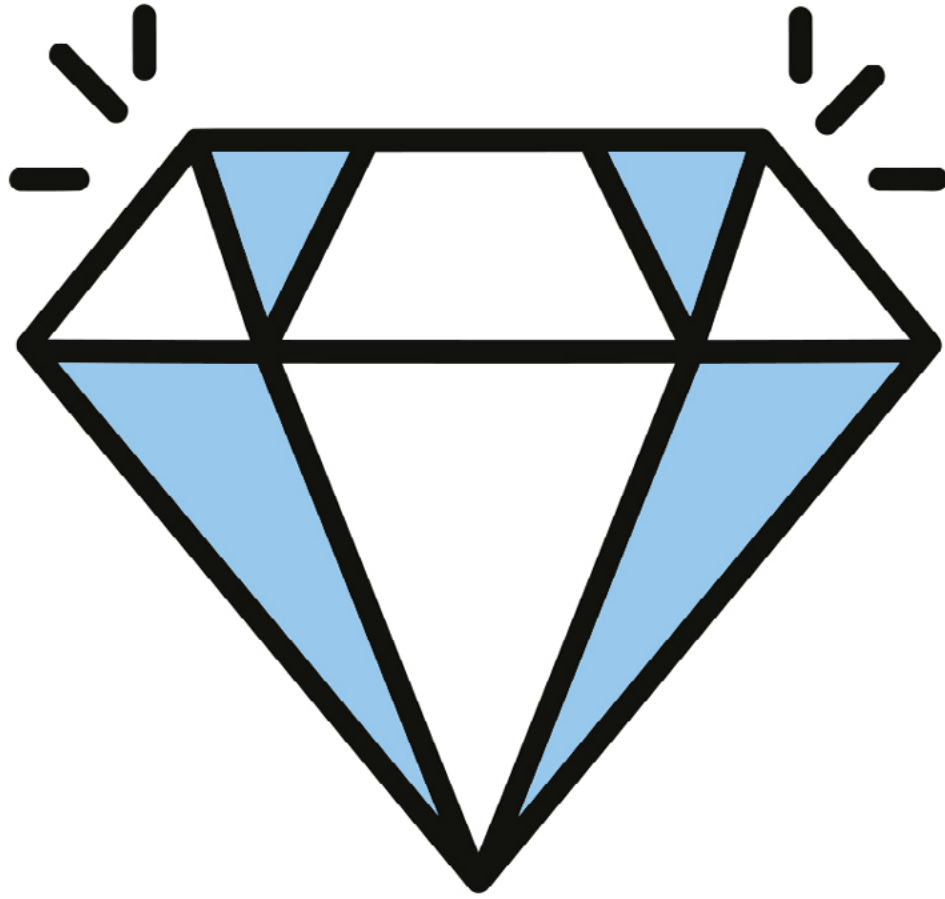




THE MOST VALUABLE AI TOOL IN FINTECH ISN'T AN LLM... IT'S A BANKING CHARTER



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By Christian Catalini

For over a decade, fintech operated on the premise that superior software would ultimately fully unbundle traditional banking . However, the emergence of artificial intelligence is reversing this dynamic, revealing the banking charter not as a legacy burden, but as a decisive economic moat . AI functions as a silo breaker for incumbents, enabling the synthesis of fragmented legacy data without requiring infrastructure overhauls, neutralizing part of the technological agility that previously defined challengers . Additionally, established institutions possess the proprietary knowledge of failure—historical records of fraud and loss—which provide a training advantage over public datasets. Faced with incumbents who can cross-subsidize AI costs to offer intelligence as a defensive service, fintechs relying on sponsor banks face a precarious "rent vs. own" dynamic. The viable path forward requires a dual-track strategy: utilizing non-custodial wallets and blockchain rails—including stablecoins—to create a bank-like experience that scales globally, while simultaneously undertaking the rigorous process of obtaining licenses to secure long-term ability to secure long-term business sovereignty.

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In a world of AI-driven finance, the boring, regulatory right to hold money is becoming the ultimate moat.

01

THE UNBUNDLING ILLUSION?

For the better part of fifteen years, a convenient narrative has circulated in Silicon Valley and Lower Manhattan. The argument went something like this: banks are effectively just software companies that happen to have outdated user interfaces and a charter problem.

The logic was seductive. If you looked at a bank like Chase or Bank of America, and you squinted, it looked like a legacy database wrapped in marble columns. The theory was that if you could build better software — cleaner code, faster APIs, a mobile app that didn't crash when you tried to check your balance on a weekend — you would eventually displace the incumbents. The fintech revolution was built on the premise that the hard part of banking was the tech. So, a generation of startups spent a decade unbundling the bank. They built better mortgage apps, better stock trading apps, better savings jars, and corporate cards that functioned less like plastic and more like spend-management software.

And they succeeded, mostly. They gathered millions of users and achieved dizzying valuations, and the most successful among them were eventually repatriated into the banking system via acquisition — just look at the recent sale of Brex.

