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WHITEPAPER

Banking as a Service:

Why BaaS is a cornerstone of Future Financial Services

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Abstract

The lines between financial institutions and non-banking entities are blurring as more and more companies offer embedded financial services within their product platforms. From wallet services to payments and short credit lines, organizations are now leveraging Banking-as-a-Service to create seamless customer experiences and drive competitive differentiation. While some banks see these developments as an erosion of their customer ownership, smart financiers see that BaaS is here to stay and are racing to develop BaaS platforms of their own. This paper examines how the rise of BaaS is creating value for every stakeholder within digitally driven economic ecosystems and the most effective frameworks for conceptualizing, building, and launching BaaS products and services.

There's A New Kid on The Banking Block

In a rapidly digitizing world, technology is now a ubiquitous and necessary component of almost every successful business. The financial services sector is no exception. The rise of open banking systems has accelerated the launch of new products and is normalizing entirely digital banking delivery. For both incumbent banks and fintech's, there is a growing need to innovate faster and create new best-in-breed banking experiences for a customer whose expectations are continually elevated.

Enter banking-as-a-service.
Arguably, BaaS has been around for quite some time in the avatar of card networks that facilitate transactions between consumers, merchants, and banks. However, the latest iteration of BaaS as an embedded product within end-user applications opens a world of new possibilities.

Today, it isn't uncommon to see embedded financial services in everything from insurance platforms and mobility tools to e-commerce applications.

The BaaS model is unique because it allows for personalized banking services to be offered by financial institutions and non-banking entities using API integrations.

The ride-hailing app Lyft offers an excellent example of how non-banking companies leverage BaaS. The company generates greater brand loyalty among its drivers by extending easy-to-use banking services directly on its app. Not only does Lyft issue each driver with a debit card and a bank account, but it also enables them to receive and spend funds via the Lyft UI. Drivers get compensation from each fare directly without having to wait through bank transfer delays or pay a transaction fee.

Now, while Lyft isn't a bank, they've partnered with licensed banking institutions to create a white-label financial services product. This takes the burden of complex financial compliance and regulation off Lyft while giving banks a whole suite of services that generates fresh revenue.

Understanding The BaaS Landscape

Taking a peek at the existing spectrum of BaaS services is an excellent way to get acquainted with the possibilities this model offers. Despite much attention being showered on embedded finance aspects of BaaS, significant use cases for the technology exist within traditional banking products like credit cards and loans.

Underpinning the entire ecosystem are the financial service providers, who hold the actual licenses and provide the infrastructure for cards, lending products, investments, payments, savings and wealth management, along with core banking features such as KYC, risk mitigation, compliance and credit-scoring. On the other end of the value chain lies the non-banking enterprise that uses open banking and white-label infrastructure to embed financial services into key touchpoints along their customer journeys.

These service and journey combinations are growing by the day and include BNPL on e-commerce shopping sprees, instant loans on real-estate discovery platforms, credit & insurance on auto purchases, invoice discounting for SMEs and startups using accounting software, and much more. But depending on the needs of the enterprise, BaaS ecosystems can be orchestrated in many ways.

1. The Regulated Approach

Using this framework, the entire BaaS offering is built or bought by the bank and provided to fintech's and non-banking companies. While this approach can often mean a higher upfront investment for banks, it also translates into more customization potential and a highly compliance-focused infrastructure.

2. The Middleware Route

Simply put, this approach involves a third-party platform or API set mediating transactions between banks and end-user applications. Since APIs are usually customized to each organization's needs, this route offers much more flexibility in partner-bank relationships, allowing each entity to leverage service bundles that address their specific needs. Taking the middleware route is also useful for companies looking to innovate quickly and scale since they are unlikely to be encumbered by the limitations of legacy banking systems.

3. The End-to-End Platform

Instead of simply using APIs to connect the banking and non-banking systems, the platformification of BaaS means that non-banking entities can subscribe to an end-to-end, full-service platform that comes with integrated compliance and partnerships with licensed banks. Using a BaaS platform is an extremely efficient way to embed products and services from multiple banks onto a single end-user platform. Another variation of this approach is where non-banking entities can leverage open-source platforms which provide end-to-end solutions that encompass all licensing requirements.

Wins For Every Stakeholder

In much the same way that the Internet and social media turned every company into a content publisher, the open banking revolution will likely herald the transformation of every enterprise into its own fintech firm. Banks, however, will still play a crucial role in providing the underlying infrastructure and compliance for such enterprises.

How Does BaaS Benefit Every Stakeholder?

