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**Closing the gap in fintech collaboration**

Overcoming obstacles to a  
symbiotic relationship

Deloitte Center *for*  
**Financial Services**

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# Key findings



Financial institutions are far more likely to collaborate than compete with fintechs, yet often struggle to interact effectively with the faster-paced, less structured fintech world.



These incumbents often lack a clear path for fintech approval and development and struggle with setting benchmarks to measure success.



To overcome these barriers, incumbents should implement a fast-fail approach to fintech experimentation and establish a precise engagement path with a single point of initial contact.



For their part, fintechs must refine their pitches to align to real-world challenges and demonstrate both industry and technical expertise.



Going forward, consolidation is likely as fintechs seek more traction in an increasingly competitive market and financial institutions (FIs) look for more sophisticated partners.

# Fintechs are more friend than foe

## Relationship evolves from “us versus them” to “us and them,” but challenges remain

These days, most conversations with financial services executives inevitably circle back to what’s happening in fintech. The industry is buzzing with chatter and activity on fintech strategy, experimentation, investment, acquisition, and integration. No function, department, or individual seems immune.

That’s been the case for several years now, but what seems to have changed is the tone, content, and sense of urgency in such discussions. We’ve moved well beyond speculative theory about what fintechs might be able to do for the industry and into practical application. Early on, many financial institutions may have looked upon fintechs as unwelcome disruptors and even existential threats, putting them on the defensive. Today, most companies have pivoted to more engaged and proactive collaboration. Many are looking not merely to keep up with how fintechs are changing the industry; they are looking to become major players in shaping, financing, and utilizing fintech to fuel their own reinvention and growth. One large Australian bank, for example, searches for interesting fintechs to build an ecosystem to serve customers across all their needs on a technology-driven platform, powered by the institution itself.

The majority of incumbents appear to recognize that while some fintechs may be coming after a piece of their market share, more often than not these tech-driven startups offer new tools, platforms, capabilities, and approaches to improve customer experience and bolster their operations. Fintechs are increasingly seen as an opportunity to differentiate—a critical source of innovation helping to infuse a more agile, entrepreneurial mind-set into what has traditionally been a conservative industry that’s slow to change. Fintechs are often serving as the spark—and in some cases the engine—of true transformation within a growing number of institutions.

“Fintechs are no longer going to disrupt the banks, they are going to power the banks,” according to one major institution, echoing most of those interviewed for this report in banking, insurance, investment management, and commercial real estate. “They are not going to be ‘us versus them.’ They are going to be ‘us and them.’”

A leading property-casualty carrier said, “Ultimately, I don’t see InsurTech as a disruptor replacing those in the industry, as it may have initially been viewed. It’s complementary. We don’t see this as the death knell for traditional insurers at all. The key will be who can develop and deploy InsurTech to leverage data the fastest and most effectively.” This insurer added that “if there is any real disruption, it will come from one InsurTech disrupting others in the same space rather than the insurers they serve.”

Of course, we have already seen this phenomenon play out—notably in the proptech space, with two disruptive, competitive startups merging. Real estate owners and incumbents have really embraced these new complementary capabilities in leasing as well as in construction/development analytics.

That doesn't mean there aren't a number of fintechs looking to stand on their own and challenge incumbents for niche markets. They seek to capitalize on their points of differentiation in terms of distribution strategies, the use of advanced analytics, and integration with supporting ecosystems (see figure 1). But even among this independent-minded group, many fintechs are accepting investments from incumbents despite technically competing with them. In such cases, it's usually about learning from one another, creating complementary business models, and capitalizing on emerging opportunities benefiting both.

This emphasis on collaboration versus competition doesn't mean outright fintech challenges of incumbent supremacy are off the table. In banking, the US Office of the Comptroller of the Currency announced on July 31 it would start accepting national charter applications from fintechs, providing a path to operate nationwide under a single licensing and regulatory regime rather than having to navigate individual state regulators.<sup>1</sup>

That same day, the US Department of the Treasury issued a report describing fintech as a way to bolster technology-driven innovation and support nonbank financial institutions.<sup>2</sup>

**Figure 1. Most stand-alone fintechs focus on niche markets, capitalizing on differentiating platforms and approaches**

Disruptors exist, but none on the horizon will render incumbent financial institutions irrelevant



Source: Analysis by Deloitte Center for Financial Services.

