



September 2024

# Banking-as-a-Service (BaaS)

## Rearchitecting Financial Services Landscape

How BaaS is Redefining Traditional Banking Models and Enabling Next-Generation Financial Solutions

01

# Executive Summary

## Emerging Trends in the Banking-as-a-Service Ecosystem



### Banks of All Sizes to Play a Big Role in the BaaS Ecosystem

Incumbent banks, regardless of their size, have a significant role to play in the BaaS ecosystem. Larger banks can leverage their well-established brands and trusted logos to attract customers through strategic brand partnerships. Mid-size banks can utilize BaaS to innovate quickly and expand their reach to new customer segments. By adopting flexible and scalable BaaS solutions, these mid-tier banks can cost-effectively drive product distribution and gain market share.



### Rapid Expansion of BaaS-Powered Products across Multiple Customer Segments

The scope of BaaS-powered use cases is rapidly expanding to encompass new products beyond payments. Innovative offerings like high yield deposit accounts, BNPL, merchant cash advance, expense cards are becoming increasingly popular. Additionally, BaaS is enabling financial services tailored to emerging segments such as Gen Z, small and medium-sized businesses (SMBs), and gig economy workers, providing them with customized and accessible financial solutions.



### Growth in the BaaS Ecosystem through Strategic Acquisitions

Banks, tech companies, and other BaaS providers are pursuing inorganic growth strategies by acquiring firms to accelerate their entry into the BaaS market. These acquisitions enable them to quickly scale their capabilities, expand their product offerings, and tap into new customer bases, driving rapid market penetration and innovation.



### Maturing and Standardizing BaaS Tech Stack

The BaaS tech stack is rapidly maturing and becoming more standardized, making it easier for banks to adopt and integrate BaaS solutions. Key components of the BaaS tech stack—such as developer portals, API gateways, API management, user onboarding through partner channels, billing and reconciliation modules, origination modules for financial products, etc. —are readily available and continually advancing. This evolution allows banks to select from a range of specialist vendors and generalist providers, enabling them to tailor their BaaS offerings to align with their business strategies and risk appetites.



### Compliance: The New Competitive Advantage in BaaS

The BaaS market is experiencing heightened regulatory scrutiny in mature BaaS markets such as the US and the UK/EU. Regulators are scrutinizing the risks associated with innovative business models of non-banks. Partner banks that proactively manage and control compliance obligations for themselves and their partners will be better positioned to navigate regulatory challenges, build trust with stakeholders, and secure long-term success in the BaaS market.

