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Bank Sponsorship for Faster Money Movement

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Table of Contents

Executive Summary.....	3
Introduction.....	5
Methodology	5
The Money Movement Ecosystem.....	6
The Embedded Finance Revolution.....	7
What Is a Sponsor Bank?	8
Market Opportunity.....	10
Sponsor Bank Sources of Revenue.....	12
Key Considerations for Sponsor Banks.....	15
The Regulatory Environment	17
Compliance Management.....	18
Regulatory Compliance	20
Minimizing/Mitigating Risks	22
Program Implementation and Management	24
Onboarding/Launch.....	25
Program Pricing	28
Best Practices and Success Factors.....	30
Common Pitfalls	31
The "Bank Ready" Partner.....	32
The Evolution of the Sponsor Bank Space	35
Conclusion.....	36
Appendix: Select Comments From Respondents	37
Onboarding Processes.....	37
Revenue Models and Pricing	39
Compliance and Risk Management	41
Growth Strategy and Market Evolution.....	42
About Visa	44

List of Figures

Figure 1: BaaS Ecosystem	6
Figure 2: U.S. Embedded Finance Market Size, 2023 to e2033.....	8
Figure 3: Three-Tier Compliance Framework	18
Figure 4: Key U.S. Regulations for Sponsor Banks to Consider	22

List of Tables

Table A: Key Findings and Implications for Sponsor Banks.....	3
Table B: Sponsor Bank Sources of Revenue	12
Table C: Key Considerations for Sponsor Banks.....	15
Table D: BaaS Enforcement Actions, 2022 to 2024.....	19
Table E: Sponsor Bank Implementation Criteria	24
Table F: Essential Components of a Sponsor Bank/Partner Agreement.....	27
Table G: Sponsor Bank Best Practices.....	30
Table H: Requirements to be "Bank Ready"	33

Executive Summary

The extension of financial functionality into nonfinancial applications and the variety of money movement offerings now available are creating a significant shift in financial services. This shift will likely increase in volume rapidly over the next several years. A new business category, Banking-as-a-Service (BaaS), has emerged to support demands for money movement capabilities and the provision of financial services in nonfinancial businesses through sponsor banks. Sponsor banking can generate significant revenue and help banks diversify their business.

Standing up a sponsorship business requires significant effort and investment. However, once the offering is in place, sponsor banks can have a strong competitive advantage. The following are key findings and implications for sponsor bank programs (Table A).

Table A: Key Findings and Implications for Sponsor Banks

Key findings	Implications for sponsor banks
Demand for sponsor bank services exceeds the available supply of sponsor banks.	Businesses understand the value and revenue opportunity of embedded financial services in their offerings, and they're looking to sponsor banks to deliver that capability.
Beyond program management fees, sponsor bank programs can generate significant incremental revenue from partners in loans and deposits, cross-border transactions, and float.	Look for revenue sources beyond the core BaaS functionality when evaluating participation.
Regulatory consent orders have increased sponsor bank vigilance related to compliance.	Sponsor banks entering this space should double down on building best in class risk/oversight capabilities from the outset and learn from recent consent orders.
Offering BaaS to partners can be profitable for financial institutions (FIs), but it requires extensive development and support to implement.	BaaS profitability is driven by scale, and it takes time and investment to achieve. Implementation of a sponsor bank capability requires a significant investment (generally more than US\$1 million) and an adjustment in structure and processes to support the offering. It takes about one year to onboard a partner for sponsor bank services.

Key findings	Implications for sponsor banks
<p>There are third-party intermediaries available to banks that can reduce the need for internal capabilities.</p>	<p>The complexity of delivering a BaaS money movement offering can be challenging, but there are third-party providers to support implementation of the capability by assisting with establishing and/or managing processes, and provision of risk/compliance guidance.</p>
<p>Sponsor bank partners need to be prepared to adjust priorities and invest in the capabilities needed to ensure a fully compliant relationship with their partner bank.</p>	<p>Partners can expect significant fees, including the following:</p> <ul style="list-style-type: none"> • Diligence fees (US\$50,000 to US\$100,000) • Setup fees (US\$25,000 to six figures) • Monthly compliance fees (US\$5,000 to US\$200,000) • Monthly SaaS/FBO fees (US\$10,000 to US\$60,000) • Transaction fees and minimums

Source: Datos Insights

Introduction

Offering financial services is no longer exclusive to FIs. With the advent of cloud computing, APIs, and software development kits, fintech firms and other nonfinancial companies can now integrate financial functionality into their offerings without the need for separate processes to enable transactions at FIs. Early examples, such as Uber, or buy now, pay later (BNPL) offerings such as Affirm, are available on many retail and business applications. Since then, the BaaS space has evolved to incorporate nearly every aspect of money movement, including person-to-person transactions, earned wage access, cross-border money movement, and remittance. New use cases continue to emerge.

This report defines the sponsor bank ecosystem and identifies opportunities and risks for sponsor banks and their partners entering the space. It provides best practices and potential pitfalls for sponsor banks to consider in order to build a profitable sponsor bank program.

Methodology

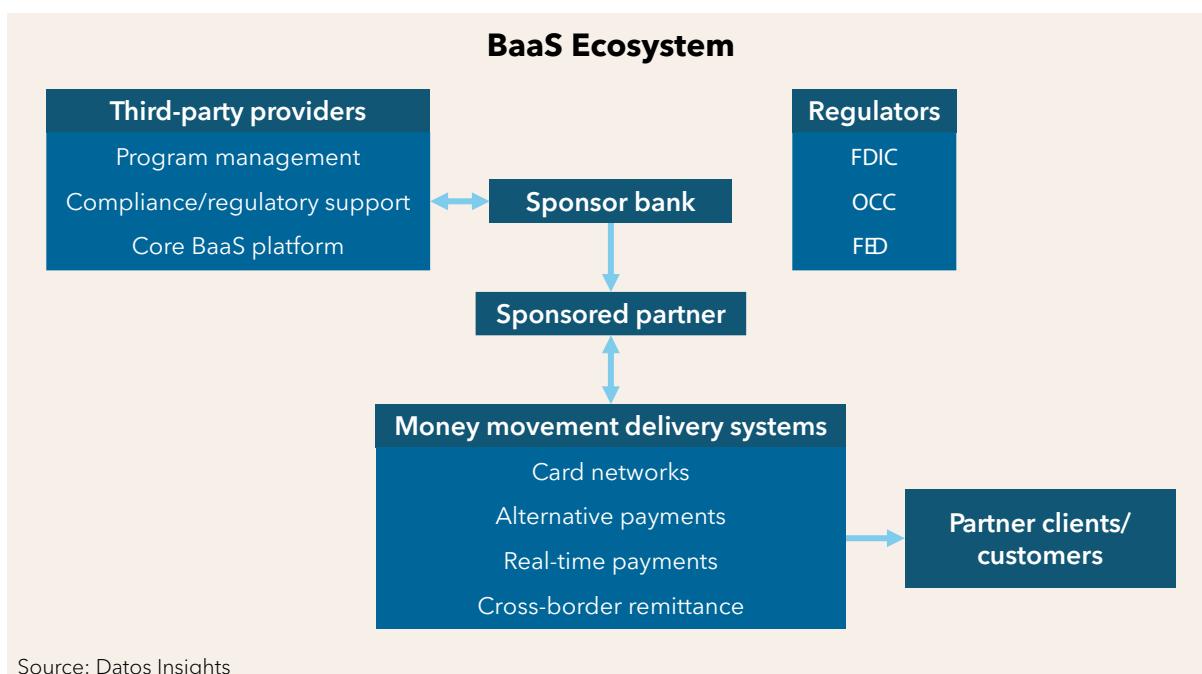
This report is based on interviews with 15 bank and market player executives in the U.S. from leading sponsor banks, data from Datos Insights' internal data set, and third-party resources. Quotations in the report are from interviews with bank executives.

