REPORT

DATA VISUALIZATIONS

MY TASKS

DOCUMENTS

PARTNER EXCHANGE

COMPETITIVE DATA

RISK ASSESSMENTS

VENDOR MANAGEMENT

Q3-2022

ADD TIME PERIOD

Risk Framework

Q3-2022: July 1st - September 30th

Pillar	Weight	Actual Maturity	Desired Maturity	Status
Fintech Executive Board and Oversight	14.0	2.7	2.0	
Fintech Risk Governance	12.0	3.2	2.0	
Fintech Operations	14.0	2.7	2.0	
Fintech Enterprise Risk Management	12.0	2.6	1.9	
Fintech Independent Reviews	12.0	3.1	2.0	
Fintech Relationship Monitoring	12.0	2.6	1.9	
Fintech Strategic Considerations	10.0	2.8	1.9	
Fintech Relationship Information Management and Reporting	7.0	2.9	2.6	
Fintech Data and Document Management	7.0	3.0	2.0	
Composite Actual Maturity	100.0	2.9	2.0	

Composite Actual Maturity Ratings

Q3-2021

Q4-2021

Q3-2022

Q2-2022

Maturity Legend

Direction of Risk

Risk Framework > Fintech Executive Board and Oversight

Fintech Executive Board and Oversight

Fintech Risk Governance

Fintech Operations

Fintech Enterprise Risk Management

Fintech Independent Reviews

Fintech Relationship Monitoring

Fintech Strategic Considerations

Fintech Relationship Information Management and Reporting

Fintech Data and Document Management

Pillar

2.7

Fintech Executive Board and Oversight

Q3-2022

Owners: None Added

Viewers: None Added

Desired Maturity

2.0

Maturity Legend

Optimized 1.0 - 1.8

Managed 1.9 - 2.6

Basic/Developing 2.7 - 3.4

Ad Hoc/Informal 3.5 - 4.2

Does Not Exist 4.3 - 5.0

Direction of Actual Maturity

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Previous Quarters: This Pillar has not been rated during any previous time period.