However, most fintechs are being created to work with, rather than compete against, incumbent institutions. As a result, collaboration and co-development are on the rise. While the lines between incumbents and insurgents are starting to blur, many institutions dealing with fintechs are finding the transition in mind-set and operations to be challenging, even frustrating. Interviews with more than two-dozen incumbents, fintechs, and accelerators from across the industry and around the world identified a number of hurdles, both internal (often involving organizational or corporate culture issues) and external (such as regulation and lack of industry-specific expertise among startups) yet to be overcome.

Such obstacles have hampered progress in collaboration, whether in working effectively with fintechs or realizing the full benefits of

their solutions. Many are still fine-tuning their ability to determine where to place their investments among the multitude of fintechs that have sprung up over the past few years. Others are grappling with whether to buy versus build their own solutions; or to invest in, rather than acquire, fintechs outright; and whether to be pioneers, or cautiously hang back and hope to be fast followers.

We also found many still struggling to speed up their assessment and approval processes once they settle on a fintech target, as well as accelerate integration and execution once a deal is struck. Incumbents are also often having a difficult time setting expectations and measuring success (see figure 2).

**Figure 2. Hurdles obstructing more effective execution**

### Difficulty demonstrating value proposition

Generic fintech proposals won't suffice given demand for industry-specific solutions

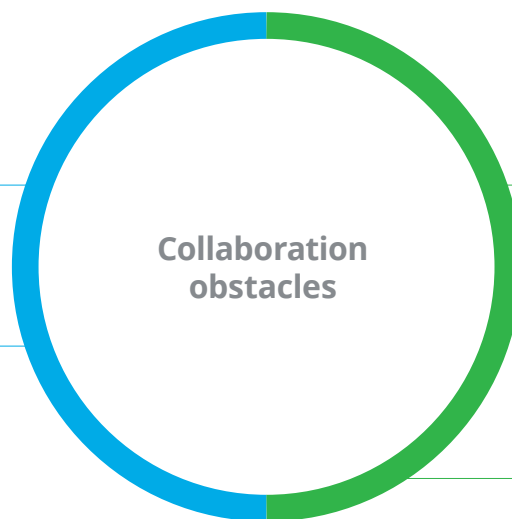
Financial institutions struggle to establish quantitative vs. qualitative expectations/benchmarks for fintech success

### Trouble overcoming organizational constraints

Port of entry lacking to fast-track fintech proposals

Once fintechs are inside, financial institutions' structure and governance constrain finalization of deals and delay experimentation

Once development is underway, siloed financial institutions keep fintechs from getting initiatives implemented



Source: Analysis by Deloitte Center for Financial Services.

A big part of the problem could be that too many incumbents are treating fintechs as just another type of vendor. That may be natural, as institutions seek to normalize relations with those they might have once considered threatening disruptors or potential competitors. But in the long run, seeing fintechs as vendors is likely to be a less effective approach than viewing them as collaborative partners.

In this paper, we'll address these challenges and other difficulties often encountered by incumbents looking to work with fintechs to more effectively transform their products, operations, and business models for a digital economy. We'll cite approaches to overcome such hurdles, including examples of how individual companies are streamlining and turbocharging fintech collaboration and adoption. These landmarks should help both sides make their way in the emerging fintech ecosystem.

# Problems: Obstacles hinder emerging ecosystem

## Don't mistake a clear view for a short distance

There appears to be a more symbiotic relationship developing between incumbents and fintechs—certainly with those looking to support financial institutions, rather than compete with them. Ideally, each party benefits from the strengths of the other, while offsetting one another's inherent weaknesses or disadvantages.

For example, fintechs are relatively free from the legacy regulatory, technological, organizational, and cultural restrictions that incumbents must typically overcome to transform their organizations. Indeed, incumbents “often have the money to do everything but the freedom to do nothing due to cultural and/or regulatory constraints,” observed one InsurTech. However, this InsurTech conceded that just the opposite may be true at most startups and that freedom alone is of little value to fintechs without the capital incumbents can supply.

The two sides can complement each other and are likely to develop a more effective product by working together rather than apart, according to those we interviewed. “Research folks are really good at building some cool stuff, but they also need some help in commercializing it,” said one US bank.

Another banking executive noted that it takes an adjustment of ego and a bit of rewiring in thinking for each party to see and accept the mutual benefit of a potential deal—for example, an incumbent licensing a fintech solution. The institution may often believe it can build the better solution, while the fintech fears empowering a

“competitor,” often failing to see the potential upside to be gained through collaboration. Sharing distribution channels, for example, is one way that working together might benefit both entities.

Each party, in the end, appears to recognize they generally have more to gain than to lose by collaborating. “We in technology think we can solve everything, but established financial institutions do a lot of things well and have built up a lot of muscle memory, and that’s hard to replicate,” said one payments fintech. “My experience has taught me that tech companies don’t put enough stock in people power. We try to automate everything and use tech to solve everything.”