The Money Movement Ecosystem

The efficient, safe movement of value from one source to another has evolved from the physical delivery of cash to a complex, multimodal ecosystem that has become a core engine for the global economy. Money movement ranges from simple payment transactions in the physical and digital world to funds disbursement and complex international transactions involving various tender types, from credit and debit cards to mobile payments, account-to-account transactions, and cryptocurrency. This network of financial flows connects individuals, businesses, and governments across borders, enabling commerce and investment and facilitating economic growth.

Given the greater complexity of the money movement space, the infrastructure supporting money movement has become more sophisticated. Central banks, commercial banks, fintech firms, payment networks, and payment processors all play crucial roles in ensuring the secure and efficient transfer of funds. These systems must balance multiple competing priorities: speed and convenience for users, security against fraud and cyberthreats, compliance with regulatory requirements, and cost-effectiveness for service providers. Another step in the evolution of money movement has been the businesses that use it for their transactions or to provide a service to their customers. The provision of money movement services to nonfinancial third parties is often referred to as BaaS (Figure 1).

Figure 1: BaaS Ecosystem



Source: Datos Insights

The Embedded Finance Revolution

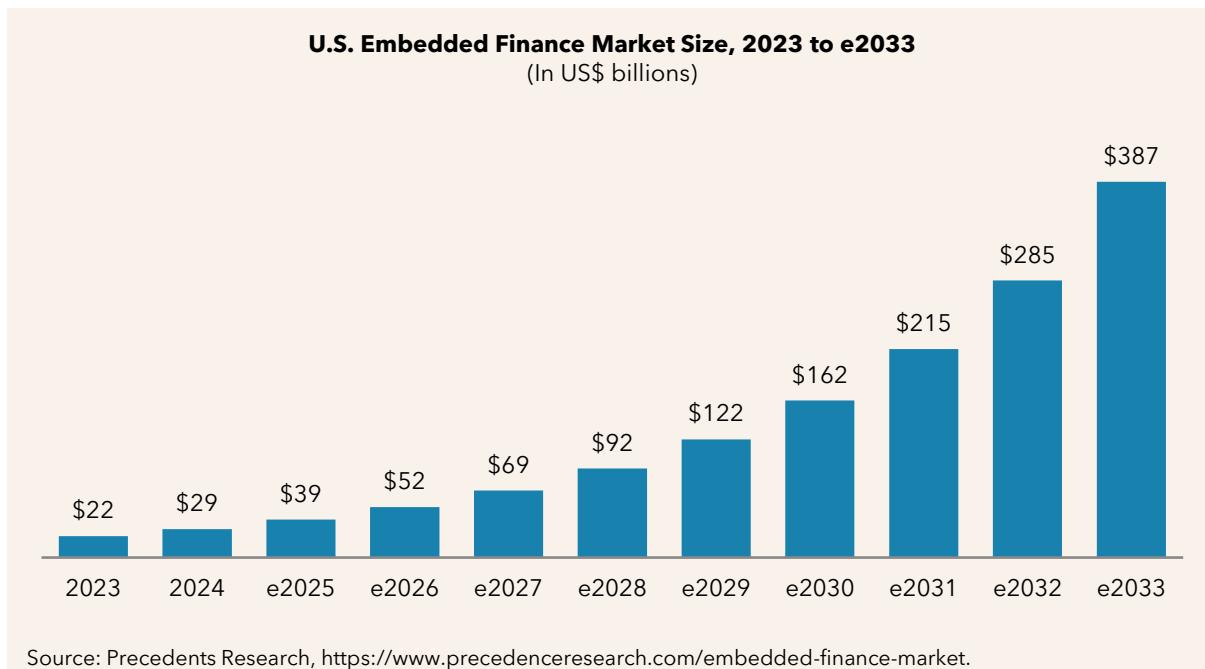
The rise of real-time payment systems and blockchain technology is further transforming how money moves, promising to reduce friction, lower costs, and increase financial inclusion around the world.

The impact of efficient money movement is significant in a wide range of use cases. One good example is the rapid and efficient delivery of payouts to employees, contractors, and gig workers. A new compensation category, earned wage access, exists because of the evolution of money movement. Earned wage access allows employees to make immediate, partial withdrawals from their pay before payday, which can make a major difference in an employee's ability to cover a short-term need for funds. About 30% of U.S. households are living paycheck to paycheck¹; the ability to pull funds from payroll before payday can be a lifesaver and has been shown to be a significant employee retention tool for retailers such as Walmart.

Cloud computing and the availability of APIs, coupled with the increase in mobile bandwidth and smartphone enhancements, have enabled the creation of money movement and embedded finance. Cloud computing ensures that transactions can occur on any connected channel customers choose. Moreover, it allows businesses to incorporate functionality from sponsor banks into their digital environment. APIs make connecting FIs and their partners relatively straightforward and simplify the implementation of embedded finance.

Money movement is a key component of embedded finance, and sponsor banks are a critical element of the growing ecosystem for money movement. Embedded finance is still in the early stages of implementation, but the category is growing at a 33% CAGR. This growth will continue as new use cases and fintech firms emerge (Figure 2).

¹ Kamaron McNair, "Nearly Half of Americans Say They Live Paycheck to Paycheck, CNBC market, November 19, 2024, <https://www.cnbc.com/2024/11/19/bank-of-america-nearly-half-of-americans-live-paycheck-to-paycheck.html#:~:text=By%20that%20measure%2C%20around%2030,or%20necessities%2C%20the%20bank%20reports.>

Figure 2: U.S. Embedded Finance Market Size, 2023 to e2033

What Is a Sponsor Bank?

Embedded finance, embedded payments, open banking, BIN sponsorship, and BaaS are all variations on the same theme: A federally or state-chartered FI provides regulated financial services to nonfinancial organizations; the latter can then offer those services to its customers. Sponsor banks are the financial services organizations that provide these services.

These are some of the services that a sponsor bank can provide:

- Banking infrastructure and services to enable partner product offerings
- Compliance oversight and risk management:
 - Conducting risk assessments for all program features and functionality
 - Managing regulatory relationships and responsibilities
 - Handling Bank Secrecy Act and anti-money laundering compliance
 - Monitoring transactions for compliance and suspicious activity

- Connectivity to payment networks and processors:
 - Processing payments across various rails (e.g., ACH, card networks)
 - Enabling cross-border payment capabilities
 - Facilitating interchange revenue for card programs
- Holding deposits generated by partner programs:
 - Managing float from transaction processing
 - Specialized expertise in different types of financial products
 - Support for customer onboarding processes (sometimes in parallel with fintech partners)

Since the offering is being delivered to the end user of a partner not directly connected to the banking system, secure and compliant delivery of financial services from a financial institution to a nonregulated entity requires a different development and delivery model.

Market Opportunity

The global money movement market represents a massive opportunity at the intersection of digital transformation and financial services. The global embedded finance market size was US\$81.4 billion in 2023 and is estimated to reach US\$1.16 trillion by 2033.² The market opportunity spans multiple segments, including peer-to-peer payments, business-to-business transfers, remittances, and embedded financial services. Rising smartphone penetration, increasing digital commerce, growing demand for real-time payments, and the shift toward digital banking are driving rapid growth in digital money movement solutions.

For sponsor banks, supporting financial services at third-party sites is an opportunity to create a new revenue stream and broaden the reach of their organizations. This is particularly true for smaller regional banks since they generally have limited branch distribution, so there are fewer opportunities to generate incremental revenue from their existing footprint.

Sponsor bank partners, defined as third parties that can include both fintechs and merchants help banks expand into new verticals and customer segments through their tech-focused partners while earning fee income and growing their payment volume.

“Banks are really awful marketing systems, and fintechs are really good marketing engines. I can save a lot of money on marketing programs when I’ve got a fintech out there that has 25- to 30-year-olds figuring out how best to market to a target audience, and my advertising is almost zero at that point. Everything is now revenue, other than my infrastructure and compliance costs.”

Sponsor bank executive

² Samantha Barnes, "Embedded Finance: A Market Ripe for Growth, International Banker, December 30, 2024, accessed April 17, 2025, <https://internationalbanker.com/technology/embedded-finance-a-market-ripe-for-growth/>.