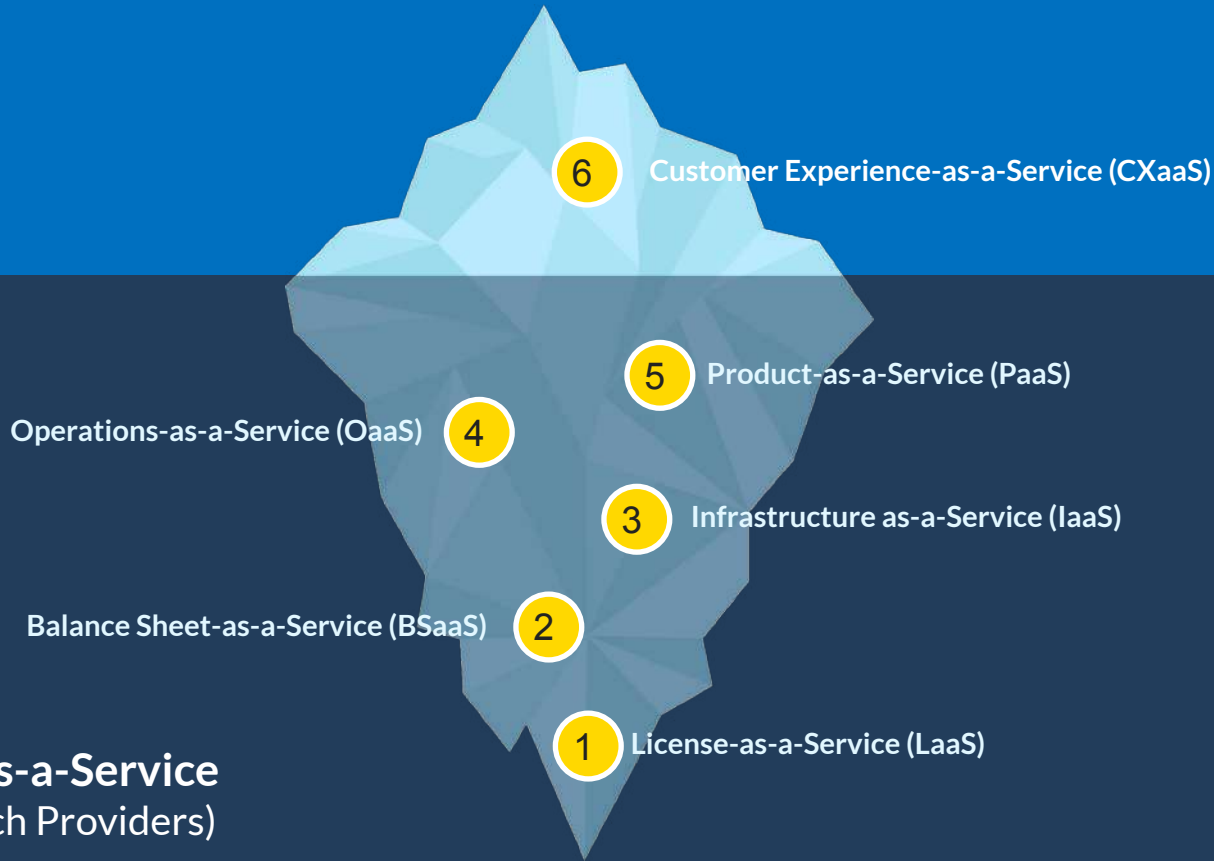
# Key Terminologies: API Banking, Open Banking, BaaS and Embedded Finance

	Description	Objectives for Banks and NBFIs	Illustrative Examples
<b>Embedded Finance</b>	Banks and NBFIs can participate in Embedded Finance by integrating financial services into non-financial platforms and apps, delivering a seamless and superior experience.	<ul style="list-style-type: none"> <li>Increased customer engagement</li> <li>Digital ecosystem building</li> <li>Access to non-banking data</li> </ul>	Affirm+ Shopify HSBC + Oracle Net Suite Netbank + Akulaku
<b>Banking-as-a-Service (BaaS)</b>	BaaS enables banks to unlock intelligent distribution by partnering with non-financial brands, leveraging their licenses and technology as key assets.	<ul style="list-style-type: none"> <li>Reach new customer segments</li> <li>Unlock new revenue streams</li> <li>Reduce cost of customer acquisition</li> </ul>	Netbank + Brankas Thread Bank + Unit FirstBank + Treasury Prime
<b>Open Banking</b>	Open Banking expands on API Banking by mandating that banks share customer data with third-party providers, with the customer's consent.	<ul style="list-style-type: none"> <li>Leverage data to develop new products</li> <li>Monetize data sharing infrastructure</li> <li>Improve business processes</li> </ul>	Natwest + Tink Bank of America + Plaid MetroBank + Brankas
<b>API Banking</b>	API Banking involves the use of APIs to enable seamless connectivity within a bank's internal systems as well as facilitate integration with external systems and applications.	<ul style="list-style-type: none"> <li>Reduce IT complexity</li> <li>Drive innovation</li> <li>Facilitate integration flexibility</li> </ul>	Wells Fargo + MuleSoft Standard Chartered + Thought Machine Synchrony Bank + Fiserv

# The Building Blocks of BaaS & Embedded Finance

## Embedded Finance

(Banks+Tech Providers+Non-banks)



## Banking-as-a-Service

(Banks + Tech Providers)