One of the biggest benefits for a fintech working with incumbent partners is that whatever they don’t know about the industry is likely to vastly outweigh whatever they do know about technology. “The incumbents know the boundaries of the possible within their business,” observed one InsurTech. “They challenge us to think through how to make our theories a reality. They give us institutional knowledge to understand the constraints we might face and weren’t aware of.”

However, despite the clear case for collaboration, obstacles continue to undermine the emerging ecosystem, creating a chasm that’s proven difficult to bridge for financial institutions and fintechs alike (see figure 3).

**Figure 3. Fintech/incumbent strengths and weaknesses should be complementary, but obstacles inhibit a perfect fit**



Source: Analysis by Deloitte Center for Financial Services.



# Generic pitches, lack of industry experience undermine startup credibility

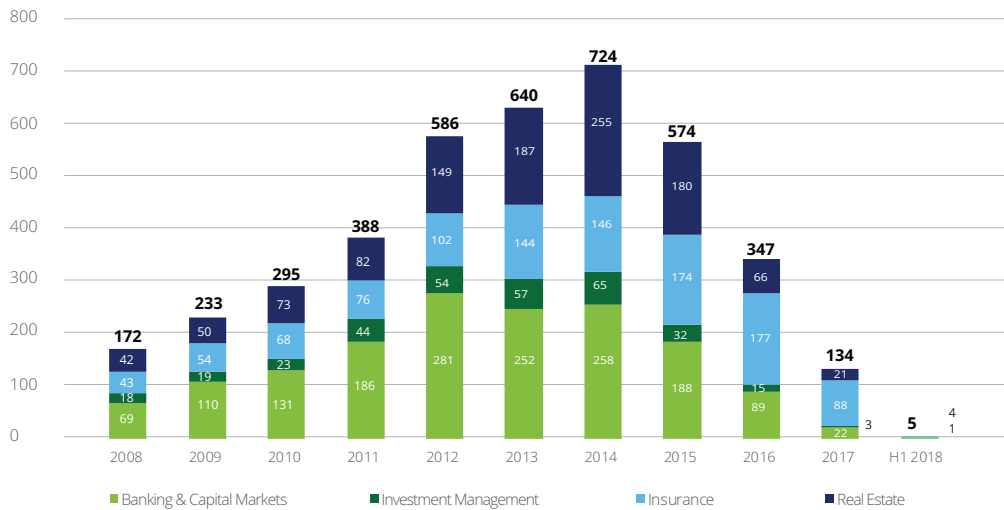
One point we heard repeatedly during our interviews is that financial institutions have become much more demanding about what they expect from fintechs pitching products or investment opportunities. “Incumbents are no longer being taken in by fintechs that merely ‘talk the talk,’” according to a leading fintech accelerator. Indeed, they noted, the focus has shifted from “cool” generic ideas to practical solutions addressing specific problems in a particular financial services sector.

One large US bank noted, “If someone comes in with a generic pitch, our group doesn’t want any part of the meeting because we’ve heard it 10 times over already.” The cross-sector accelerator added that incumbents have become “a lot savvier in the filtering process,

insisting that fintech prototypes have to be convertible to the real world. The market is jaded a bit now by all the hype surrounding fintech.”

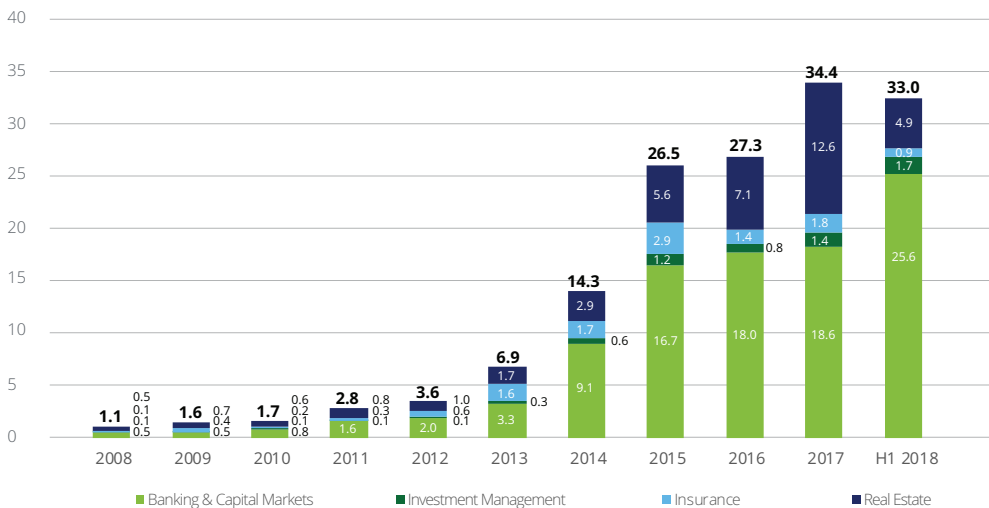
Moreover, we were told that these days most financial institutions and individual investors prefer to see evidence that fintechs can deliver on what they promise, rather than place their bets on theoretical pitches. This seems to be reflected by the recent pivot in investment trends, with the number of new fintech launches down substantially (see figure 4), yet the amount of capital being raised remaining robust (see figure 5). With launches in steep decline, money is now flowing into later funding rounds, a trend we first identified last year in our initial report on fintech investment trends.<sup>3</sup>

