FINASTRA

Banking as a Service: Outlook 2022

Paving the way for Embedded Finance

Market assessment and imperatives for success

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Executive Summary

Banking as a Service (BaaS) has become one of the most important strategic agenda items for chief executives across numerous industries beyond banking, from manufacturing to healthcare.
BaaS enables any business to develop new and exciting propositions with relevant financial services embedded into the customer experience.

Overall, BaaS is expected to reach a value of $7 trillion by 2030. Those that act fast and secure priority customer context will experience the greatest upside. Those that wait may very well be left outside looking in.

Finastra interviewed 50 senior executives and surveyed an additional 1,600, and the results were revealing.

85% of the senior executives surveyed are already implementing BaaS solutions, or plan to do so within the next 12-18 months.

The main participants of the BaaS ecosystem (distributors, enablers and providers) want to increase their BaaS investments and partnerships as they expect the BaaS market to grow by more than 50% annually over the next five years.

Those currently with BaaS offerings have primarily focused on retail banking, and this market will continue to grow. Point of sale financing, for example, is set to more than double in size over the next three years. On the corporate side, BaaS will become more prevalent in small business lending (a $250 bn market) with BaaS revenue expected to grow 30% annually.

Whether in retail or corporate, all BaaS participants should follow a similar playbook to win.

First, understand what use cases will deliver the most value to their customers. Second, select monetization models that deliver required capabilities and enable profits. And third, be clear on how to take a BaaS solution to market, selecting partners with capabilities that accelerate delivery.

Early BaaS adopters that have followed such a playbook have made significant gains and are expected to extend their position. While distributors and providers are ahead in terms of their BaaS maturity today (measured by strategy implementation, number of partnerships, expenditure and expected earnings), enablers are playing an ever more important role in the ecosystem.

Enablers are projected to close the maturity gap with an annual growth rate of 4.3% over the next three years.

We are at an inflection point as the BaaS market is leading a revolution in financial services. To capitalize, businesses across all industries must develop new propositions by collaborating with the right partners and do so quickly.

Foreword

The way in which retail and corporate customers interact with financial services is undergoing a revolution.

Imagine your favorite brands offering you a range of financial services, from buy-now-pay-later to personalized and proactive lending offers. Banking as a Service (or BaaS) is driving endless possibilities, paving the route towards truly embedded finance.

There's no doubt that BaaS is an incredibly exciting opportunity for the entire financial services ecosystem.

Financial institutions can reach a greater number of customers at significantly lower cost; distributors can open up new lines of revenue while building deeper relationships with their customers.

Integrating regulated products into the customer journey will soon become as simple as creating a social media account.

While the BaaS market, including banks, wealth management and insurance companies, as well as those providing the enabling technology without underlying FS solutions, is expected to reach a value of $7 trillion by 2030, it is still an evolving industry. Challenges for providers, distributors and enablers lay ahead; streamlining customer experiences and building sleek, engaging products takes time.

For this reason, we set out to understand the market maturity of BaaS solutions. We interviewed 50 senior executives, surveyed a further 1,600, and calculated value pools and potential growth rates of BaaS for the next three years across a number of industries, including retail, technology, banking and healthcare among others.

We found that 85% of senior executives are already implementing BaaS solutions, or planning to within the next 12-18 months. While Point of Sale (PoS) financing is expected to accelerate by 104% in the banking industry, SME lending and corporate treasury/FX services are poised to gain the highest traction and demand over the next three years, particularly in the banking and healthcare sectors.

Our research revealed that while providers and distributors are more mature than enablers, the latter – made up of bigtechs and fintechs – have sensed the potential and will enjoy the highest growth over the next three years. Finally, we explore the monetization strategies that distributors, providers and enablers need to succeed in implementing BaaS solutions.

Our findings point to one clear conclusion: consumers (retail or corporate) are changing where they source financial services, and increasingly utilizing non-bank channels.

Angus Ross
Chief Revenue Officer, BaaS, Finastra

A new era is arriving

What is Banking as a Service?

Banking as a Service is the provision of retail or wholesale banking products and services, in context, as a service using an existing licensed institution's secure, regulated infrastructure with modern API-driven platforms.

$7 tn

Expected value of BaaS market by 2030.

BaaS Players

The BaaS value chain consists of four key players:

Consumers

End user of the financial product delivered through the BaaS ecosystem

Distributors (also referred to as Embedders)

Organizations that embed banking services directly into their existing customer journeys for retail or corporate customers. Examples include retailers and e-commerce businesses

Enablers

Usually bigtechs and fintechs that help to embed financial services into third-party platforms and apps

Providers

Financial institutions holding a banking license and offering regulated and compliant financial products

The future of finance is open, as evidenced by the rapidly growing Banking as a Service (BaaS) sector. This new frontier for financial services is unlocking hundreds of new tools and services for businesses, enabling them to pass on end-to-end products and services to their customers.

The barriers that fintechs face when trying to integrate with financial products continue to fall. BaaS eradicates many time-consuming and expensive regulatory hurdles, facilitating the launch of new and innovative products to market from fintechs.

In addition, thanks to simplified, open APIs, developers can launch an array of consumer-friendly services. As a result, BaaS has exploded over recent years, and is expected to grow by 25% per annum for the next three to five years. In turn, new revenue streams will open for financial institutions and fintechs, while consumers will benefit from integrated, multiproduct experiences.

BaaS is ushering in a new era of financial services by reconfiguring the banking value chain and accelerating growth through digital transformation.

"BaaS is a key subset of Embedded Finance which will enable brands, in all sectors and geographies, big and small, to enhance the value they can create for their customers and capture for themselves. Ultimately it provides a new tool to rejuvenate old business models that are being battered by digitalization. Financial technology has become so powerful now, like mobile and the cloud before it, that brands can harness it to compete more effectively in a hyperconnected world."

Simon Torrance

Founder & CEO, Embedded Finance & Super App Strategies

Executives are already implementing BaaS solutions, or planning to do so soon

Finastra interviewed nearly 50 senior executives, and surveyed a further 1,600, to assess the market maturity of Banking as a Service (BaaS), revealing the high potential for disruption and transformation across a number of sectors, including banking, healthcare, retail and technology.

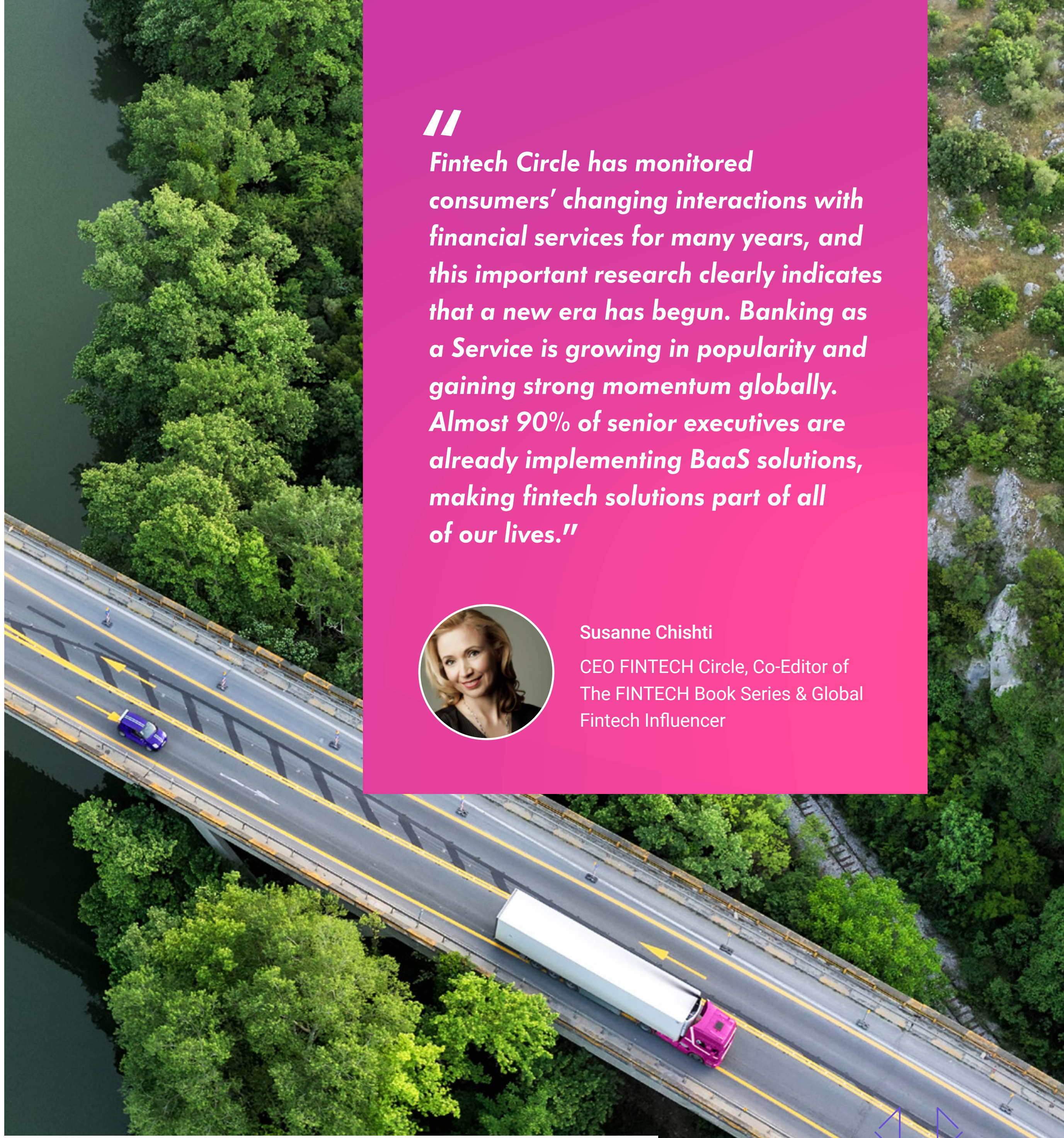
85%

of senior executives surveyed are already implementing BaaS solutions, or planning to within the next 12-18 months.