Offering BaaS to partners can provide a significant boost to bank revenue if managed correctly. In a recent survey of U.S. sponsor banks, sponsor bank revenue accounted for 51.3% of the bank's revenue and 51.4% of their deposits, and 90% of respondents say that embedded finance makes up a significant percentage of their bank revenue.³

Given the disparity between the number of fintech organizations, the limited availability of U.S. sponsor banks, and the value that BaaS can provide to sponsor bank partners, demand for BaaS vastly exceeds supply. Moreover, with the recent flurry of compliance issues and regulatory compliance enforcement actions (see *The Regulatory Environment* below), participating FIs can afford to be highly selective in identifying partners to work with.

In general, sponsor banks avoid working with startups, as the development of partner relationships is expensive, potentially costing a client/partner US\$1 million or more. Sponsor banks rely on scale to drive revenue and profitability; startups can be too small to generate volume quickly. Interview respondents also avoided organizations that participate in higher-risk verticals (e.g., gambling, cannabis, and adult entertainment). A few FIs have identified higher-risk verticals, particularly iGaming, as an opportunity. However, it requires significant domain expertise to minimize additional risk to their programs.

"I still think that there's certainly room for growth. I think what we're going to start seeing is kind of consolidation on the bank side."

Sponsor bank executive

³ Alloy, "2024 State of Embedded Finance, how sponsor banks are managing compliance in fintech partnerships, June 2024, accessed January 16, 2024, <https://www.alloy.com/state-of-embedded-finance-report-2024>.

Sponsor Bank Sources of Revenue

Participation in the sponsor bank ecosystem creates new revenue streams for the sponsor bank (Table B).

Table B: Sponsor Bank Sources of Revenue

Revenue sources	Description
Program management	<ul style="list-style-type: none"> • Due-diligence fees • Program-management fees • Implementation fees • Ongoing operational fees • Risk-management fees
Transaction-based revenue	<ul style="list-style-type: none"> • Per-transaction fees that vary based on risk level and transaction type • Volume-based pricing that improves with scale • Revenue from real-time/instant payment processing
Banking services	<ul style="list-style-type: none"> • Deposit balances from program managers and their customers • Treasury management services • Commercial banking relationships with fintech partners
Interest income	<ul style="list-style-type: none"> • Float on deposit balances (particularly valuable in high-interest-rate environments)
Network-related revenue	<ul style="list-style-type: none"> • Debit/credit card program revenue • Interchange fees
Cross-border transactions	<ul style="list-style-type: none"> • Exchange rate spread • Transaction fees • Float on balances • Correspondent banking fees

Source: Datos Insights

Pricing for sponsor bank services depends upon the types of services being offered and the nature of the sponsor bank/sponsor relationship. The following is a list of the types of fees available by category:

- **Setup/onboarding fees:**

- Setup fees could range from US\$25,000 to six figures, depending on complexity
- Diligence fees range from US\$50,000 to US\$100,000
- Integration to new third-party processing platforms could cost up to US\$250,000
- **Monthly/recurring fees:**
 - Monthly Software-as-a-Service (SaaS)/for-the-benefit-of (FBO) fees vary by risk and complexity from US\$10,000 to US\$60,000 per month
 - Ongoing compliance fees range from US\$5,000 to hundreds of thousands for large programs (dependent on risk)
- **Transaction fees:**
 - Transaction fees by payment rail, typically tiered by volume
 - For acquiring, ad valorem or basis-point fees (banks pass through all interchange and network fees)
 - Noncard money movement fees (e.g., for ACH, wire)
- **Volume-based fees:**
 - Higher volume means lower per-transaction cost
 - Monthly minimum fees across all transactions (not per rail)
 - ACH, same-day ACH, RTP, FedNow (often provided as one rail)
 - Visa/Mastercard send fees
- **Compliance and risk fees:**
 - Fees for suspicious activity reports filed
 - Consumer compliance complaint/investigation fees
 - Transaction monitoring fees (typically not designed for profit)
 - Potential compliance fees based on evaluation of the product

- **Other fees:**

- Plastic or card issuing fees
- New account fees
- Program wind-down fees
- Miscellaneous fees for “bad behavior” (e.g., service-level agreement [SLA] violations, high ACH return rates, chargebacks, excessive API calls)
- On the credit side: may participate in receivables, collecting interest and fees
- Know Your Customer (KYC) function fees (if provided by the bank)
- Fees for dedicated relationship managers (for large programs with quick SLA turnaround requirements)

- **Other pricing considerations:**

- Three-year contracts with monthly minimums are common.
- Banks often share 25% to 30% of revenue back to partners because of high margins.
- Earnings credit on deposits from the partner can offset fees (trade-off between transaction fees and deposit interest).
- Pricing can include guardrails to ensure programs stay within expected parameters (e.g., maximum percentage of chargebacks).
- Different transaction types carry different risk costs, with pricing increasing based on risk

The significant revenue opportunity that bank sponsorship generates requires that banks build comprehensive programs to ensure that partners can access the bank's available offerings and a comprehensive compliance and regulatory framework.

Key Considerations for Sponsor Banks

Sponsorship programs require robust operational frameworks and comprehensive oversight across multiple areas in the bank to ensure compliance and program success. Banks entering this space must carefully evaluate their readiness and ability to support these key operational requirements, as regulators increasingly expect direct involvement and oversight in all aspects of the program. Given the effort required to launch a sponsor bank offering, working with a third-party provider of sponsor bank services could be a good option. Third-party providers can provide FIs with a turnkey sponsor bank solution or deliver components of the solution, like support for multiple payment alternatives or simplified onboarding processes.

The following table is not a comprehensive list but outlines considerations across five core areas that banks should address when establishing and maintaining sponsor bank initiatives (Table B).

Table C: Key Considerations for Sponsor Banks

Area of focus	Considerations
Staffing	<ul style="list-style-type: none">• Adequate staff to support first and second-line compliance functions: relying on existing bank staff for compliance, sales, and service is not enough for managing sponsor relationships• Expertise in regulatory requirements specific to program type (e.g., card issuing/processing, cross-border)

Area of focus	Considerations
Oversight and monitoring	<ul style="list-style-type: none"> The ability for the sponsor bank to close or freeze individual accounts Audit trails for all marketing approvals and program changes Clear documentation of all policy and procedure changes Customer complaint tracking and resolution processes Daily reconciliation and settlement reporting Documentation and reporting Ongoing review of partner compliance with program requirements Real-time access to transaction monitoring data Regular assessment of third-party service providers (if any) Regular audits of KYC and anti-money laundering (AML) procedures Regular reporting on key performance indicators and compliance metrics Transaction monitoring with specific thresholds/triggers
Marketing and communication controls	<ul style="list-style-type: none"> Clear timeline expectations for review cycles Documentation of all approved versions and changes Formal content approval system with tracking capabilities Formalized and efficient marketing review process with SLAs Pre-approved templates and guidelines for common scenarios, such as pre-approved social media content and imagery that fintech firms can use over time Specific guidelines for different marketing channels
Risk and compliance framework	<ul style="list-style-type: none"> Clear escalation procedures for compliance issues Documented procedures for handling regulatory examinations Regular risk assessments of program activities Regular testing of compliance controls
Ongoing management and development	<ul style="list-style-type: none"> Clear communication of compliance requirements to fintech partners Documentation of all training and communications activities Ongoing compliance training for staff Regular updates on regulatory changes

Source: Datos Insights

The Regulatory Environment

Choosing to offer BaaS is potentially a powerful revenue generator for sponsor banks. Still, implementation is complex and requires the active participation of the bank partner to ensure the program meets the requirements of regulators. That's a challenge since three regulatory organizations—the Federal Reserve Bank, OCC, and FDIC—oversee banks involved in BaaS.

Recent regulatory guidance from all three regulators makes it clear that banks cannot outsource risk management to their fintech partners.⁴ Instead, they should maintain direct visibility into every aspect of the program, including transaction monitoring, customer onboarding, and operational resilience. What can be challenging is to monitor the fast-paced fintech partner's actions to make sure everything the partner does is approved and fully compliant. Finding out after the fact that a partner expanded into new verticals or modified program parameters can result in a range of issues for the sponsor bank.