**Figure 4. Fintech companies founded by year, 2008–H1 2018**



Numbers may not sum to totals due to rounding.  
Source: Venture Scanner data, Deloitte Center for Financial Services analysis.

**Figure 5. Investments in fintechs by sector 2008–H1 2018 (\$B)**



Numbers may not sum to totals due to rounding.  
Source: Venture Scanner data, Deloitte Center for Financial Services analysis.



## Process barriers often a major hurdle

Structural handicaps and lack of coordination within incumbents were the most common obstacles cited by the fintechs interviewed. Internal awareness and communication are often lacking, accelerators told us, which should highlight the importance of establishing coordination among various departments and business units when engaging with fintechs, whether as an investor, partner, or acquirer.

Financial institutions are often siloed, with each business unit or department making their own decisions on whether to invest in, buy, or partner with a fintech—or even develop their own solution in-house. The fintech accelerator observed that “sometimes it’s hard to even find out who to speak with about how to reconcile what one unit may be doing versus another, or if an internal conflict arises.”

Many incumbents we spoke with conceded this point. “We probably don’t do a great job of coordination,” said one global bank. “We come at this from a number of different perspectives,” including an in-house venture capital entity, an innovation lab, an accelerator to drive internally developed solutions, and initiatives by individual business units. “We don’t have a single common thread to interact with fintechs across the firm.”

## Organizational speed bumps can undercut fintech propensity for rapid experimentation

Rather than adopting the quick decision making and fast-fail approach common within the fintech community, many incumbents may be undermining attempts at collaboration with their own decision-making processes and risk management requirements. Many said such speed bumps could kill deals for fintechs operating on a much shorter timeline and thinner margins compared to their bigger and typically more bureaucratized partners in financial services.

Many institutions “don’t understand the asymmetry of risk” inherent in dealing with startups, according to an analytics fintech, highlighting a critical issue with incumbents taking too much time to settle on potential investment targets. “It can really drag on. That may be fine for the institution, but for a startup, that’s death.” A common refrain we heard was that most incumbents don’t seem to be set up to move quickly enough to close deals with fintechs once the two connect. “Capital is easy to come by for good startups, but time is not—time is your worst enemy,” the fintech observed.

The institutions we spoke with were usually aware of this organizational shortcoming, but many said they are finding it difficult to shift gears to keep up with the faster-paced fintech world. Most we interviewed agreed the industry needs to be more decisive when doing due diligence and negotiating deals with fintechs, as well as be faster in prototyping and wider-scale implementation after an investment is made.

However, some incumbents noted that speeding up the process may be easier said than done. One large bank said the challenge is usually multifaceted and not simple to overcome: “How do we transform our culture to not be afraid of failure, to be more agile, to work as teams, and transform our mentality on tech to be much more aligned to the needs of a digital organization than just a banking organization?”

Indeed, external factors, such as regulatory and compliance considerations, can delay such initiatives despite the best of intentions, as institutions may simply be unable to hand over access to their systems or customer data to fintechs without clearing numerous yet necessary hurdles. Shortcuts could be problematic—if a small back door may expose incumbents to a massive cyber breach, for example, the potential cost of that worst-case scenario could not be justified, whatever benefit the institution might gain with speedier adoption. “Opening up our back end to some of these fintech capabilities is often the deal breaker,” conceded one US bank, which said their institution is “handcuffed by the risk-averse approach we have to take with third-party vendors.”