Amongst various participants:

- 70% of distributors want to increase their spending on financial partnerships (including BaaS)
- 50% of enablers want to increase their number of partnerships with distributors and providers by more than 50% in the next five years
- 30% of providers expect the BaaS market to grow by more than 50% per year over the next five years.

This research is the clearest indication yet that BaaS will proliferate over the next few years. Companies must now assess the opportunities it brings – potentially in a very nuanced way towards selected use-cases, sectors, and customer segments.



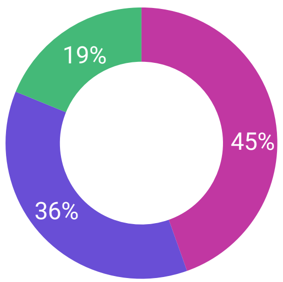
"Fintech Circle has monitored consumers' changing interactions with financial services for many years, and this important research clearly indicates that a new era has begun. Banking as a Service is growing in popularity and gaining strong momentum globally. Almost 90% of senior executives are already implementing BaaS solutions, making fintech solutions part of all of our lives."

Susanne Chishti

CEO FINTECH Circle, Co-Editor of The FINTECH Book Series & Global Fintech Influencer

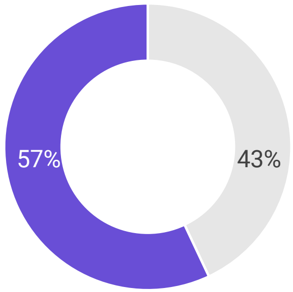
Survey Demographics

Types of players:



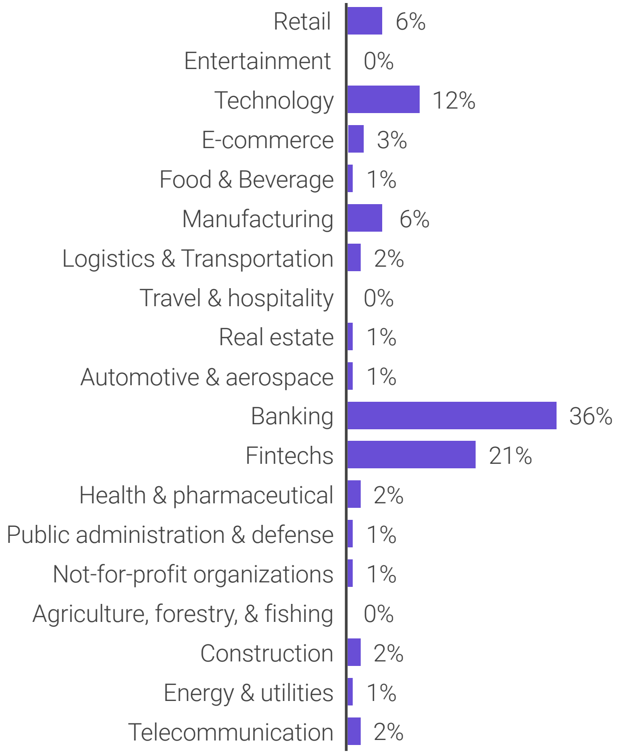
Distributors
Providers
Enablers

Types of users:

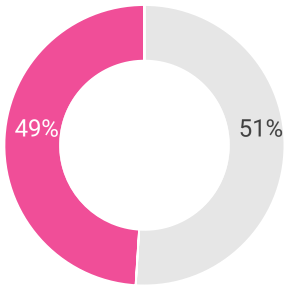


Current users
Potential users

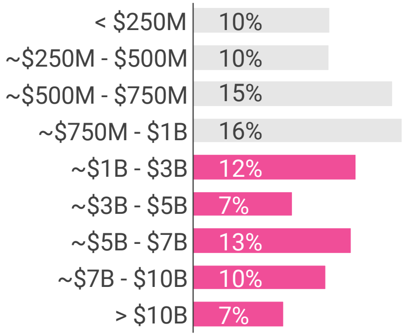
Industry composition:



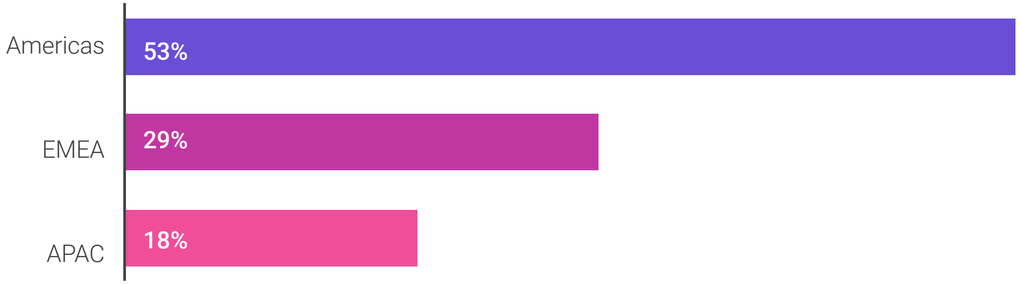
Company size:



Large enterprises
Small & medium enterprises



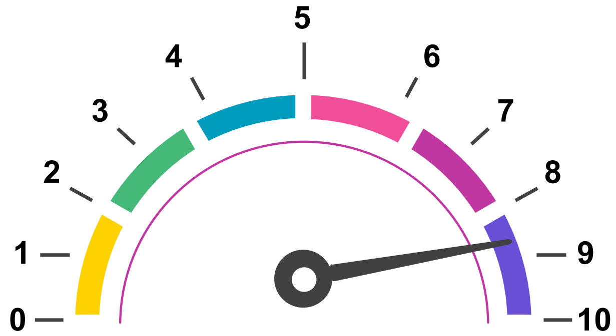
Region mix:



Average BaaS awareness:

1 = Not aware

10 = Extremly aware



Brian McKenney
Chief Innovation Officer, HSBC

"The application of BaaS represents an attractive opportunity to create new value for businesses around the world. Embedding financial solutions will bring contextualized, integrated banking services into the products and platforms that businesses use every day. How providers partner and support this unique international need of businesses will, over time, be the real differentiator."

Value pools and potential growth

While there are currently more BaaS product offerings in retail banking, corporate and SME (small and medium enterprise) BaaS offerings are poised to grow in the near future.

"Opportunities associated with BaaS are exploding in the banking ecosystem as organizations not only search for new ways to improve customer engagement and enhance experiences, but also find new sources of revenues from inside and outside the financial services marketplace."

