

CENTRAL BANK OF EGYPT
Egyptian Banking Institute



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CURRENT TRENDS

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Banking as a Service "BaaS"

MOVING FORWARD WITH CONFIDENCE...

Concept

Banking as a service also known as (BaaS), is an on-demand service developed by a licensed bank, implying that fintech startups and non-banking organizations (third parties) connect to a bank's system through APIs. It's done to enable third parties to create their own new banking services and offerings by positioning themselves on top of the provider bank's existing regulated infrastructure. Thus, partnering with banks enables fintechs and non-banking organizations to create their products under "their own brand name" through Baas, and to introduce them to the market quicker, without huge prior investment in purchasing & building infrastructure from scratch. On the other side, banks must be willing to unlock their data and application services to third parties.

Description

This process consists of three key steps:

- It all starts with a fintech, or any other third-party organization that is aiming to embed financial services & products into its offering to customers, through **purchasing the access** to the bank's BaaS platform.
- The licensed bank that acts as a **BaaS provider grants third parties the access** to its system.
- Finally, fintech or any other third-party **leverages the bank Bank's Baas platform** to develop new fintech products and launch new financial services, such as digital lending, payment, and account management services in their own applications.

Therefore, **Banking as a service (BaaS)**, helps both banks that strive to go digital as well as startups that drive fintech innovation to stay ahead of the competition, especially in the light of the increasing demand for digital services.

Benefits of Banking as a Service

Here's how third-party companies benefit from leveraging BaaS for their business:

- **Streamlined business operations** due to banking services & features incorporated within the company's own platform.
- **Lower operating costs & access to market with unprecedented speed**, as there is no need to establish a banking infrastructure or develop a banking product from the ground up, also product development issues can be solved by accessing the BaaS platform's various features & functionality.
- **Better customer acquisition and increased loyalty** due to the smooth customer experience resulted from using the BaaS platform.
- **Ensuring regulatory compliance**, by partnering with banks and other BaaS providers with a banking license, without actually having to hold a license itself. Therefore, third parties have the advantage of offering banking products & services to the public whilst being backed by a licensed, regulated entity & only focus on building its business strategy.
- **Pick and mix from a wide range of financial products**, then tailor them to the needs of their customers through Baas platform.

As for the banks (BaaS providers), they get:

- **Growing customer base:** When banks provide BaaS services to third-party companies, they get access to huge customer bases of these companies at little cost, and they may acquire these people among their potential customers.
- **Maximizing revenues:** Because creating a BaaS platform with fee-based access to it, turns into another source of revenue valued by any bank that strives for a huge profit.
- **Enhanced customer experience:** By integrating the services of external companies into their own offerings made possible with BaaS, banks can create end-to-end processes that contribute to satisfying user experience.
- **Establishing solid relationships with fintech companies**, allowing for collaboration opportunities between the banking and fintech sectors rather than having to compete with each other.

And the benefits for the customers:

- **Receiving the best of both worlds:** due to the diversified financial services available through the digital platform besides credibility that comes from a licensed, regulated institution.
- **Quick access to financial services** despite not necessarily being customers of the underlying bank.

Practices in Banking Sector

Asia-focused UK bank Standard Chartered launched Nexus, its new banking as a service solution.

Through Nexus, digital platforms and ecosystems like e-commerce companies will be able to offer loans, credit cards and banking accounts co-created with the bank to their customers, under the company's own brand name. Additionally, Nexus will help these businesses benefit from Standard Chartered's strong balance sheet and world-class banking technology to Strengthen customer loyalty and grow revenues.

Banking as a service (BaaS) Providers

There are two groups of BaaS providers:

1- Established banks (also called Banks with BaaS) partner with fintechs and third-party companies, providing them access to their banking infrastructure and systems:

- **Starling Bank:** This British retail bank enables fintechs, and corporates to use its licensed BaaS platform & provide their customers with streamlined accounts opening, managing, and transferring funds, KYC and AML services, as well as all regulatory considerations allowing partners to launch and scale their tailored products rapidly and efficiently.
- **BBVA:** located in the US, BBVA now supports a huge number of third-party organizations providing them with an opportunity to implement their innovative financial services ideas, supported by the agile and scalable infrastructure of BBVA. Its BaaS platform supports various payments capabilities, card issuance, account

origination & management, KYC & know your Business (KYB) assessment processes, and other banking functions.

- **Clear Bank:** Clear Bank in the UK, through their banking license and intelligent robust technology solutions, enable their partners to offer payment and innovative banking services to their customers.
- **Fidor Bank:** Located in Germany, allows their partners to design, test and create customized banking products for customers focusing on areas such as: market strategy, risk management, and customer service solutions.
- **Green Dot:** Is a branchless bank in the United States & a leader in developing prepaid debit cards, mobile banking, and tax refund disbursement, Green Dot recently integrated BaaS into their organization to provide a comprehensive infrastructure for their partners, help the unbanked gain access to banking services. The platform also supports account opening, fraud activities prevention, regulatory aspects, marketing & branding services that allowing partners to innovate and launch unconventional financial solutions.

2. BaaS-focused fintechs (or pure BaaS providers) that provide **banking software as a service** to other companies wishing to launch new financial products to the market speedily. The list of the top pure BaaS providers includes:

- **SolarisBank:** This German BaaS company has a banking license, which means it will be carrying the regulatory burden, while its partners can leverage its comprehensive digital BaaS platform to focus only on developing the best products for users. The platform comes with a modular structure to ensure seamless and selective integration of financial services customized to particular business & customer needs, supports the offering of debit cards, consumer and SMEs loans, payment services & KYC checks.
- **Synapse:** Based in California, offers payment, deposit, lending services, and investment products to FinTech companies who build and launch their innovative financial products on top of Synapse banking infrastructure, Synapse aims to ensure that everyone around the world has access to best-in-class financial products & services, regardless of their net worth.
- **Bankable Fintech:** Is a London-based company that offers a holistic range of financial solutions under the banking as a service model. It empowers fintechs and financial organizations to roll out new payment solutions time and cost efficiently. The BaaS platform consists of issuing, managing bank cards & e-wallets, payment card programs, and digital banking solutions.
- **PayPal:** The online payments system enables its partners to send or receive payments to and from other PayPal accounts online or via the company's app.

- **Cross River Bank:** In the US, combines a comprehensive suite of financial products within its BaaS platform, encompassing digital lending, payments, and risk management.
- **11:FS Foundry:** Is a UK-based firm developing digital banking platforms for its partners to Bypass legacy infrastructure and complexity constraints to build digital banking services fit for the future, also offering financial services at shorter time & low expenses.
- **Cambr:** In the US, Developed & owned by StoneCastle digital solutions (a core banking provider entity) in 2018. Cambr offers a wide range of banking services, it also provides underlying banking infrastructure solutions, such as banking industry experience, tech assets, and access to valuable banking relationships to its partners due to their direct relationships with banks.

Future of Banking as a Service

Banking as a Service is expected to continue to grow, it's already clear that leveraging Banking as a Service has become a must for any bank or fintech startup looking to stay ahead of the competition, grow its market presence, and leading the digital transformation in the financial services domain. BaaS reinforces the financial services market, making it more innovative and customer-centric, and paving the way to effective collaboration of the market players.

Overall, the Banking-as-a-Service sector will achieve mainstream adoption in the next decade due to the growing demand for remote financial services by customers. In addition, BaaS will continue to make banking services & functions widely available to any third parties capable of delivering valuable financial services to customers around the world.



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