Banks

- Increased revenue from packaged white-label or partnership products
- Richer insights into customer behaviour and expectations
- Greater liquidity since deposits are generated from a wider range of sources
- More opportunities to create and deliver personalized services

FinTech's

- Faster startups since they can bypass licensing regulations by partnering with incumbents
- Lower investment since they are not required to build complex banking systems from the ground-up
- Greater consumer trust in legacy banks' long-standing brand reputation and recall

End Customers

- Greater financial transparency due to the proliferation of open banking and competitive pricing
- More product innovation leading to more user-friendly products with greater personalization potential
- Customer experience aligned with digital-native expectations via seamless, multi-channel user journeys

It's important for banks to note that BaaS is no longer a good-to-have or a part of the hype cycle - it's making real waves in financial circles. As more customers begin to use embedded finance and expect frictionless financial service delivery, banks risk losing customers due to limited interaction. BaaS, then, offers incumbents and fintech's a chance to pivot toward a new customer base while opening access to better customer insights and shorter innovation pipelines. And most traditional banks aren't ignoring the opportunity - the figure below provides a snapshot of the BaaS product and framework maturity levels at leading global banks.

Source: Innopay

Kickstarting Your BaaS Journey: Key Considerations

As more banking and finance products take the embedded route toward e-commerce, insurance, retail, real estate and other industries, financial institutions will have to compete on a new playing field - one that is more collaborative and competitive than ever before. The speed of innovation that fintechs bring to the marketplace is another factor to consider when building a roadmap toward a BaaS offering. To effectively respond, banks need to establish holistic change within their organizational and tech structures. For incumbents and challengers, effecting this sort of transformation starts with answering some difficult questions.

1. How do banks transform from service-oriented companies to technology firms that can successfully build and orchestrate BaaS offerings?
BaaS provider means more than just building APIs. It necessitates creating agile development teams and interlinking customer data with product innovation teams on a real-time basis. Banks must realize that to stay afloat they will need to innovate at the speed of digital and go from concept to fully-fledged product in a matter of weeks, not months.

2. How do you start your BaaS journey? What products will you offer distributors of end-consumer applications?
Ideally, banks should play to their core competencies in order to maximize the impact of their customer data and existing business rules. For example, an investment bank would be better served creating products that align with investment-discovery applications or in share trading platforms rather than chasing e-commerce users.

3. How do you envision the end customer journey to improve integration and minimize user friction?
Without a clear idea of how the user journey plays out, banks risk customer dissatisfaction and increased partner attrition. For example, while it may make sense to have a BNPL service on a grocery shopping application, it may not make sense to embed the same product on a platform for real estate purchases.

4. Do you need to scale or modernize your legacy core as transaction volumes increase?
Many bankers still defend legacy mainframes as a robust foundation for core banking operations. However, as ecosystems mature and digital transaction volumes multiply, banks will find that older cores may no longer be able to keep up with the sheer throughput across the value chain. Moving to an entirely cloud-based, coreless infrastructure with on-demand scalability will make your BaaS ecosystems easier to sustain in the long term.

5. How do you address data privacy, security & compliance in a multi-stakeholder environment?
As the number of customer touchpoints and distribution partners rises, so does the number of threat vectors. These threats can be mitigated by conducting regular partner security audits and establishing a strong partner management system. Additionally, with so much customer information routing through multiple systems, robust data access controls are a key component of any BaaS program.

