

# Banking as a Service, Explained:

What it is, Why it's Important  
and How to Play

# Banking as a Service is reconfiguring the banking value chain, enabling new propositions

## What is the BaaS Opportunity?

- Banking as a Service (BaaS) is the provision of banking products and services through third-party distributors
- By integrating non-banking businesses with regulated financial infrastructure, BaaS offerings are enabling new, specialized propositions and bringing them to market faster
- These new propositions, built on specificity and agility are displacing existing offerings, disaggregating many profitable elements of the traditional banking value chain in the process
- While smaller banks and FinTechs initially dominated the market, incumbent banks are now beginning to wake up its potential with recent entrants including BBVA and Goldman Sachs<sup>1,2</sup>

## This Document Will:

- 1 Introduce you on Deloitte's perspective on the BaaS value chain and the specific configurations creating value from it
- 2 Highlight the opportunity space created by BaaS, including:
  - New propositions being enabled in the market to meet customer needs
  - Differentiating capabilities enabling market participants to win business
  - Returns to market participants
- 3 Help you understand how to get started with launching your own BaaS propositions

## Evolution of Banking as a Service



## Enabling Factors



### CLOUD & DIGITAL

Enable automation and rapid scaling (allowing for consumption-based pricing)



### OPEN BANKING + API-FICATION

Allow distributors to natively embed their BaaS proposition into their experiences



### RISING CUSTOMER EXPECTATIONS

Drive demand for new FinTech and embedded finance experiences

# Banks are taking an outside-in approach to develop enhanced propositions using BaaS



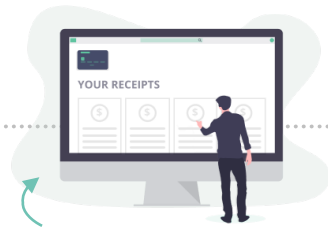
WITH BaaS

## Bob the Baker

Bob owns a small bakery on Main Street. Bob never set out to own a business, but his passion for baking led him to quit his day job, go to culinary school, and (after a few years) open his own bakery.

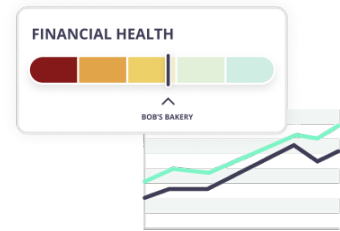
### Current Pain Points:

- Bob was never formally trained in how to run a business let alone the minutiae of finance; he manages to make do (poorly) using a mix of different software products
- Bob struggles to access credit as new bakeries are considered high risk businesses



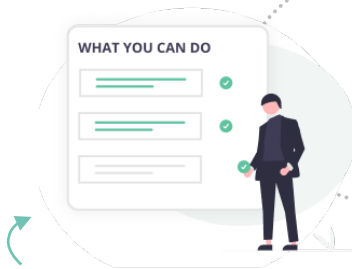
### Accounting software provided by FinTech

Bob has access to native accounting tools within online banking.



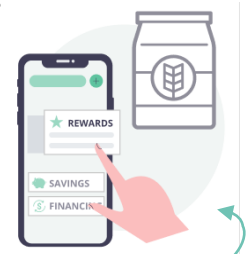
### Uses comparative analytics from a FinTech

Bob learns about his business's performance relative to other bakeries.



### Embeds FinTech-developed robo-advisor

Bob receives actionable insights on how he can make his business stronger financially.



### Product developed by another bank

Bob is offered a new segment-specific deposits product.



### Risk analysis from FinTech

A lower risk score (based on non-traditional data points) enables the bank to safely offer Bob's business a low-interest loan.



Bob's business grows and he decides to open a second location.

BUSINESS GROWTH

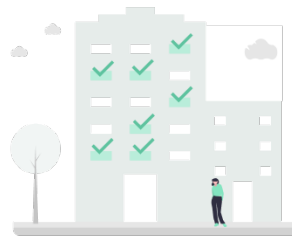
# And BaaS is becoming ubiquitous, as non-banks embed financial services into their experience

## ILLUSTRATIVE BAAS-ENABLED EMBEDDED FINANCE OFFERINGS



### Convenience Stores as Bank Branches

Retail deposits accepted in-store by other distributors, expanding the bank's physical footprint.



### Bundled Renters Insurance

New apartment leases include renter's insurance provided by a bank partner of the property management company.



### Point-of-Sale Loans

Customers are able to obtain credit for purchases in-store, during the checkout process.