Jim Marous
Co-publisher of The Financial Brand

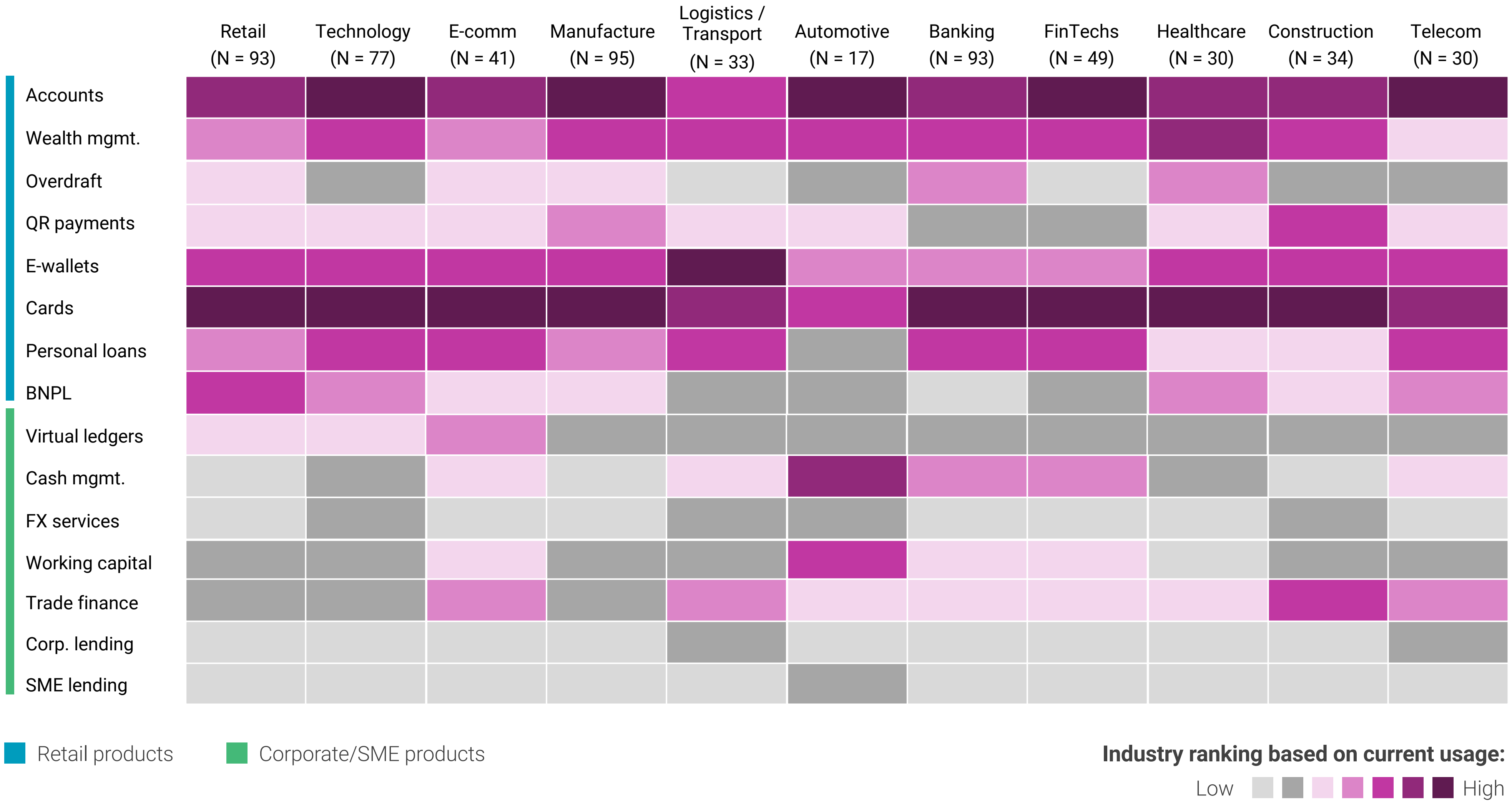
We compared the current BaaS penetration of multiple banking products with their expected growth over the next three years. While the survey responses skewed towards retail offerings in the present, the future will be much more balanced between retail and corporate / SME growth.

SME lending offers a very attractive BaaS potential for three reasons. First, securing loans from traditional banks is incredibly cumbersome for SMEs, with long processes, exhaustive documentation requirements and limited credit options. Second, there are less established players in SME lending than other products. And third, SME lending has a large revenue opportunity. For example, in 2020, SME lending generated $252 bn in overall market revenue, while POS financing (including BNPL) generated $28 bn and Payments generated $205 bn.

● High ○ Low

Segment	Service type	Product	Current Penetration	Potential Growth
Retail Banking	Banking	Accounts	●	◑
		Wealth Management	◕	◑
		Overdraft	◑	◑
	Payments	QR Payments	◑	◑
		E-Wallets	◕	◑
		Cards (also Corporate)	●	◑
	Lending	Personal Loans	◕	◑
		Point of Sale (POS) Financing / BNPL	◑	●
Corporate / SME Banking	Payments	Virtual Ledgers	◔	◑
	Treasury	Cash Management	◔	◑
		FX	○	◕
	Lending	Working Capital	◔	◑
		Trade Finance	◑	◑
		Corporate Lending	○	○
		SME Lending	○	◑

The majority of BaaS offerings are currently for retail banking products



Key points

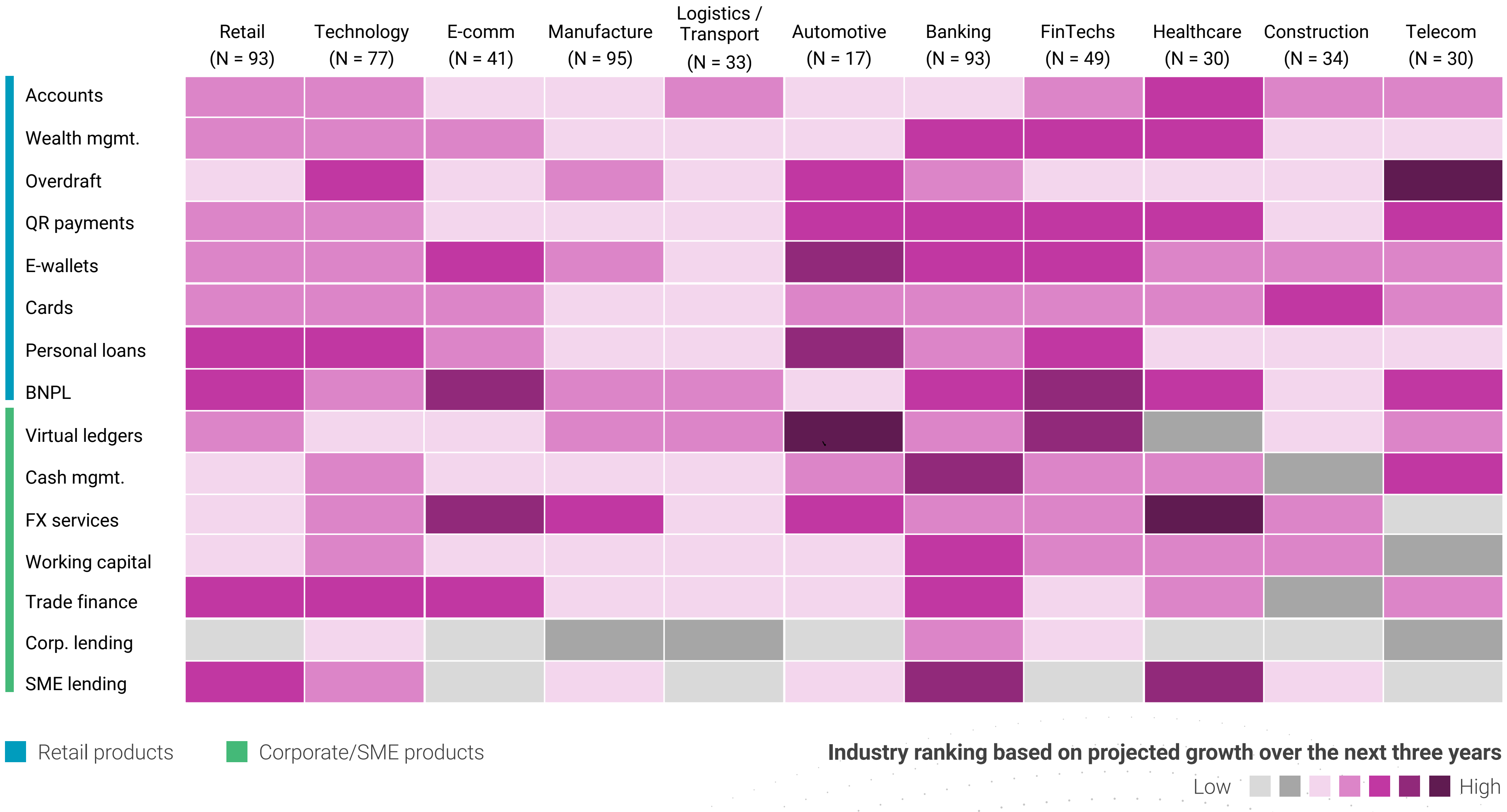
Credit cards emerge as the leader across most products (except **transport** where there seems to be preference for e-wallets).

Checking accounts also win across all industries.

E-wallets, wealth management and **lending** have rising demand across most industries.

Higher **corporate banking** demand in **automotive and construction** industries.

Over the next three years, BaaS growth will be balanced between retail and corporate/SME banking products



Key points

BNPL poised to have the highest usage across e-commerce and fintechs in next 5 years

Virtual ledgers to grow for automotive and fintechs

Trade / supply chain finance demand from retail, technology, e-commerce and banking

FX services will have high demand across e-commerce, healthcare, manufacturing and automotive

SME lending to grow for banking, healthcare and retail

There are numerous growth opportunities in BaaS over the next 3 years

SME lending

~30% expected to grow by ~30% until 2024

SME Lending currently drives more market revenue than POS financing, payments, or corporate lending, and is expected to grow 30% by 2024. There is significant potential for a BaaS SME lending offering, driven by an API-enabled marketplace. SMEs will increasingly turn to embedded finance and other technology trends as traditional banking has historically not met their needs, offering low optionality and unfavorable terms.