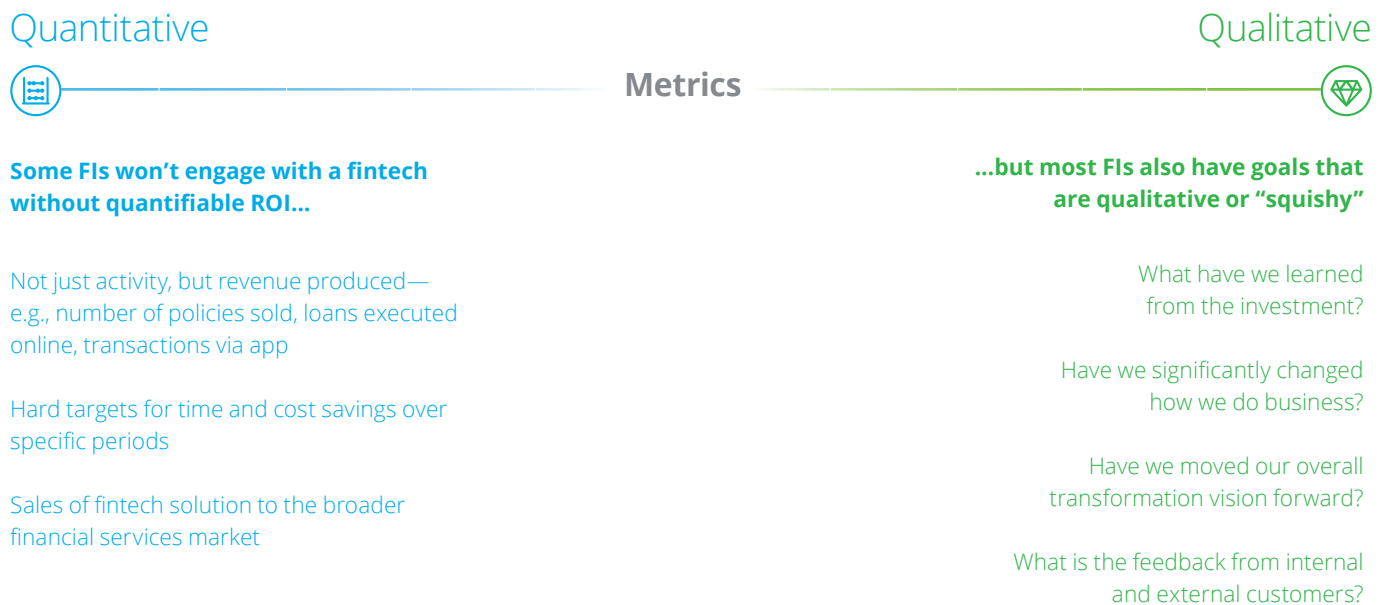
Yet some fintechs suspect the typical barriers they run into—including regulation, compliance, and cybersecurity concerns—may often be more of an illusion or the result of overcompensation than actual hurdles. “The mind-set is often ‘regulators won’t like this,’ or ‘this is how we’ve always done it, so better to be safe,’” according to one Swedish fintech. “Regulators want banks to be more efficient, have better technology, to be more transparent, to provide better services, yet banks seem hesitant to test how far they can push things. It’s a hard balance.”

## Financial institutions struggle to establish expectations, measure success

While incumbents continue to demonstrate their commitment to innovation by pouring capital into fintechs, there's far less certainty as to how to measure the success of such investments. Some have exact quantitative expectations, while others emphasize qualitative considerations (see figure 6). Neither is right or wrong, but the narrower the definition of success, the less likely institutions are to benefit from experimentation.

In the financial services industry, imprecision—particularly in calculating results—is unconventional. Such ambiguity could potentially complicate or even paralyze collaboration, investment, or acquisition decisions, further hindering mutually beneficial partnerships between symbiotic parties. Institutions may benefit from taking a broader, longer-range, and more qualitative view in measuring success, a number of incumbents suggested.

Figure 6. Measurements of success vary



Source: Analysis by Deloitte Center for Financial Services.

# Solutions: Bridging the chasm preventing effective collaboration

## Fintechs need familiarity with the business of financial services, not just technical know-how

As noted earlier, incumbents are stating a preference for dealing with more advanced fintechs, for a variety of reasons (see figure 7). Besides technical know-how, they are generally seeking fintechs that are better positioned to meet the requirements of major financial institutions—and understand what’s practical, achievable, and scalable for their particular sector. “If you start with some fintechs too early in their life cycle, those smaller companies don’t have the operational wherewithal to be successful with an organization as big and complex as we are,” observed one global banking leader.

An investment management fintech whose founders already had extensive industry experience touted this as a big competitive advantage. They had been able to make proactive decisions early on about how their architecture should be built, knowing ahead of time where legal and compliance issues might arise. These insights “could save a year in the sales cycle.”

