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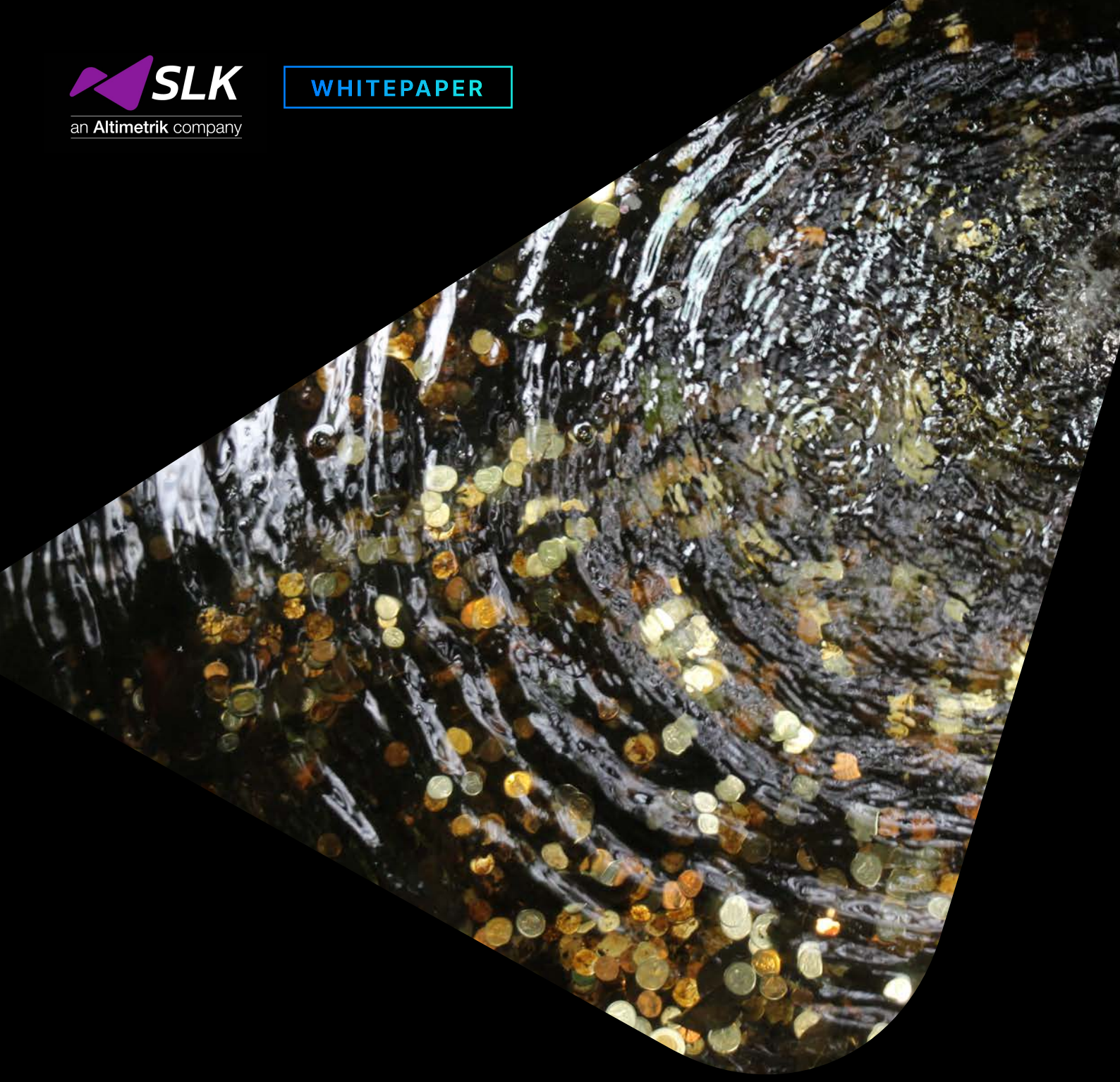

Embedded Finance: Corporate-to-Bank Connectivity Models

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Executive Summary

Technological advances of the last two decades have put banks and financial institutions, in general, in a unique spot. All major BFSI businesses are competing against fairly young and smaller businesses, primarily due to differences in technological adoption. However, the same technology allows them to expand their horizons through similar companies and networks. Embedded finance is a growing trend that is transforming how corporates and small businesses are managing their treasury functions. It entails expanding upon the bank to corporate integration capabilities with APIs.

Embedded finance leverages API based open connectivity to establish a seamless integration between the bank and the coporate systems. This may be achieved either by direct connectivity provided by the banks or via the ERP and Treasury Management Systems (TMS) that the corporates are using. Embedded Finance has many advantages that are being driven by a few transformative use cases that are discussed in the paper.

