

FinTech Due Diligence Checklist

ABOUT THE CHECKLIST

This checklist is adapted from the interagency guide on [Conducting Due Diligence on Financial Technology Companies](#) and is designed to help you assess the relationship with your fintech service providers.

BUSINESS EXPERIENCE & QUALIFICATIONS

- ☐ **Determine if the fintech's operational history exemplifies their ability to meet the bank's needs.**
"Operational history provides insight into a fintech company's ability to meet a community bank's needs, including, for example, the ability to adequately provide the activities being considered in a manner that enables a community bank to comply with regulatory requirements and meet customer needs." (Page 3)
- ☐ **Determine if client references and complaints exemplify the fintech's ability to meet the bank's needs.**
"Client references and complaints about a fintech company provide useful information when considering, among other things, whether a fintech company has adequate experience and expertise to meet a community bank's needs and resolve issues, including experience with other community banking clients." (Page 3)
- ☐ **Determine if the fintech is considering any strategic decisions which could negatively affect their ability to provide services to the bank.**
"Discussing a fintech company's strategic plans can provide insight on key decisions it is considering, such as plans to launch new products or pursue new arrangements (such as acquisitions, joint ventures, or joint marketing initiatives). A community bank may subsequently consider whether the fintech company's strategies or any planned initiatives would affect the prospective activity." (Page 4)
- ☐ **Determine if the fintech's company culture, values, and business style meet the bank's expectations.**
"Inquiring about a fintech company's strategies and management style may help a community bank assess whether a fintech company's culture, values, and business style fit those of the community bank." (Page 4)
- ☐ **Determine if the fintech's directors, executive leadership, management, and staff have adequate knowledge and experience to provide services to the bank.**
"Understanding the background and expertise of a fintech company's directors and executive leadership may provide a community bank useful information on the fintech company's board and management knowledge and experience related to the activity sought by the community bank. A community bank may also consider whether the company has sufficient management and staff with appropriate expertise to handle the prospective activity." (Page 4)

Comments

FINANCIAL CONDITION

- ☐ **Determine if the fintech's financial reports demonstrate an ability to fulfill their financial obligations.**
"Financial reports provide useful information when evaluating a fintech company's capacity to provide the activity under consideration, remain a going concern, and fulfill any of its obligations, including its obligations to the community bank." (Page 6)
- ☐ **Determine if the fintech has provided adequate detail regarding their funding sources.**
"Understanding funding sources provides useful information in assessing a fintech company's financial condition. A fintech company may be able to fund operations and growth through cash flow and profitability or it may rely on other sources, such as loans, capital injections, venture capital, or planned public offerings." (Page 6)
- ☐ **Determine if information about the fintech's competitors provides insight into their financial viability.**
"Information about a fintech company's competitive environment may provide additional insight on the company's viability." (Page 6)
- ☐ **Determine if the fintech is financially dependent on any critical clients.**
"Information on a fintech company's client base provides insight into any reliance a fintech company may have on a few significant clients. A few critical clients may provide key sources of operating cash flow and support growth but may also demand much of a fintech company's resources. Loss of a critical client may negatively affect revenue and hinder a fintech company's ability to fulfill its obligations with a community bank." (Page 6)
- ☐ **Determine if the fintech is susceptible to any external risks which could affect their financial condition.**
"A community bank may consider a fintech company's susceptibility to external risks, such as geopolitical events that may affect the company's financial condition." (Page 6)

Comments

LEGAL & REGULATORY COMPLIANCE

- ☐ **Determine where the fintech is located and authorized to operate.**
"Organizational documents and business licenses, charters, and registrations provide information on where a fintech company is domiciled and authorized to operate (for example, domestically or internationally) and legally permissible activities under governing laws and regulations." (Page 8)
- ☐ **Determine if agreements define the nature of the relationship between the bank and the fintech.**
"Reviewing the nature of the proposed relationship, including roles and responsibilities of each party involved, may also help a community bank identify legal considerations." (Page 8)

"Service level agreements between a community bank and a fintech company set forth the rights and responsibilities of each party with regard to expected activities and functions. A community bank may consider the reasonableness of the proposed service level agreement and incorporate performance standards to ensure key obligations are met, including activity uptime." (Page 16)
- ☐ **Determine if agreements define recourse in the event the fintech fails to meet performance standards.**
"A community bank may also consider whether to define default triggers and recourse in the event that a fintech company fails to meet performance standards." (Page 16)

- ☐ **Determine if agreements define where the fintech's data centers are or will reside.**
"Understanding where a fintech company's data centers are or will reside, domestically or internationally, helps a community bank to consider which laws or regulations would apply to the community bank's business and customer data." (Page 16)
- ☐ **Determine if there have been any notable legal or regulatory actions against the fintech.**
"Assessing any outstanding legal or regulatory issues may provide insight into a fintech company's management, its operating environment, and its ability to provide certain activities." (Page 8)
- ☐ **Determine if the fintech's risk and compliance processes support the bank's legal and regulatory requirements.**
"Reviewing a fintech company's risk and compliance processes helps a community bank to assess the fintech company's ability to support the community bank's legal and regulatory requirements, including privacy, consumer protection, fair lending, anti-money-laundering, and other matters." (Page 8)
- ☐ **Determine if the fintech will work directly with the bank's clients. If so, determine if any and all potential consumer compliance issues have been addressed.**
"Reviewing information surrounding any consumer-facing applications, delivery channels, disclosures, and marketing materials for community bank customers can assist a community bank to anticipate and address potential consumer compliance issues." (Page 9)