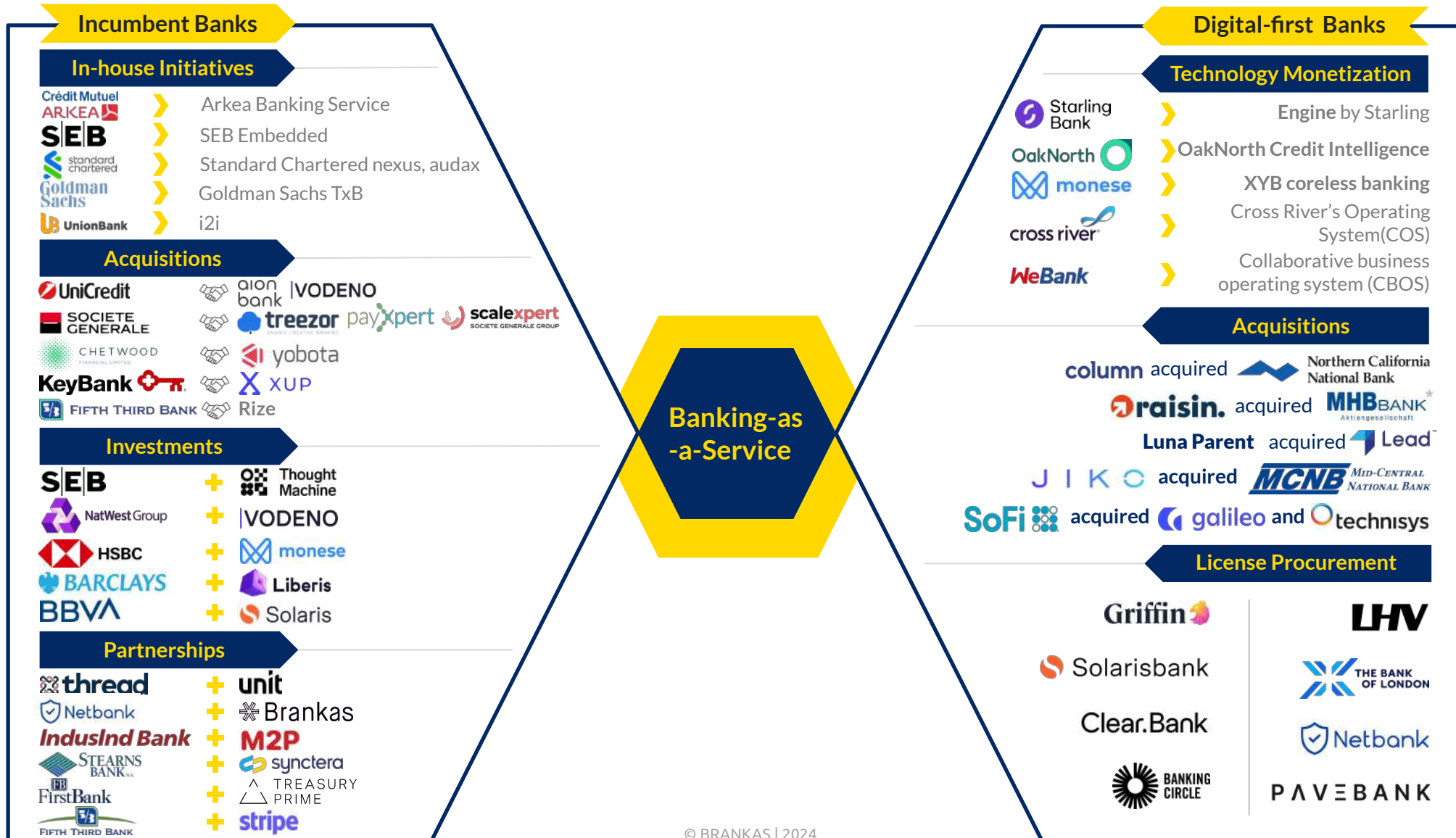
### The Iceberg of Embedded Finance & Banking-as-a-Service

Embedded finance is the tip of the iceberg, representing the visible portion of financial services as experienced by customers (CXaaS) through non-banking platforms. It allows users to discover, evaluate and consume financial services seamlessly integrated into their everyday digital experiences. Non-banking platforms could include retailers offering co-branded debit cards or ride-sharing apps facilitating microloans for drivers.