Overview

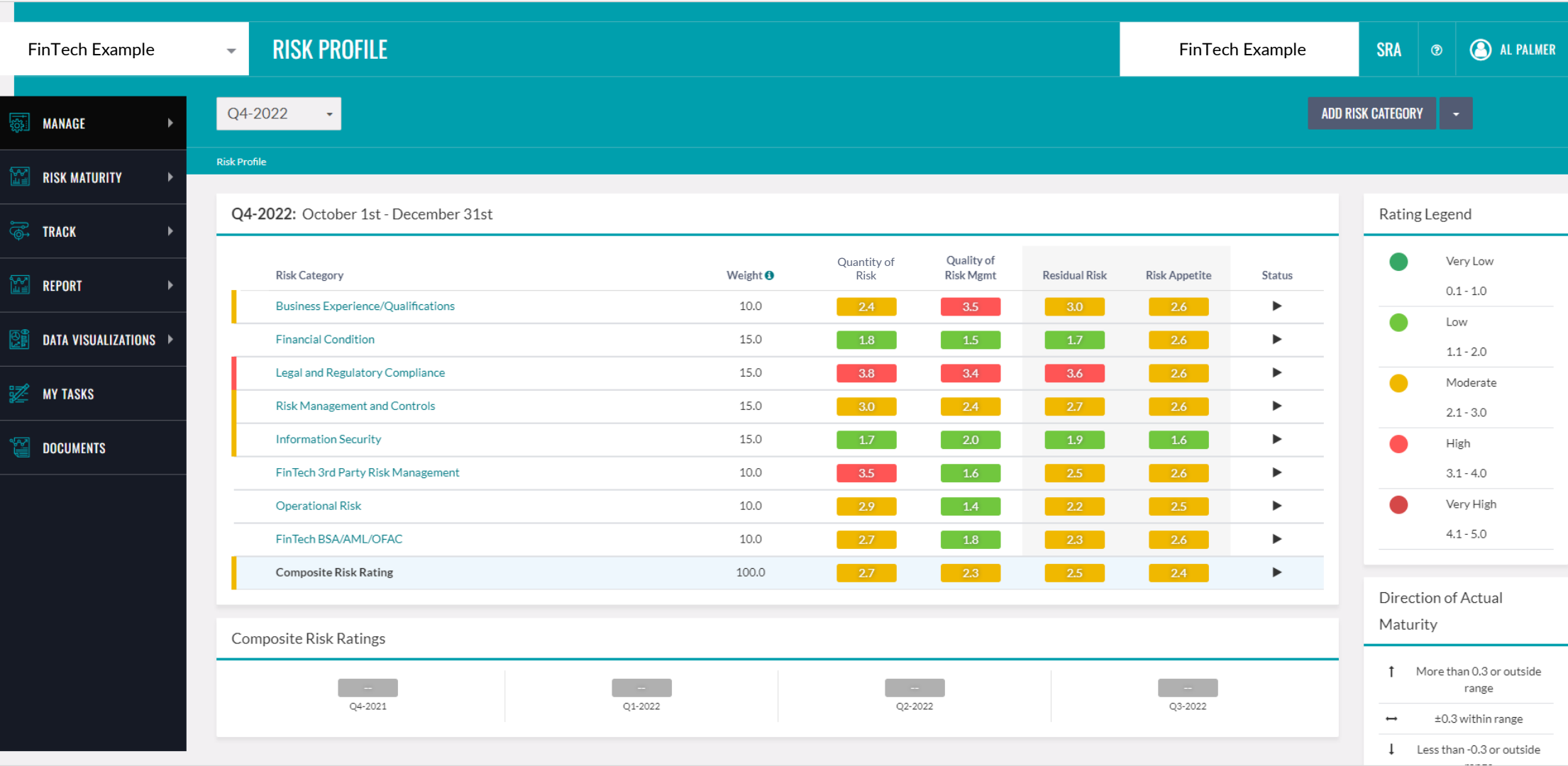
Desired Maturity

Risks

Quantity of Risk

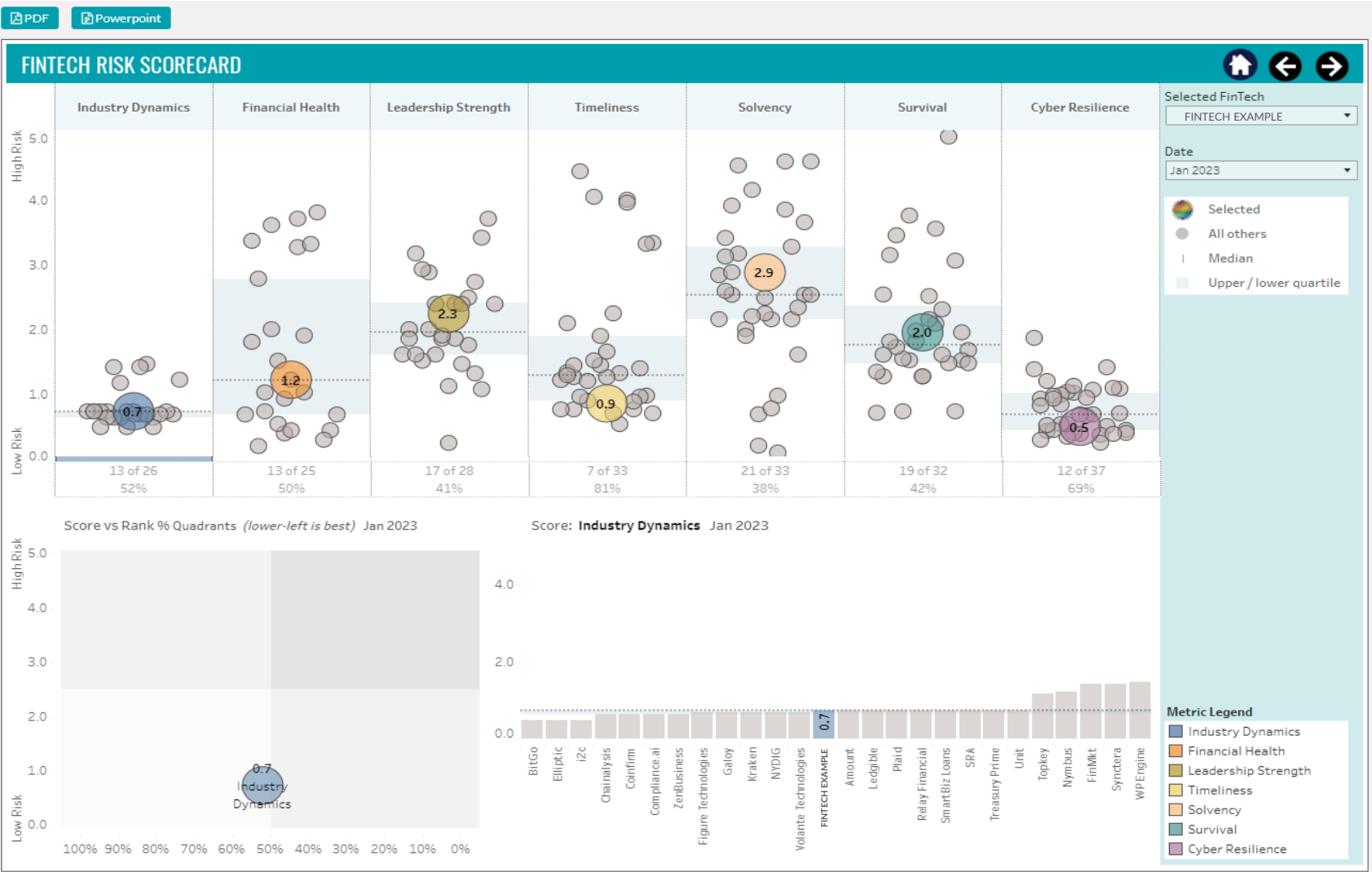

Risk Attribute	Weight	Actual Maturity	Desired Maturity	Owners	Due	Status
Executive Oversight	25.0%	2.8	2.1	None Added	--	
Board Oversight	25.0%	2.3	1.8	None Added	--	
Alerts, Notifications & Risk Escalations	25.0%	2.7	2.2	None Added	--	
Exec & Board Knowledge of FinTech Risks & Reg Expectations	25.0%	3.0	2.0	None Added	--	

# FinTech Risk Monitoring



# FinTech Risk Scorecard – Ongoing Monitoring

Dive deep into the data with actionable visualizations & insights to make business decisions



# Collaborative Economy



## It's a New World

The emergence and adoption of social technologies via the Internet has led to the establishment of the collaborative economy.

Today, inverted firms enable the direct interaction and collaboration between individuals. Businesses have lagged behind consumers in the adoption of these technologies. **We believe that's changing.**



