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## Nonbank competition — Who can be friends, who will remain foes?

By [Kelsey Bartlett](#)

Nonbank competition can be a sore subject among community bankers as the banking landscape — along with customer expectations — is continually changing.

"What I see happening a lot with fintech companies is that they are saying that they are serving an underserved or unserved market, and end up taking a relationship away from a community bank," said Jon Bruss, managing principal and CEO at [Fortress Partners Capital Management Ltd.](#) "I understand why there is some pushback on the part of community banks as far as fintech is concerned. I think there probably are some who would like to partner with fintech companies, but don't understand really what it is the fintech companies are trying to accomplish."

Bruss has been in the banking business for over 50 years. He serves on the boards of two Florida community banks, as well as Brookfield, Wis.-based [Advantage Leasing Corp.](#) He said his experience allows him to consider the issue from both perspectives — that of a community banker and that of a fintech company — and he thinks the two are often not "operating on the same plane."

To stay competitive, community banks will need to place their trust in the hands of fintech, he said.

"I think there is a way for fintech to serve banks without, whether this is real or perceived, stealing business from them," Bruss added. "It is not a disruptive process, but it is a supplementary process. I think banks will conclude that this is a way they can improve their market share by using the technology that is available via fintech. I think that that is a winning strategy."

In December, the OCC [proposed](#) granting special-purpose national charters to fintech companies, which some in the industry see as an opportunity to [befriend](#) banks. Bruss said he disagrees with the notion that bankers are hesitant to team with fintech companies because banks bear the burden of regulatory compliance costs. He added he doesn't believe community bankers "care one way or the other" whether the fintech companies they work with are regulated.

"I've, quite frankly, never heard any banker say that they're not going to do business with 'fintech a' or 'fintech b' because they don't have a bank charter. I don't know if that is an issue," he added. "I think they would just as soon deal with an unregulated business and have as much of their business as unregulated as possible."

David Kerstein, president and founder of [Peak Performance Consulting Group](#), said digital disruption isn't new, citing past developments like automated teller machines and automated call centers. The difference, he said, is that today's developments are much more rapid.

"If you think about it, banking and technology have been tied together for all of our lives," Kerstein said. "These were developed not by the core banking providers, but by what we would now call fintech firms."

Today, wealth management is one area where small banks and fintech companies are teaming up. He said he sees ample opportunities for robo-advisory companies to team up with community banks to simplify and standardize wealth management platforms, citing [SigFig Wealth Management LLC's](#) partnership with [Cambridge Savings Bank](#).

Fintech companies such as [PayPal Inc.](#) and [LendingTree Inc.](#) have put pressure on banks to up their digital game, and teaming up with fintech companies rather than competing with them is a sensible solution, Kerstein said.

"There's a huge number of fintech initiatives that are really building their business propositions around providing services to financial institutions to make quicker loan decisions or provide more efficient investment advice," he added. "Small-business processing has been complex for financial institutions. It's been difficult to maintain the skill sets, just given the amount of training that it takes and the skills of loan officers."

An example of one of those initiatives is [Bankmybiz.com](#), a third-party microloan provider that teams up with banks to provide small business loans of \$250,000 or less. Among its partners are Bruss' Advantage loan Corp. The company's CEO and founder, Michael Adam, worked in banking for over a decade, and calls the startup a "fintech company for the banks." Adam said a large part of his job is visiting banks and explaining how the product can be beneficial to their businesses by allowing them to retain existing customers and attract new ones.

"A lot of small-business owners decide who their bank is going to be when they need money," Adam said. "If you're already giving that loan to them, new customers are pretty loyal. Typically on a loan that they wouldn't do, they can through us actually appear to be doing that loan."

*Article amended at 4:48 p.m. ET on Jan. 18, 2017, to correct the maximum loan amount offered by [Bankmybiz.com](#).*