



# STREAMLINING FINANCIAL SERVICES AT THE POINT OF NEED

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Why embedded finance and banking as a service bring exciting opportunities to credit unions

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## Welcome to the new age of embedded finance and banking as a service

Embedded finance is the integration of finance into a non-financial experience, typically on a website, mobile app or other digital journey. It seeks to deliver financial services exactly where and when they are needed, essentially by empowering non-financial brands to offer financial products and services.

This is not an original concept – for several decades, retailers, airlines and other brands have offered private-label credit cards to increase brand awareness, boost customer convenience and build loyalty. So, what's new about embedded finance in the 2020s?

Around the world, financial regulations dictate that banking and finance become more open and competitive. As a result, the banking industry is shifting from a closed, monolithic architecture toward an open, more collaborative ecosystem.

In parallel, technology is also becoming more open and redefining what's possible, thanks largely to application program interfaces (APIs). Although APIs are not new, they have recently come of age as the enabling technology of open banking around the world.

Technically, APIs allow data to be exchanged in real time so non-financial systems — and apps — can easily embed financial capabilities, such as payments, trading, lending and wealth management. By making financial services frictionless, this technology helps increase customer engagement and in turn, build loyalty.

Commercially, however, embedded finance is enabled by banking as a service (BaaS), which allows e-commerce platforms to extend their offerings to include financial services – and become a hub for not only goods but also everyday banking needs.

Customers welcome this because it makes life simpler and increases convenience and efficiency. Non-financial brands benefit by augmenting their customer experience with finance, without the hassle and expense of becoming a regulated financial institution.

But what does the new age of embedded finance and BaaS mean for credit unions?



## Threat or opportunity?

Creative digitalization is disrupting many business models across all sectors, and financial services is no exception. As new digital banks continue to redefine banking, established institutions have responded by launching their own digital banking services.

Enabled by BaaS, embedded finance is effectively a new digital channel and an exciting opportunity for credit unions. At a time of universal branch closures, an increasing compliance burden and compressed margins, it empowers credit unions to tackle the cost of member acquisition. This is estimated at \$100-\$200 under a traditional model but drops to around \$35 when finance is embedded.<sup>1</sup>

However, embedded finance is not principally about cost reduction. It empowers a financial institution to extend its reach into new markets and geographies that were previously inaccessible or uneconomical, thereby increasing deposit accounts. Partnerships with major brands can be a magnet for new members, especially when the brand has a lot of repeat visitors or subscription-based services.

Embedded finance also allows a financial institution to offer bespoke products or services to specific market segments based on customer data. Every customer interaction is an opportunity for the institution to learn, refine and improve its proposition by harnessing the power of that data.

In this sense, embedded finance removes the guesswork from business decision-making credit unions. It also paves the way for credit unions to become more profoundly driven by data and introduce an iterative improvement cycle for the member experience.

<sup>1</sup>FIS customer research

## What can you embed?

Although any financial product can be embedded, perhaps the most obvious is payment – the end point of every transaction.

However, as trusted providers with an ongoing customer relationship, brands with frequent or regular customer interactions are well placed to offer a wide range of additional, bespoke financial products – from loans or credit facilities, deposit and saving accounts, and prepaid or debit cards, to wealth management, insurance and trading products and services.

The sky's the limit and the embedded finance product portfolio will inevitably keep expanding as business digitalization increases.

Although most of the publicity around embedded finance has been directed at retail customers, the proposition is equally valid for small and medium-sized businesses (SMBs). Here, embedded finance can offer day-to-day support with loans and cashflow management tools when they are needed.

Many of the world's top banks are considering how to position themselves for success in the SMB market, which Accenture forecasts to be worth up to \$124 billion by 2025. Accenture also suggests that transactional banking products – such as payments, cards and accounts – are most at risk from embedded finance.<sup>2</sup>

In the scramble to win digital, corporate and retail accounts, SMBs are often overlooked. Embedded finance is the ideal way for credit unions to serve these accounts better and to build lasting meaningful relationships.

As SMBs become familiar with embedded finance, they will become more willing to pay for value-added banking services that become essential as a business grows. So, from a credit union's perspective, embedded finance can also be a cost-effective business development that builds loyalty.