# Introducing: Trust Exchange

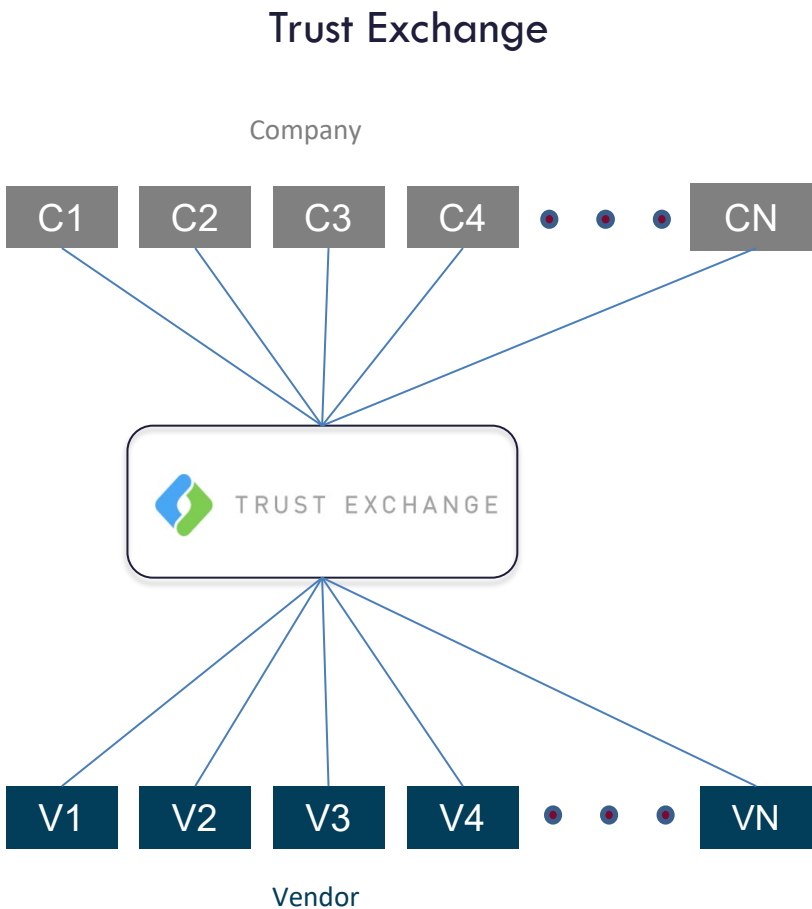
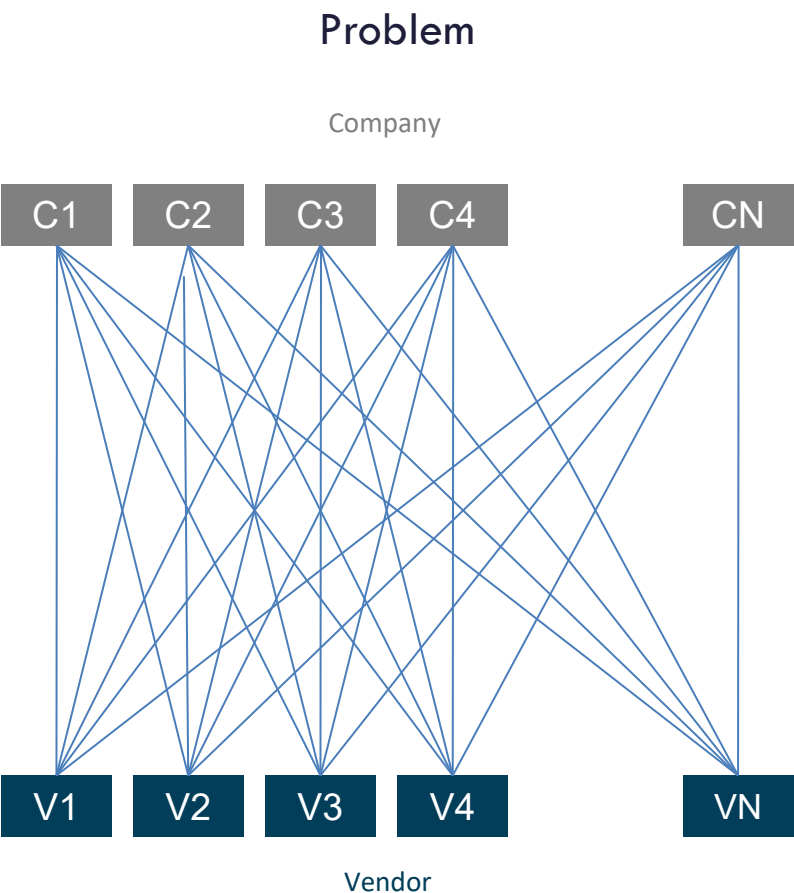


## Trust Exchange: Enterprise Information Marketplace

Through **Network Effect Mechanics**, our platform creates opportunities for more direct collaboration between organizations and their 3<sup>rd</sup> parties.

Via this crowd-powered platform, we're building a **new marketplace** for business information.