Corporate lending

~14% expected to grow by ~14% until 2024

Corporate lending has a high market share in the banking industry and is still expected to grow ~14% by 2024. Some corporates will avoid embedded finance in the near-term due to their focus on existing banking relationships, cybersecurity and large per-transaction amounts. Banks, technology players and fintechs will drive most of the BaaS growth over the next few years.

Point of Sale (POS) financing

~104% expected to grow by ~104% until 2024

POS financing includes both BNPL (Buy Now Pay Later) and other financing options (e.g., interest-bearing point of sale loans). Over the last few years, BNPL has become increasingly available at numerous merchants across the globe. BNPL is still expected to grow, but its growth will be more moderate than other POS financing BaaS offerings.

POS financing users are growing 70-80% annually in the UK, and the global market is expected to double in size over the next three years. BaaS-enabled expansion to debit card customers, as opposed to BNPL, will drive much of the growth.

Treasury and FX services

~7% expected to grow by ~7% until 2024

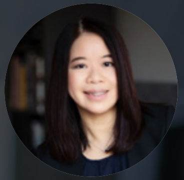
Treasury and FX services in the banking industry will grow by ~7% until 2024, with fintechs poised to offer innovative solutions to cater for specific SME needs at a lower cost than traditional bank offerings. The manufacturing and healthcare segments are expected to tap into BaaS relatively fast and contribute to its growth.

Bank accounts and payments

~30% expected to grow by ~30% until 2024

Bank accounts and payments (including payment cards) are poised for 30% growth by 2024. Beyond 2024, there will likely be reduced growth as the market becomes more saturated.

"I am encouraged by the growing embedded finance ecosystem, especially as it relates to extending services to communities and businesses that have been traditionally underserved with limited offerings. Small businesses and entrepreneurs form the backbone of our economies. With thoughtful innovation, we have the opportunity to create a more level-playing field and a more equitable future for all. Technology innovation ultimately needs to be about people."



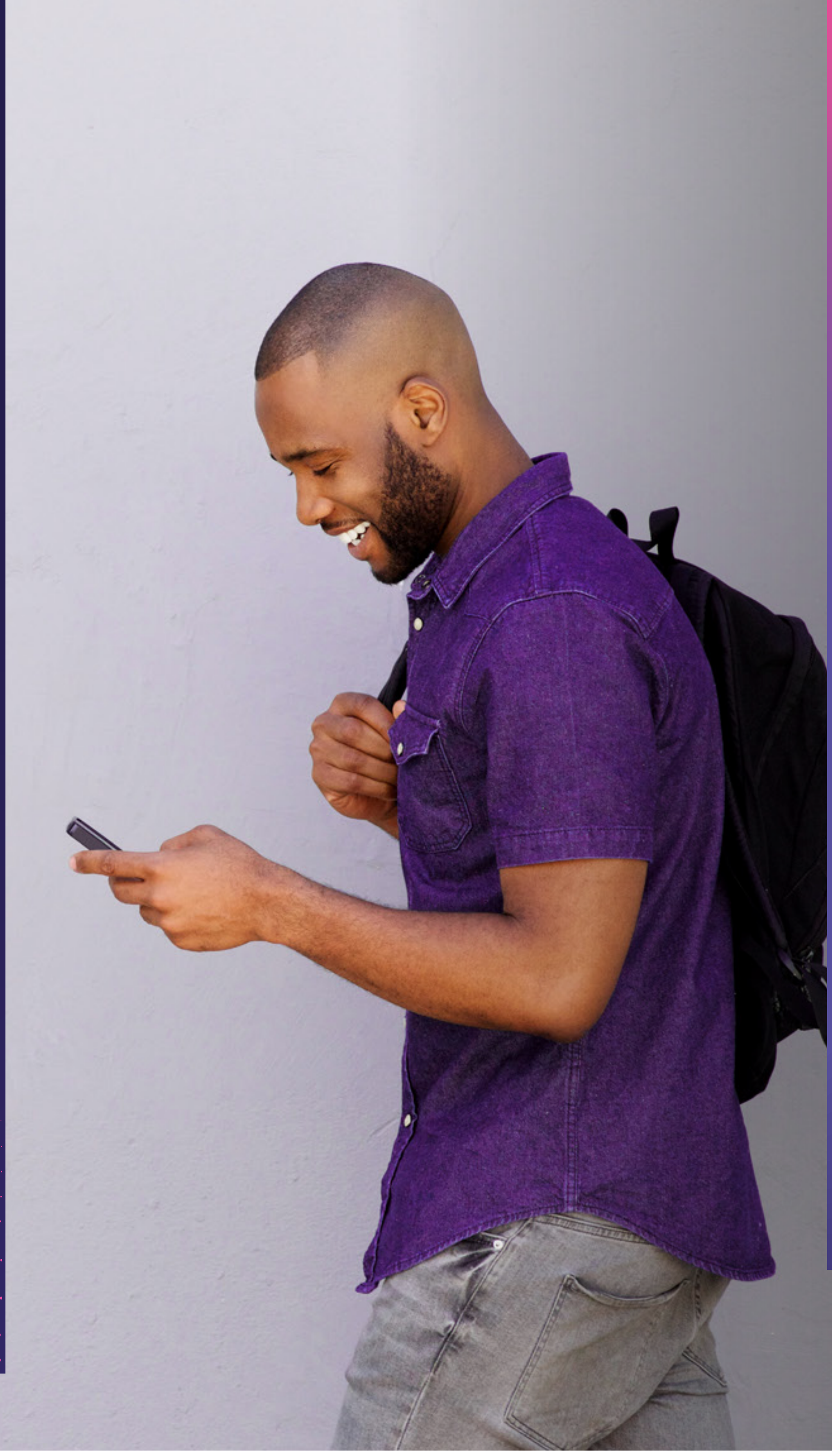
Theodora Lau
Founder, Unconventional Ventures and author, Beyond Good, start up advisor, public speaker

Success in BaaS: How to play to win

In order to succeed with BaaS and access value provided by the opportunity at hand, distributors, enablers and providers should take three essential steps:

- Understand what use cases will deliver the most value in the role and segment they operate in
- Be clear on the monetization models for selected use cases and what capabilities are required
- Be clear in how you will take a BaaS solution to market. Select partners with the right capabilities to accelerate delivery of your selected use case

Distributors’, enablers’ and providers’ BaaS monetization strategies are all largely aligned, including offering specialized products, white-labelling customer journeys, and providing access to a marketplace (aggregator of providers / distributors).



“As the banking world moves away from products to dynamic experiences embedded in the real-time world, BaaS will be the enabler of these experiences. It’s no longer your core system that informs your capability, but a technology stack that is always evolving.”

Brett King
Bestselling author of the Rise of Technosocialism, founder of Moven, and radio host

Distributors (also referred to as Embedders)

Organizations that embed financial services directly into their existing customer journeys (either retail or corporate)

Examples include retailers and e-commerce businesses.

Distributors are embedding financial services across numerous industries.

Distributor propositions are currently centered around retail products like checking accounts and payments/credit cards to their customers.

The average growth potential across products varies by industries e.g.,

- BNPL sees higher future adoption from e-commerce and fintech distributors
- core banking / virtual ledgers from automotive
- FX services from healthcare and e-commerce
- SME lending from healthcare, banking and retail
- cash management / treasury from banking and telecom distributors

> ***"Embedded Finance and BaaS present a significant opportunity in the fast growing 'Economy of Things'. It is estimated there will be as many as 60 billion IoT devices in operation by 2025; we expect these devices to be interacting, transacting and many will need to be financed. Incorporating embedded finance and BaaS solutions with IoT and the Economy of Things presents exciting new business and monetization opportunities."***

David Palmer
Head of Digital Asset Broker Product, Vodafone

Distributors are looking to BaaS in order to retain customers and provide additional revenue

For the retail segment, more than 50% of distributors choose BaaS over traditional banking services to:

- enhance their product / service offerings
- increase customer loyalty / retention

