

# Ga. Fintech Bank Charter Could Reshape Payments Industry

By **Jessica Cino** (October 17, 2024)

After a relatively quiet summer in the banking sector, the Georgia Department of Banking and Finance kicked off October with a bang by approving Fiserv Inc.'s application for a special banking charter, known as the Merchant Acquirer Limited Purpose Bank charter.[1]

This charter represents a significant shift in the payments pipeline, allowing fintech companies like Fiserv more direct access to key financial networks and bypassing the traditional reliance on partner banks.



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## The Road to the Special Charter

Fiserv, a leading competitor in the payments industry, has long been involved in providing merchant payment processing services. Its business model typically relies on partnerships with banks to access major card networks like Visa Inc. and MasterCard Inc.[2] In January, the company applied for the MALPB charter in Georgia.[3]

This specific type of charter allows entities to directly connect with card payment networks, bypassing the need for the intermediary banks that traditionally play a crucial role in transaction processing.

Typically, when a customer makes a payment with a credit or debit card, the transaction data passes through a series of steps: The merchant's payment processor sends the transaction to a card network, which then routes it to the customer's issuing bank for approval. After the transaction is approved, the network sends a confirmation back through the payment processor, and funds are transferred accordingly.[4]

Without this special charter, nonbank entities like Fiserv need to partner with a bank to access these networks and process payments.[5] By obtaining this charter, Fiserv can now directly interact with card networks; handle the authorization, clearing and settlement of transactions independently; and provide faster, more efficient services to merchants.[6] Since the charter's introduction in 2012, only one other company had pursued this opportunity before Fiserv, highlighting the unique nature of this regulatory path.[7]

Credorax Inc., an Israeli payments company, made waves as the first to snag a special banking charter in Georgia back in 2012. Now known as Finaro, it faced a bumpy road when card networks hesitated to play ball. Despite the rocky start, Finaro eventually caught the eye of digital payments firm Shift4 Payments Inc., which acquired Finaro in 2023.[8]

## Current Issues: Challenges in the Payments Landscape

The end of the hiatus of over 10 years in charter approvals marks a milestone for the payments industry. It reflects an evolving regulatory environment in the U.S., where state banking authorities are increasingly open to accommodating fintech innovations that challenge traditional banking models.

Still, the payments industry faces several challenges, including rising transaction costs, increasing competition and complex regulatory requirements. Traditionally, companies like

Fiserv have addressed these hurdles by partnering with banks that already have access to major card networks and possess the necessary compliance infrastructure.[9]

While the traditional approach allows nonbank entities to process payments, it comes with significant drawbacks. Relying on bank partnerships adds layers of operational complexity, as these banks must manage regulatory compliance, fraud prevention and network relationships on behalf of the payment processor.[10]

This arrangement can also limit flexibility in how companies like Fiserv structure their payment services, as they must conform to the processes and constraints set by their banking partners.[11] Additionally, these partnerships often involve revenue-sharing agreements, which can increase costs and reduce profit margins.

By contrast, a direct connection to card networks through a special banking charter allows for more streamlined operations and greater control over compliance, thereby offering a more cost-effective and adaptable solution. Fiserv can now independently process transactions without needing a sponsoring bank.

Payment processing is a volume business, and profits come from reducing costs. This new capability allows Fiserv to streamline operations, potentially reducing costs for both it and its merchant clients. The charter also enables Fiserv to underwrite merchants, settle payments and directly connect to card networks, thereby offering faster and smoother services.[12]

Payment processing is also a highly competitive industry. As digital payments continue to rise, traditional banks and new fintech companies are vying for dominance at every point along the payment-processing food chain. By obtaining the MALPB charter, Fiserv is positioning itself to compete more effectively with other payment processors and banks by offering a more integrated and efficient payment solution.

## **Fiserv and Beyond**

The approval of the MALPB charter for Fiserv sets a precedent that could encourage other fintech firms to seek similar arrangements.