- 10X Flexibility
- 10X Faster
- 10X Cheaper

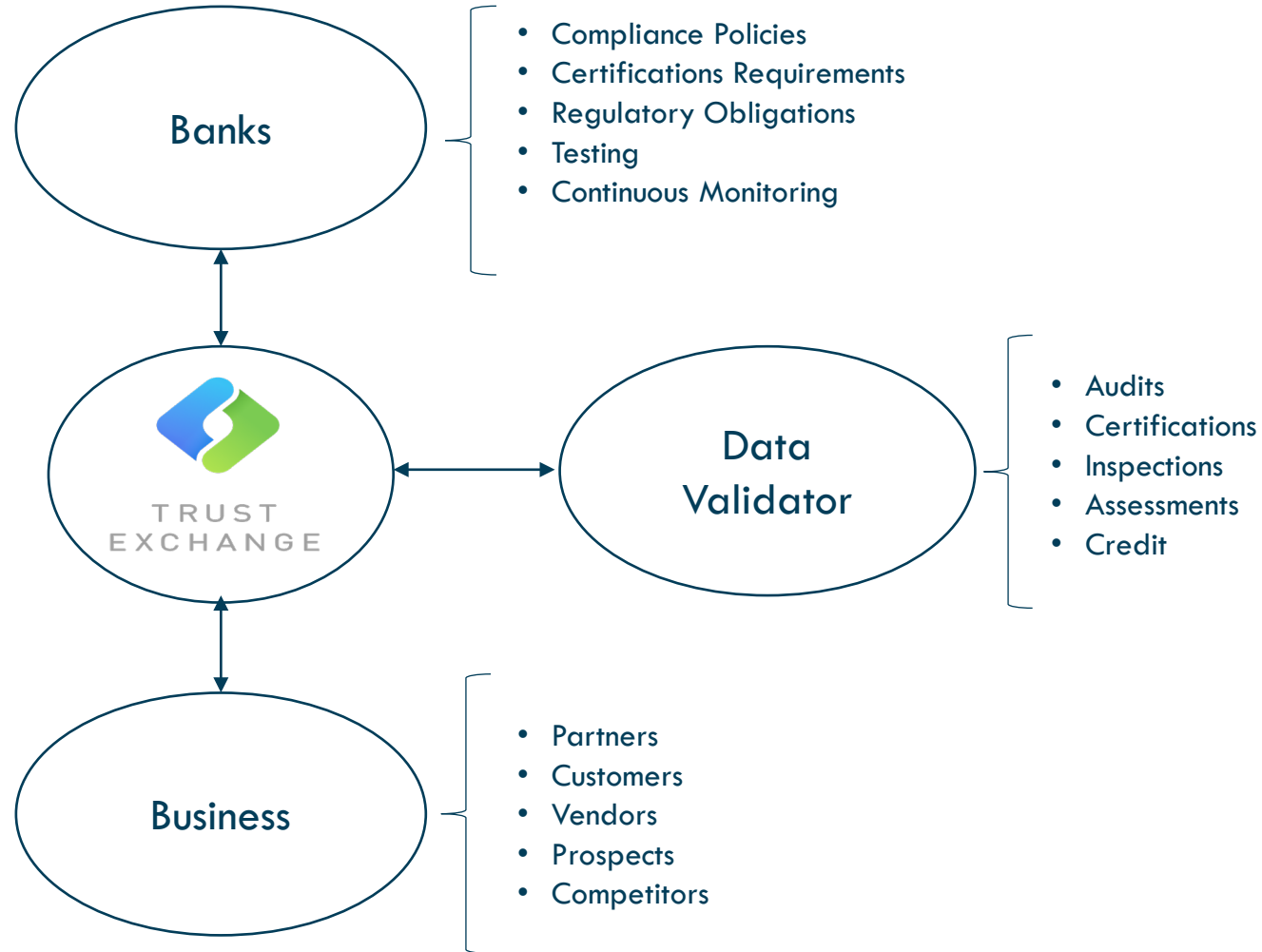


# Key Concept



## An efficient, real-time information marketplace:

- Create specialized information networks and subnetworks
- Use curated “network effects” to increase value and timeliness of information
- Dramatically reduce cost of collecting, validating, and analyzing information





# The Trust Exchange “Virtuous Cycle”\*



Trust Exchange is **disrupting the business information market** by leveraging our platform to build **inverted firms powered by users** to deliver:

- Radically different customer experiences
- Significant economic efficiencies
- New use cases
- Expanded total addressable market