Comments

RISK MANAGEMENT & CONTROLS

- ☐ **Determine if the fintech's policies and procedures provide adequate governance.**
"Reviewing a fintech company's policies and procedures governing the applicable activity provides insight into how the fintech company outlines risk management responsibilities and reporting processes, and how the fintech company's employees are responsible for complying with policies and procedures." (Page 10)

"Assessing a fintech company's policies and practices related to privacy and information security is important in understanding the relevant controls in place to support a community bank's ongoing ability to comply with safeguarding requirements and its privacy and information security requirements." (Page 13)

"A fintech company's procedures for deploying new hardware or software, and its policy toward patching and using unsupported (end-of-life) hardware or software, will provide a community bank with information on the prospective third party's potential security and business impacts to the community bank." (Page 14)
- ☐ **Determine if the fintech's processes align with the bank's risk appetite, policies, and procedures.**
"A community bank may also want to assess whether a fintech company's processes are in line with its own risk appetite, policies, and procedures." (Page 10)
- ☐ **Determine if the fintech reviews and assesses their controls.**
"Information about the nature, scope, and frequency of control reviews, especially those related to the prospective activity, provides a community bank with insight into the quality of the fintech company's risk management and control environment. A community bank may also want to consider the relative independence and qualifications of those involved in testing. A fintech company may employ an audit function (either in-house or outsourced). In these cases, evaluating the scope and results of relevant audit work may help a community bank determine how a fintech company ensures that its risk management and internal control processes are effective." (Page 10)

- ☐ **Determine if there were findings in recent control reviews. If so, determine the fintech's plan to address them.**
"The findings, conclusions, and any related action plans from recent control reviews and audits provide insight into the effectiveness of a fintech company's program and the appropriateness and timeliness of any related action plans." (Page 11)
- ☐ **Determine if the fintech has adequate reporting structures.**
"Evaluating a fintech company's reporting helps a community bank to consider how the fintech company monitors key risk, performance, and control indicators; how those indicators relate to the community bank's desired service-level agreements; and how the fintech company's reporting processes identify and escalate risk issues and control testing results. A community bank may also consider how it would incorporate such reporting into the bank's own issue management processes." (Page 11)
- ☐ **Determine if the fintech's training program is satisfactory.**
"Information on a fintech company's training program also assists in considering how the fintech company ensures that its staff remains knowledgeable about regulatory requirements, risks, technology, and other factors that may affect the quality of the activities provided to a community bank." (Page 11)

Comments

INFORMATION SECURITY

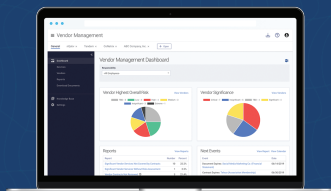
- ☐ **Determine if the fintech employs a framework to manage cybersecurity risk.**
"It is important to understand any security framework that a fintech company employs to manage cybersecurity risk." (Page 13)
- ☐ **Determine if the fintech's technology infrastructure and operations are suitable for the services being provided.**
"Understanding a fintech company's operations infrastructure and the security measures for managing operational risk may help a community bank evaluate whether those measures are appropriate for the prospective activity." (Page 13)
- ☐ **Determine if the fintech has an incident response plan and clearly defined notification procedures.**
"Understanding a fintech company's security incident response and notification procedures may assist a community bank in determining any challenges to comply with its own incident response requirements." (Page 13)
- ☐ **Determine if either the fintech or the bank would need additional systems to provide services.**
"A community bank may evaluate whether the proposed activity can be performed using existing systems, or if additional IT investment would be needed at the community bank or at the fintech company to successfully perform the activity. For example, a community bank may evaluate whether the fintech company's systems can support the bank's business, customers, and transaction volumes (current and projected)." (Page 14)

Comments

OPERATIONAL RESILIENCE

- ☐ **Determine if the fintech has plans in place to continue operations in the event of a disruption.**
"Evaluating a fintech company's business continuity plan, incident response plan, disaster recovery plan and related testing can help a community bank determine the fintech company's ability to continue operations in the event of a disruption." (Page 15)
- ☐ **Determine if the fintech's recovery objectives align with the bank's expectations.**
"Evaluating a fintech company's recovery objectives, such as any established recovery time objectives and recovery point objectives, helps to ascertain whether the company's tolerances for downtime and data loss align with a community bank's expectations." (Page 15)
- ☐ **Determine if the fintech's resilience plans and processes are updated regularly.**
"How a fintech company considers changing operational resilience processes to account for changing conditions, threats, or incidents, as well as how the company handles threat detection (both in-house and outsourced) may provide a community bank with additional information on incident preparation." (Page 15)
- ☐ **Determine if any prior disruptions or incidents have impacted the fintech's clients.**
"Discussions with a fintech company, as well as online research, could provide insights into how the company responded to any actual cyber events or operational outages and any impact they had on other clients or customers." (Page 15)
- ☐ **Determine if the fintech has appropriate insurance policies.**
"A community bank may consider whether a fintech company has appropriate insurance policies (for example, hazard insurance or cyber insurance) and whether the fintech company has the financial ability to make the community bank whole in the event of loss." (Page 16)
- ☐ **Determine if the fintech performs adequate oversight of their third parties.**
"A fintech company's monitoring of its subcontractors (if used) may offer insight into the company's own operational resilience. For example, a community bank may inquire as to whether the fintech company depends on a small number of subcontractors for operations, what activities they provide, and how the fintech company will address a subcontractors' inability to perform. A community bank may assess a fintech company's processes for conducting background checks on subcontractors, particularly if subcontractors have access to critical systems related to the proposed activity." (Page 17)

Comments



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