### ERP-Facilitated Banking

Store sites open accounts and add on additional bank services through their Enterprise Resource Planning (ERP) system.



### Cashier-Less Shopping

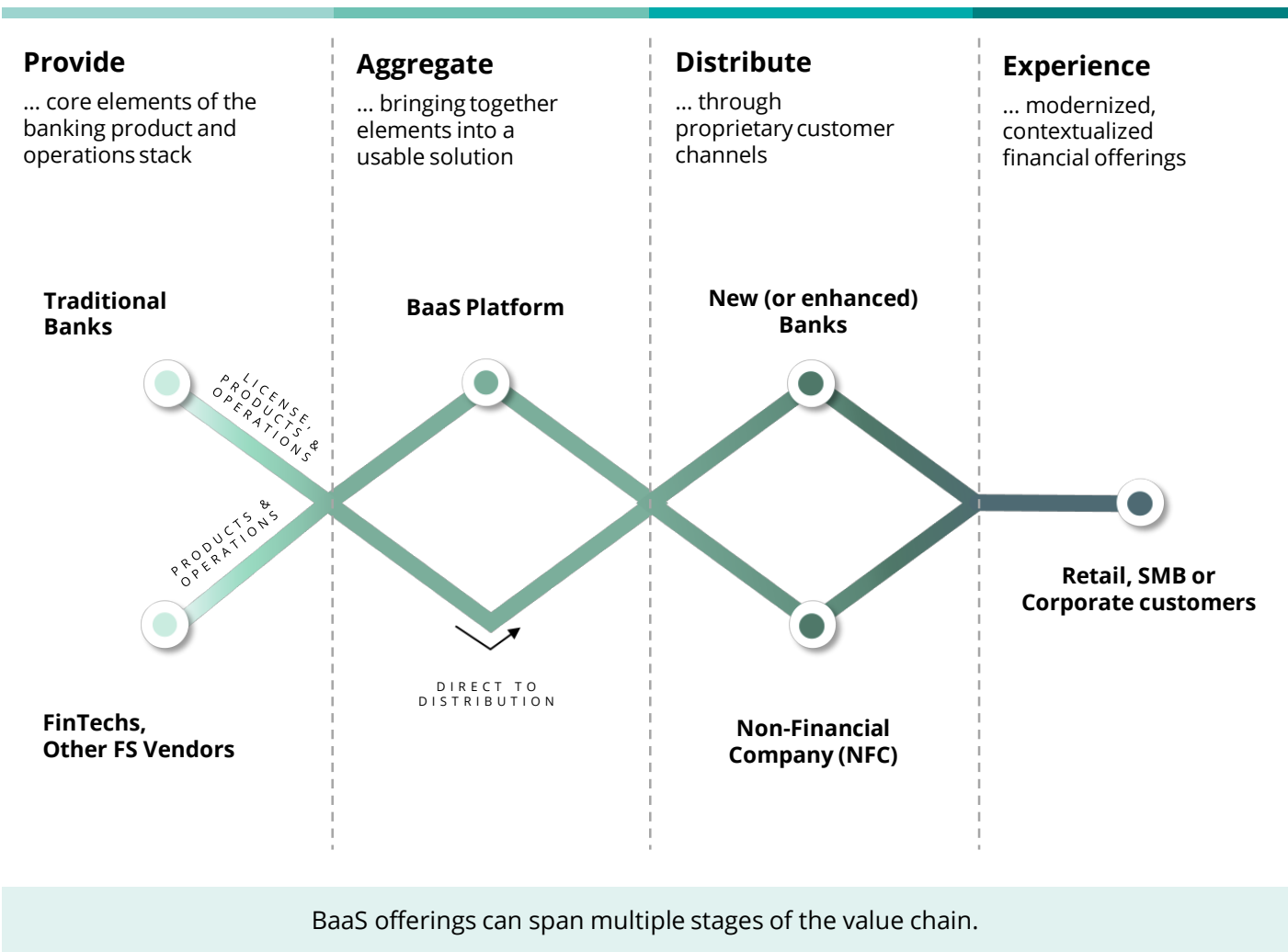
A digital wallet enables the customer to use an app to checkout (with funds withdraw directly from their bank account) without interacting with a cashier.



# There are 4 fundamental pieces to the BaaS value chain

**Banking as a Service (BaaS)** is reconfiguring the banking value chain by enabling third-party distributors to offer banking products and services.