Obviously, the looming question is whether Georgia — and other states — would approve additional charters. If it does, this could lead to increased competition in the payments sector, as more nonbank entities look to bypass traditional banks to gain direct access to card networks. A shift in other states would reshape the payment infrastructure nationally.

For businesses and consumers, this competition could translate into lower transaction fees and more innovative payment solutions, especially solutions that help businesses recoup delinquent accounts receivable. These new capabilities could mean improved access to payment processing services that include more tailored solutions, faster settlement times and potentially lower transaction fees compared to traditional bank-backed payment processing.[13] This could be especially beneficial for small- and medium-sized enterprises that always need places to save costs.

Of course, special banking charters like Fiserv's could lead to regulatory changes. A patchwork quilt of state and federal regulation creates issues. Widespread adoption could invite federal agencies like the Office of the Comptroller of the Currency to push for a standardized approach to these special charters, ensuring a level playing field nationwide.

Placing fintech companies in a role that has traditionally been reserved for fully regulated banks could also prompt regulators to extend certain consumer protection standards to these chartered fintechs, ensuring they adhere to robust know-your-customer, anti-money laundering and fraud prevention protocols. The Consumer Financial Protection Bureau may also weigh in with new guidance on dealing with nonbank entities as they would with traditional banks.[14]

## Conclusion

Fiserv might be the first special banking charter in a while, but it won't take another decade to see the next one. The line between banks and fintech companies keeps getting fuzzier, and the move toward direct access models could reshape how these two work together.

But make no mistake — banks and fintechs aren't parting ways anytime soon. Instead, their relationship is evolving.

Fintech companies will keep doubling down on tech innovation, while banks lean on their strengths in regulation, compliance and capital management. The long-term impact? Hard to say just yet. But Fiserv's new charter is a clear sign that the gap between traditional banking and fintech is narrowing, opening up fresh possibilities for both businesses and consumers.

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[1] Dan Ennis, *Fiserv Wins Georgia Approval for Special Banking Charter, Gains Direct Access to Payments Processing*, Banking Dive (Oct. 5, 2024), <https://www.bankingdive.com/news/fiserv-georgia-special-banking-charter-payments-processing-merchants/728978/>.

[2] Anna Hrushka, *FedNow Is Sparking Merchant Interest in Real-Time Payments, but Adoption Will Take Time*, Payments Dive (July 28, 2023), <https://www.paymentsdive.com/news/fednow-merchant-interest-pay-by-bank-fiserv-ach-real-time-payments-walmart/689405/>.

[3] Kevin Woodward, *Lower Costs, Plus More Control, Could Be Part of Fiserv's Ambition for a Bank Charter*, Digital Transactions (Oct. 6, 2024), <https://www.digitaltransactions.net/lower-costs-plus-more-control-could-be-part-of-fiservs-ambition-for-a-bank-charter/>.

[4] David Rodeck & Lillian Stone, *What Is a Payment Processor?*, USA Today (Oct. 5, 2024), <https://www.usatoday.com/money/blueprint/business/credit-card-processing/payment-processor/>.

[5] See n.1, *supra*.

[6] *Id.*

[7] Id.

[8] Id.

[9] Fiserv Granted Special Banking Charter in Georgia, Pan Finance (Oct. 6, 2024), <https://panfinance.net/fiserv-granted-special-banking-charter-in-georgia/>.

[10] Id.

[11] Venable LLP, A Fintech's Guide to Bank Partnerships, Venable LLP (Mar. 30, 2021), <https://www.venable.com/insights/publications/2021/03/fintech-guide-to-bank-partnerships>.

[12] See n.1, *supra*.

[13] iCheckGateway.com, Difference Between Bank-Owned vs. Third-Party Payment Processing, iCheckGateway.com (Sept. 7, 2022), <https://news.icheckgateway.com/difference-between-bank-owned-vs.-third-party-payment-processing>.

[14] Cino, Jessica. *The Law of Lender Liability*. 2nd ed. Thomson Reuters, 2023.