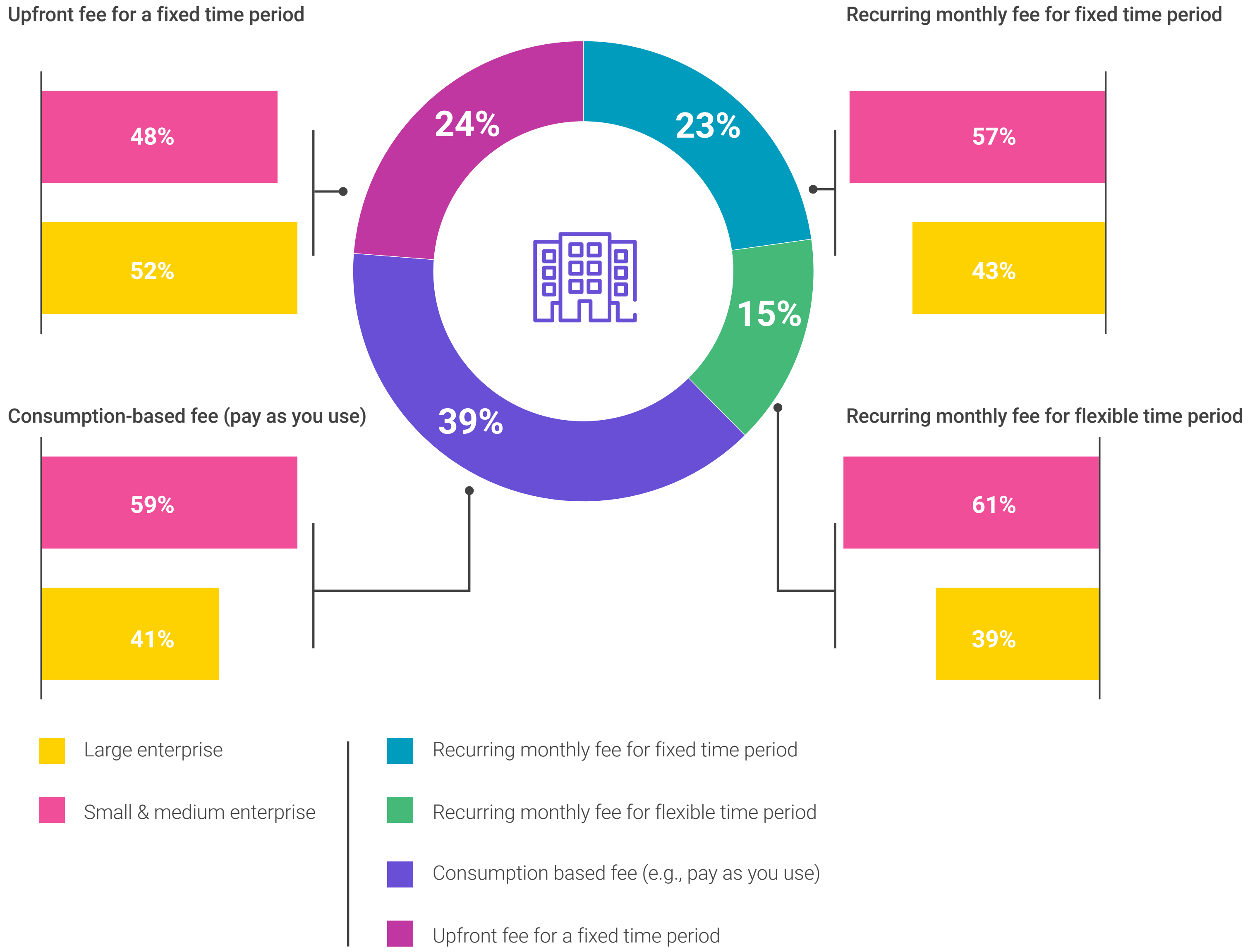
For the SME segment, ~50% distributors prefer BaaS to achieve a one stop shop solution and decrease operating costs.

The corporate segment is primarily looking for additional revenue growth and streamlined operations

More than a third of distributors expect to increase their revenues from BaaS offerings by more than 15% per year.

Transaction-based pricing or fixed monthly fee models are the most popular pricing models for distributors (~40%), however large distributors prefer a fixed one-time pricing model to make larger margins.

Types of fees charged by BaaS distributors



Distributors are primarily focusing on the right use case and technology capabilities

For distributors, their top three selection criteria to work with an enabler include:

- proven use-cases in the market
- promising ROI
- availability of product trials

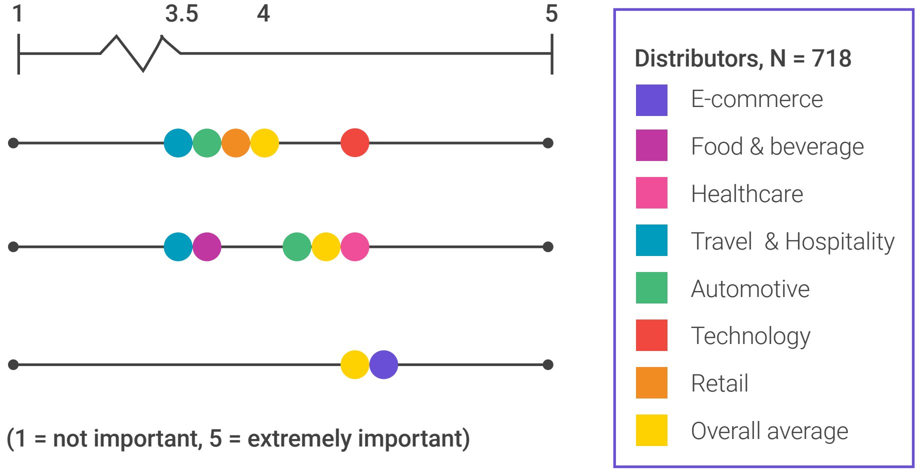
Distributors have varying priorities of capabilities, by industry

Capabilities, average rank of responses

FinTech partner with an open API catalog

An ecosystem partner that can aggregate and offer a choice of suppliers of financial service offerings

System and technology capabilities to build and implement a BaaS platform



Distributors are looking to accelerate their BaaS capabilities through partnerships

15%

One-third of large distributors (where annual revenue exceeds $1 bn) want to increase their spending on BaaS partnerships by more than 15% per year over the next three to five years.

70%

Distributors expect overall growth to exceed 70% per year over the next three years

Marwan Forzley
CEO and Co-founder of Veem

"Banking as a Service democratizes access to innovative payments solutions for all sizes of financial institutions. It enables even the smallest institutions to offer best-in-class products allowing their customers to thrive. Small businesses look to their banks as trusted advisors who will now have the capabilities and technology solutions that will help them grow and scale effectively."

Enablers

Typically, bigtechs and fintechs that help to embed financial services into third-party platforms and apps

By providing key capabilities, enablers drive value in BaaS offerings

To implement a BaaS strategy, the majority of enablers are looking to connect with:

- **the right target distribution channel** across retail, corporate and SME segments and
- **a marketplace of distributors** to potentially attract more partnerships with providers

Enablers provide influence and value by adding innovative enhancements to the embedding of banking products (e.g., additional data for underwriting lending products), improving user experience (e.g., faster / digital access to banking products) and creating brand value in the market.

> ***"Enablers with a wide customer base (volume) should focus on partnering with smaller banks (rather than established ones) in order to be the leading negotiators across BaaS."***
>
> Large BNPL company

Enablers need three key capabilities to monetize BaaS:

A scalable, stable, and secure API marketplace

To act as the middleman between providers and distributors.

Expertise in specific sectors

To digitize end-to-end customer journeys and offer ancillary professional services that compliment business' unique needs. This could include billing, KYC, risk analytics and fraud protection for SME and Corporate banking use-cases.