"The OCC never dings me for the risks I take on. It is 100% of the time that the OCC dings me because they can find risk issues that I didn't actually address proactively, and they say, 'You don't know how to manage these risks, and we can shut you down for not appreciating, and quantifying risk.' It's surprisingly rare that the OCC or the FDIC comes to one of my banks and says we don't like your risk profile. It's always, 'We don't think you understood the risk.'"

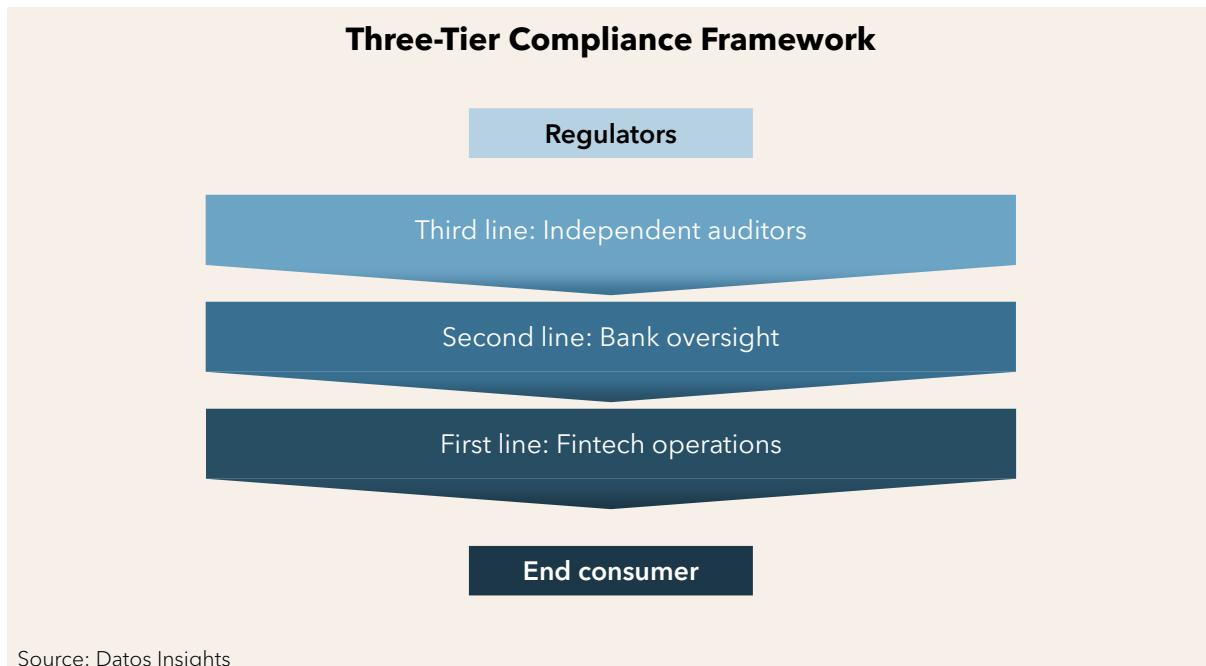
BaaS risk and compliance consultant

⁴ Federal Reserve System, Federal Deposit Insurance Corporation, Department of the Treasury, Office of the Controller of the Currency, "Interagency Guidance on Third-Party Relationships: Risk Management," June 6, 2023, accessed April 17, 2025, <https://www.govinfo.gov/content/pkg/FR-2023-06-09/pdf/2023-12340.pdf>.

Compliance Management

Thorough compliance frameworks require a three-tiered approach, with the fintech partner maintaining first-line compliance operations, the sponsor bank providing second-line oversight, and independent auditors serving as a third line of defense. Viewing compliance through this lens helps sponsor banks comply with increasing scrutiny from regulators (Figure 3).

Figure 3: Three-Tier Compliance Framework



Source: Datos Insights

Still, there is no one-size-fits-all approach to compliance. Instead, compliance requirements can change based on variables, such as program type and partner maturity, where sponsor banks implement stronger controls for new programs.

The structure of a BaaS relationship between a sponsor and a partner extends bank regulatory oversight to processes that are potentially managed by the partner, who may or may not be aware of or concerned with the need for regulatory compliance of their sponsor banks for a successful program. This has led to several findings of noncompliance, resulting in enforcement actions from regulators. The following are enforcement actions taken by regulators against BaaS banks since 2022 (Table D).

Table D: BaaS Enforcement Actions, 2022 to 2024

Impacted FI	Regulator
First Federal Bank	FDIC
Vast Bank	OCC
Metropolitan Commercial Bank	Federal Reserve New York Department of Financial Services
Synapse Financial Technologies	FDIC Federal Reserve
Cross River Bank	FDIC
Choice Financial Group	FDIC North Dakota Department of Financial Institutions
Blue Ridge Bank	OCC
B2 Bank National Association	OCC
Sutton Bank	FDIC
Piermont Bank	FDIC
Thread Bank	FDIC
Axiom Bank	OCC

Source: Datos Insights

The most significant compliance challenge to the space was the failure of Synapse Financial Technologies, which resulted in consent orders being issued to Evolve Bank and Trust, Lineage Bank, American Bank, and AMG National Trust. The high visibility of the Synapse failure and increased regulatory scrutiny forced a change in sponsor banks' internal policies to ensure that there were sufficient compliance resources in place to support their offering. Sponsor banks have also become more aggressive in requiring their partners to have rigorous compliance capabilities.

While sponsor banks were developing their offerings and learning how to manage a third-party financial partner, regulators were also learning about the space. And, with three regulators involved, navigating compliance was a daunting challenge for sponsor banks. The regulators have attempted to address this by publishing a joint guide for third-party financial relationships, "Conducting Due Diligence on Financial Technology Companies, A Guide for Community Banks."⁵ The guide provides concise direction on the regulatory requirements of a sponsor bank program, and it has been found to be valuable by sponsor banks. Another step that an FI can take to minimize the risk of compliance issues is to develop a proactive, consultative relationship with the FI's regulators.

"We're very proactive with our regulators at the OCC in terms of giving them a heads up early and really taking a consultative approach with the regulator."

Sponsor bank program manager

The delivery of regulated financial services through nonbank third parties requires a disciplined, comprehensive approach to compliance beyond what is traditionally required in FIs that do not provide sponsor bank services. Any organization planning to enter the space needs to plan for expanded internal compliance resources, and it needs to ensure that its partners are also committed to supporting a fully capable compliance function.

Regulatory Compliance

Compliance for sponsor banks is not a check-the-box exercise. It is an intensive, continuous monitoring requirement that demands sophisticated infrastructure and dedicated resources. Recent regulatory actions have made it clear that sponsor banks can no longer rely on periodic sampling or after-the-fact reviews; instead, they should maintain real-time visibility into their partners' operations, from customer onboarding through transaction monitoring and dispute resolution. This heightened scrutiny encourages comprehensive compliance frameworks that extend well beyond traditional banking requirements, incorporating specialized monitoring for fintech-specific risks and activities.

⁵ Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, "Conducting Due Diligence on Financial Technology Companies, A Guide for Community Banks," October 2023, accessed April 17, 2025, <https://www.federalreserve.gov/publications/files/conducting-due-diligence-on-financial-technology-firms-202108.pdf>.

“The regulatory landscape for bank sponsorship has transformed, driven by increased scrutiny from federal banking regulators amidst high-profile program failures. Today’s sponsor banks face a complex web of regulatory requirements that demand high levels of oversight and control over their fintech partnerships. [Regulators] want three to six months of the partner literally running parallel with the bank standing beside them to validate the system. Then they want another six to 12 months where I’m very aggressively sampling and testing.”

Sponsor bank executive

Federal regulators also emphasize the importance of monitoring all intermediary relationships between the sponsor bank and end customers, with increasing concern about “nested” programs that extend multiple layers deep. As one industry veteran noted,

“The regulators have said, ‘How many parties deep can you go? Bank, program manager, client of program manager, then brand partner.’ Way too many steps away from the bank.”