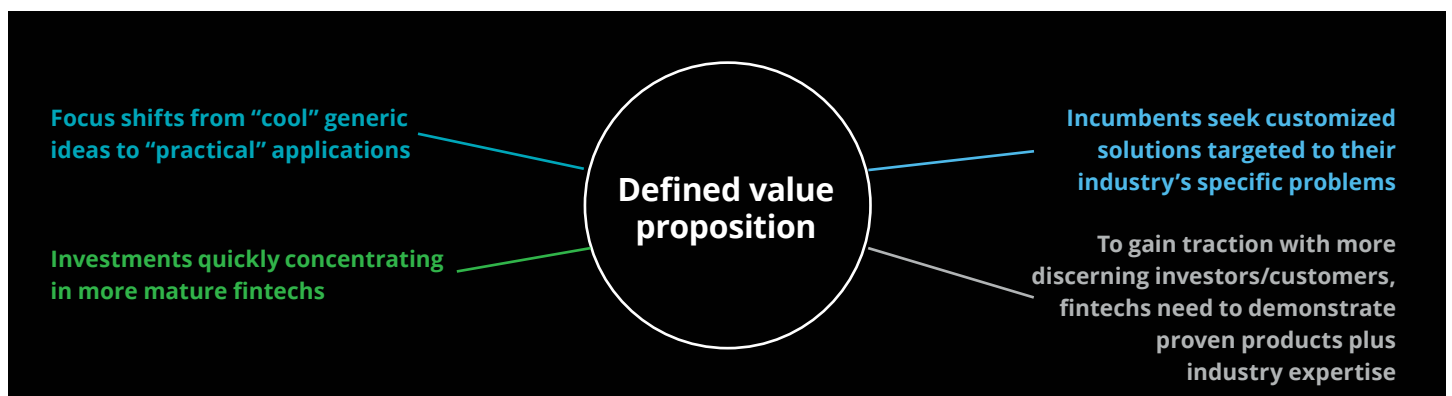
On the other hand, experience doesn’t necessarily equal value when it comes to breakthrough innovations, some institutions warned. While mature fintechs with specific industry expertise may be more attractive to incumbents in many respects, there are also likely to be innovative ideas introduced by new startups relatively unfamiliar with the financial services industry. Even industry novices may

provide a fresh perspective that could make a dramatic difference, particularly in areas of financial services where transformation appears to still be in its very early stages, such as commercial insurance.

Therefore, some suggested that it might be unwise to discount generic proposals out of hand if the startup has an intriguing idea that could be customized for a more distinctive use in financial services. One European bank noted that “it’s sometimes the dreamers who come up with something that becomes very relevant. You do not want to limit these dreamers.”

The possibilities may seem endless, and it’s nearly impossible to identify all the most promising fintech investments, partners, or targets. Several executives noted that this is where they rely on advisors, such as accelerators or other expert third parties familiar with the global fintech marketplace. Even with sensing and tracking processes, it is often difficult for institutions to allocate the resources and find the time to meet with and understand the solutions of so many fintechs, spread out around the world. They expect these trusted partners to bring them recommended solutions.

**Figure 7. The game has changed**



Source: Analysis by Deloitte Center for Financial Services.

# Incumbents require a quicker, clearer, more coordinated collaboration process

A better-coordinated governance and organizational structure could solve many ills hampering fintech collaboration (see figure 8). Yet while some incumbents we interviewed have more formal systems in place than others, most don't have a clear port of entry for fintech proposals, or a defined path for fintechs to navigate once an institution indicates its interest.

From sensing to due diligence, from experimentation or investment to implementation and achieving scale, incumbents should have a clear path, dedicated roles, and accountability for success. At one institution, before a decision reaches the investment committee, there must already be some level of support and sponsorship from a line of business, rather than just a great idea from an innovation group or the IT department.