Banks in particular are integrating fintech or other financial service vendor products into the banking journey, while non-financial companies are embedding banking products into their own services.



# There are 4 primary configurations creating value in the BaaS ecosystem today

## TRADITIONAL MODEL



Banks have historically owned the entire value chain:

- **Provide:** To acquire core elements of the banking stack, banks build systems in-house (or procure and customize them from FS vendors)
- **(Direct) Distribute:** Products and services are provided through own distribution channels (e.g., branches)

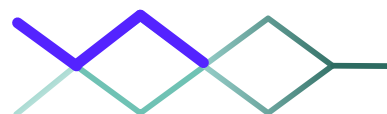
## EMERGING CONFIGURATIONS

### Provider-Only



- Provide banking license, and products, operations and/or technology for use by aggregators, other banks and NFCs
- Key product lines include deposits, loans and payments

### Provider-Aggregator



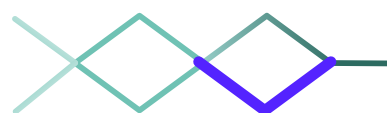
- Provide banking license, and products, operations and/or technology for use by other banks and NFCs
- Couple their own capabilities with other vendors to compose a complete 'out-of-the-box' solution for distributors

### Distributor-Aggregator



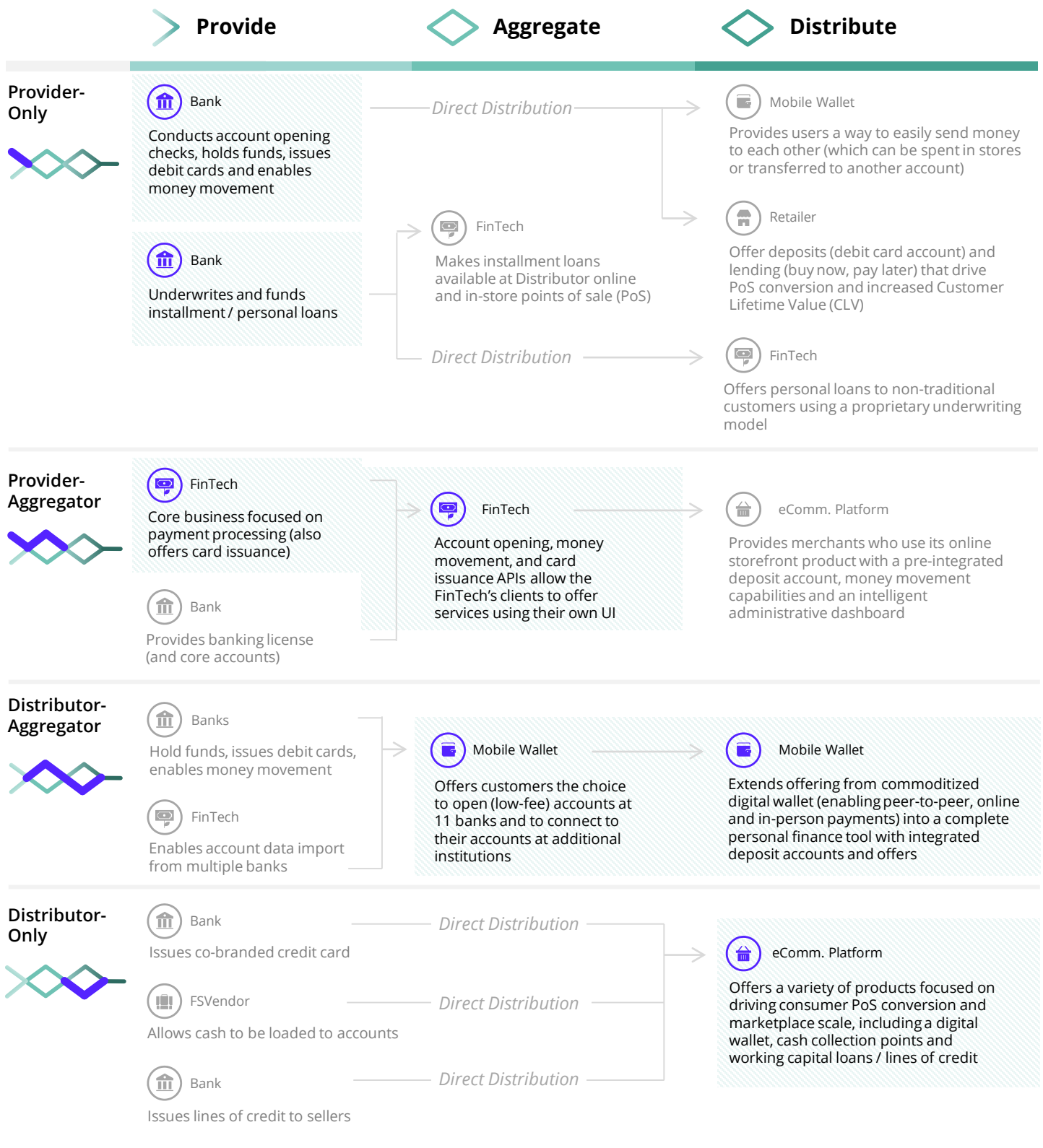
- Leverage end-customer relationships and existing own brand to offer unique financial services propositions
- Create optionality for customers and/or enable novel features by adding new products or technology from multiple providers

