

Banking Evolution:

Fintech firms are increasingly moving inside the regulated banking system to control deposits, payments, and lending infrastructure.

For decades, banking was defined by physical distribution and balance sheet scale. Branch networks mattered. Deposits were gathered in person, lending was paper-based, and technology primarily served back-office functions rather than competitive differentiation. That model is being dismantled. Today, banking is increasingly defined by software, data, and connectivity. Payments move faster, accounts are opened digitally, and lending decisions are increasingly automated. APIs replace tellers, mobile devices replace branches, and customer engagement is driven by technology rather than location.

This is not a story about banks disappearing. It is a story about which functions inside a bank now matter most. Payments, liquidity management, risk controls, compliance, and data analytics increasingly drive returns, while physical infrastructure has become far less relevant. We strongly believe that banking is no longer a place customers just visit; it is an always-on infrastructure layer embedded in everyday commerce.

From our perspective, this shift favors FINTECH-native operators. Firms built around payments, software, and data are structurally better positioned to deliver modern banking services than institutions attempting to retrofit decades-old systems. The competitive battleground has moved, and many traditional banks remain anchored to an outdated model.

Regulations:

For much of the past decade, FINTECH innovation developed just outside the traditional banking system. Technology-first firms relied on sponsor banks, state licenses, and payment networks to avoid the cost and complexity of full banking regulation while still accessing critical infrastructure. That model is becoming harder to sustain.

As digital payments, embedded finance, and stable-value instruments grow in size and importance, regulators are pushing activity toward clearer oversight. The message is increasingly straightforward: innovation is encouraged, but systemically relevant financial activity must sit inside a regulated framework. This shift is reshaping competition.

Regulation is no longer just a barrier to entry; it is becoming a differentiator. Firms capable of meeting higher standards around capital, governance, and risk management gain durability, lower funding risk, and greater strategic flexibility than those operating at the edge of the system. Regulation is moving from an obstacle FINTECHs tried to avoid to a framework the strongest platforms now embrace.

Banking Charters as Infrastructure:

As regulation has moved from constraint to catalyst, banking charters have become strategic assets rather than regulatory burdens. For years, many FINTECHs viewed licenses as unnecessary overhead. Today, charters increasingly represent control points within the financial system, defining who can hold deposits, move money, extend credit, and manage risk at scale.

For large payments platforms, bank charters are increasingly about reducing reliance on sponsor banks and gaining direct control over lending, deposits, and acquiring, tightening the link between payments, settlement, and balance sheet products. Owning a banking charter fundamentally changes the economics of a platform. It provides direct access to deposits, lowers funding costs, reduces reliance on third-party intermediaries, and tightens the connection between payments, balances, and lending. Just as importantly, it creates regulatory clarity around supervision, governance, and consumer protection, elements that become more critical as platforms grow and serve larger, more sophisticated customers.

Not all charters are designed to do the same things, and that distinction is intentional. Different licenses permit different roles across the banking stack, including custody, settlement, insured deposits, and credit creation. Rather than forcing a single definition of what a bank must be, regulators are allowing multiple charter types to coexist, each optimized for a specific function within the system.

The result is a more modular banking infrastructure. Banking increasingly operates in the background of commerce, with specialized institutions providing discrete capabilities that integrate seamlessly with software platforms and payment networks. Control of critical

rails and data flows is becoming more important than physical distribution, while traditional banks increasingly focus on balance-sheet management, underwriting, and regulatory expertise. This shift has raised questions around regulatory consistency and competitive balance, but it is also creating new partnership opportunities, particularly for regional and community banks that may prefer to leverage emerging payment, custody, or tokenization infrastructure rather than build it internally. Banking charters are evolving from regulatory permissions into core infrastructure, shaping how capital, payments, and data move through the modern financial system.

Bridging the Gap Between FINTECH and Banking:

Recent announcements from large FINTECH platforms underscore how quickly theory is becoming reality. Several leading firms have taken concrete steps to establish regulated banking entities in order to bring payments, deposits, and digital asset activity under direct supervisory oversight. While the specific charters and use cases differ, the direction is unmistakable.

These moves reflect a broader realization across FINTECH. Operating adjacent to the banking system is no longer sufficient at scale. As platforms grow larger and handle more critical payment and liquidity flows, reliance on partner banks and fragmented regulatory structures becomes a strategic constraint. Control over funding, settlement, compliance, and customer trust increasingly requires a direct regulatory footprint.