Below the surface lies Banking-as-a-Service (BaaS), with its foundation layers that power embedded finance. The first layer, License-as-a-Service (LaaS), provides access to essential banking licenses and access to payment rails. Balance Sheet-as-a-Service (BSaaS) offers financial backing and liquidity management, crucial for maintaining financial stability. Infrastructure-as-a-Service (IaaS), provides the necessary technological backbone for all banking operations and financial products.

Operations-as-a-Service (OaaS) encompasses essential operational functions such as customer onboarding and transaction processing, to ensure smooth and efficient service delivery. Product-as-a-Service (PaaS), which facilitates the manufacturing and management of financial products, enables non-banks to quickly develop and deploy new offerings through their own channels.

# BaaS Playbook: Incumbent Banks and Digital-First Banks



## Five Key Trends Driving the Future of BaaS

The world of Banking-as-a-Service is experiencing a period of rapid evolution. As BaaS adoption continues to surge, we're witnessing a wave of innovation that's transforming the way financial services are delivered. Here are five key trends shaping the future of BaaS and pushing the boundaries of what's possible:

### 1. BaaS Embedded in Industry-Specific Platforms

- As vertical SaaS platforms become more sophisticated, they will increasingly integrate BaaS functionalities. This will allow them to offer embedded financial services like payments, invoicing, and business loans directly within their workflows.
- This trend will be particularly impactful for BaaS providers that can tailor their offerings to the specific needs of merchants and small businesses within these vertical SaaS platforms.

### 2. Hyper-Personalization and Deep Customer Insights

- BaaS providers will leverage advanced analytics and AI to gain deeper customer insights. This will enable them to offer hyper-personalized financial products and services to both the partnering companies and their end-users.
- Imagine a BaaS solution that tailors loan options for a small business owner based on their industry and cash flow data, and for a consumer based on alternative data sources like utility bills, rent payments, or income data from bank accounts.

### 3. Focus on Security and Regulatory Compliance

- As BaaS adoption grows, security and regulatory compliance will remain paramount concerns. BaaS providers will invest heavily in robust security measures like multi-factor authentication, data encryption, and fraud detection to ensure a safe and secure financial environment.
- Additionally, they will need to demonstrate strict adherence to evolving regulations concerning financial stability of partner banks, customer service and dispute resolution.

### 4. Open Finance Ecosystems

- The concept of open banking will evolve beyond data sharing to encompass a broader open finance ecosystem. This ecosystem will involve collaboration between BaaS providers, banks, fintech companies, and non-financial institutions.
- It will enable the creation of more innovative and interconnected financial solutions that seamlessly integrate with various platforms and applications.

### 5. Democratization of BaaS and AI-powered Customer Support

- The future of BaaS will see a rise in low-code/no-code development tools, empowering non-technical teams within partnering companies to seamlessly integrate BaaS functionalities.
- Additionally, generative AI will be harnessed to create intelligent chatbots and virtual assistants within BaaS platforms. These AI-powered support systems will efficiently address customer queries, troubleshoot issues, and provide personalized guidance, ultimately enhancing the customer experience for end-users.



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This report has been authored by **WhiteSight** and is commissioned by **Brankas**.

For any questions or comments, please write to [hello@whitesight.net](mailto:hello@whitesight.net)

## Brankas | The Leading Open Finance Company

Brankas is the leading open finance technology company in APAC and MENA. Brankas provides API-based data and payments solutions to financial institutions and digital businesses to enable embedded finance across banks, lenders, retail, payment gateways, e-wallets, and transportation.

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