Sponsor bank executive

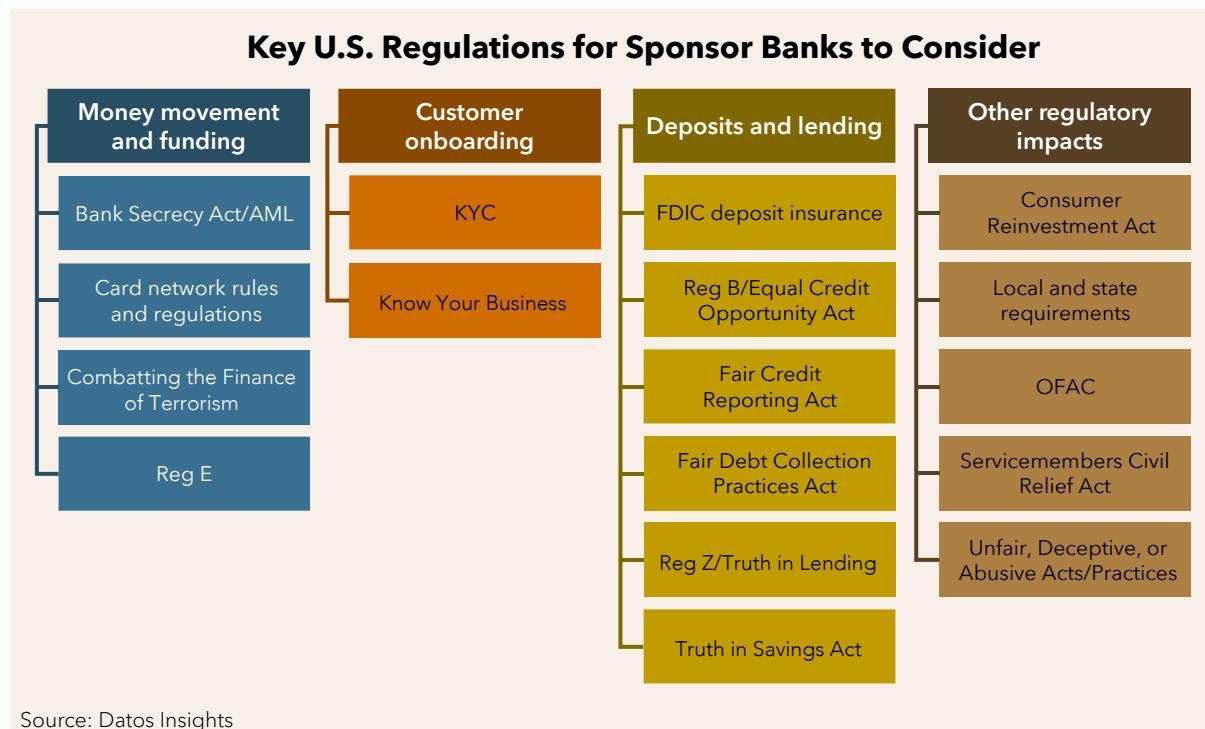
This level of effort has driven many sponsors to rethink their programs, eliminating unnecessary intermediaries and establishing more direct oversight of customer-facing activities, even when those activities are performed by their fintech partners.

New sponsor banks should start by investing in a strong compliance foundation that combines technology and expertise. While initial investments may seem significant, successful sponsors recognize this as the cornerstone of sustainable growth. Many interviewees cited the core importance of compliance management to the success of a sponsorship program, indicating that new entrants should begin by building a core

compliance team of experienced professionals and expanding it as the program scales. Implementing real-time monitoring systems in parallel could also allow technological capabilities to grow alongside your team.

Compliance is a strength more than a burden, allowing new sponsors to build a resilient, profitable program that stands the test of regulatory scrutiny. Figure 4 highlights key regulatory areas sponsor banks should understand, both for themselves and for the fintech client.

Figure 4: Key U.S. Regulations for Sponsor Banks to Consider



Note that this is not an exhaustive list, and some items will not be applicable to every program.

Minimizing/Mitigating Risks

Aggressive management of compliance and risk can reduce the risk of a consent order and possible penalties. Still, the sponsor bank space can expose FIs to other challenges. The following activities can help lessen the likelihood of compliance, regulatory, operational, or reputational risk for a sponsor bank:

- Monitor partner compliance through daily, monthly, periodic reviews, or, in some instances, real-time tracking.
- Review policies and procedures related to BSA/AML, KYC, sanctions screening, and other regulatory compliance factors.
- Evaluate the potential risks of products and clients. Ensure that products are consumer-friendly and fit within regulatory frameworks.
- Ensure that all operational aspects are compliant with regulatory standards.
- Review customer complaints to identify potential deficiencies and address them accordingly.
- Maintain clear and accurate records of all operations performed by third parties.
- Ensure that agreements with third parties clearly define compliance requirements and responsibilities.
- Take a proactive approach with regulators to ensure that all actions are sound and compliant.

Program Implementation and Management

Given the complexity of developing a sponsor bank capability and the risks inherent in sponsor bank programs, a well-managed implementation is crucial to success. Sponsor banks need to build a structure and develop processes to support BaaS capabilities. A successful sponsor bank program requires a robust organization that can support the requirements of managing the partner relationship and ensure that regulatory risk is minimized. The following are necessary to develop a successful offering (Table E).

Table E: Sponsor Bank Implementation Criteria

Implementation criteria	Description
Investment	Implementation costs for sponsor bank program infrastructure are estimated to range from US\$2 million to US\$5 million at minimum. Budget also needs to be planned for incremental expenses as the program scales.
Additional compliance staff	The compliance workload will most likely require additional staff to minimize risk and assist with partner due diligence.
Adequate risk-management systems	Systems need to be in place to support the program before implementation.
Technology integration capabilities	The sponsor bank needs the tools to securely connect the partner to the bank, including building well-structured APIs and a developer portal.
Staffing support in bank departments	Beyond compliance, resources must be available from risk management, operations, IT, customer service, finance, sales, and legal.
Board, senior management, and regulatory approval	Becoming a sponsor bank is a strategic initiative requiring the full support of bank leadership; regulators should be informed of the bank's intention and progress.

Source: Datos Insights

An alternative to building a direct bank sponsor capability is to work with a vendor that can provide the infrastructure and knowledge to manage the sponsor bank program. Companies such as Victorfi, Atelio (part of FIS), and Unit have the expertise and technology to support a bank sponsor program. The collapse of Synapse has reduced demand for BaaS intermediaries, but there are fully compliant and vetted providers that can simplify and accelerate program implementation.

If the decision is made to build the bank sponsor function internally, consultancies that understand the challenges of implementing a sponsor bank program are available. With the complexity of sponsor bank programs and the regulatory risk involved, a subject matter expert to assist with planning and execution could be valuable.

Onboarding/Launch

Bringing a partner into a sponsor bank program takes time. While simpler programs can be implemented in three to six months, it's wise to assume that it could take up to one year to get a program fully integrated and operational.

"If a bank is willing to onboard you as a fintech in 30 days, they're willing to offboard you in 30 days. If you go to the bigger sophisticated sponsor banks, it may be a longer process to board with them, but they're boarding it for sustainability."

Bank program manager

Partner Evaluation/Due Diligence

Before implementation, sponsor banks see identifying and evaluating potential partners as an essential step that should not be abbreviated or circumvented. Since more businesses are looking for sponsor banks than there are sponsor banks, program managers can be selective when identifying partners. A comprehensive review of the partner must occur before implementing the program. The due-diligence process is essential and complex and can take as long as four to five months to complete.

The evaluation should ensure that the partner has the following at minimum:

- **Clear business model/projections:** Clearly defined goals with achievable objectives and reasonable economic projections are foundational to implementing a BaaS program. The model must be compatible with the sponsor bank's strategic priorities, risk-acceptance profile offerings, and capabilities.

"As a rule of thumb, we expect the program to generate US\$250,000 revenue for us in the first year with some path to continue growing in years two and three."

