

# BANKS PREPARE FOR EMBEDDED FINANCE

KEY SUBJECTS INCLUDE

- // Top priorities for banks wishing to offer BaaS
- // Anticipated investments and returns regarding digital ecosystems
- // Key insights from nonbank partners
- // Biggest challenges banks are facing with embedded finance

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# BANKS PREPARE FOR EMBEDDED FINANCE

**W**e believe that banks should seek a broader role, delivering integrated value in developing and orchestrating true digital ecosystems, offering a large range of services to their customers and other organizations. Embedded finance is a new way of distributing financial products, while modular banking and open finance will offer means to gain the agility, launch new solutions and reach new customers.

As the financial world continues to change at a rapid rate, a new opportunity for banks has presented itself in the form of embedded finance. By leveraging existing expertise, technology, infrastructure and licences, banks can generate new and sustainable revenue streams by allowing nonbanks from a host of different industries to embed financial products — across payments, lending, investing and insurance — into their own customer-facing offers.

However, our study – conducted with Forrester Consulting in late 2021, in which we surveyed 900 decision makers at banks globally – found that many banks are facing significant challenges when it comes to offering services via a digital ecosystem/marketplace.

By improving internal culture, technology capabilities and focusing on how to better integrate with partners, banks can secure a firm footing in the financial ecosystem, ensuring new revenue streams and invaluable partnerships for the future.

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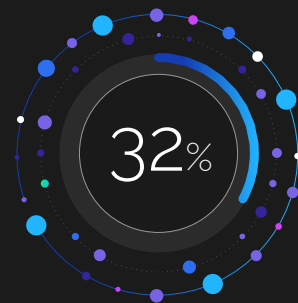
## A KEY STRATEGY FOR BANKS MOVING FORWARD

The arrival of fintechs, nonbanks and challenger banks into the financial services industry has caused major disruption. Legacy banks are now competing for customer engagement with a new wave of young, agile players.

However, many legacy banks are seeing the change in the industry as an opportunity. With open banking-powered embedded finance, they can provide young industry entrants and nonbanks with the infrastructure and functionality they need to offer end-customers their own financial products and services.

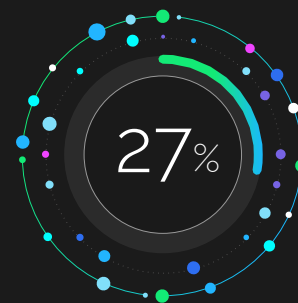
This service, provided from legacy banks, is known as Banking-as-a-Service (BaaS), and is seen as a key revenue stream and growth opportunity for the banking sector. As we can see, functions that are vital to providing BaaS – effective IT integrations, business APIs, advanced marketplace/ecosystem – are considered key priority initiatives among our banks' respondents.

### PRIORITY INITIATIVES



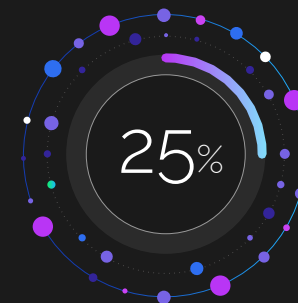
**Improving business and IT integrations with our partners**

32%



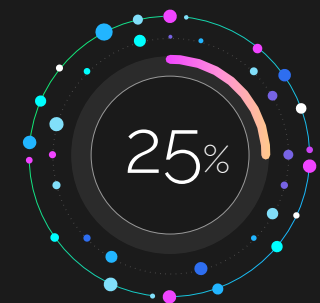
**Investing in improved business APIs to connect to partners digitally**

27%



Distributing our products and/or services via other **marketplaces or ecosystems banking**

25%



Building our own market, **platform or ecosystem**

25%

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## EMBEDDED FINANCE IN ACTION

Embedded finance is far reaching, impacting and facilitating financial operations for many businesses across a range of different and diverse industries.

Below, you can see a number of different household brands that embed a suite of financial products into their operations (via a licensed bank), along with the relevant use cases.