### Distributor-Only



- Leverage end-customer relationships to offer unique financial services propositions, provided largely 'out-of-the-box' by third parties
- Propositions enabled can be tailored to serve either new (e.g., neobank) or existing (e.g., traditional retailer) customers bases

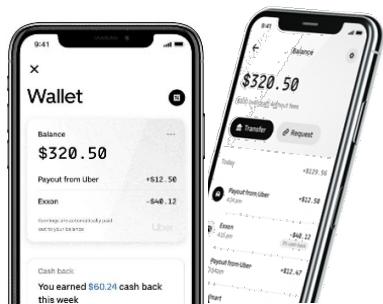
# Here are a few examples of how different configurations are already operating in market





# Providers are re-purposing existing assets to enable new experiences, driving incremental revenue

## EXPERIENCES ENABLED



### Uber

The Uber debit card is offered to new drivers and delivery partners at time of enrollment.<sup>3</sup> With accounts held by **Green Dot**, cardholders can cash out their trip earnings instantly and receive cash back rewards at relevant merchants, including Exxon and Advance Auto Parts.<sup>4, 5</sup>

## DIFFERENTIATING CAPABILITIES FOR PROVIDERS

- **Modular Delivery and Composition:** Separable services enable each distributor to compose a product that meets desired level of ownership and suits end customers
- **Customized Products:** Leading providers customize products for each distributor to create a value proposition that is appealing to end customers
- **Market-Facing APIs:** Pre-existing APIs exposed externally reduce the level of effort for distributors seeking to control some or all of the front-end experience
- **Cost:** Many of today's leading bank providers fall under the Durbin Amendment's interchange fee cap, driving incremental revenue for the bank and reducing direct cost to the distributor and end customer
- **Brand:** Both providers behind the experiences as left are established leaders in the BaaS space with in-market offerings dating back nearly a decade

## HOW PROVIDERS BENEFIT FROM BaaS

Providing banking services to customers of distributor partners enables providers to scale existing assets, generating incremental revenue at minimal cost

interchange

revenue on card transactions



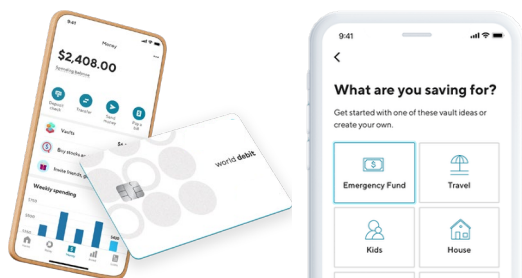
interest

income from new deposits / loans (above average growth)



↑ ROAA

compared to industry average



### SoFi

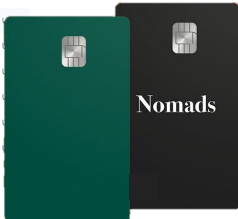
Alongside its newer investment products, SoFi Money allows the loan service to position itself as an all-in-one personal financial app. Money customers receive a **Bancorp**-issued debit card linked to high-interest cash management account that is pre-integrated with savings tools.<sup>6, 7</sup>



# Provider-Aggregators are expanding into adjacent services, driving deeper customer relationships and increasing share of wallet

