

## MEMORANDUM

**To:** Members of the Committee on Financial Services

**From:** Digital Assets, Financial Technology, and Inclusion Subcommittee Staff

**Date:** December 5, 2023

**Subject:** Subcommittee on Digital Assets, Financial Technology, and Inclusion Hearing:  
“Connecting Communities: Building Innovation Ecosystems Across America”

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On Friday, December 8, 2023, at 9:00 a.m. the Subcommittee on Digital Assets, Financial Technology, and Inclusion will hold a hearing entitled: “Connecting Communities: Building Innovation Ecosystems Across America” The following witnesses will testify:

- Arthur Orduña, Executive Director, The Venture Center
- Joel Wheelis, Senior Vice President, Head of Products and Services for Banking Large Financial Institutions, FIS Global
- Susannah Marshall, Arkansas Bank Commissioner and Securities Commissioner
- Ravi Loganathan, Head, Financial Institution Services and President, SardineX Consortium

### **Fintech’s Role in Helping Build and Support Communities**

Emerging financial technology companies (fintechs) are offering alternative financial products to meet evolving consumer demand. The term “fintech” is broad, encompassing a range of technologies across the financial services sector. Generally, a fintech firm employs technology to support financial services for consumers or businesses by offering financial products in a new or novel way. Many established financial institutions have utilized technology or worked with a fintech firm to both enhance their services and reach new customers. Similar to traditional financial products, there is a broad range of services offered by fintechs. Fintech firms may offer products and services in a variety of segments of financial services – including payments, insurance, regulatory and supervisory functions, cybersecurity, among others.

As a result of the services that fintechs provide, there has been an evolution in consumer preference and rapid growth in the number of payment products offered by fintech firms. Although banks initially viewed fintechs as disruptive, they are now partnering with these companies to develop enhanced and customized products for customers, employ faster payments, and improve efficiency in their operations. These partnerships are not limited to specific subsets of banks. In fact, according to Federal Reserve Governor, Michelle Bowman, “small banks tend to be more reliant on third-party relationships to support innovation, including the critical

relationship between small banks and their core service providers.”<sup>1</sup> Given the valuable role that small banks play in the U.S. financial system and the communities they serve, the role that bank fintech partnerships play in small communities across the United States cannot be understated.

Bank fintech partnerships are becoming increasingly prevalent in the state of Arkansas. The Venture Center, which is located in Little Rock, hosts a fintech accelerator, FIS Fintech Accelerator Program. These accelerators are focused on bolstering fintech’s presence in the state and enhancing opportunities for fintechs to partner with financial institutions.<sup>2</sup> Moreover, several state banks have also launched successful partnerships with fintech companies. For example, First National Bank of North Arkansas partnered with Teslar Software to enhance its commercial lending operations.<sup>3</sup>

### **Local Communities’ Efforts to Foster Innovation**

Despite the various geographical, regulatory, and demographic challenges associated with fintechs and their funding options, communities across the United States have recognized the benefits these partnerships bring to their small businesses and communities. Incubators, accelerators, and venture centers have emerged across the United States to help facilitate innovation that bring solutions to the various challenges facing these towns and cities.

#### *Incubators and Accelerators*

Incubators and accelerators reduce the risk of early-stage startup failure by helping teams find a product/market fit and raise initial capital. Most are founded and run by experienced entrepreneurs that have previously built companies and who understand the difference between theory and practice.<sup>4</sup> Although these terms are often used interchangeably, there are slight differences between accelerators and incubators. Accelerators “accelerate” growth of an existing company, while incubators “incubate” disruptive ideas with hopes of building out a business model and company. Thus, accelerators focus on scaling a business while incubators are often more focused on cultivating innovative ideas.

Generally speaking, accelerators typically offer a group of start-ups a six- to 12-week bootcamp. These start-ups must have founders who have a business model and a team. Accelerators then

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<sup>1</sup> Michelle Bowman, “The Innovation Imperative: Modernizing Traditional Banking,” (Mar. 14, 2023), <https://www.federalreserve.gov/newsevents/speech/bowman20230314a.htm>.

<sup>2</sup> Arkansas Economic Development Center, “Arkansas Leads the Way in Fintech,” (Oct. 5, 2021), <https://www.arkansasedc.com/news-events/arkansas-inc-blog/post/active-blogs/2021/10/05/arkansas-leads-the-way-in-fintech>.

<sup>3</sup> Business Wire, “North Arkansas Bank Partners With Arkansas-Based Fintech to Streamline Lending Process,” (Mar. 23, 2022), <https://www.fintechfutures.com/techwire/north-arkansas-bank-partners-with-arkansas-based-fintech-to-streamline-lending-process/>.

<sup>4</sup> Steve Blank, “Entrepreneurs, Is a Venture Studio Right for You?” *Harvard Business Review* (Dec. 13, 2022), <https://hbr.org/2022/12/entrepreneurs-is-a-venture-studio-right-for-you>.

provide these teams with technical and business expertise and connect them to a network of other founders and advisors. The bootcamp culminates in a “demo day” where all startups in the group have a few minutes to pitch their companies to venture capitalists and angel investors. In exchange for attending an accelerator, startups often give up a percentage of their company’s equity to the accelerator in exchange for an initial funding.<sup>5</sup> For most accelerators, admission is by application and interview. Some are open to all types of startups in any market, while others are more specialized.

Incubators have open-ended timelines. Thus, there is less pressure on going straight to market and greater focus on refining ideas and developing investment-ready pitches. Incubators are often funded by non-profit groups like academic institutions, governments, or economic development organizations that promote innovation in a particular sector. Many incubators allow you to apply with just an idea or a business plan outline. This flexibility makes incubators the most accessible option for budding entrepreneurs who need guidance.

### *The Venture Center of Little Rock*

The Venture Center is an organization that supports entrepreneurs and helps startups become viable, high-growth businesses. The Venture Center leverages the expertise of a world-class team of mentors, intensive programming, and introductions to the investor community. It serves as an engine for economic growth in Central Arkansas and beyond. As mentioned above, the Venture Center is the home of the award-winning FIS Fintech Accelerator.

Since 2016, the Venture Center in partnership with FIS Fintech Accelerator and others has hosted twelve cohorts of fintech firms. This has helped facilitate Arkansas’ position as a global hub of fintech innovation. Importantly, the Venture Center prioritizes local investment in participating companies. Additionally, on average, 1000 bankers participate in these accelerators per year, 85% of participating firms are still in operation, and average capital raise post-program has increased 500% from year one. Indeed, the value that the Venture Center of Little Rock brings to the Arkansas economy cannot be understated. Moreover, with 40% of the cohort companies in 2022 being female owned, the Venture Center is single handedly challenging the demographic challenges that currently face the fintech industry and its investors.

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<sup>5</sup> Catherine Cote, “Startup Incubator vs. Accelerator; Which is right for you?” *Harvard Business School* (Aug 17, 2023), <https://online.hbs.edu/blog/post/startup-incubator-vs-accelerator>.