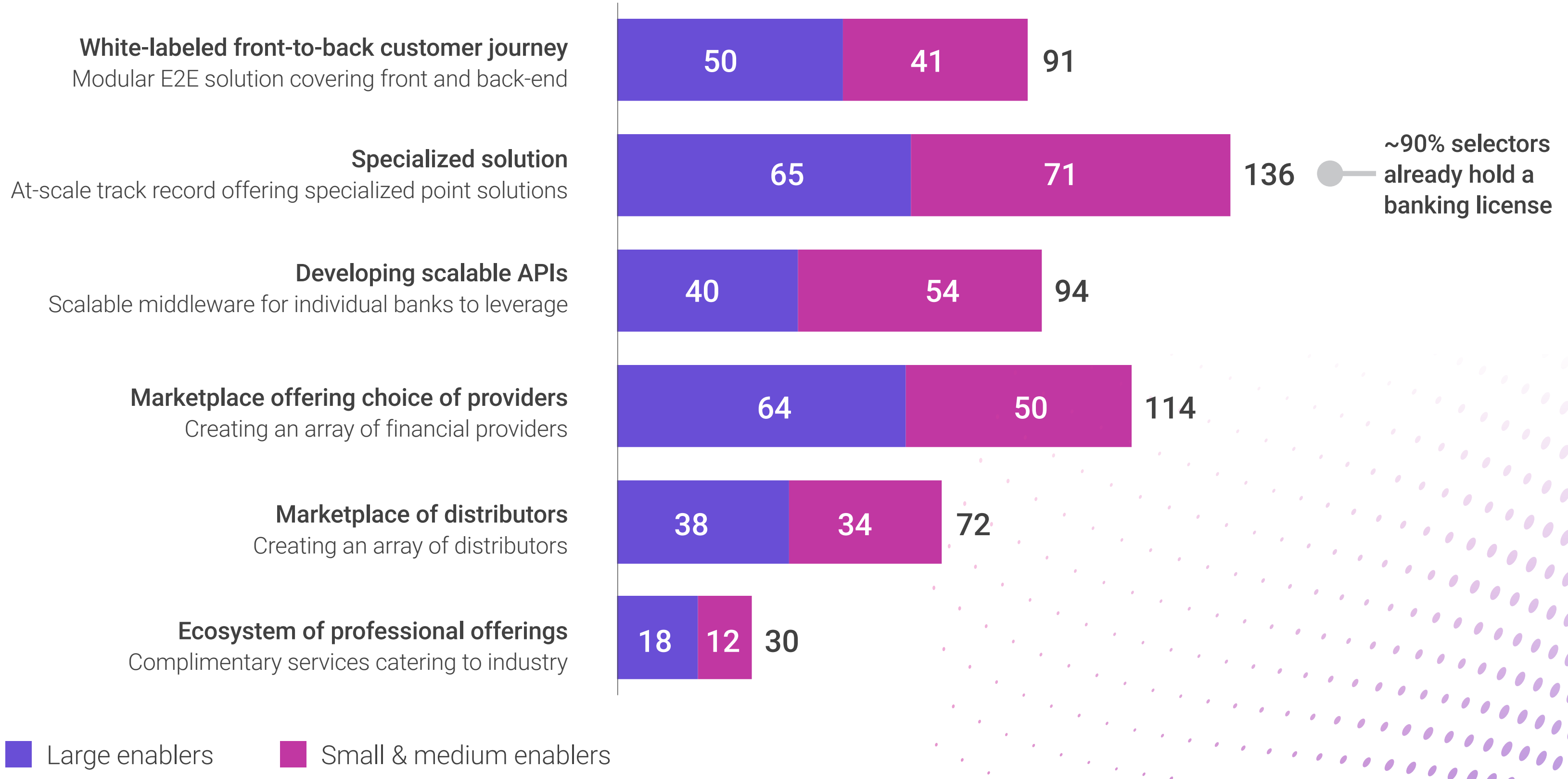
System integration and digitization capabilities

To help distributors (agnostic to sectors) digitize their customer journeys.

Foreword | A new era is arriving | Value pools & potential growth | Success in BaaS | Distributors | Enablers | Providers | Market maturity | Emergence of BaaS

Large and small enablers see the greatest monetization opportunity in creating specialized solutions

Enablers' opportunity for monetization



Key points

The most common specialized solution propositions seen in the market are e-money / digital wallets, payments cards, lending engine as a proposition and payments as a service.

There is a common perception that the marketplace proposition requires advanced back-end and complex integration capabilities which are hard to achieve yet necessary to succeed.

"Banks can provide similar services but with long turnaround times. BaaS providers will have an edge only if they can be agile and innovate faster."

Large telco

Enablers should focus on large growth areas in BaaS, such as retail and SME segments

All segments in BaaS are expected to grow, however the retail and SME segments are expected to grow much more than corporate.

In the SME banking segment, lending and cash management use cases are expected to grow the most.

Consolidation of enablers is expected in the next 2-3 years for certain use cases (e.g., BNPL).

50%

Enablers expect the overall BaaS market to grow by more than 50% over the next five years.

Paolo Sironi

Global Research Leader, Banking and Financial Markets, IBM Institute for Business Value

> *"The main difficulty for banks is not about technology, but to understand how to unlock value with technology. The focus is not about digitizing existing operating models and offers. The focus is about updating the business models and the ways of working with the help of technology. In this regard, BaaS unlocks new value because it allows banking to be embedded in adjacent ecosystems. It is the opportunity to eliminate the friction in user interactions, among clients or partners, that makes financial services contextualized."*

Monetization approach

Use case-based

The monetization opportunity for enablers differs based on the use case.

For example, BNPL and payments have a high monetization opportunity, while bank accounts have a low monetization opportunity.

Monetization models

There are different types of monetization models in the market.

For example, fees per transaction, one-time fixed implementation fees, subscription-based fees for the platform / the account, etc.

"Thanks to the decreased barriers to entry and a growing marketplace, financial institutions are increasingly concerned about a perceived lack of competitive advantage and reduced product market shares. As such, providers must diversify product offerings across categories and communicate this effectively to prospective customers if they are to continue strong growth."

Margaret Franco
Chief Marketing Officer, Finastra

Providers

Financial institutions holding a banking license and manufacturing regulated and compliant financial products

To drive revenue and margin, providers are increasingly looking to BaaS

There are significant variations taken by providers in their approaches to BaaS, depending on their size and focus on specific use-cases or market segments. For instance, larger providers typically adopt a dual approach in which they leverage their existing relationships to directly partner with distributors, as well as partner with specialized enablers. Smaller banks, however, have limited ability to partner with large distributors directly, so instead tend to rely on partnerships with enablers.

Providers must take a tailored approach to adopting BaaS, with margins and monetization approaches differing by segment, products, use-cases, technology sophistication and assets under management.

99%

"99% of customers in US do not care about the issuing bank. What matters to them are the various capabilites that come with the product/offering."

Leading global bank

Providers expressed interest in expanding the retail BaaS market across a greater range of products , and putting higher value on accessing low-cost deposits (e.g., through customer accounts) rather than taking a small percentage of the transaction value.

Providers also want to increase their margins in the SME and corporate segments on select products (including working capital finance, cash and treasury management) by using BaaS solutions to reduce distribution, operational, and risk related costs. In fact, more than 70% of providers expect to pivot to SME and corporate banking BaaS use-cases, even though volumes are currently low.

"Banking as a Service is a pivotal part of our bank-wide digital strategy. We see BaaS, open banking and open APIs as a three-pronged necessity for our bank's digital future, acting as a fintech and BaaS promoter in Saudi Arabia. Embedding financial solutions into the point of context – consumer brands – will transform how financial services is consumed in the very near future."

Grant Niven

Head of Group Digital,
Banque Saudi Fransi

↑ 70%

more than 70% of providers expect to pivot to SME and corporate banking BaaS use-cases, even though volumes are currently low.

Providers plan to monetize BaaS through solutions that eliminate friction in the user experience

80% → **50%**

More than 80% of providers expect the overall BaaS market to grow

Of these, 30% expect it to grow by more than 50% over the next five years

~50%

For the SME and corporate segments, ~50% providers see high growth potential in offering business credit / payments cards (via enablers or directly via distributors) to enhance cash flow / expense management solutions, as well as working capital solutions for both SME and corporates.

Andrew Turner

CEO, Loanstar Technologies

"BaaS gives traditional brick and mortar financial institutions the ability to compete in a digital-first world, allowing the institution to nimbly embed their offering where and when a consumer transacts. In the lending business, this gives the financial institution flexibility in their offer both from a product and a channel perspective, while giving consumers the ability to repay responsibly over time."

Monetization approach

Providers have three preferred ways to monetize BaaS:

- Offering specialized solutions
- White labelling front-to-back customer journeys
- Securing access to a marketplace

45%

believe that a marketplace of providers will help to boost revenues

by helping small and medium sized providers expand their distribution footprint, particularly for markets and products where customers are indifferent to provider brand.

To gain value from BaaS in the SME and corporate segments, providers need to develop three core capabilities:

Sector specific products and services

For instance, working capital loan requirements and terms are different for restaurants and small retailers. Providers will need to offer customizable products to win in the SME and corporate BaaS spaces - until now, these businesses have been underserved with limited offerings. Success has typically resulted from focusing on solving a pain point of delivery rather than launching industry-specific use cases.

Data and Analytics platform to provide better risk decisioning

This could require the provider to source SME data from an aggregator, combine it with information held internally, process and analyze the data, and provide decisions rapidly. This process may require instant scalability that might not be available in existing on-premises data centers.

Specialized digital solutions

Providers will need to integrate with the digital customer journeys implemented by the distributors and enablers. This will require investment in digital solutions outside their current business-as-usual offerings.

4x

"SME banking as a service will see a 4x growth compared to that of retail banking as a service and corporate banking as a service."

Leading global bank

"Organizations such as Caixa Bank and Emirates NBD have built solutions for highly targeted segments, leveraging non-traditional partnership monetization sources outside of financial services."

Jim Marous

Co-publisher of The Financial Brand

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Standard Chartered nexus is working with consumer brands of all sizes across APAC, such as Bukalapak, Indonesia's first listed technology unicorn, and Sociolla, an Indonesian beauty e-commerce platform, to embed financial services on their ecosystems. We provide brands our expertise, banking licenses and a modern tech stack to offer partners' customers personalized financial products – enabling lucrative new revenue streams and a 'stickier' ecosystem experience."

