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Trend of Fintech Companies Seeking US Banking Licenses Continues

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The trend of fintech companies seeking or acquiring U.S. banking licenses continues to build momentum, furthering the convergence of fintech and banking. More fintech companies are applying and being approved for banking licenses. Last March, the Federal Deposit Insurance Corporation (FDIC) gave the green light to an application from fintech firm Square to create an industrial bank in Utah. Last July, the Office of the Comptroller of the Currency (OCC) approved the national bank charter application of Varo Bank, N.A., a wholly-owned subsidiary of fintech Varo Money, Inc. Further, LendingClub recently completed its acquisition of Radius Bank, while SoFi, Figure, and Oportun all have charter applications for bank subsidiaries pending.

According to a recent announcement, the London-based fintech startup Revolut is applying for banking license in the U.S. The company has filed an application with the FDIC and California Department of Financial Protection and Innovation seeking a banking license from the state of California. After obtaining a charter in the U.S. and getting FDIC insurance, Revolut will be able to operate in the U.S. as an independent bank and offer what it describes as its “new and innovative” lending and savings products through its technology platform.

The application process to secure a bank charter is a big step and will subject a fintech company to substantial regulation and oversight. Traditionally, fintech companies have partnered with banks to fulfill their customers banking needs behind their customer-facing platforms. Eliminating the need for partner banks means fintech companies can directly access lower-cost deposit funding and become their customers’ true provider of more financial services than ever.

For banks, this trend warrants observation. First, existing fintech partners of many banks may try to obtain a bank charter in the future, and banks should be prepared in the event a fintech partner suddenly becomes a potential competitor. Banks should also consider this possibility in negotiating program agreements with new fintech partners or renewing existing program agreements. As more fintechs operate without bank partners, banks may need to develop their own technologies and platforms capable of competing in business lines that in recent years have been the focus of fintech companies.

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