Mapping The BaaS Lifecycle

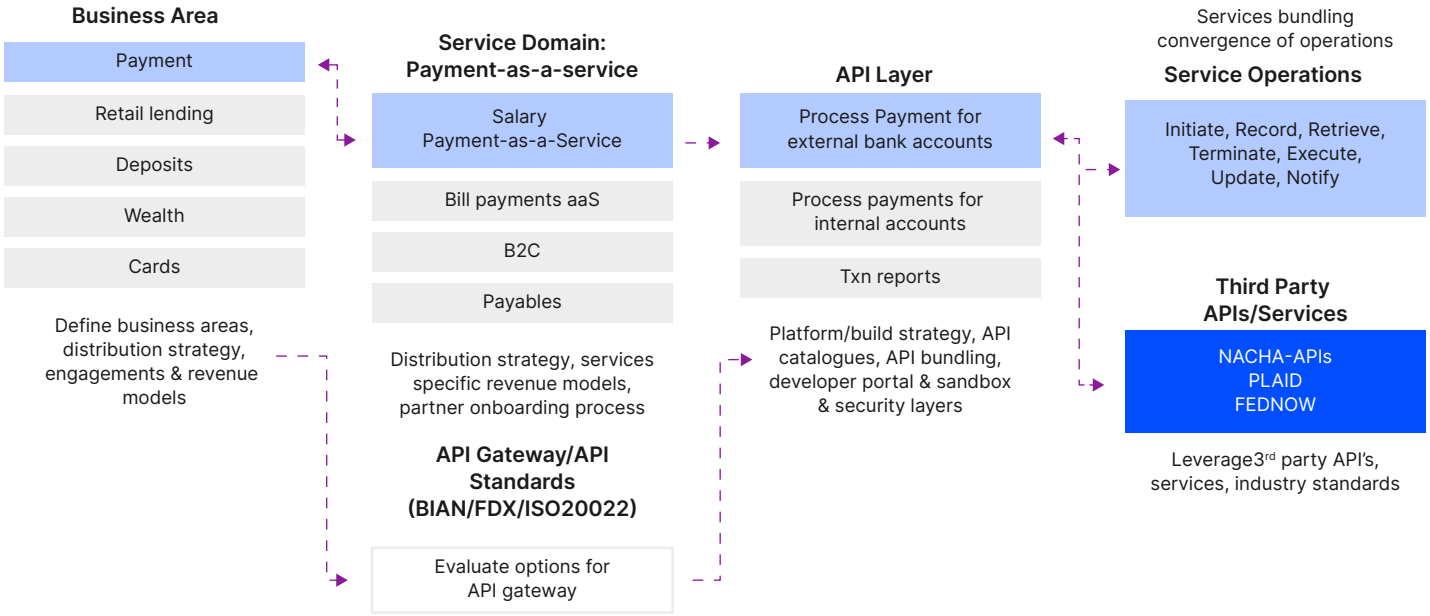
The first step to successfully building and orchestrating a BaaS ecosystem is determining your offerings and how to structure them. It's important to understand which business areas can be enhanced within a BaaS framework, whether retail lending, investments, wealth management, payments and deposits, or a combination of all the above.

Secondly, enterprise leaders will need to assess which service domains need to operate on an 'aaS' basis, and what components and third-party services need to be integrated both the backend and frontend. For example, banks that want to enter the payroll-as-a-service market, will need an API framework that can handle payments to external bank accounts. At the same time, their solution will have to interface with back-end services that manage record-keeping, execution, update, and notifications.

Mapping these services and their involvement across the BaaS lifecycle will then help your IT stakeholders select the right APIs from both internal resources and third-party providers.

BaaS Lifecycle Stages

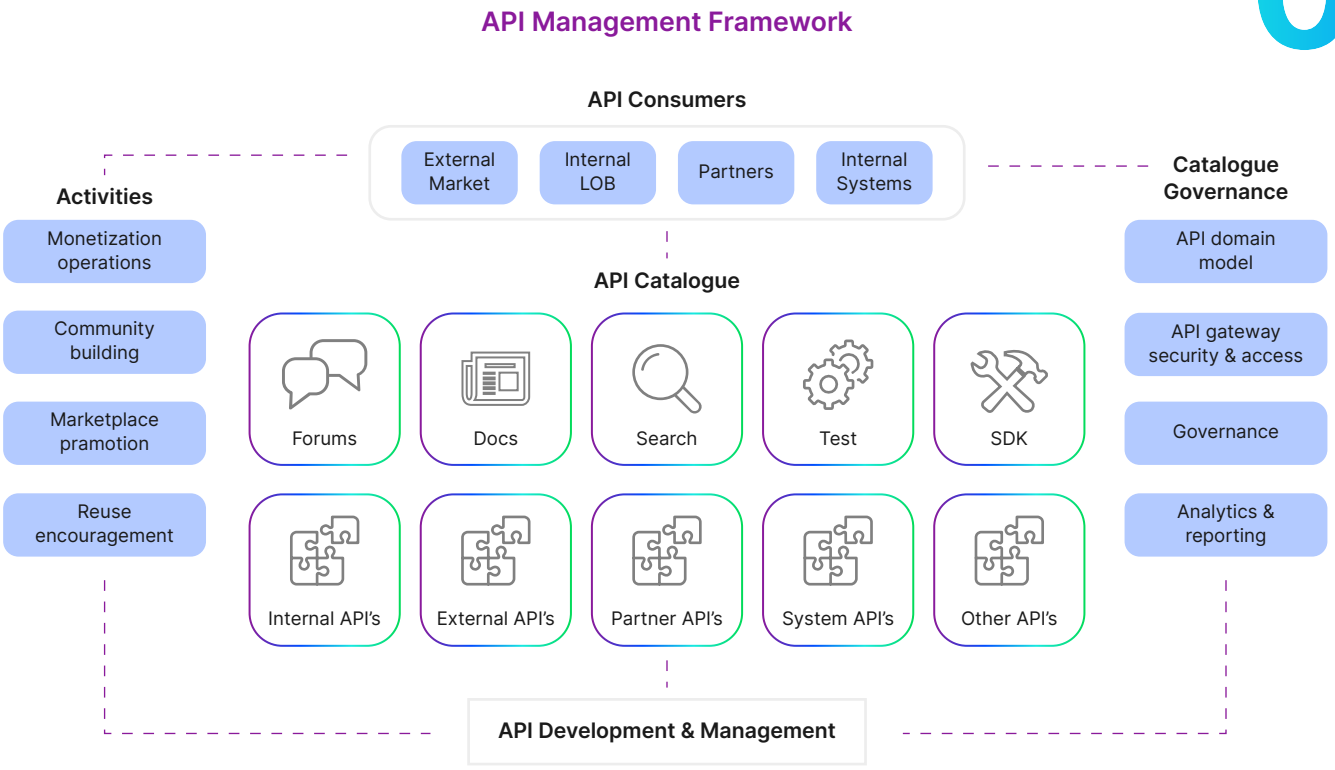
Business areas and domains are example of business scenarios that help organize the service domains for ease of reference. Image below illustrates the different stages of BaaS life cycle for Payment Business area:



Great API Design Is Essential to BaaS

The beating heart of great BaaS offerings lies in solid API design. Any bank considering a BaaS launch should first build and document an extensive library of APIs that can integrate with partners in all their key target markets. But banks have traditionally faced certain challenges in building APIs.

The API Challenge	The Fix
APIs don't accurately reflect the customer journey and lack granularity. This makes 3rd-party integration harder than it has to be.	Adopt an 'outside-in' approach to API identification and development. First, develop use cases, and then move on to prototypes and MVP. This will create a reference point for every stage of the API development and make it easier to adapt APIs to specific distributor needs.
Domain-specific modelling is heuristic and requires heavy SME input, often creating uncertainty in development.	Establish foundational domain mapping principles to govern the API-building effort and ensure SME commitment across each development cycle.
Industry and open banking standards are designed to cope with multiple scenarios across many geographies. This can cause information and API-specification bloat.	Instead of blindly conforming to industry specs, use them as a reference model to create APIs that address your bank's specific needs.
Domain APIs based on industry standards will likely have additional attributes, slowing performance on mobile devices and low-bandwidth networks.	Leverage BFF pattern or mobile-specific experience APIs to trim down the payload and continually ensure a frictionless customer experience.



Mapping out your API building process is half the BaaS struggle. If your bank doesn't yet have the talent to build a BaaS product line effectively, consider partnering with an IT services provider that specializes in fintech. A committed IT partner will help you analyze and define the APIs you need for different domains, identify critical API functions, and build a BaaS API suite that aligns perfectly with your ecosystem's specific offerings.

At SLK, we offer a suite of services designed to accelerate your journey towards a BaaS offering. Specifically:

1. Smart automation and self-service capabilities that help you launch powerful customer experiences faster and at lower cost.
2. Mobile-first solutions that create lasting appeal and engagement among digital natives
3. A library of easily customizable banking APIs that take the complexity out of legacy processes and systems
4. Multi-platform connectivity and support that extends to Oracle, SAS, TSYS, Payplus, NCR, Detica, Zelle, Clear2pay, REST, and SOA

The BaaS Ecosystem Demands a New Perspective

Understandably, many bankers and finance executives view the rising tide of BaaS as the inevitable cannibalization of traditional banking products. But the reality is that BaaS and ecosystem banking open the floodgates to new revenue opportunities that far exceed traditional income channels, especially in retail banking. Banks are taking the first step toward a new era of financial service delivery by partnering with end-user service distributors and turning them into customers. For banks today, maintaining a competitive edge rests more on technology, collaboration, and agile innovation than on monolithic product portfolios.

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Chaithanya is an experienced IT strategist with 22+ years of industry expertise in banking, finance, and manufacturing. He excels in storytelling and plays a vital role in shaping organizational IT strategies, blending current trends and prospects. With a focus on BCM, IT strategies, and EA roadmaps, he helps organizations reimagine their businesses. As a consulting leader, Chaithanya defines new customer journeys, drives business process transformations, conducts capability maturity assessments, portfolio rationalization, and technology ROI analysis. He actively contributes to Architecture Advisory boards, working closely with CXOs to ensure strategic value realization.

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About Us

SLK is a global technology services provider focused on bringing AI, intelligent automation, and analytics together to create leading-edge technology solutions for our customers through a culture of partnership, led by an evolutionary mindset. For over 20 years, we've helped organizations across diverse industries - insurance providers, financial service organizations, investment management companies, and manufacturers - reimagine their business and solve their present and future needs. Being A Great Place To Work Certified, we encourage an approach of constructively challenging the status quo in all that we do to enable peak business performance for our customers and for ourselves, through disruptive technologies, applied innovation, and purposeful automation. Find out how we help leading organizations reimagine their business at https://www.slksoftware.com/

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