Importantly, this is not a return to traditional banking models. FINTECH firms are not trying to replicate branch networks or legacy operating structures. Instead, they are selectively entering the banking system to control specific infrastructure layers while continuing to leverage software, data, and embedded distribution. In this sense, they are bridging the gap between innovation and regulation and redefining how banking services are delivered. FINTECH leaders are no longer skirting the banking system; they are entering it deliberately to bridge innovation and regulation.

Banking is not being disrupted out of existence; it is being restructured. The industry is moving away from a model defined by branches and physical distribution toward one centered on software, payments, data, and regulated infrastructure. At the same time, regulation is no longer acting solely as a constraint on innovation. Instead, it is drawing systemically important FINTECH activity inside clearer supervisory boundaries, reshaping competition, and raising the bar for scale, governance, and durability.

As a result, banking charters are evolving into strategic infrastructure rather than simple regulatory permissions. FINTECH firms are increasingly seeking targeted ways to enter the banking system, not to recreate legacy institutions, but to control specific functions such as deposits, payments, custody, and credit. The emerging model is modular, technology-driven, and embedded directly into commerce. Over the next decade, the most successful financial platforms will be those that can bridge innovation and regulation effectively, combining modern software and data capabilities with the trust, stability, and economics of regulated banking.

Conclusion:

Payments are becoming digital. Settlement is becoming faster and increasingly programmable. Banking is evolving from physical distribution toward software driven platforms embedded directly into commerce.

These shifts are not cyclical. They represent the continued modernization of the global financial system. Our research and portfolio construction remain focused on identifying the companies building and controlling this infrastructure. As financial systems continue to evolve, we believe the most durable investment opportunities will come from businesses that enable the movement of money, manage risk, and power the next generation of financial networks.

As always, reach out to me to discuss any of these topics and more. I look forward to speaking...



Warren Fisher, CFA
Founder & CEO
Manole Capital Management
warren@manolecapital.com

DISCLAIMER:

Firm: Manole Capital Management LLC is a registered investment adviser. The firm is defined to include all accounts managed by Manole Capital Management LLC. **In general:** This disclaimer applies to this document and the verbal or written comments of any person representing it. The information presented is available for client or potential client use only. This summary, which has been furnished on a confidential basis to the recipient, does not constitute an offer of any securities or investment advisory services, which may be made only by means of a private placement memorandum or similar materials which contain a description of material terms and risks. This summary is intended exclusively for the use of the person it has been delivered to by Warren Fisher, and it is not to be reproduced or redistributed to any other person without the prior consent of Warren Fisher. **Past Performance:** Past performance generally is not, and should not be construed as an indication of future results. The information provided should not be relied upon as the basis for making any investment decisions or for selecting The Firm. Past portfolio characteristics are not necessarily indicative of future portfolio characteristics and can be changed. Past strategy allocations are not necessarily indicative of future allocations. Strategy allocations are based on the capital used for the strategy mentioned. This document may contain forward-looking statements and projections that are based on current beliefs and assumptions and on information currently available. **Risk of Loss:** An investment involves a high degree of risk, including the possibility of a total loss thereof. Any investment or strategy managed by The Firm is speculative in nature and there can be no assurance that the investment objective(s) will be achieved. Investors must be prepared to bear the risk of a total loss of their investment. **Distribution:** Manole Capital expressly prohibits any reproduction, in hard copy, electronic or any other form, or any re-distribution of this presentation to any third party without the prior written consent of Manole. This presentation is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use is contrary to local law or regulation. **Additional information:** Prospective investors are urged to carefully read the applicable memorandums in its entirety. All information is believed to be reasonable, but involves risks, uncertainties and assumptions and prospective investors may not put undue reliance on any of these statements. Information provided herein is presented as of the date in the header (unless otherwise noted) and is derived from sources Warren Fisher considers reliable, but it cannot guarantee its complete accuracy. Any information may be changed or updated without notice to the recipient. **Tax, legal or accounting advice:** This presentation is not intended to provide, and should not be relied upon for, accounting, legal or tax advice or investment recommendations. Any statements of the US federal tax consequences contained in this presentation were not intended to be used and cannot be used to avoid penalties under the US Internal Revenue Code or to promote, market or recommend to another party any tax related matters addressed herein.