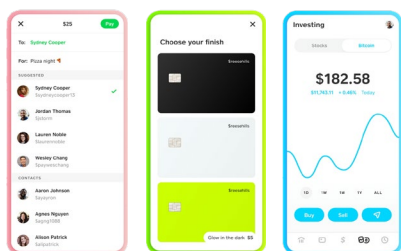
## EXPERIENCES ENABLED

DATE	TO / FROM	AMOUNT	BALANCE
Jun 12	Deqry tax	\$4,200.00	\$312,345.90 USD
Jun 12	Stripe	+\$1,000.00	\$316,545.90
Jun 10	Gusto	\$8,140.00	\$315,545.90
Jun 10	Cactus Practice	\$3,000.00	\$323,685.90
Jun 6	iPassword	\$3,200.00	\$326,685.90
Jun 5	Slack	\$1,454.06	\$329,685.90
Jun 3	Ramon Coworking	\$6,000.00	\$331,339.96



## Shopify

Shopify Balance uses **Stripe** to seamlessly integrate small business bank accounts (held at Evolve) into the eCommerce platform.<sup>8</sup> Key features include a management dashboard focused on providing insights into the financial health of the business, physical and virtual debit cards, and relevant offers.<sup>9</sup> Additionally, merchants using a Balance account are provided faster access to revenue processed by Stripe.<sup>10</sup>



## Cash App (by Square)

Square's Cash App started as a peer-to-peer payments service, but has since expanded into adjacent product lines, including fee-free investments and bitcoin trading.<sup>11, 12</sup> Through **Marqeta** and their bank partner, Sutton Bank, customers are given a customized debit card to use at for in-store purchases and/or withdraw money from ATMs.<sup>13, 14, 15</sup> Lincoln Savings Bank also provides account and routing numbers for incoming and outgoing ACH payments.<sup>16, 17</sup>

## DIFFERENTIATING CAPABILITIES FOR PROVIDERS

- **Ease of Integration:** Making existing integrations extendable to new use cases allows distributors to add new capabilities without significant re-work
- **Breadth of Services:** Offering multiple product lines allows distributors to rely on a one provider (rather than piecing together those services from multiple providers)
- **Customization of Experience:** Leading-provider aggregators combine features from multiple providers to deliver unique services for end customers that standalone providers do not have the ability to offer
- **Provider Network:** By partnering with other providers, provider-aggregators are able to enhance their breadth of services and provide optionality to distributors

## HOW PROVIDER-AGGREGATORS BENEFIT FROM BaaS

By aggregating other providers, provider-aggregators can offer integrated financial products, which can be used to deepen relationships with distributors (who can, in turn, use these capabilities to drive stickiness with end customers)

markup

on services from providers (banks)

↑ customer

volumes for distributor (and, in turn, provider)



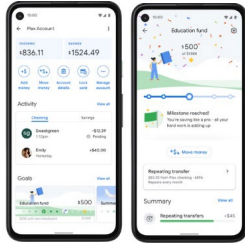
↑ revenue

through extending into adjacent verticals



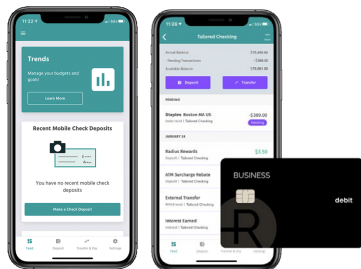
# Distributor-Aggregators are creating elevating their customer experience by launching novel propositions

## EXPERIENCES ENABLED



### Google Pay

Google Pay offers consumers a digital wallet (for in-store and peer-to-peer payments) with integrated rewards.<sup>18</sup> A recent re-design also incorporates Intelligent spend tracking (using bank and credit card account data imported through Plaid).<sup>19</sup> Plex accounts, launching this year, will add (low fee) checking and savings accounts at one of eleven partner banks through the app.<sup>19</sup>



### Lending Club

The Lending Club (née Radius Bank) Tailored Checking Account allows small business owners to open accounts in 10 minutes or less.<sup>20</sup> The accounts offer competitive rates and include a debit card, money movement and payment acceptance capabilities.<sup>21</sup> Accounts are largely enabled by FinTech partners, including Alloy (identity verification and AML/KYC services), Treasury Prime (lifecycle APIs) and Marqeta (card issuance through Treasury Prime's APIs).<sup>22, 23</sup>

## DIFFERENTIATING CAPABILITIES FOR DISTRIBUTOR-AGGREGATORS

- **Novelty:** Leading BaaS propositions couple banking services with distributor capabilities to create a unique offering that addresses unmet customer needs
- **Embeddedness:** Propositions that fit within the existing interaction flow for a distributor face lower barriers to converting customers
- **Customer Base & Analytics:** Having an existing customer base and strong analytics capabilities informs proposition design and improves success rates for customer acquisition / conversion campaigns