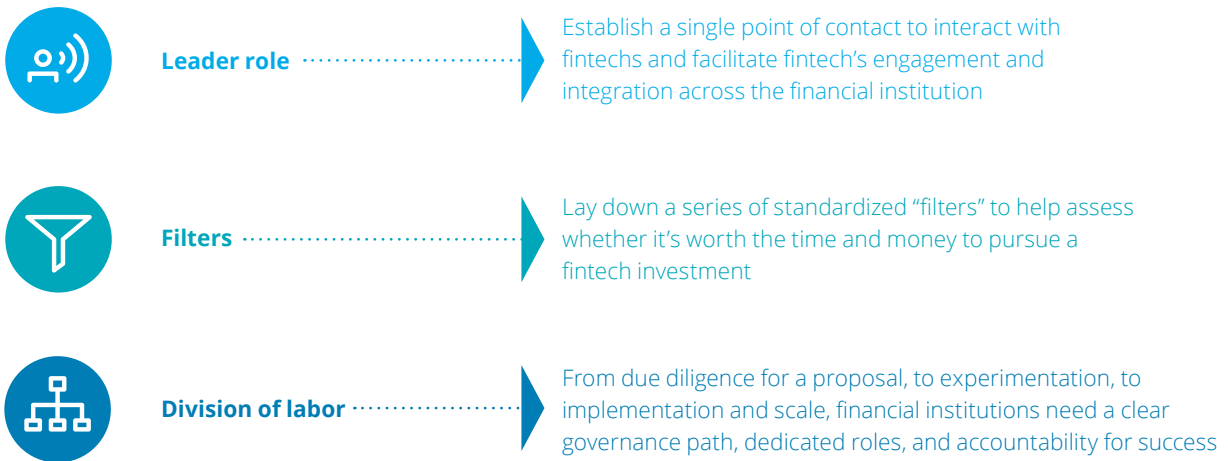
Another institution established standardized filters to assess whether a fintech investment or collaboration is worth their time and money and fits into the company's overall strategy. Among a host of factors to consider: the experience of the founders and the team; the network of advisors that they have built; how well they have defined and addressed a specific problem; how well capitalized they

are; who financed them and how many people/entities are involved; and their ethos as relates to data security and monetization.

Fintechs we interviewed often suggested that it would help if incumbents appointed a single individual or dedicated coordination unit with wide visibility and sufficient authority to clear internal roadblocks, resolve interdepartmental conflicts, and keep projects moving forward. Several institutions established a central clearinghouse to keep key players in the loop and avoid working at cross-purposes among the company's innovation lab, venture capital fund, and corporate development team. Early-stage plans, success stories, and cautionary tales are shared during regular status meetings.

Such coordination can make a big difference. One bank has at least five fully staffed teams that work together to take fintech projects from experimentation to commercialization within 90 days. They operate as squads in an assembly line, leveraging skills from across the bank. One insurer moved even quicker, establishing a fast-track process to get deals done from meeting a startup to getting the check out the door within four weeks.

**Figure 8. Incumbents need a systematic process**



Source: Analysis by Deloitte Center for Financial Services.

But no matter how incumbents choose to manage their fintech initiatives, maintaining a centralized knowledge base and facilitator should help avoid duplication of effort, inefficiencies, and other logistical problems down the road. The bank with the assembly

line approach made clear they coordinate their various fintech collaboration and investment initiatives with "military precision," noting that "there isn't a part of the bank that doesn't understand what we want to do and what our methodology is."

## Investment decisions may go beyond dollars and cents

So, how do incumbents determine where to place their investments? We found a variety of standards and expectations among those interviewed.

Some are willing to invest pre-revenue, but not pre-product. Most appear to prefer a pitch that shows a little traction—a prototype over a blueprint, at the very least. But for the right opportunity and fit—especially for ideas that are a little further out there in terms of potentially shaking up standard products or operating procedures—investing pre-revenue may make sense, especially if it's going to be a while before market demand develops.

In addition, while having a tightly focused fintech strategy is important, it also could be risky for institutions to restrict investments to the exact number of areas they put on a white board. Their ability to respond might be limited if they come across innovations they hadn't anticipated.

When investing, goal setting—whether quantitative or qualitative—should depend on what the institution is looking to achieve and the type of relationship they have with the fintech. An insurer partnering with an online distributor focuses on the number of policies sold monthly and average face amount, as well as the percentage of applicants needing regular medical underwriting versus straight-through processing. They hold regular touchpoints to review results and investigate the reasons behind any problems meeting expectations on both sides.

The same hard line goes for one major real estate incumbent that has strict financial targets and operational expectations for their proptech investments. “It’s not real ‘loosey-goosey.’ It’s pretty serious,” the company told us. “We don’t do charity cases—this is a business case.”

Others were less concerned about meeting hard metrics versus determining a fintech’s overall transformational impact. When assessing return on investment, one insurance carrier said, “It’s a little bit squishy and qualitative as to results. We don’t draw clear lines in the sand about what we expect to get up front. It’s a learning experience, not just a financial investment.” We heard the same from a payments company. Learning, while hard to measure, is certainly a key expected outcome of an investment. For example, having an opportunity to serve on the board of a fintech and observe could be a meaningful learning experience.