Bank program manager

- **Adequate funding:** The partner must have sufficient funding to support implementation, rollout, and scaling for their offering. Current sponsor banks generally will not work with startups and require a commitment to a minimum investment of US\$5 million to US\$10 million in funding from the partner.
- **Full-time compliance officer:** The importance of regulatory compliance cannot be overstated. The partner should have a compliance officer in place or be prepared to add a compliance function to support the program. There should also be a plan to expand compliance resources as the program grows.
- **Documented policies and procedures:** Every aspect of the program's policies and procedures needs to be documented and approved by the sponsor bank.
- **Technology readiness:** The partner needs to have a tech stack that is readily configurable for integrating into the sponsor bank's BaaS platform.

With these criteria met and the partner approved, the sponsor bank can begin to onboard the partner.

Documentation

As part of onboarding, the sponsor bank needs to review partner documentation, including policies and procedure manuals, marketing materials, agreements between the partner and its customers, and compliance and risk-control documentation.

Agreement Finalization

The terms of the relationship between the partner and the sponsor bank are critical to successful program implementation. Both parties need to incorporate every aspect of the relationship into the agreement and, to the extent possible, cover any eventuality that could arise. The following are areas that should be incorporated into an agreement between a sponsor bank and its partner (Table F).

Table F: Essential Components of a Sponsor Bank/Partner Agreement

Category	Criteria
Compliance framework	<ul style="list-style-type: none"> • Clearly defined compliance roles and responsibilities • Bank must maintain ultimate oversight and control • Regular audits and reviews required • Defined monitoring and testing programs • Process for marketing material approvals
Operational requirements	<ul style="list-style-type: none"> • Specific SLAs for reviews and approvals • Defined product parameters and use cases • Clear transaction limits and restrictions • Customer onboarding requirements • Required staffing levels (especially compliance)
Commercial structure	<ul style="list-style-type: none"> • Implementation fees and monthly minimums • Transaction fee tiers • Revenue sharing arrangements • Growth and volume commitments • Consequences for missing minimums
Risk management	<ul style="list-style-type: none"> • Partner responsible for regulatory fines/penalties • Allocation of fraud losses • Data security requirements • Regular reporting requirements • Change-management process

Source: Datos Insights

Integration

Assuming that the technology is in place or available through a third party, processor connections, network certification, core banking integration, reporting, and reconciliation

testing need to be validated and implemented. The accounting systems being used for BaaS need to be sufficiently advanced to eliminate the risk of loss to the sponsor bank.

“Core infrastructures themselves are typically legacy products. They’re older, so putting a new front end and having it interact from an existing legacy core that is mostly mainframe and not cloud-native and different becomes very complex.”

Third-party program manager

Testing

As with any program implementation, an extensive testing protocol is required. It should include an evaluation of connectivity and processing functions, compliance validation and risk-monitoring, and user-acceptance and customer-service testing.

Program Launch

With processes and systems validated and in place, the program can launch. Launching a program is generally done with a phased rollout to test functionality as the program scales. Volume monitoring, compliance oversight, and performance tracking need to be continually evaluated throughout the launch process. Finally, there needs to be an ongoing issue resolution program in place to identify and repair problems as they arise.

Post-Implementation Management

Continuous monitoring and ongoing communication between the sponsor bank and the partner, communications with the regulators, and documentation management are essential for the long-term success of the program once the program is up and running.

Program Pricing

One of the challenges of implementing a sponsor bank program is developing a pricing model that adequately reflects the value of the program for the partner and delivers a sufficient return for the sponsor bank. As previously described, a sponsor bank program can generate significant revenue if structured correctly.

"We're hoping that they're going to drive that scale in volume, because scale and volume is where the money is."

Sponsor Bank program manager

Pricing Components

- **Implementation fee:** Programs generally charge an upfront implementation fee to offset onboarding costs. This is particularly important for implementing large-scale programs where development costs are high.
- **Per-transaction pricing:** Transaction pricing is crucial as it connects revenue with scale and is a variable expense for the partner.
- **Risk-based pricing:** As with traditional processing, different transaction types justify different pricing structures.

Pricing Management

- Scale is a crucial factor in a sponsor bank program, and pricing should be structured to incent program growth and volume.
- There is a risk of underpricing the program, and some sponsor bank programs have exited the business because their pricing structure was insufficient to generate sustained revenue for the sponsor bank.
- Interchange revenue can be significant, and the sponsor bank may choose to share interchange revenue with the partner. It's important to consider potential changes to interchange from legislative (Durbin) or regulatory (CFPB) entities.
- Bank services such as treasury management and commercial banking can be incorporated into the pricing model for a partner, or program pricing can be adjusted downward with a deeper bank relationship.

Best Practices and Success Factors

There are enough sponsor banks successfully providing services to partners that program best practices have been identified (Table G).

Table G: Sponsor Bank Best Practices

Program category	Best practices
Program management	<ul style="list-style-type: none"> Consider engaging a consultant with expertise in sponsor bank implementation to assist in building the offering Staff to support dedicated project managers Maintain clear timelines and continually update and manage with partners Hold regular status meetings, internally and with the partner Maintain a comprehensive issue-tracking and change-management reporting tool
Risk management	<ul style="list-style-type: none"> Phase implementation to ensure that risks can be identified and mitigated before volume scales Establish clear and consistent testing requirements Validate risk-management controls Integrate audit procedures into the program plan
Communication	<ul style="list-style-type: none"> Establish clear escalation paths for both the partner and the bank Ensure that documentation for the program is comprehensive, complete, and regularly reviewed and updated Proactively communicate with bank stakeholders outside of the project teams Establish training plans to pass along institutional knowledge to new team members

Source: Datos Insights

Successful programs share common characteristics that help ensure that a program will achieve its objectives:

- Develop and document clear processes
- Maintain strong controls for all aspects of the program
- Ensure staffing is sufficient to support the program
- Have up-to-date technology in place to support the partner
- Aggressively manage risk and program compliance

Common Pitfalls

Sponsor banks must ensure adequate resources are available to develop, launch, and implement the program. Perhaps the most significant potential pitfall is working with a partner that doesn't have sufficient maturity, sufficient capital to invest, the ability to scale, or a cultural and structural ability to support the compliance requirements of BaaS.

The following are the most common issues to avoid:

- Underestimating timelines for vetting partners, contract negotiation, compliance evaluations, and program implementation
- Insufficient financial, technical, and staffing resources
- Incomplete documentation in contractual agreements, leaving the sponsor bank vulnerable to future issues
- Poor communication (upward, downward, and with the partner)
- The sponsor bank and their partner's expectations for the program are misaligned
- Inadequate testing from the end user, through the partner to the sponsor bank tech stack to integration with other sponsor bank systems
- Not maintaining consistent communication with stakeholders
- Unrealistic expectations for the program related to timing, anticipated scale, program development costs, and partner's willingness/ability to comply with compliance requirements.

The “Bank Ready” Partner

The lessons for bank partners are clear: A relationship to deliver financial services through the enterprise is a complex undertaking that will require time, money, and persistence if it is to succeed. One way to perceive the relationship is that instead of the partner being a stand-alone distribution point for bank services, the partner enterprise is functioning as another branch of the sponsor bank, with all the regulatory and compliance responsibilities included.

There's a challenge to this perception; since partners are not generally in the banking space, bank partners are generally unfamiliar with the requirements imposed on banks. Further, with the spate of recent regulatory enforcement actions, sponsor banks have increased their compliance efforts, which will also increase the need for partners to manage compliance in their operations aggressively.

Companies planning to be partners with sponsor banks must understand the importance of regulatory compliance and recognize that the partner has a lot to do with the sponsor bank's ability to comply with bank regulations. Many sponsor banks are very selective in their choice of partners; some require that the partner have at least five to seven years of successful operation and, sometimes, that the partner generate at least 1 million transactions per year.

An additional challenge for partners is that the nature of emerging businesses, particularly startups, is to move quickly and change course or pivot as needed to move the business forward.

“We typically elect to go for partners who have a demonstrated product, a clear idea and vision for that product, and help them put together solutions to get to market successfully, safely, and soundly.”

Sponsor bank program manager

The following steps are suggested requirements for a partner to be “bank ready” (Table H).