### E-COMMERCE

Amazon Pay e-wallet & cash deposit services for consumers

Credit lines for Amazon Sellers in partnership with Goldman Sachs

Shop Pay – integrated checkout solution

Shopify Capital – small business loans

Shopify Balance – bank accounts for sellers

Business loans for eBay Sellers

### RETAILERS

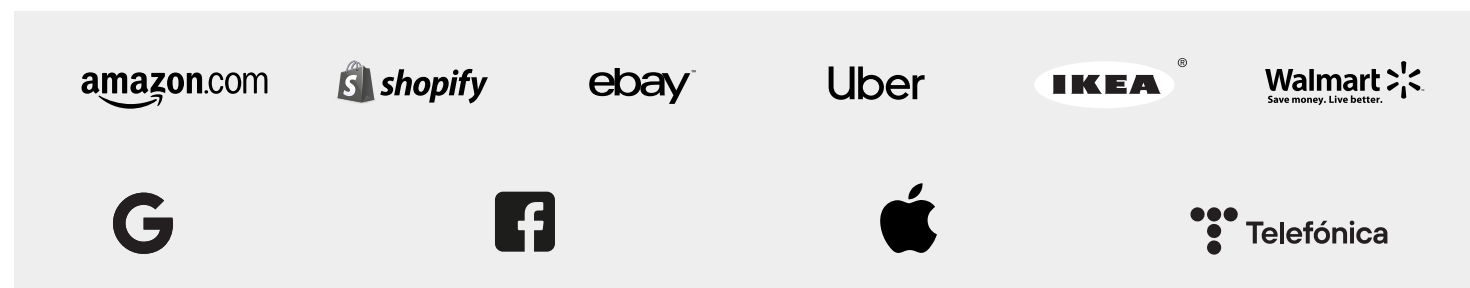
In-store & online banking services through Ikano Bank  
Bank accounts, debit, credit & prepaid cards

Domestic & international money transfers  
Walmart Pay, BillPay, Instalment Financing

### MOBILITY

For drivers – bank accounts, auto insurance, retirement accounts

For riders – e-Wallet, rider insurance, co-branded credit cards



### BIG TECH

Apple Pay

Apple Card with Goldman Sachs

Facebook Pay

Google Pay

### TELECOM

O2 Banking – current account & debit card

O2 Money – personal finance management

Mobile phone insurance

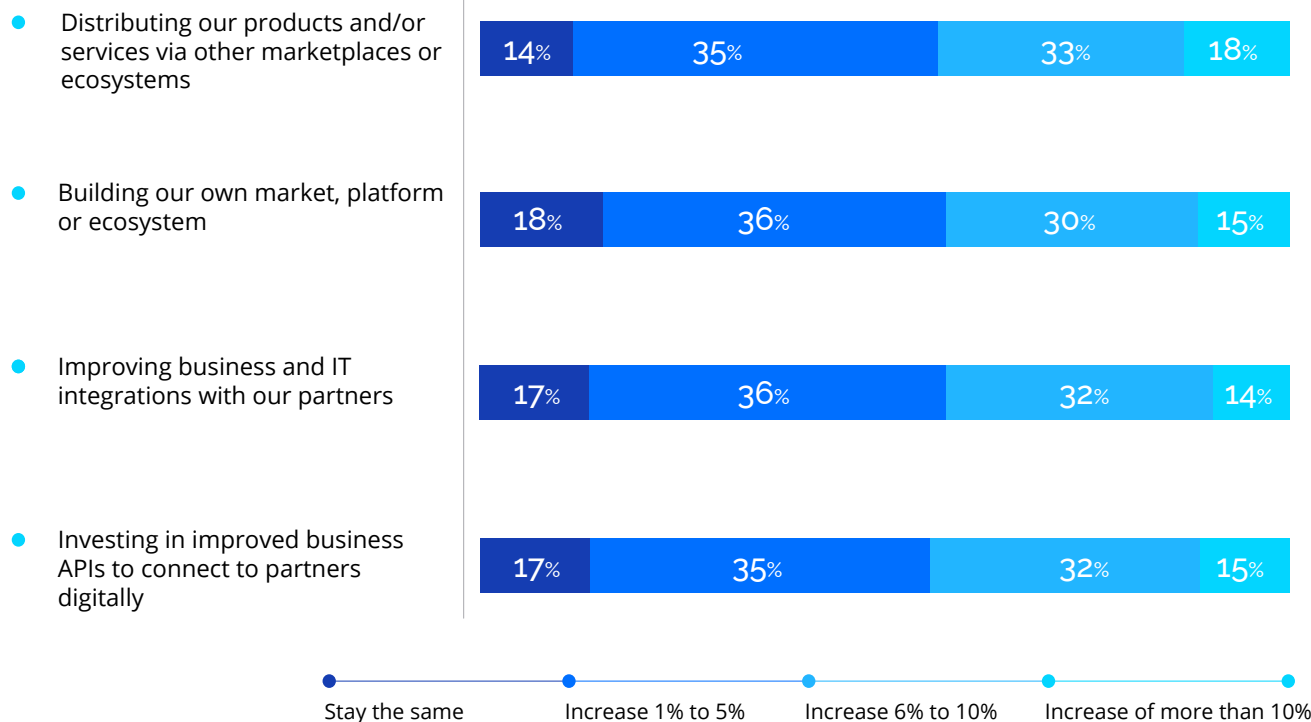
# MARKETPLACE AND ECOSYSTEM

For banks to make the most of the opportunities presented with embedded finance, they must have access to a strong marketplace/ecosystem to connect with nonbanks.