Other institutions defined fintech ROI as return on innovation, rather than on pure financial investment. What is the impact of a particular solution on ease of doing business and the client experience? Which

business units are actually making a change in their platform or product offering as a result of their engagement with fintechs? A global bank said, “Success is really measured by how it helps move our vision forward.”

Financial institutions should also appraise fintech investments holistically. For example, merchants may look not only to get cheaper payments through a fintech solution, but at how to get more comprehensive data on their customers for service and marketing advantages at the same time.



# What's ahead for incumbents and fintechs?

## Investments, acquisitions, and partnerships will likely proliferate to create a new construct

How is the rapidly expanding fintech ecosystem likely to play out over the short and long term? Most expect the relationship between incumbents and the fintech world to keep maturing over the next few years, probably at an accelerated pace. "People are getting tired of all the new options out there," according to a proptech. "Product exhaustion is setting in that people are fighting against." A major real estate incumbent added that "the hysteria going into proptech is already starting to break." This shift in attitude likely explains why the number of fintech launches have plummeted over the past couple of years, while the amount of money invested hasn't declined—with financing targeted to more established, proven entities.<sup>4</sup>

Consolidation and more platform plays are likely, as fintechs begin to seek traction in an increasingly competitive market and incumbents look for more sophisticated partners. One Australian bank opined, "There are hundreds of fintechs offering similar services, and one of them will eventually gobble them all up, and then that will be gobbled up by a bank." Meanwhile, many venture capital and private equity firms are likely to cash in on their early investments and start selling off the survivors. This trend may create more acquisition opportunities for financial institutions and other fintechs interested in absorbing their competition or expanding capabilities and offerings.

In any case, fintechs will likely continue to drive financial services transformation, serving as a marketplace for innovation. A US insurer predicted the newcomers could "force carriers to get way better at what they already do and adopt technology faster." The underlying changes in the asset base driven by technology, such as the emergence of smart homes and autonomous vehicles, are "the more existential threat," which InsurTechs may help overcome, the carrier added.

Incumbents and fintechs probably have a long way to go, though, before the two settle into a more systemic, truly symbiotic relationship. One big US bank said the industry is "still lacking that perfect 'Kumbaya' moment of fintechs and financial institutions

holding hands" as they race to introduce a particular solution or approach. However, as another bank executive enthusiastically shared, "If you think you've got a really good product that enhances the supply chain in financial services, then you should be trying to find a bank that you could deploy that into."

To advance collaboration, financial institutions and fintechs need to be more open-minded, tolerant, and accommodating to facilitate, rather than hamper, innovation and transformation. By realizing a mutual need for coexistence and codependency, incumbents and fintechs are more likely to survive and thrive amid the rapidly changing competitive landscape and rising customer experience expectations. If they can overcome the inherent obstacles holding them back from working together more effectively, that would be to their mutual benefit, and ultimately, to the benefit of financial services customers.



# Contacts

## Industry leadership

### **Kenny Smith**

US Financial Services leader  
Deloitte LLP  
+1 415 783 6148  
kesmith@deloitte.com

## Executive sponsor

### **Alaina Sparks**

Managing director  
Deloitte Services LP  
+1 415 783 4838  
alasparks@deloitte.com

### **Thomas Jankovich**

Principal  
Deloitte Consulting LLP  
+1 203 708 4428  
tjankovich@deloitte.com

## Deloitte Center for Financial Services

### **Jim Eckenrode**

Managing director  
Deloitte Center for Financial Services  
Deloitte Services LP  
+1 617 585 4877  
jeckenrode@deloitte.com

## Authors

### **Sam Friedman**

Insurance research leader  
Deloitte Center for Financial Services  
Deloitte Services LP  
+1 212 436 5521  
samfriedman@deloitte.com

### **Michelle Canaan**

Insurance research manager  
Deloitte Center for Financial Services  
Deloitte Services LP

## Contributing data analysts

### **Gaurav Vajratkar**

Senior analyst  
Deloitte Support Services India Pvt. Ltd.

The Center wishes to thank the following Deloitte professionals for their insights and contributions to the report:

**Amar Patel**, manager, Deloitte Consulting LLP

**Frida Roneus**, manager, Deloitte Consulting LLP

**Val Srinivas**, senior manager, Deloitte Center for Financial Services, Deloitte Services LP

**Patricia Danielecki**, senior manager, Deloitte Center for Financial Services, Deloitte Services LP

**Michelle Chodosh**, senior manager, Deloitte Center for Financial Services, Deloitte Services LP

**Erin Loucks**, manager, Deloitte Services LP

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# Endnotes

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