Table H: Requirements to be "Bank Ready"

Category	Actions
Due-diligence preparation	<ul style="list-style-type: none"> • Prepare a comprehensive due-diligence package for the sponsor bank • Document a clear organizational structure and key team members • Provide detailed background information about the organization • Prepare financial documentation, including a cap table, balance sheet, income statement, and pro forma financials with anticipated performance
Business planning	<ul style="list-style-type: none"> • Develop a detailed business plan • Document product/service features and functionality • Outline customer acquisition strategy • Be prepared to discuss the expected economic structure
Risk management and compliance	<ul style="list-style-type: none"> • Establish policies and procedures, including a BSA/AML policy, disaster recovery plan, and data-handling policies, especially regarding personally identifiable information (PII) • Ensure PCI compliance, if applicable • Be ready to identify and discuss key third-party providers • Have a full-time dedicated compliance officer (not fractional)
Financial preparation	<p>Prepared for significant fees, including the following:</p> <ul style="list-style-type: none"> • Diligence fees (US\$50,000 to US\$100,000) • Setup fees (US\$25,000 to six figures) • Monthly compliance fees (US\$5,000 to US\$200,000) • Monthly SaaS/FBO fees (US\$10,000 to US\$60,000) • Transaction fees and minimums
Implementation readiness	<ul style="list-style-type: none"> • Be prepared for a "crawl, walk, run" approach (i.e., three to six months of parallel operation with bank oversight, then six to 12 months of aggressive sampling and testing) • Expect initial controlled testing periods with limited users • Be ready for detailed scoping sessions with various bank departments • Prepare for thorough cross-checking of cardholder agreements and procedures

Source: Datos Insights

The structural and regulatory requirements to launch and manage a financial product through a third party require stability, capital, and a consistent environment. The following are key success factors for bank partners:

- Have sufficient resources in place to fully support the program
- Have the technical functionality and understanding of responsibilities (e.g., processing, handling exceptions, reporting/reconciliation) to work as an effective partner with the sponsor bank
- Focus on program compliance and work with the sponsor bank to minimize compliance risk
- Have the technical functionality in place to support a scaled program
- Incorporate and institutionalize processes that help ensure consistent program delivery over time
- Set realistic expectations with internal stakeholders

The Evolution of the Sponsor Bank Space

While there have been setbacks to the space driven by issues related to compliance, there is a great deal of optimism that the demand for sponsor bank products in nonfinancial companies will only continue to increase. Moving financial services to the point of customer contact for partners creates incremental value and revenue for the partner and generates revenue for the sponsor bank.

The sponsor bank model is one of the few examples of retail banking products developed for integration into third-party organizations. Opening delivery up to third parties creates money movement opportunities for sponsor banks to explore new offerings and distribution channels to overcome dependence on physical branches for customers and revenue. In addition to the revenue generated from sponsor bank activities, providing a BaaS capability can potentially open additional revenue generation opportunities, such as becoming an acquirer/processor and offering cross-border transaction functionality to bank customers as well as partners.

As financial services offerings move toward partners and apps and away from retail banks, the value of a traditional bank branch to attract customers and revenue will decline. Banks will see a sponsor bank offering as a way to increase their digital footprints.

Conclusion

The implementation of a sponsor bank program is a strategic initiative requiring significant incremental resources to build and operate.

Sponsor banks:

- BaaS has the potential to deliver significant incremental revenue to the sponsor bank from incremental fees, cross-border revenue, float, and increased transaction volume. However, it requires that the bank views the service as a strategic, long-term initiative that will take incremental resources to build and maintain.
- It's a seller's market, so sponsor banks can and should be very selective in identifying potential partners. Partners should be established businesses with sufficient economic, staff, and technical resources to support the program.
- Onboarding partners requires extensive due diligence before finalizing an agreement to minimize economic and compliance risk.
- Regulatory compliance is a major challenge in the BaaS space. Sponsor banks should view their partner as a stand-alone bank branch with all the compliance requirements that a bank branch requires. A fully staffed and proactive compliance team is essential to a successful program.

Sponsor bank partners:

- Implementing a financial services offering in a nonfinancial business requires that the partner maintains a cultural mindset that can accept rigid compliance requirements and an understanding of the complexities of regulated banking.
- Partners need to have the economic and staffing resources necessary to build and manage a program. Plan to staff a full-time compliance capability to support the effort. They should also have in-depth knowledge and some experience with payment processing.

Building and implementing a program takes time—up to one year in many cases. The traditional startup culture of rapid pivots to the business as circumstances change will not be an acceptable model for a BaaS offering. Stability, consistency, and control are the essential mantras.

Appendix: Select Comments From Respondents

Part of the research conducted for this report included interviews with leaders at sponsor banks, partners, and practitioners supporting the sponsor bank space. The following are select, anonymized comments from those interviews.

Onboarding Processes

Q: What should fintechs prepare for initial conversations?

A: "They should have a due diligence-ready package to provide to the sponsor bank. They should be very clear about organization, key team members, background, the cap table and balance sheet, and the income statement associated with it. They should have their business plan, the product service feature functionality—all of that as far as what they intend to offer, including their customer acquisition strategy. They should have some level of pro forma regarding what they anticipate they will do, including the economic structure. They should also have their policies and procedures, disaster recovery, and whether or not they will maintain any PII, their level of SOC needed, and/or PCI compliance if that's a component."

Q: What should banks evaluate in potential fintech partners?

A: "We're going to look at a number of different things. Number one, what's the capital strength of the entity? What is the business plan of the entity—meaning the products and services they intend to offer, and to whom—so that we can do a proper risk profile of the activity—the policies and procedures within that organization—BSA/AML policy, their compliance. That dovetails with the strength of the team they have in place, whether they have it directly or are contracting with a third party. Who are the key third-party providers of these products or services? Because as the bank sponsor, our due diligence will not only be on the fintech but any of those critical providers as well."

Q: What is your process for evaluating and onboarding new banks?

A: "We've put together an index or a model where we're evaluating a number of criteria in relationship to the sponsor bank. We're looking at their size and whether they have an embedded finance team or leverage the same team that's managing the retail bank. We look at their willingness to support various customer segments and their willingness to

support and launch additional money movement features with us. Do they have notable clients that we can look to and success rate? We score across all of those and then it comes up with a qualifier. When we get the sponsor bank onboarded, there is an integration. You're defining the engagement—How am I going to bring a new brand to you? What diligence documents are you going to want to collect? What sort of reporting do you want to see? How do you want us to pass marketing material so that you can approve it?"

Q: How long does onboarding typically take?

A: "Typically, it takes about nine months to bring on a new bank, and it takes anywhere from 16 weeks to six months to bring on a new partner, depending on who the bank is. That has changed pretty dramatically over the last year; 18 months ago, we could get a partner on board in 90 days or less, but with the regulatory environment being what it is today, that has really extended."

Q: What is your process for vetting and onboarding new clients?

A: "We view the fintech as a vendor, not a customer. The fact that they pay us is irrelevant; they're a vendor that services the bank's customers on behalf of the bank, so they go through the same kind of due diligence you would expect a core processor to go through.

"First, we need to understand the third-party risks. We're looking at the vendor process, understanding their business, understanding the stability of their business, and looking at their financials. We take them through a third-party risk process that goes to a specific committee with voting rights.

"Then you get into the specifics of a program and understand all features and functionality. There's a risk assessment looking at every potential risk metric. During onboarding, experts for particular areas of risk drill down further to understand how we mitigate those risks.

"Once approved, we move into scoping sessions, pulling various areas of the bank together with the program manager. For example, the BSA team will do a walkthrough of BSA aspects. We'll do sessions on IT and general compliance items. From there, we develop a project plan and cross-check cardholder agreements, policies, and procedures. We always recommend a test period with a small, controlled number of cards to follow transactions through the entire process."

Q: How long does onboarding typically take?

A: "It depends on how good the fintech is and how familiar we are with how they operate. If it's an organization we've done business with before and the program is similar, maybe three to four months. If it's new to us with a new program manager who may be dragging their feet or having to do work on their side, it could take a year."

Revenue Models and Pricing

Q: What are all the revenue sources available in these partnerships?