<sup>2</sup><https://www.accenture.com/us-en/insights/banking/embedded-finance-smes>

## Bringing embedded finance to life with BaaS

Through BaaS, licensed credit unions can provide access to their infrastructure with APIs and rapidly launch new, customer-centric services with minimal capital outlay. That means a neobank can offer a full range of credit unions and payment services in markets where the licensed credit unions may not operate.

So, BaaS is a perfect example of how white-label banking can extend a credit unions reach into new markets and geographies. But as with all modern banking, success requires the right technology and a collaborative culture.

In many respects, credit unions have become technology businesses operating within the constraints of a banking license. To make embedded finance possible, BaaS operates as an orchestration layer where non-credit unions can embed financial products into their own platforms, typically using APIs.

A credit union that has digitalized will already have an API strategy, which is central to providing seamless “plug and play” integration with third-party applications, with little or no development. Those without an API strategy should ask their technology providers for help.

## Measuring success

For licensed credit unions, the success of embedded finance can be measured most clearly in new members and incremental revenue streams.

But some of the strategic benefits of embedded finance are less obvious, such as an ability to promote financial inclusion. By empowering non-financial companies to offer financial services to their members, credit unions can help vastly improve access for unbanked or underbanked individuals to mainstream financial products.

Many people are currently excluded from financial services through no fault of their own. Loans may be unavailable because of a lack of credit history, difficulty in accessing conventional banking services or an inherent distrust of banks. Embedded finance offers a new point of entry for many into the world of finance by lowering the entry barrier.



## Banking, but not as we know it

Digitalization has changed how people invest, borrow and pay for almost everything – and embedded finance is part of this wave of disruption. In the new order, credit unions have everything to play for. But they need to act now, or risk being left behind.

It takes only a little imagination to see how financial institutions like credit unions might transcend their traditional roles and manifest instead within and through powerful brands, giving financial institutions new life and extending their influence while also offsetting the investment and effort of being a customer-facing business.

For customers, this evolution marries their trust in regulated financial institutions with the special affection they have for a desirable logo. Modern banks and brands are moving briskly in this direction; credit unions limited to traditional roles should consider this development a call to arms.

Embedded finance is here to stay and is both an opportunity and a threat. For credit unions with the right approach, technology and partners, participating in embedded finance is relatively straightforward and can become part of business as usual. But it's crucial to get the thinking right at the outset.

The customer experience is crucial to success in embedded finance, but it is markedly different from the in-branch experience it seeks to augment or replace. While reaching new

customers is highly appealing, a financial institution may have to surrender the customer experience to a website or mobile app, branded by a different company.

Embedded finance is less about the experience with the financial institution than about the customer journey in the application. The customer may not even realize there's a financial institution involved. So, with its own brand and reputation top of mind, a credit union must choose embedded finance/BaaS partners that are aligned with its own culture, business objectives and technology strategy.

Embedded finance and BaaS are all about partnership. As a credit union, you must identify partners with compatible technologies and capabilities that are critical to success. But it's equally important that partners have the right business and cultural mix. A successful partnership must mitigate risk across a range of issues, including regulatory compliance, cybersecurity, data privacy and end-user knowledge.

As more financial institutions move embedded finance to the top of their growth agenda, we're entering an era of unlimited innovation for both credit unions and their partners. Participants must choose their partners carefully to seize this opportunity quickly, safely and profitably.



## How FIS can help

With its unique position at the heart of global banking, FIS can help any credit union deliver a cost-effective embedded finance program with minimal disruption or risk. We can drive relationships and embed and service products without third-party involvement.

FIS' solution architects can design an embedded finance solution based on a carefully costed business and use case. We will design, build and develop a sound architecture that shows what relationships look like as well as the overall technology landscape.

Our Detailed Architecture Process Flows can help credit unions and businesses find the right strategic partners to drive business value based on mutual advantage. FIS can broker constructive conversations that have real potential to unleash synergies that drive strategic value at this time of true opportunity.


To find out how FIS can help you deliver a cost-effective embedded finance program email [financial.institutions@fisglobal.com](mailto:financial.institutions@fisglobal.com)



## About FIS

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

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