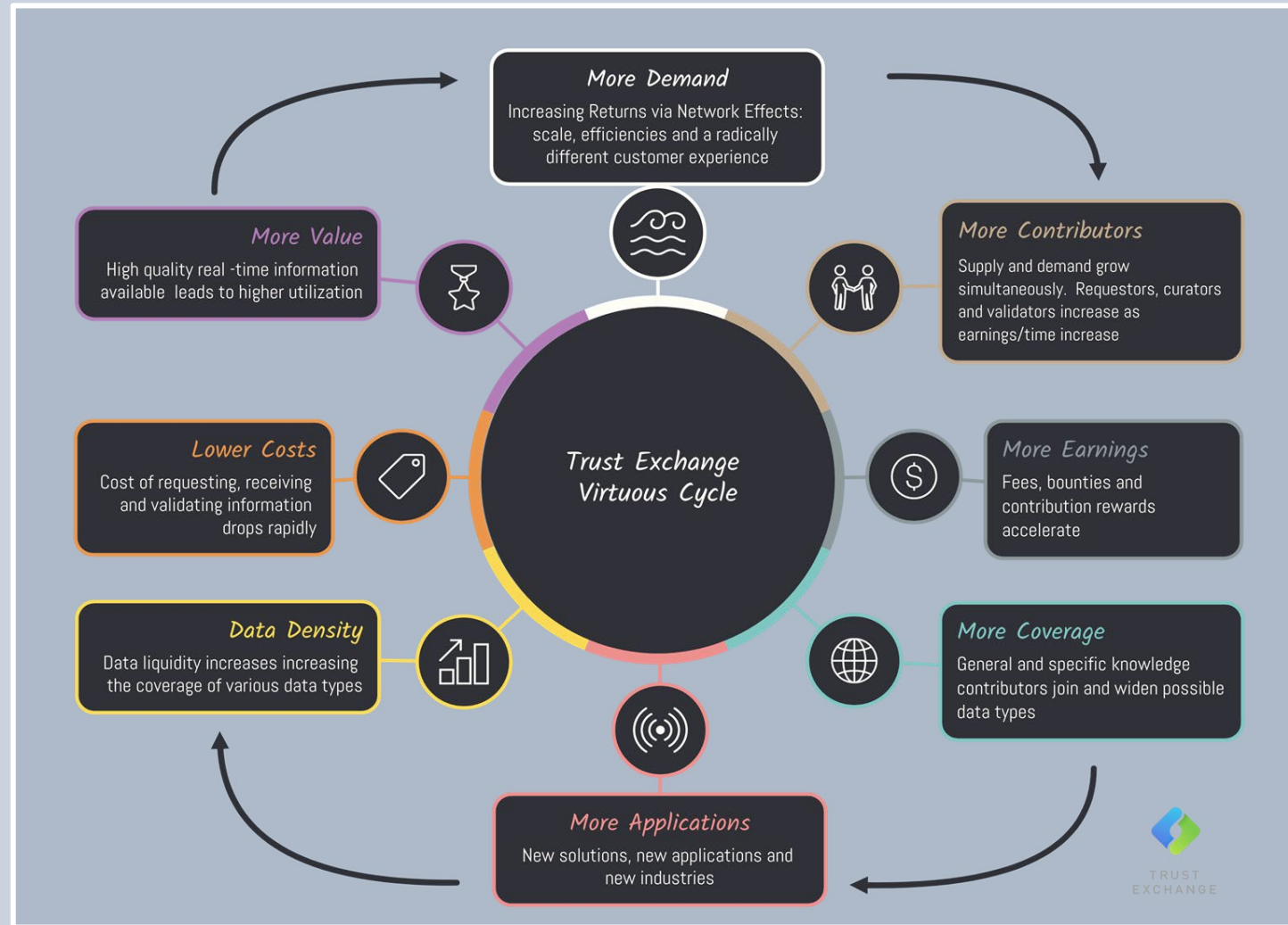
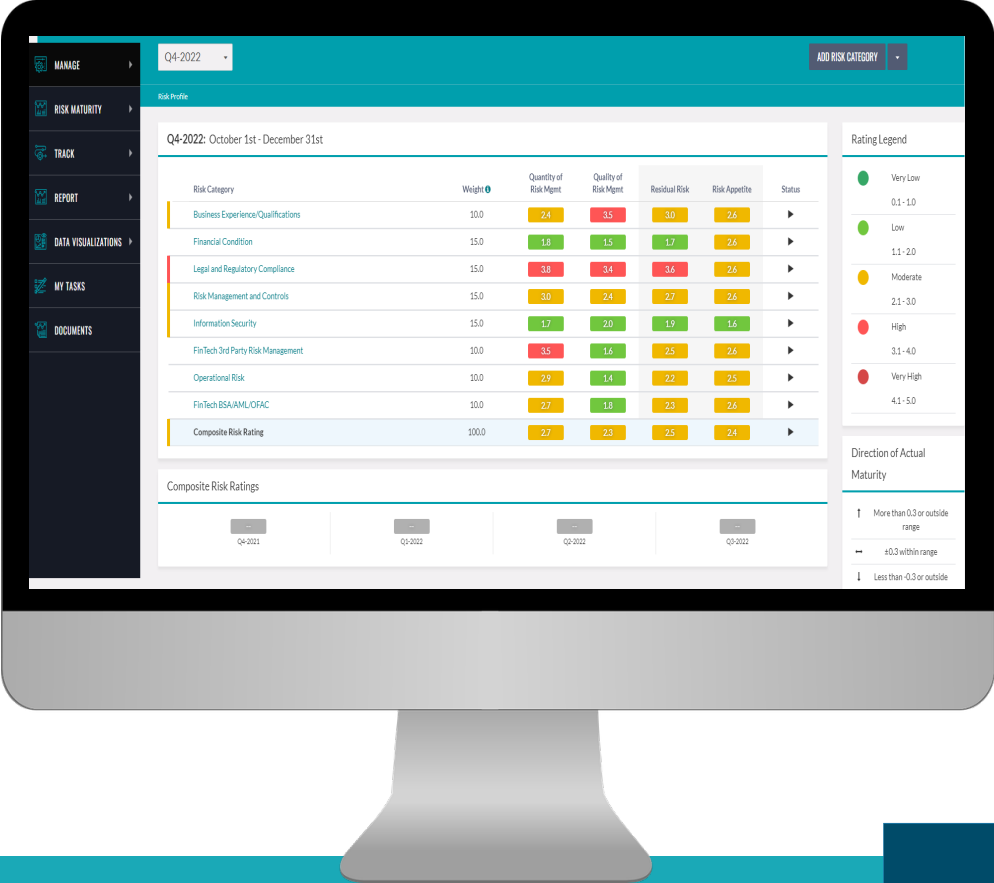
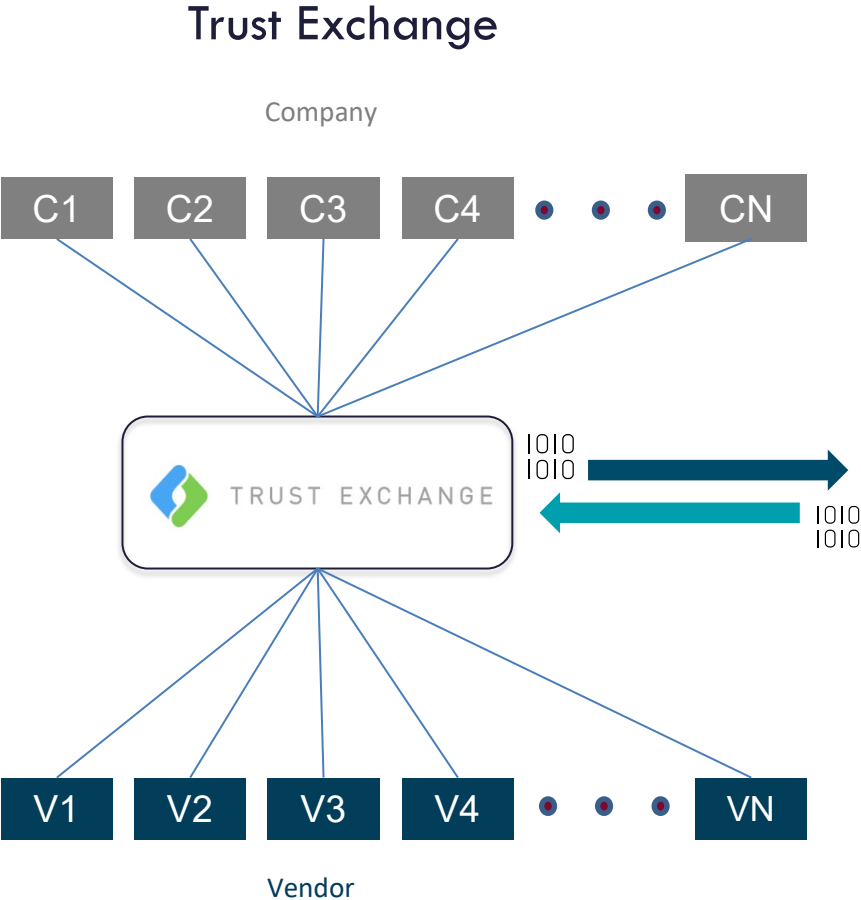


Image source: <http://bit.ly/UBERBillG>

# SRA Watchtower + Trust Exchange

## SRA Watchtower + Trust Exchange :

- 10X Flexibility
- 10X Faster
- 10X Cheaper





# Q & A

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LIVESTREAM

# Thank You!



## Contact the Panelists For More Info:

[mglotz@SRArisk.com](mailto:mglotz@SRArisk.com)

[edsull@trustexchange.com](mailto:edsull@trustexchange.com)

[apalmer@SRArisk.com](mailto:apalmer@SRArisk.com)