A: "There's usually a diligence fee that's going to be somewhere between US\$25,000 and US\$50,000 nowadays. Some of the bigger banks will charge US\$100,000. On top of that, there will usually be ongoing compliance fees depending on the type of program, anywhere from US\$5,000 up to US\$200,000 a month for a big program. Then, with the Fed funds rate being so high, deposits are valuable. I've got a bank where there are US\$160 billion in assets or so; they're spinning up a big giant payments program right now that'll be card in-card out plus ACH, and what they're saying is, look, our float in those accounts at any point in time, we're going to have about US\$3.2 billion of deposits in float sitting inside the bank.

"In a smaller bank, I will actually do deposit networks on the back end. So, suppose I'm a smaller bank: I get US\$50 million on deposit; I don't necessarily want that, so I'll broker that out into a deposit network like Promontory or InterFi. I may make 25 bps on the rate swap with the banks that are buying deposits. On your typical payments infrastructure play, most banks are probably sharing 30% of that revenue, 25% of the revenue back to the fintech because we've got enough margin in those other programs."

Q: How do you structure fees and pricing?

A: "Typically, there will be a setup fee that can range from US\$25,000 to six figures. The six figures could be just what that institution charges, or if that institution has to integrate and establish the connectivity to a new third-party processing platform, you're looking at a quarter of a million dollars. Then, there are going to be minimums. It's not uncommon to have a grace period during implementation. As revenue starts to begin, minimums start, and they will often ramp up as you anticipate the scale of the business. Every model can be different in the sense that it can be transaction-fee-based, it can be basis points on spend. Some could do an interchange share, though you're seeing that less and less."

Q: What are additional revenue opportunities?

A: "You're going to derive from these relationships fee income, so noninterest income associated with it. And then, regarding the deposits you generate, what's your ability to leverage those on the asset side of the balance sheet, generating low-cost deposits and increasing your net interest margin? The bank can also provide earnings credits on deposits."

Q: How is pricing typically structured between banks and fintechs?

A: "The usual structure with banks is an interchange split. The rough shape for most programs is you do a split of interchange, and then you do fees on certain types of transaction activities or, in some cases, users. The program structure is ideal when the bank only makes money when the program makes money. For example, the bank will charge for an ACH record; it's small, but they might charge a couple of cents for every ACH record. Banks will mostly look to interchange for the primary revenue, and then all the other fees are just to cover costs as much as possible to prevent downside on the program.

"There are minimums because the bank does quite a lot of upfront work for implementation. It's very common for banks to charge implementation fees that can be significant—US\$50,000 to US\$200,000—to pay for dedicated staff. It is definitely not uncommon to see platform fees or AML fees. That is becoming more common as banks going into consent orders have to bring in external auditors and spend millions to get their compliance in place; they try to alleviate those costs by passing it on to programs."

Q: How do you structure pricing for your services?

A: "We charge a setup fee that varies depending on the risk spectrum and complexity of the program. The setup fee low end is US\$15,000 up to US\$60,000, or even US\$100,000 for a card program. We typically charge a monthly SaaS/FBO fee that varies by risk and complexity from US\$10,000 to US\$60,000 per month. Transaction fees are by payment rail, typically tiered by volume; more volume means lower per-transaction cost. There's a monthly minimum across all transactions (not per rail).

"If we do acquiring, there is an ad valorem or basis points fee, revenue share if we issue cards with interchange revenue. We have miscellaneous fees that are not meant to be revenue generators but are mostly in place for bad behavior or to prevent unprofitable behavior—SLA violations, ACH return rates, chargebacks, fees for API calls. These fees don't start until we have a term sheet."

Compliance and Risk Management

Q: What are your criteria for bringing on a partner?

A: "Risk, compliance, and reputation are key factors. We carefully examine their reputation and any regulatory red flags, whether they have convincing explanations for any past issues, their focus area (we prefer business-to-business players, though we do support consumer programs), their ability to scale, and their potential for growing wallet share or offering complementary products. We would rather grow with a limited number of partners who can expand into adjacent segments than have hundreds of smaller partners."

Q: How do you approach ongoing compliance monitoring?

A: "When it comes to oversight, a lot of sponsor banks just sample; they'll sample 20 loans, 20 Reg E disputes. However, with large fintech programs, 20 or 50 is statistically irrelevant. One of the things this bank has always done is build platforms where every single transaction is ingested and reviewed. We can demonstrate to regulators that we have seen everything. We don't depend on random sampling, which usually cannot be done in a statistically relevant way."

"We require a full-time compliance officer—not a fractional one—doing it for multiple fintechs. We see them as a vendor, not a customer. And we require direct relationships—we don't work through intermediaries. The bank needs proper line of sight to everything."

Q: How has regulatory oversight evolved?

A: "The sophistication of the regulators in the last 24 months has grown exponentially. Twenty-four months ago, we were educating the regulators on how these systems work. They're now fairly sophisticated in these areas and ask very difficult questions, particularly on the payment side as it relates to AML and OFAC controls and on the lending side as it relates to fair lending and consumer compliance types of controls."

"The expectation now, particularly in OCC banks, is that onboarding is a 90-to-180-day process. It involves every risk vertical inside of the bank and entails the complete life cycle. We're going to have very detailed, documented business cases, detailed diligence checklists that were submitted and monitored. All of those diligence checklists come back to counsel in the bank as well as each risk vertical in the bank. They review them, respond to deficiencies, and flag those deficiencies."

"Most of my banks now go with a crawl, walk, run approach where they want to see us running in parallel with that fintech proving out the technology, especially if they are doing

any of the regulated tasks of the bank. If they're doing customer onboarding, if they're doing monitoring, if they're doing AML, if they're doing consumer compliance, anything like that, they want three to six months of literally running parallel with the bank standing beside them to validate the system. Then they want another six to 12 months where I'm very aggressively sampling and testing."

Growth Strategy and Market Evolution

Q: Where do you see growth opportunities?

A: "I think, across the spectrum, all segments of payment modalities are going to continue to experience growth. The small/midsize business space is a real opportunity, and domestic and international business-to-business payments will continue to see opportunity and growth. Across the spectrum, and again with our verticals, the acquiring sponsorship, iGaming—it's going to be organic growth as adoption continues to take place. I think digital assets and stablecoin will make a resurgence and translate into opportunities as well."

Q: How do you identify future opportunities?

A: "Follow the money. I think it's important to be engaged with venture capital and private equity firms that are focusing on commerce or just the financial ecosystem. Where are they placing their bets? They often have a good line of sight into what's next or what's around the corner. I think engaging the networks as to what they're doing and looking to see what acquisitions they're making are pretty critical because now they're going to leverage that capability or functionality into their system."

Q: Where do you see opportunities for growth?

A: "I think that international is going to become much more prevalent. So many of the calls I'm getting now are about how to do cross-border payments. Two things are driving that. First, we're looking for faster, easier payments in the gig economy. We're all hiring dev teams offshore, marketing people offshore, and social media people offshore, and we've got to pay them efficiently. Another thing driving demand is you've seen some pretty significant monetary controls come into place in foreign nations. This is what's driving a lot of Latin and South American payments companies to build infrastructure. Suppose you have a Brazilian developer who's doing work in the U.S. In that case, she would very much prefer to keep that money in the U.S. as opposed to onshore Brazil and put it subject to international monetary controls."

"I think the other thing you're going to see is the smaller players will go more to edge cases or bespoke use cases. The big banks are starting to gobble up the big fintechs. Chase has tacked on two or three hundred people in their payments fintech group to start swallowing up that middle market."

Q: What key advice would you give banks entering this space?

A: "Fintech is never a division of the bank. Fintech is the same as a branch of the bank, and if you were going to open a new branch, operations, data sec, AML, and credit would all be involved in the opening early on. Too many banks set up a fintech division that had conflicting goals—they were the salespeople and the compliance people, and that led to some really bizarre results."

Q: Where do you see growth opportunities?

A: "Three high growth verticals are sports gaming (which will continue to grow), cross-border remittance and flows (specifically Visa direct), and MC send."

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