The rise of Banking-as-a-Service – and how it is changing the face of finance

The digital age is rapidly transforming the financial services (FS) industry. As access to technology has become ubiquitous over the years, the likes of Buy Now Pay Later (BNPL) services and open banking platforms have entered the market, creating an urgent need for both legacy institutions and fintech firms to innovate to remain competitive. With so many options on the market, modern consumers expect a best-in-class banking experience.

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Thankfully, the industry is waking up to this boom in the industry. Increasingly, legacy banking services are being disrupted by Banking-as-a-Service (BaaS) to pioneer multi-channel banking solutions, which provide the functionality to create both traditional offerings and new products that chime with digital-native consumers. In short, these innovations are enabling both pre-existing FS and non-FS companies to deliver truly ground-breaking financial offerings to their customers at pace, including digital wallets, P2P lending and payments.

According to a recent report commissioned by *Yobota*, which surveyed 251 industry leaders in the banking and financial services space, 72% of businesses have worked with technology vendors to launch new products or services in the past 12 months. An even greater number (79%) said that their business has experienced a greater demand for more personalised financial services.

So, before delving into the benefits of BaaS any further, let's look at how it works...

What is BaaS?

Banking-as-a-Service is a model that allows customisable banking services to be delivered by both incumbent banks and non-FS businesses, utilising the technological capabilities of fintech services.

Crucially, these products cannot exist without banking. Through the BaaS model, providers build the component parts of typical banking infrastructure and package them up for companies, who can then offer embedded and other financial products with the existing banking licence and regulatory permissions of legacy or challenger banking institutions.

Although many new products brought to market by BaaS are technology-focused, this is not exclusively the case. Legacy banks, who already have the necessary infrastructure to operate, can also utilise BaaS to access core banking functionalities, supporting the development of more traditional financial products, such as credit and debit cards.

Typically, APIs (Application Programming Interfaces) are used to deliver these products. APIs are developed and provided by fintechs/core banking providers, providing both banking and non-FS enterprises with the infrastructure required to build and launch almost any financial product or service to their customers. While many providers make big claims about their capabilities, the key to true BaaS inherently lies in the 'B' – true BaaS offerings will grant clients access to the banking license *and* the balance sheet to really ease the route to market.

This means that third-parties can bring new and novel financial products to market quickly, without the need to develop them in-house or deal directly with cumbersome regulatory requirements. For companies looking for flexible financial offerings, some BaaS providers offer a modular way of working into the fintech ecosystem where companies can pick and choose which elements are best suited to their clientele. The results of this are vast: firstly, companies can ensure that their financial product is fully embedded into their organisation's ecosystem, boosting their brand recognition.

Beyond this, businesses can even roll out their new product under white label so that other brands can benefit from their solution with the reassurance that it is tried and tested, while consumers benefit from a bespoke and frictionless customer-journey.

The changing fintech ecosystem

Looking to the future, 83% of businesses are confident in their ability to meet the evolving needs of their customer base, according to Yobota, which raises some important questions about the role that BaaS will play in driving growth in the years to come.

Naturally, the introduction of banking and FS products in the retail and eCommerce markets will subject the industry to a level of competition it has not traditionally seen. As fintechs continue to innovate, placing more efficient, specialised and powerful solutions directly into the hands of businesses and consumers, this will prompt legacy banks to offer more fresh and flexible options in order to remain competitive.

Non-financial organisations, from travel companies to eCommerce and beyond, will be able to gain real value and customer retention from their BaaS platform of choice, providing another tool in their arsenal in the face of tough competition. Currently, BNPL alone is the fastest-growing payment method in the UK, *worth £9.6B* annually to retailers, proving that the ability to deliver tailored offerings that speak to their client-base is essential to success.

In the end, the ultimate beneficiary of BaaS will be the end-user, as these platforms provide consumers with a much wider range of options to choose from when engaging with financial services. With a vast array of services on offer, consumers will have more options and a more competitive market, resulting in lower costs and first-class customer service from the brands competing for their attention.

Ultimately, BaaS has provided the perfect premise for banks and third-party businesses alike to generate higher revenue streams and foster innovation in the financial services industry. As the BaaS proposition continues to flourish in the fintech ecosystem, I look forward to seeing what new and inventive solutions emerge in the months and years to come.

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