## HOW DISTRIBUTOR-AGGREGATORS BENEFIT FROM BaaS

By aggregating providers, Distributors can offer the elevated experiences that customers are demanding; for non-financial companies, in particular, the BaaS model enables them to distribute banking services without becoming a bank

↑ customer volume

increased sign-ups, driven by a more holistic proposition



↑ transaction volume

Increased usage of the core proposition, driven by increased customer volume and ease / speed

↑ customer stickiness

more holistic relationship increases switching costs for customers

# Distributors are finding new pathways to add value for their customers, strengthening their core business

## EXPERIENCES ENABLED



WEALTHFRONT  
ASPIRATION

EMERGENT

### Financial Services

- Digital banking offerings (including neobanks)
- Niche FinTech propositions



WALMART  
MACY'S  
IKEA

MEDIUM TO LARGE

### Retailers & Consumer Services

- Point-of-sale lending
- Co-branded financial products
- Loyalty and rewards programs



SHOPIFY  
XERO

MEDIUM TO LARGE

### B2B Services

- Integrated banking accounts / treasury management
- Direct connection with banks
- In-app payment initiation



FACEBOOK  
AMAZON  
EBAY

LARGE, GLOBAL

### Marketplaces & Ecosystem Players

- Alternative payment mechanisms / digital wallets
- Point-of-sale lending
- Working capital financing / credit

## DIFFERENTIATING CAPABILITIES FOR DISTRIBUTORS

- **Customization of Experience:** Leading distributor-aggregators bring together a multiple features to deliver unique services that help their customers meet (otherwise) unmet needs
- **Embeddedness:** Non-Financial Companies integrate the new proposition with the rest of their ecosystem, delivering new value add features for customers and reducing barriers to sign-up / use of the new proposition
- **Wide Provider Network:** Aggregated propositions leverage a variety of providers to either deliver a “best-of-breed” solution or create a new solution integrating what would have otherwise been several standalone applications into one solution

## HOW DISTRIBUTORS BENEFIT FROM BaaS

Providing banking services creates new value for customers, enabling distributor partners to strengthen their core business

↑ customer loyalty

from rewards offerings and strengthened brand

↑ conversion at PoS

driven by businesses shifting sales, larger customer base

↑ transaction volume

driven by businesses shifting sales to platform, larger customer base

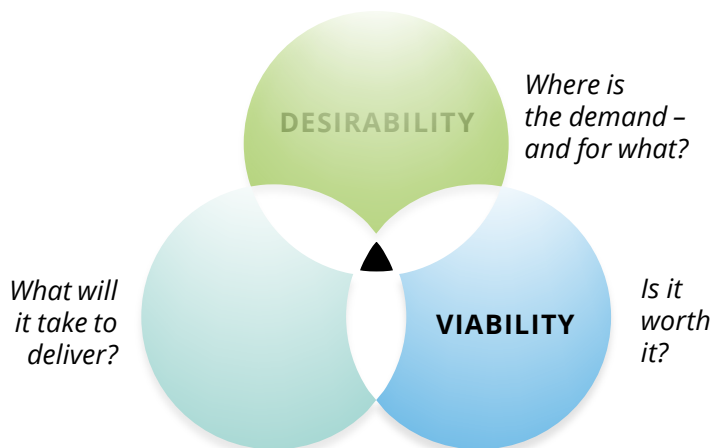
↑ customer data

to identify new / future growth opportunities

product diversification

from new lines otherwise cost prohibitive to offer

What's your role?  
 New players need to define their value proposition across three lenses



## DESIRABILITY

Who are your end users and what do they need? Where is the latent market demand for new financial offerings?

What is the competitive opportunity? Where is the BaaS value chain weak, or under-explored?

What is my right to play in this space? What can I realistically be expected to deliver?

## FEASIBILITY

What are the existing capabilities which I can bring to create a compelling BaaS offering?

What is the gap between the capabilities I have and the delivery of an experience which the end user values?

What are the options to fill the gap: where do I build / buy / partner, and what is my new operating model?

## VIABILITY

What are the potential business models for me to monetize my BaaS offering?

What type of commercial partnerships can I pursue to make my offering more profitable?

Considering the investment required to close capability gaps, do I expect this offering to be profitable?