Transforming with API-Based Connectivity and Embedded Finance

Embedded finance has a few major advantages that make it exceptionally useful for corporates and their banks. Businesses are looking towards banks to enable connectivity in a way that allows them to leverage these advantages to transform their financial operations and management. Some key aspects of embedded finance-driven goals are:

Customer Experience: Fast and seamless transactions are one of the key drivers of customer experience. By leveraging historical and real-time insights from transaction data, customer support can also be enriched.

Relationship Management: Partner and client relationships can also be boosted by faster and more convenient transactions, lowering lead times, optimizing costs, and improving performance significantly.

Liquidity Management: Embedded finance enables real-time visibility on corporate accounts, giving businesses a complete view of their financial standing and liquidity.

Analytics and Insights: With access to transactional and other forms of data, businesses can perform analytics or utilize the power of technologies like AI and ML for strategic and tactical uses.

Enhanced Operational Efficiency: By eliminating the need for routine status reports and manually monitor usage since it's enabled in real-time.

How API-Based Connectivity Usage Is Driving Opportunities for Corporates and Banks

Seamless Integration:
API-based connectivity works in favor of both the banks and the businesses by allowing direct access to data and banking services through the client's platform. It accelerates and optimizes all processes, from transactions and issue resolution to audits and reporting.

Enhanced User Experience:
Embedded finance delivers a cohesive and unified user experience, providing a multitude of services through a single platform or channel. On the customer front, convenience and satisfaction can be delivered, and on the organizational front, efficiency and accuracy can be achieved in financial operations.

Expanding Customer Base:
API-based connectivity can provide opportunities for banks to expand into third-party customer bases, creating new revenue opportunities. Banks can engage directly with new customers on various platforms and gather more data by providing financial services.

Data-Driven Strategies:
One of the key drivers behind embedded finance adoption is the sharing of data between banks and businesses. The data can help banks design better and more demanded products and keep innovating. Businesses can also utilize financial data for planning, audits, reporting, and business strategies.

Partnership Opportunities:
API-based connectivity, in hindsight, also enables expansive partnership opportunities between banks and businesses to leverage factors like customer base, IT infrastructure, compliance, and regulations, etc. It creates interdependent advantages for both parties, encouraging long-term partnerships.

Regulations and Compliance:
Businesses often find it hard to set up financial services for their customers due to strict and complex regulations. However, embedded finance can leverage the bank's compliance mechanisms to support financial services for businesses outside the ecosystem.

Opportunities opened by API-based connectivity have given rise to trends that have accelerated the adoption of embedded financial services. Most trends focus on business growth and cost optimization, leading to innovations in the financial services market.

Trends in API-Based Connectivity

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Market Expansion:

Embedded finance has found new horizons as financial services extend into multiple industries and different levels of commerce. It has helped banks expand into various industries directly. The flexibility offered by embedded finance has also allowed businesses to operate internationally, thereby increasingly becoming the go-to option for the financial services model.

Insurance:

Micro-insurance services like travel insurance, extended warranty, healthcare services, etc., are being provided extensively by businesses of all sizes. This makes embedded finance or embedded insurance one of the top trends behind API-based connectivity between banks and businesses.

Buy Now, Pay Later (Micro-Finance):

Similar to insurance, micro-finance has also gained popularity throughout the globe through e-commerce and eventually into other products and services. Easy finance has boosted growth for businesses, banks, and consumers.

Payments and Transactions:

The biggest market of embedded finance, payments and transactions are the most widely used API-based services. It continues to be a prominent trend with the influx of new products, businesses, and innovations. One-click payments, wallets, and recurring payments are recent API-based connectivity trends widely adopted to improve purchasing processes.

Wealth Management and Investing:

With technology and embedded finance, wealth management and investing have developed a significant market through trends like investment products, automated portfolio management, financial planning tools, etc. It has democratized investing and wealth management, increasing the demand for a broad range of API-based innovative financial services.

Cross-Border Embedded Finance:

API-based banking connectivity has become one of the best options for businesses operating globally. International operations become complex as regional regulations, practices, and mandates change. Embedded finance provides a single-point solution for financial operations and management by simplifying operations, reducing operating costs, and significantly reducing multi-bank dependencies.

Connectivity Models for Corporate-To-Bar Connectivity

Bank-Provided Direct APIs

Generally provided by large banks, direct API connectivity is given through developer portals of the bank and is meant to be integrated with treasury and financial management tools. They provide core commercial banking services and products directly to the business. Direct API connectivity usually comes with limitations in products and features available for use.