The charter is the government license that allows an institution to hold deposits, verify identity, and move money without asking for permission. It is a regulatory moat that requires not just capital, but a massive, sustained compliance lift to cross. Regulators, for their part, have shown little interest in lowering the drawbridge. One need only look at the wreckage of Big Tech's financial ambitions — specifically the regulatory immolation of Facebook's Libra — to understand that Silicon Valley cannot simply code its way around the Federal Reserve.

Now, artificial intelligence is here, and it is forcing a reckoning across the economy, including fintech. The popular story of AI is that it is a tool of disruption — a general-purpose technology that democratizes capabilities. It writes code, summarizes documents, drafts policies, flags suspicious transactions, and makes slide decks faster than a summer analyst with a lot to prove.

But in financial services, the opposite of disruption is likely true. The hardest part of financial services turns out not to be building the app or writing the code. It is earning and keeping the right to touch other people's money. As AI drives the cost of software and prediction to zero, it is revealing that the banking charter is not a legacy burden. It is the only asset that cannot be immediately commoditized by a language model (though, to be fair, the model does make it much easier to draft the thousands of pages of policy text required to ask for one).

02

THE SILO BREAKER

To understand why the charter is winning the AI war, you have to look at the messy internal reality of a bank.

For decades, the biggest weakness of incumbents was their fragmentation. A bank isn't usually one system: it is many different systems taped together. The mortgage division has one database, the credit card division has another, the checking account system runs on a mainframe from the 80s, etc. These systems do not talk to each other. This is why you have to re-enter your address three times when you apply for a loan at the same bank where you've had a checking account for twenty years.

Fintechs exploited this. They were native. Their data was clean. They could move fast because they didn't have to wade through digital sludge.

But AI changes the physics of this disadvantage. Modern AI models are uniquely good at finding connections. They can sit on top of messy, unstructured, siloed data and make sense of it without requiring a massive IT overhaul.

AI allows a bank to leave its messy legacy systems in place but build a layer of intelligence on top that connects them. It can read the mortgage PDF, check the credit card transaction history, and synthesize the checking account data, acting as the universal glue that the bank's IT department never managed to build.

Suddenly, the bank's biggest weakness — its bloat and fragmentation — is neutralized. And once that technological handicap is gone, what is left? The massive, unfair advantage of the charter.

The bank can finally become a modern “[token factory](#)”² of ruthless efficiency — assuming its leadership has the stomach to survive the architectural surgery required to get

2 <https://www.ribboncap.com/perspective>.

there. It takes in raw information — your salary, your spending habits — and churns out financial decisions (more refined tokens) instantly. If AI makes the processing part of banking cheap and instant for everyone, the winner is the entity that already has the distribution and the regulatory blessing to deploy money technology at scale.

03

COMPETING WITH FREE

There is a dangerous economic argument that many fintech founders are ignoring, and it comes down to cross-subsidies. If you are a fintech startup building a brilliant AI-based product — an agent that manages your budget, optimizes your yield, and finds you cheaper insurance — you have a business model problem. It is true that the marginal cost of intelligence is collapsing: open-source models are driving inference to a point where it is nearly too cheap to meter. But even if compute becomes effectively free, your business model still requires you to charge for the utility. You likely have to levy a subscription fee or take a cut of the transaction to justify your valuation.

Banks have never really been in the business of selling software. They are in the business of monetizing money itself. They accept your deposit, pay you nothing, and lend the capital out at a markup. This spread is powerful enough to subsidize the entire customer experience, making expensive things like branches and accounts appear free. This economic reality explains the fierce battle by stablecoin issuers to share yield under the GENIUS Act: they realize that to compete with the bank, they need to challenge the bank's business model.

In the AI era, this cross-subsidy is a weapon. A major bank can afford to deploy the most advanced, expensive AI assistant for free, viewing it not as a product but as a defensive moat for your deposits. They don't need the AI to make a profit. They just need the AI to ensure you never leave.

04

HOW DOES A STARTUP COMPETE WITH "FREE"?

We have seen this movie before. Netscape tried to sell a browser; Microsoft gave Internet Explorer away for free because they monetized the operating system. In fintech, the

"operating system" is the charter. If the bank can bundle world-class AI into their existing product suite for zero dollars, the standalone AI fintech gets crushed. The charter effectively subsidizes the cost of the future.

Then there is the issue of trust. In the world of AI-driven finance, the race is happening in the compliance department. Startups often do not love to talk about compliance. It is bureaucratic. But in the age of AI, governance is a form of regulatory capital. Regulators are terrified of AI. They are worried about hallucinations or models approving loans based on bias.

If an AI agent acting as a financial advisor hallucinates a tax regulation, it is not a software bug; it is a federal crime. Regulators will demand documentation, testing, audit logs, and human-in-the-loop verification.