Kelvin Tan
Global Lead, Standard Chartered nexus

Market maturity

Our BaaS maturity index looks at the current and forecasted maturity of BaaS players, considering factors such as strategy implementation, number of partnerships, level of expenditure on financial partnerships, and expected earnings from BaaS in the next three years.

While many providers and distributors have had individual financial partnerships in place for years, BaaS enablers are now growing at pace as they seek to establish themselves at the centre of these evolving BaaS ecosystems.

With 4.3% annual growth over the next three years in the maturity index score, BaaS enablers are set to grow at a faster pace than providers and distributors over this time period.

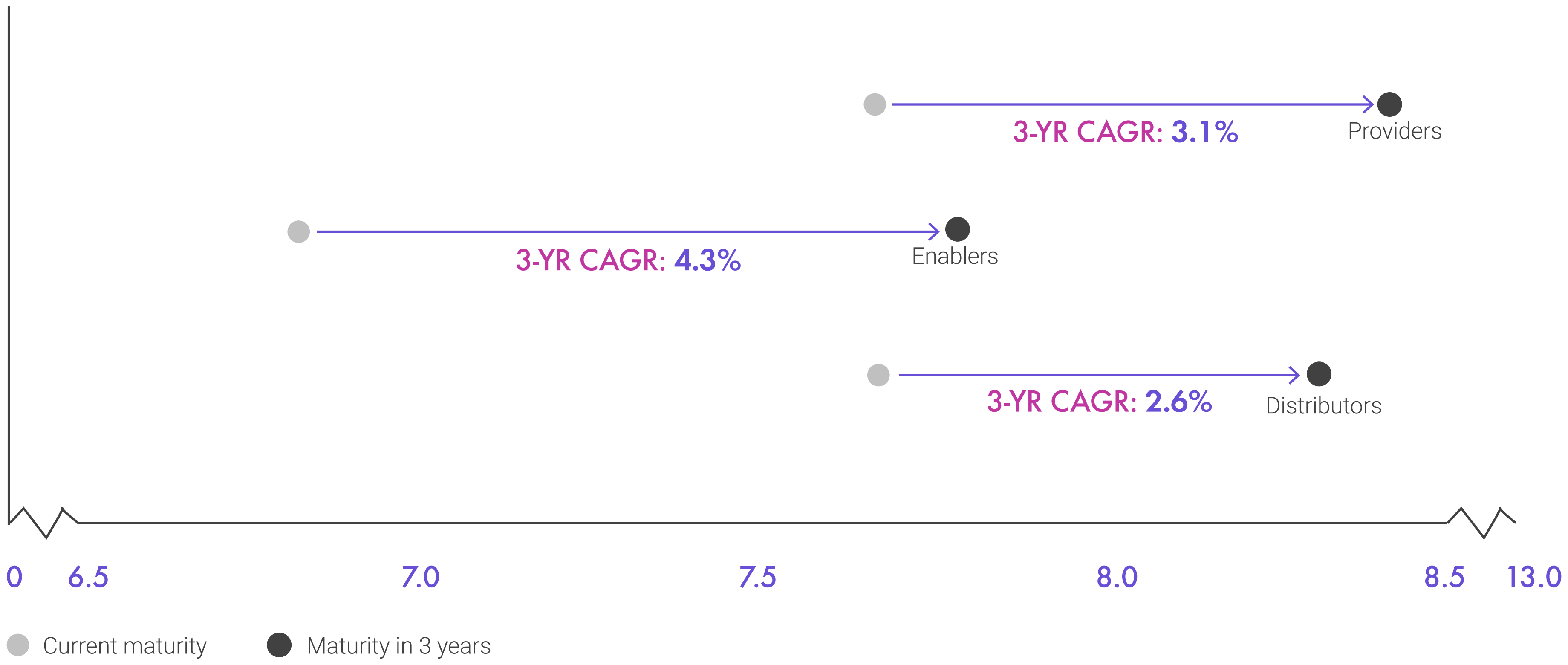
"Embedding financial services within the services most used by consumers and businesses will be a key determinant of success in the future, with the pursuit of 'super app' functionality being at the foundation of innovation and partnerships."

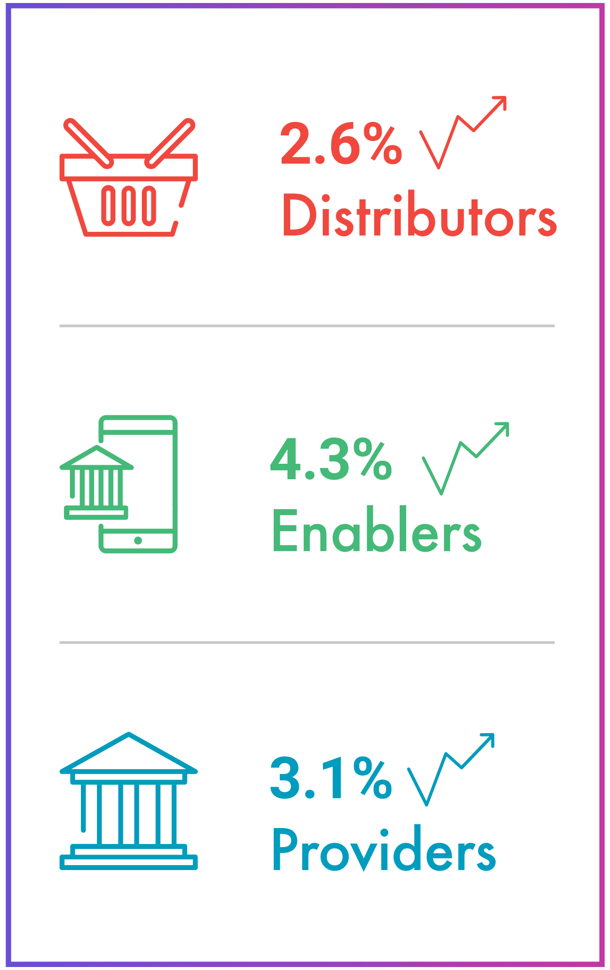
Jim Marous

Co-publisher of The Financial Brand

Distributors, enablers and providers are all projected to increase their maturity score over the next three years

Current and future state average maturity index for distributors, providers, and enablers



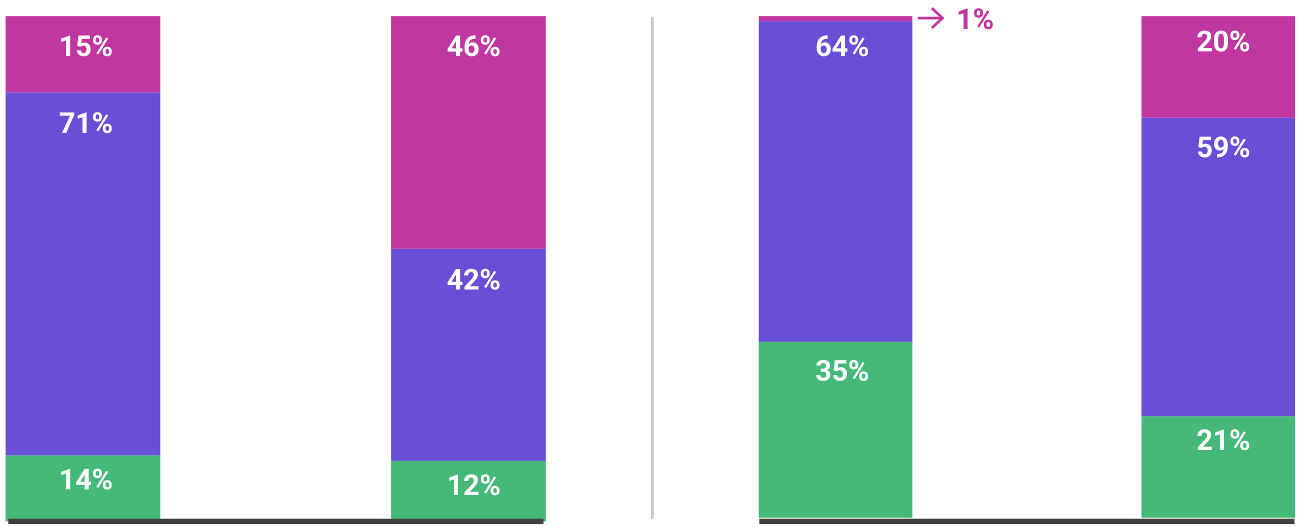


Majority of maturity growth from providers will come from those currently with medium maturity levels, while enablers will see growth at all levels

Current and future state average maturity for providers and enablers

Providers maturity index

Enablers maturity index



Low maturity (Score 1-6) Medium maturity (Score 7-10) High maturity (Score 11-13)

Maturity index for providers (Number of providers surveyed = 585) and enablers (Number of enablers surveyed = 291)

The provider maturity index revealed that just 15% of providers have high maturity scores. However, this is expected to reach 46% over the next three years. The majority of this growth is expected to come from the providers that currently have medium maturity scores. Interestingly, most of the providers with low maturity scores expect to remain in a low state of maturity over the next three years, with just 2% progressing to high or medium maturities.