Our **BaaS Proposition Blueprint** can help you structure your answers – see Appendix

## Authors



**Andrew Cowley**

Digital Banking Innovation Lead  
Deloitte Consulting LLP  
[ancowley@deloitte.com](mailto:ancowley@deloitte.com)



**Neil Malani**

Digital Banking  
Deloitte Consulting LLP  
[nmalani@deloitte.com](mailto:nmalani@deloitte.com)

## Practice Leaders



**Tim O'Connor**

Digital Banking as a Service Lead  
Deloitte Consulting LLP  
[tioconnor@deloitte.com](mailto:tioconnor@deloitte.com)



**Gys Hyman**

Digital Banking as a Service Lead  
Deloitte Consulting LLP  
[gyshyman@deloitte.com](mailto:gyshyman@deloitte.com)

## Contributors

David Ortiz  
Intikhab Syed  
Peter Pearce  
Arjun Patel  
Tara O'herlihy  
Tyler Bowen

Sara Ciaramella  
Olivia Mikkelsen  
Bridget McCormick  
Rohit Mittal  
Hari Hara Subramaniyan K

## China contacts



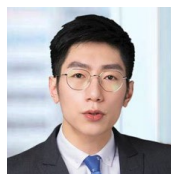
**David Wu**

Vice Chairman  
FSI Leader  
Deloitte China  
+86 10 8512 5999  
[davidwjwu@deloitte.com.cn](mailto:davidwjwu@deloitte.com.cn)



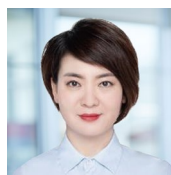
**You Zhongbin**

Banking Industry Leader  
(Mainland China)  
Consulting, Deloitte China  
+86 21 2316 6172  
[zhyou@deloitte.com.cn](mailto:zhyou@deloitte.com.cn)



**Aaron Liu**

Partner, FSI  
Consulting, Deloitte China  
+86 10 8512 5598  
[shaolliu@deloitte.com.cn](mailto:shaolliu@deloitte.com.cn)



**Susan Wang**

Senior Manager, FSI  
Consulting, Deloitte China  
+86 10 8512 5698  
[jingwangbj@deloitte.com.cn](mailto:jingwangbj@deloitte.com.cn)