This is where the charter becomes important. Large incumbents already have the model risk management functions, the compliance infrastructure, and the legal teams to do this "prove it" work at scale. They have spent decades building the boring, expensive infrastructure of trust. AI doesn't replace that foundation, it simply collapses the cost of operating it.

Most fintechs, including those in the stablecoin space, do not actually hold money. They ask a sponsor bank to hold it for them. This relationship is rapidly becoming a chokehold. With regulators bearing down on the sector, and AI complicating the risk picture, sponsor banks are incentivized to shrink their risk box and raise their rents.

The result is a cruel paradox: startups operating without a charter are essentially renting their existence from the very institutions they are sworn to disrupt. This existential vulnerability is precisely why we are seeing a flurry of conditional charter approvals for crypto companies at the OCC. They are not seeking regulation for the sake of it, they are seeking the permanence that only a federal license can provide.

05

THE DATABASE OF FAILURE

There is a misconception about data in the AI age. The common wisdom is that "data is the new oil" and that big tech companies have all of it. But in finance, not all data is created equal.

A fintech startup can often get 80 percent of the value of a product using public data and clever engineering. They can

scrape bank accounts, use credit bureau data, and build a sleek interface.

But the last 20 percent is where the bodies are buried — and where the value is. That last 20 percent is the proprietary knowledge of failure.

Consider fraud detection. To train a model to spot a bad merchant, you don't just need data on merchants. You need the history of the merchant that started clean and turned bad. You need to know exactly what it looked like when a legitimate coffee shop started laundering money three years into their relationship.

Who has that data? The institution that lost the money.

Incumbents have decades of these scars. They know what a fraudulent wire transfer looks like not because they simulated it, but because they lost \$50,000 on it in 2012. They have the ground truth of financial failure.

If you are training an AI to automate underwriting or fraud detection, you don't need general internet data. You need the specific, private, historical record of human error and financial loss. The banks have the archives. The startups have the interface. In an AI world, the archives are worth more.

06

THE WAR FOR TRUTH

So, if the game is rigged in favor of the charter holders — who have the capital, the compliance, the data, and the cross-subsidies — what is a fintech to do?

The immediate answer, usually arrived at after a few sleepless nights, is: get a license.

Every serious fintech founder eventually realizes that if they want to survive, they must control their own destiny. But obtaining and being able to operate a charter takes time. So, the smartest operators will run a parallel track. While their lawyers fight for the license, their engineers exploit an architectural innovation to work around the disadvantage: the non-custodial wallet.

This is the great bypass. A traditional bank account is tied to a jurisdiction, a branch network, and a specific regulatory regime. It is heavy. A non-custodial wallet, by contrast, is just software. It is a cryptographic container that can be spun up instantly, anywhere in the world, at zero marginal cost.

When you combine a non-custodial wallet with simple on-and-off ramps and a liquid stablecoin, you effectively synthesize a bank-like experience without the bank. This is precisely why, when we designed Libra, the regulatory response wasn't just skepticism — it was a coordinated panic.

This architecture allows a fintech to scale globally at the speed of the internet, rather than the speed of licensing compliance. They can onboard a user in Brazil or Indonesia as easily as one in New York, giving them a place to store value (the wallet) and a medium of exchange (the stablecoin).

The genius of this model is how it outsources the pain. The fintech doesn't have to build the bridge to any central bank around the globe. Domestic stablecoin issuers do the heavy lifting.

In this stack, the stablecoin issuer becomes the infrastructure layer. They bear the regulatory burden of holding the reserves, managing the treasury, and connecting the entire software stack to the traditional payment rails. The fintech simply builds on top of that finalized settlement layer.

The startup isn't trying to get a license to be the bank — at least not yet. They are building a system where the truth of a transaction is verified by code and keys, while the stablecoin issuer manages the messy interface with the old world. It is the ultimate arbitrage: global scale with localized compliance.

07

CONCLUSION: RENT VS. OWN

The AI Question that every fintech board is currently asking — How can we use AI to make our product better? — is the wrong question. It treats AI as a feature, a way to slightly optimize a customer support chat or a workflow.

The real question is a market-structure question. AI will ruthlessly expose which companies actually own their assets and which were just renting them.

Ultimately, the tension boils down to a simple, brutal reality: In the future, everyone can rent intelligence. Not everyone can rent permission.

If you are a fintech built on a rented charter, relying on rented data, using a rented AI model, you are in a precarious position. You are renting your entire business stack from entities that are rapidly becoming your direct competitors. The landlord — the bank — just got a massive upgrade to their building, and they are realizing they can offer the same amenities you do, but without the markup. They might decide they don't need tenants anymore.

The next generation of fintech winners will not be the ones who simply build the best AI agent. It will be the ones who secure their own sovereignty.

They will be the companies that pursue the dual track strategy: aggressively building on crypto rails to scale globally today, while enduring the grind of obtaining a charter to secure their permanence for tomorrow.

Until that sovereignty is achieved, AI is just a fancy engine. The charter is the car. And the banks still own the keys. ■

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