

# Fintech partnerships: A win-win for community banks

By Anna Burgess Yang

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**M**ost companies can now be segmented into one of two categories. There are the inventors who bring an entirely new concept to market. Netflix, Airbnb, Dropbox and others have become some of the defining disruptors of this generation, creating new ways of delivering products and services and turning entire industries on their heads — leaving competitors frantically trying to catch up.

The other group can be categorized as transformers. The financial industry operates in a different model — one that has traditionally existed in the physical world and now needs to transform to a digital one. The term “fintech” has also emerged: An amalgamation of finance and technology, with a goal of bringing new goods and services to consumers.

It is no longer an option for community banks to sit on the sidelines and watch other institutions move ahead with digital transformation. And one way for community banks to meet the growing expectations from consumers for a digital-first experience is with fintech partnerships.

Fintech partners are responsible for the product, while community banks are the mechanism for delivery. Together, they can ensure that community banks not only survive the transformation to a digital-first era, but thrive.

## Providing customers with a seamless experience

Gone are the days when customers will walk into a bank’s lobby and inquire about a product or service (or those instances will be few and far

between). The bank’s website is often the first touchpoint and can often be a final touchpoint for new accounts — if the account opening process is easy and prospective customers can gather all of the information they need to make a decision.

Citizens Alliance Bank in Clara City was looking for a way to streamline its credit card application process for its existing bank customers and markets. Previously, the bank had paper applications, which were slow and clunky to process. The bank turned to MK Decision, a fintech that provides a complete platform for loan origination and online deposit account opening. Today, Citizens Alliance Bank uses the personal and business credit card application products and is looking to provide products to their customers.

“MK’s product has benefitted the bank by helping us streamline the credit card application process and speeding the response time to the applicants,” said Steve Condon, vice president and chief credit officer at Citizens Alliance Bank. “The product has benefitted the customers as well. This implementation allowed us to support our customers through life’s biggest moments, whether they are moving away for college or growing their businesses to new communities.”

MK Decision thinks of its offerings very much like an e-commerce model, where banks can have an online “store” of products (such as the credit cards that Citizens Alliance Bank offers), and customers can put products in a cart and check out. Yet, the checkout experience holds up

to the scrutiny of bank regulations, collecting all necessary information to open an account.

“We try to design our products with elegance, usability and enjoyment in mind,” said Har Rai Khalsa, CEO of MK Decision. Khalsa pointed out that the conversion ratio of prospective customers who start versus complete the process of opening an account online comes down to the user experience, including the mobile banking application.

Khalsa also believes that it’s no longer an option for banks not to have digital channels. They face both competition from other financial institutions and growing demand from consumers. Decision-makers need to look at themselves in the mirror and ask, “How do I bank? Do I really bank the way I’m making my customers bank? Am I offering a nice, slick experience to my customer base?”

## Create a competitive advantage

Of course, the customer experience is only one part of digital offerings. Another aspect is a competitive advantage that such products offer.

While community banks are known for the personal touch offered to loan customers, many still lag in processing loan applications. Online applications, efficient underwriting, and automated decisioning have become critical components in the borrower experience and scaling loan operations. Borrowers can’t — or won’t — wait for a bank to process a loan manually.

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Glenwood State Bank partnered with The Micah Group in 2019 to deploy its intelligent lending platform and streamline underwriting, origination and decision-making for loans. “We looked across our business, and we know there tend to be a lot of inefficiencies in credit,” said Peter Nelson, president of Glenwood State Bank. “The amount of time spent on paperwork and data entry and the delay that can create for borrowers are far from ideal.”

Disparate systems make it difficult for banks to compile the complete “package” needed to compile a loan presentation. The Micah Group’s lending software combines origination, spreading, credit presentations, and review into a single system. The system is built with AI and machine-learning technology, giving banks a lot of options to evolve around customer needs.

“We like banks to think of it less as a ‘fintech partnership’ but simply as a partnership with another small business that also works hard for its customers,” said Justin Bjerkaas, founder and CEO of The Micah Group. Fintechs

should be seen as a knowledge partner, with a well-rounded team that has experience in both banking and technology.

Even if a community bank recognizes a need for a better or more competitive customer experience, finding the right technology partner can be another hurdle. After all, the investment of time, money and resources means that it’s not a decision banks can enter into lightly. They need to find the right fit, both in product and the fintech company. “[The Micah Group] is a Minnesota company, like ours, and it’s founded and run by a former banker,” Nelson said. “So they understand our business on a very pragmatic level.”

