

PREMIUM

Varo's bank charter process a test for consumer banking startups



by [Suman Bhattacharyya, Deputy Editor](#) 📅 February 12, 2020

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This week, digital banking startup [Varo](#) received approval from the Federal Deposit Insurance Corporation, a significant milestone in the company's three-year quest to become a bank.

The 5-year-old company still has two more key hurdles to overcome in this process, including approval from the Office of the Comptroller of the Currency and the Federal Reserve. The possibility that Varo could become a national bank raises the question of whether competitors will follow suit.

Varo currently partners with The Bancorp Bank to offer its suite of banking products. Varo CEO Colin Walsh recently [told](#) *Bank*

Innovation that becoming a bank would allow the company to provide a broader set of offerings, including credit, deposits, cash flow, savings accounts and loans. It would also enhance Varo's ability to create a personalized banking experience, he noted.

Varo is betting that becoming a bank will enhance its competitive position relative to other digital banking startups, and in doing so, generate more revenue possibilities. If Varo's charter process is successful, there are two key implications for fintechs offering banking services: an openness among regulators to digital-only banking propositions, and questions around whether becoming a national bank is a necessary path to sustainability.

[See also: Varo crosses 1 million customers, with plans to become a bank by 2020](#)

Julie Hill, a professor at the University of Alabama School of Law who focuses on banking and commercial law, said the FDIC approval of Varo's application signals an evolution of thinking among regulators.

"The FDIC, even before the financial crisis was skeptical of banks that had non-traditional [online-only] business plans," she said. "This is just more evidence that the FDIC these days is more flexible in its thinking in the types of business plans that are considered safe enough; it doesn't mean every fintech can get a charter, but at least some of them can get through."

While a banking charter offers new growth possibilities for startups, whether it's a viable path for all challenger banks is unclear.

"A national bank charter is a very powerful charter; it lets you take deposits; it lets you lend nationwide; it lets you move money without a state money transmission license; and allows you access the Federal Reserve payment system," said Brian Knight, senior research fellow at the Mercatus Center at George Mason University. "It can be very valuable to become a fully-fledged national bank, but is that the only option?"

A key deciding factor among startups could be cost and time. Walsh recently [told American Banker](#) that Varo's efforts to become a bank have thus far cost the company \$100 million.

"What happens with Varo is going to be telling," Knight said. "If profitability is proof — because they're no longer having to work with partners [and] it was worth all the time, money and effort — it becomes likely that more firms will want to do it."

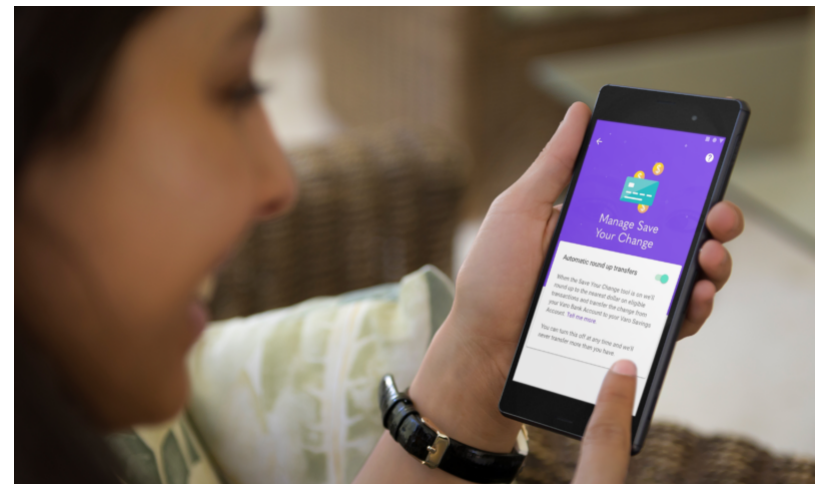


Image via Varo

From Varo’s perspective, the company’s low-cost technology platform lets it offer a wide range of affordable products and services. The FDIC’s decision, and Varo’s path to becoming a national, digital-only bank will help the industry forge a path to better products and services, Walsh argued.

“The FDIC’s decision to approve deposit insurance for Varo could open a new wave of financial innovation,” Walsh said in a [statement](#). Varo’s announcement quoted research firm Capstone, which said the company’s charter application was a “gating decision on fintech for the FDIC” that could open the door to other applicants.

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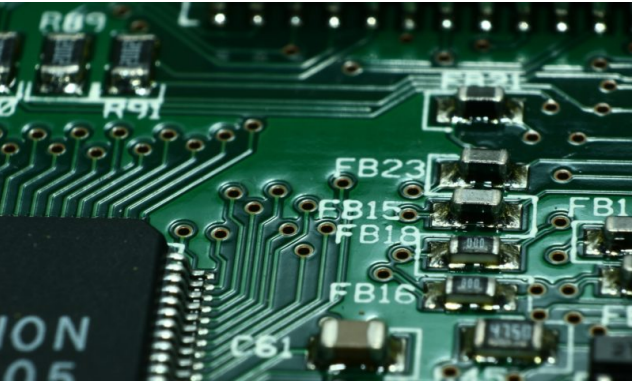
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