Amongst all providers that have considered BaaS as a strategy, 42% are already in advanced phases of implementation while another 25% are looking to implement in the next three years. 60% of financial institutions that are yet to adopt BaaS want to see proven use-cases in the market.

Just 1% of enablers have high maturity scores, significantly increasing to 20% by 2024.

Equally, while 35% of enablers have a low maturity score now, this will shrink to 21% by 2024, highlighting the growth of the market.

41% of enablers are in the advanced phases of implementation, but those yet to adopt BaaS are looking for three major capabilities, including the right financial provider partnerships, right target distribution channels and a marketplace of distributors to attract more partnerships.

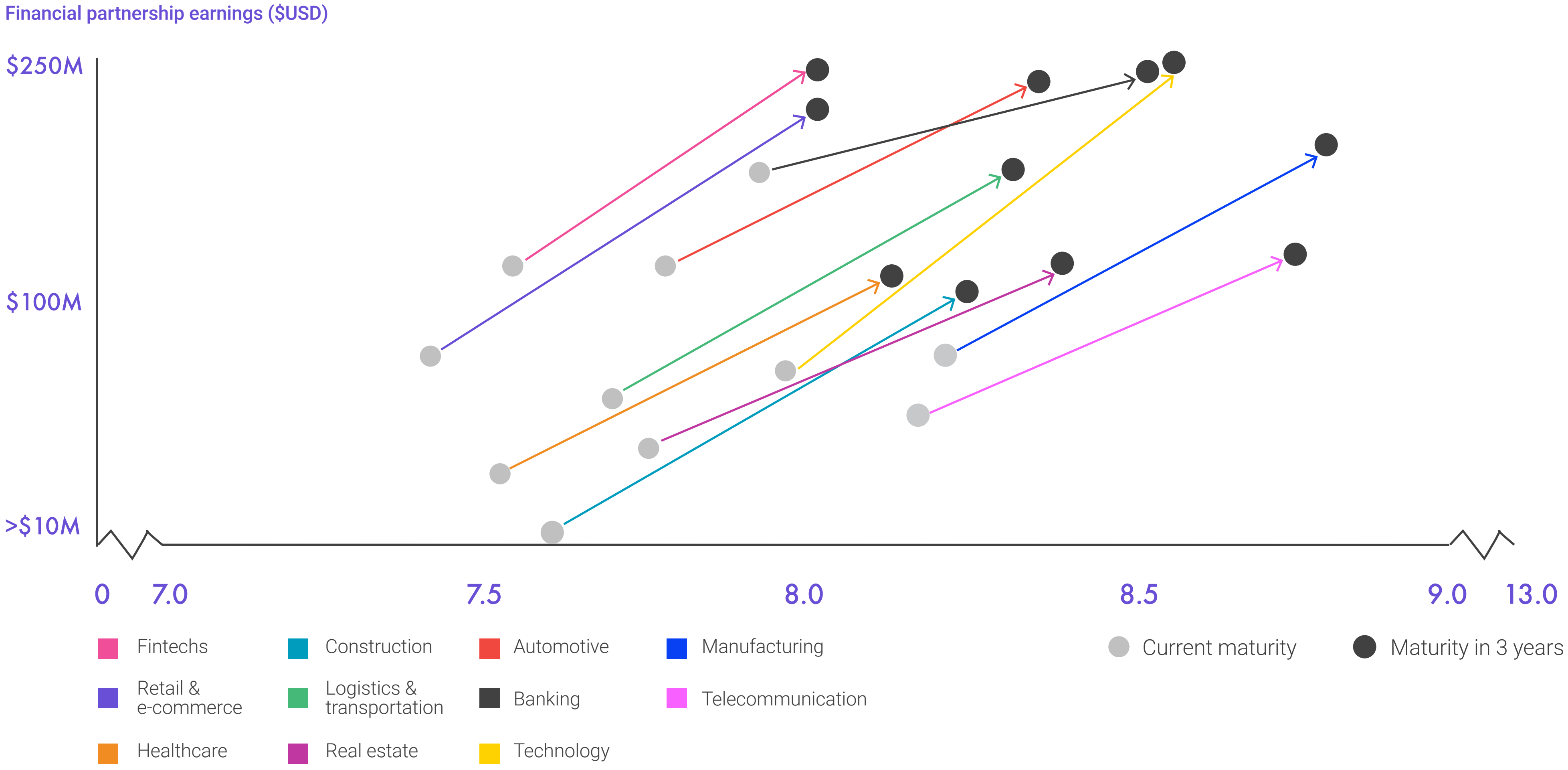
Only 15% of providers have high maturity scores - leaving plenty of room for growth.

Shuki Licht
Chief Innovation Officer, Finastra

"With the rise of platform technology and APIs, financial services can be seamlessly embedded into software or applications for consumers or businesses. Whereas the role of – and services provided by – the financial institution used to be clearly defined, now they're integrated into other user journeys so much that the boundaries are virtually invisible."

Expect BaaS maturity growth for distributors across all industries over the next three years

Current and future state average maturity index for distributors by industry



Key points

Technology, manufacturing and telecom are expected to mature the most in the next 3 years.

Respondents from industries with a higher average maturity index score tend to have a much higher level of earnings from financial partnerships, showcasing the power of BaaS in driving additional revenues for distributors

We calculated the current and potential future maturity scores for several sectors. Retail, fintech and healthcare lag behind other sectors, such as logistics, real estate and technology.

However, these sectors are expected to reach the current state maturity of advanced sectors like manufacturing and telecom in the next three years.

For the time being, manufacturing and telecom are the two sectors expected to maintain their lead in BaaS maturity over the next three years.

Distributors with a higher BaaS maturity score are more focused on lowering costs, while newer entrants want to grow revenue

Distributor maturity level	Primary reason for choosing BaaS	Other key reasons for choosing BaaS
Highest	Decrease operating cost (i.e., compared to traditional bank partnerships)	Increase customer loyalty and retention (e.g., due to better customer experience) Enhance current product / service offerings
High	Enhance current product / service offerings	Increase customer loyalty and retention (e.g., due to better customer experience) Efficient and streamlined integrations with cloud services and platforms, via APIs
Medium	Additional business growth and revenue opportunity	Ability to select from multiple bank providers Enhance current product / service offerings
Low	Additional business growth and revenue opportunity	Enhance current product / service offerings Increase customer loyalty and retention (e.g., due to better customer experience)

- Across all maturity levels, distributors want BaaS to both enhance their product and service offerings and increase customer loyalty
- More mature distributors are also focused on decreasing cost and streamlining their IT requirements
- Newer BaaS entrants look more for the opportunity to grow their business and increase revenue

The emergence of BaaS

Businesses are centering their attention on the evolving way consumers interact with financial services, and our research clearly indicates that a new era has begun. Regardless of sector or use case, BaaS is growing in popularity and gaining an unstoppable momentum. 80% of senior executives are already implementing BaaS strategies, or plan to do so in the next 18 months.

There are three key steps that any player must take to succeed in BaaS:

- Understand what use cases will deliver the most value to their customers
- Select monetization models that deliver capabilities and enable profits
- Be clear on what is required to take a BaaS solution to market, establishing partnerships with capabilities that accelerate delivery

Distributors should focus on the right use case in their particular market. As they have the direct relationship with the customer, they are ultimately responsible for identifying those customers' needs. Distributors therefore choose BaaS for different reasons depending on the customer they serve (e.g., retail, SME, or corporate). To enable the right use case, distributors should select the right partners – those that have the best capabilities to drive value to their customer through the selected use case.

Enablers provide influence and value by reducing the operational overhead for both distributors and providers. As an ecosystem aggregator, they significantly accelerate the time to market for embedded finance solutions. Many enablers remain in the early growth phase and need to evolve quickly to meet market demand for embedded finance solutions. The breadth and quality of their solutions will add huge value to the BaaS movement.

Providers will want to focus on offering a specialized solution, white labeling front-to-back customer journeys, and securing access to a marketplace. And, in BaaS, competition will help establish markets and increase benefits for all as providers believe that a marketplace model will help boost their revenue. To gain value in the developing SME and corporate segments, providers should focus on sector-specific products and services, enhancing data and analytics to enable better risk decisions, and specialized digital solutions.

While challenges lie ahead, our research confirms the emergence of a multi-trillion market and one clear conclusion; the future of finance is very much open.

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About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top 100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at **finastra.com**

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