We've already seen that this is seen as a key strategy for banks, with 25% of our survey's respondents saying that building their own marketplace/ecosystem is a priority initiative.

Our banks' respondents also show us that many are planning on significantly increasing their investment into embedded finance-related initiatives, and that they're expecting strong returns on said investment.

CHANGE IN INVESTMENT OVER NEXT 12 MONTHS BY KEY INITIATIVES



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OUR SURVEY ALSO SHOWS THE FOLLOWING AREAS/TYPES OF BUSINESSES THAT BANKS ARE CURRENTLY/EXPECTING TO PARTNER WITH AS PART OF THEIR DIGITAL ECOSYSTEM:

E-commerce platform providers	44%
Payment platforms	43%
E-commerce markets	43%
Insurance providers	37%
Credit/lending platforms	35%
Mobility providers	32%
Automotive finance	31%
Retailers	31%
Accounting providers	30%
Telecom operators	29%
Tax reporting	28%
Travel and hospitality	25%
Health and fitness	24%
Food and beverage delivery	23%
Education	22%

EXPECTED HIGHEST GROWTH BY INITIATIVE, RANKED BETWEEN ONE AND FIVE

Distributing our products and/or services via other marketplaces or ecosystems



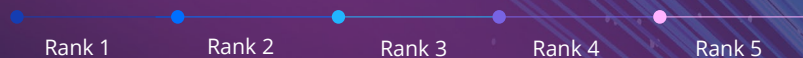
Building our own market, platform or ecosystem



Improving business and IT integrations with our partners



Investing in improved business APIs to connect to partners digitally



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## WHAT PARTNERS THINK ABOUT BANKS' CURRENT ECOSYSTEMS

Problematically, many banks struggle to create and maintain strong relationships with ecosystem partners. And it shows. During our research, we spoke with a number of executives from nonbank financial players, and many of them agreed that they feel undervalued when working with banks.

“ Most banks just see us as another channel and treat us like an asset rather than a partner... A large Tier 1 bank wanted to give us really bad contract conditions — below average on the market. This problem didn't arise with the neobank partner we went with because everything they do is already fully digital so they don't see digital as a threat.”

**Chief ventures officer**  
at a European marketplace

This problem has not gone unnoticed by banks, with 71% of respondents saying that improving the experience of business ecosystem partners was either a “high priority” or a “critical priority”.

### HOW MUCH OF A PRIORITY IS IMPROVING THE EXPERIENCE OF BUSINESS ECOSYSTEM PARTNERS?

Not on the agenda	2%
Low priority	6%
Moderate priority	22%
High priority	42%
Critical priority	29%

“ **Banks need to do more around CX** — and that translates to partner experience as well! They are not partner-centric, and don't think: 'What does the partner go through? What do they need? What is their experience?' The partner experience is far from ideal.”

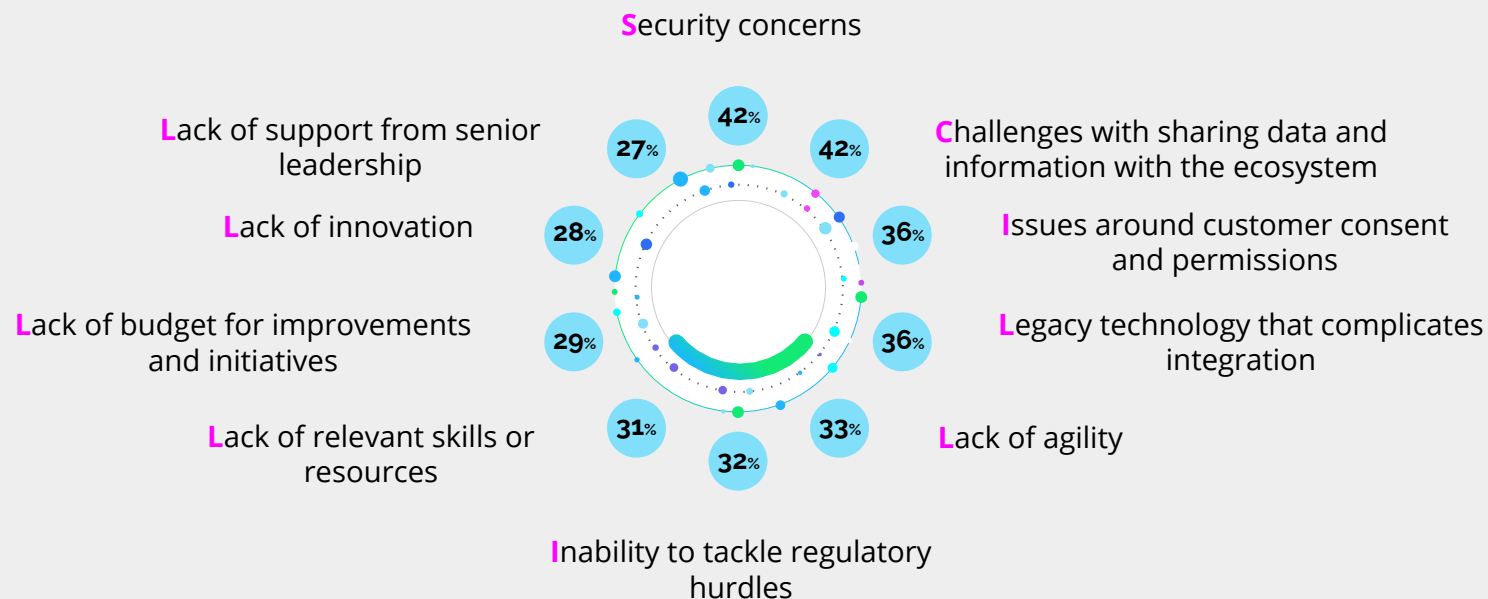
**Vice-President**  
of Asian payments platform