Banks that provide direct API connectivity

Bank Provided Connectivity with ERP/ TMS Providers + Accounting Software

The most common format for embedded finance connectivity is provided through ERPs, Treasury Management System (TMS), and accounting software. In this format, banks and/or the software service provider have integrations that can be activated on the software or through a similarly simple configuration. Here, a pre-defined partnership exists between the software service and banks.

Banks partnering with ERPs, TMS, and accounting software

Independent Connectivity Providers for Banks & ERP / TMS Systems

In this model, the connectivity is provided through third-party partners that connect banks and ERP/TMS providers. These providers partner with banks and software providers, providing a wide range of options for integrations, financial services, and other solutions.

Banks and ERPs, TMS systems

Multiple Bank Connectivity by ERP / TMS / Independent Connectivity Providers

Large organizations that use multiple banks for their finances require multi-bank connectivity with their ERP/TMS. It is generally achieved through a combination of the above models.

Multiple Bank Connectivity by ERP / TMS / Independent Connectivity Providers

Selecting the Right Connectivity Model

Banks typically look at offering multiple connectivity options to their corporate clients like host to host connectivity, bank portals, mobile apps, domestic and SWIFT networks. Of late, APIs are emerging as the new connectivity option for corporate clients, for a straight through, real-time and automated data flows between them and the banks.

For API based connectivity, banks can use multiple connection methods like:

1. Directly enabling API connectivity to large corporates
2. Banks partnering with ERP/TMS solution providers to offer corporate to bank connectivity
3. Partnering with Independent Providers who partner with both banks and ERP/TM/ Accounting Software providers to offer embedded finance functions . Such providers target both bank and corporate customers as buyer of the connectivity

Banks offer more than one option for their customers to connect and is driven based on the customer's financial systems. For example, JPMC Bank provides direct connectivity through banking APIs, connectivity through ERP like SAP Fioneer and TMS Kyriba and partnership with independent partners like FISPAN.

Banks can tailor their embedded finance offering based on the segment of the customers & finance system provider landscape.

Connectivity Options Based on Banking Customers

Corporate Banking Customer Type	Options for Bank Connectivity
Small & Medium Businesses	• Bank developed APIs • Partner with leading Accounting Systems • Explore Independent provider, if needed
Commercial Banking	• Bank developed APIs • Partner with leading TMS providers • Partner with independent provider
Corporate Banking	• Bank developed APIs • Partner with leading ERP/TMS providers • Partner with leading independent multi-bank connectivity provider

Conclusion

API-based, corporate-to-bank connectivity has revolutionized how financial services are delivered by businesses, especially for non-financial products and services. The primary reasons behind the wide-scale adoption are the flexible models available for embedded finance.

Embedded finance has also brought cost efficiency to financial operations, especially for larger organizations with complex financial management systems. All-in-all, API-based bank-corporate connectivity has brought many advantages for both the banks and their commercial banking customers.

The implementation for embedded finance will broaden as banks continue their efforts to build strong relationships with their corporate clients. To ensure that their value in the market is easily highlighted, banks and financial institutions must utilize the lessons acquired from retail embedded finance use cases and solve challenges associated to enhancing their role by utilizing APIs within the ecosystem.

How can SLK help?

Financial institutions require strategies that result in genuine value realization in a world where it's a digital landscape. At SLK, we offer a suite of services designed to accelerate your journey towards embedded finance implementation. We help build and release secure self-service APIs while removing middleware, legacy warehouses, and several intermediary apps. Quick deployment right from data foundation while adhering to embedded finance industry standards. With our approach for open banking APIs or full lifecycle API management, we provide increased connectivity and collaboration.

Strategy & Roadmap

- Consulting on use case selection & prioritization
- Consulting on standard adoption
- Developing roadmap for adoption

Solution Evaluation & Architecture

- Vendor solution evaluation & selection
- Target state & transition modelling
- Detailed solution architecture

Implementation Services

- Solution design & development
- Quality engineering & release mgmt.
- Standard compliance certification process

Advantages of SLK API Standards Adoption

- Offers newer business process orchestration and novel possibilities
- Provides a foundation for customized user experience
- Supports cloud-first and native architecture
- Delivers adapters for Ecosystem Connectivity

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Kulpreet has over two decades of management, consulting and industry research experience across the banking, financial services, manufacturing, and retail. Currently leading SLK's consulting group's research wing, supporting customers with a wide spectrum of research areas providing an outside in, forward looking view into trending technologies, business models, vendor landscapes, peer/competition analysis and solution evaluations to support their strategic initiatives.

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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/