The lending department at Glenwood State Bank has seen how technology can be leveraged. “Partnering with Micah allows us to automate manual tasks and accelerate speed to market,” Nelson said. “Quick responses can be a huge competitive advantage. Finding ways to gain knowledge



faster in order to make a quicker decision could really set us apart.”

## Align values and business goals

Glenwood State Bank placed emphasis on the company behind its fintech solution. Equally important is choosing a solution that aligns with the overall bank strategy and goals. Technology for technology’s sake can distract a bank from its core mission and doesn’t end up serving the needs of the bank’s customers.

Border Bank, based in Greenbush, has a digital transformation team that explores technology solutions, evaluating whether they are the right fit. The team looks at how technology can impact all areas of the bank, from what is offered to customers to how technology can enhance employees’ work. When Leon Senn, senior vice president and director of information technology at the bank, learned about S2Me, a personal risk assessment platform, he recommended that the service be offered to customers.

## What is a fintech?

A broad definition of fintech is a company that uses technology to provide financial services, either directly to consumers (think PayPal) or by partnering with companies. In the early days, fintechs offered products that could streamline or automate traditional banking services such as underwriting. Now, fintechs are digital disruptors, often challenging and changing the delivery of financial services. Yet, “fintech” is an all-encompassing term and the relationships between fintechs and banks can vary.

**Private Lenders:** Some fintechs have emerged in direct competition with community banks. Small businesses have likely seen ads at some point guaranteeing a loan of up to \$250k approved in 24 hours with an online application and no credit check. Peer-to-peer lending has also surfaced as a non-traditional lending option. While these are powered by technology and ease of use, the lending programs rarely compete with a traditional bank. Backed by private lenders, they have high interest rates or fees.

**Direct-to-Consumer:** Other fintechs, such as Chime, market directly to consumers, but are backed by banks. The fine print on Chime’s website alerts consumers that they are backed by The Bancorp Bank or Stride Bank, N.A. Consumers never interact directly with the banks, but instead use the technology that Chime provides, opening accounts online and managing their banking through a mobile app.

**Fintech Partnerships:** Partnership fintechs can be thought of as “behind the scenes.” They have the technology to create an exceptional customer experience but do not seek loans or deposits from consumers directly in any way. Instead, they offer products that consumers may never see directly or are white-labeled by the bank. A partnership with these fintechs can meet a demand banks see in the marketplace or provide solutions that banks cannot get from their core or other existing vendors. Examples may include online applications, automated decisioning, or mobile applications.

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S2Me evaluates the information security habits of an individual using statistical measurements of risk. Individuals are then given a score, as well as recommendations for improvement. The bank rolled out the product internally to employees first to test it out. The response was very positive.

“The biggest challenge a community bank faces when it comes to educating their customers on security is finding a way to connect in a simple and easy-to-understand way that fits into their customers’ busy lives,” said Ryan Cloutier, president of SecurityStudio, maker of S2Me. “S2Me simplifies security education through gamification, real-time feedback about risks, and an easy-to-understand score.”

It is the education angle that appealed to Senn. “One of the things we try to do at the bank is provide customer education,” he said. “And in today’s world of fraud and cyberse-

curity, there are lots of opportunities for exposure to bad elements. And we just felt this was a nice fit.”

Aside from aligning with the bank’s business strategy around education, implementation was simple. Senn felt that the process was smooth, easy and professional. His main goal was to get it out to the bank’s customers, but he also wants to raise awareness about the product. When he first heard of S2Me, Senn said he was “genuinely excited.” After taking a look, he was ready to move forward with implementation.

### Find solutions that benefit the bank and customers alike

In early 2021, the community bank consulting group Cornerstone Advisors completed its annual “What’s Going On In Banking” survey. Respondents ranked improve customer experience/service delivery as their highest priority, even higher than

improving efficiency or increasing revenue generation opportunities.

The modern bank customer will no longer wait for banks to make the shift to a digital-first mindset. Michael Bilski, CEO of North American Banking Company, said, “[Community banks] have to keep evolving, and they can’t be afraid to try new things. They can’t be hesitant. They have to be willing to experiment.”

While the transformation was underway, with community banks increasingly focused on their digital offerings, this was accelerated by the Covid-19 pandemic. Digital products are no longer optional: They’re essential. Community banks can leverage fintech partnerships to meet customers where they are and remain relevant and competitive in today’s digital-first world. ■



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