# CHALLENGES FOR BANKS WITH EMBEDDED FINANCE

As the previous page shows us, creating a culture within banks amenable to working with external partners is already proving to be challenging.

By the banks' own estimations, however, this is not a major concern. Rather, they are more worried with security and technical integration, as the graph below shows.

## WHAT ARE/WOULD BE YOUR BANK'S BIGGEST CHALLENGES WITH REGARDS TO DEVELOPING A DIGITAL ECOSYSTEM OF PRODUCTS AND SERVICES?



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## SOPRA BANKING'S SOLUTION

Our research shows that nearly a third (32%) of banks are planning on building their own marketplace themselves. The remaining banks will either work on building a marketplace in collaboration with a partner or join an existing marketing/ecosystem.

Thankfully, 100% of our respondents said that they would be seeking to work with an integration partner to help enable their digital ecosystem. We believe that this is a sensible decision as, in our experience, banks require the help of an experienced partner when establishing themselves as important BaaS providers able to deliver embedded services to nonbanks.

Sopra Banking's data-driven, API-first approach allows banks to easily plug in to existing ecosystems, or build their own, to enable a safe and effective BaaS offering to nonbanks.

## SOPRA BANKING PLATFORM

*Powering banking transformation at scale.*

Our component-based and cloud banking platform provides the broadest range of capabilities. Whether large or small, local or global, pick the components from our wide catalog.

Or deploy our ready-to-use, pre-integrated solutions.

**GET STARTED**

DISCOVER MORE



CHOOSE YOUR NEXT READ

## Going beyond legacy systems

The increasing demand from banking customers for cutting-edge digital use cases and seamless customer experience (CX) requires a robust and agile IT system to match. However, many legacy banks simply don't have the infrastructure in place to meet these expectations.



## Security and compliance in open banking

Open banking is just one example of how the banking world has changed in recent years. It has fast become a vital component of how a modern bank needs to behave in order to meet the needs of today's banking customer.



## Employee experience in banking

It's become increasingly clear in recent years that if banks are going to survive and thrive in the current era, they need to adapt to meet the market's ever-changing needs.



## Banking-Platform-as-a-Service: The platform revolution

With evolving consumer demands and institutional supply dynamics, the financial services industry is undergoing a transformative reform. Technological and business model advances across various ecosystem stakeholders – such as fintech startups, nonbank innovators and progressive regulators – are nudging incumbent financial institutions toward change.



## Customer experience in banking

We believe that full digital customer experience is key for banks, as trust is a strong differentiator in an industry going through perpetual disruption. Engagement is key as clients expect fast decisions within an end-to-end, humanized digital experience.



## Open banking & mortgages: The next revolution in lending

Mortgages are a key area of competition for UK banks and building societies, but they're becoming less and less profitable. Open banking-powered technology could hold the answer.



Sopra Banking Software is the partner of choice for more than 1,500 financial institutions worldwide. The rich variety of our solutions, the strength of our conviction and our passion for innovation enable us to support our clients on a daily basis and in their future projects, as well as in their goals regarding financial inclusion. Our customers, based in over 80 countries around the world, benefit every day from our technologies and software, as well as the expertise of our 5,000 employees. Sopra Banking Software is a subsidiary of the Sopra Steria Group, a European leader in consulting, digital services and software development. With more than 47,000 employees, the Sopra Steria Group generated a turnover of €4.7 billion in 2021.

*To find out how we can help your bank to create market-beating digital transformation strategies, visit [www.soprabanking.com](http://www.soprabanking.com) or contact us at [hello@soprabanking.com](mailto:hello@soprabanking.com)*