## End Notes

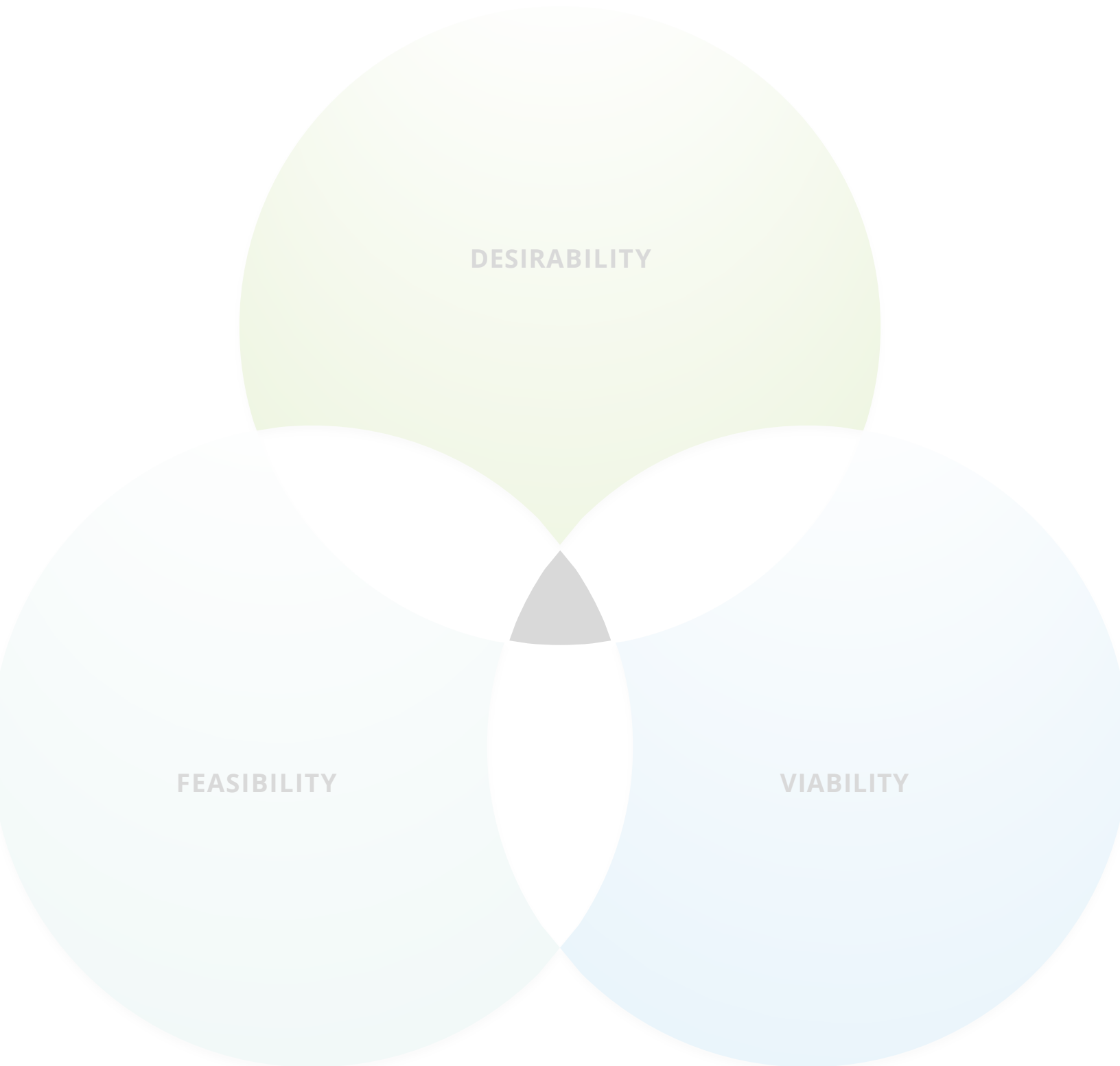
1. <https://www.bbva.com/en/bbva-launches-first-baas-platform-in-the-u-s/>
2. <https://www.goldmansachs.com/what-we-do/transaction-banking/news/why-weve-moved-into-banking-as-a-service.html>
3. <https://seekingalpha.com/article/4304167-green-dot-corporations-gdot-ceo-steve-streit-on-q3-2019-results-earnings-call-transcript?part=single>
4. <https://www.bankdirector.com/issues/strategy/green-dot-helping-uber-drivers-access-cash-go/>
5. <https://www.uer.com/us/en/u/uberdebit-gobank/>
6. <https://www.businesswire.com/news/home/20200205005436/en/The-Bancorp-Teams-Up-With-SoFi-to-Support-SoFi-Money%C2%AE-Product>
7. <https://www.sofi.com/money/>
8. <https://www.pymnts.com/news/banking/2020/banking-as-a-service-bring-corporates-into-the-digital-age/>
9. <https://news.shopify.com/shopify-announces-major-product-launches-and-updates-at-virtual-event-reunite-including-shopify-balance-and-shop-pay-installments-312084>
10. <https://www.finextra.com/newsarticle/37085/stripe-makes-banking-as-a-service-play>
11. <https://apps.apple.com/us/app/cash-app/id711923939>
12. <https://www.vox.com/2018/2/27/17059182/square-cash-app-monthly-active-users-customers-seven-million-december-venmo>
13. <https://blog.marqeta.com/2021/03/02/square-customer-spotlight/>
14. <https://www.cnbc.com/2020/06/16/marqeta-disruptor-50.html>
15. <https://cash.app/legal/us/en-us/card-agreement>
16. <https://cash.app/legal/us/en-us/cash-lsb-terms>
17. <https://techcrunch.com/2018/03/07/square-cash-now-supports-direct-deposits-for-your-paycheck/>
18. <https://pay.google.com/about/>
19. <https://arstechnica.com/gadgets/2020/11/google-pay-relaunch-transforms-it-into-a-full-fledged-financial-service/>
20. <https://radiusbank.com/business/tailored-checking/>
21. <https://www.nerdwallet.com/article/small-business/radius-business-checking>
22. <https://radiusbank.com/company/awards/>
23. <https://www.treasuryprime.com/newsroom/marqeta-partnership>

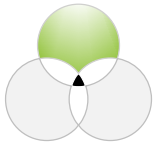
**About Deloitte** – As used in this document, “Deloitte” means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte USA LLP, Deloitte LLP and their respective subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

This publication contains general information only, and none of the member firms of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collective, the “Deloitte Network”) is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

# Appendix: BaaS Proposition Blueprint

A framework for defining your role in the evolving ecosystem





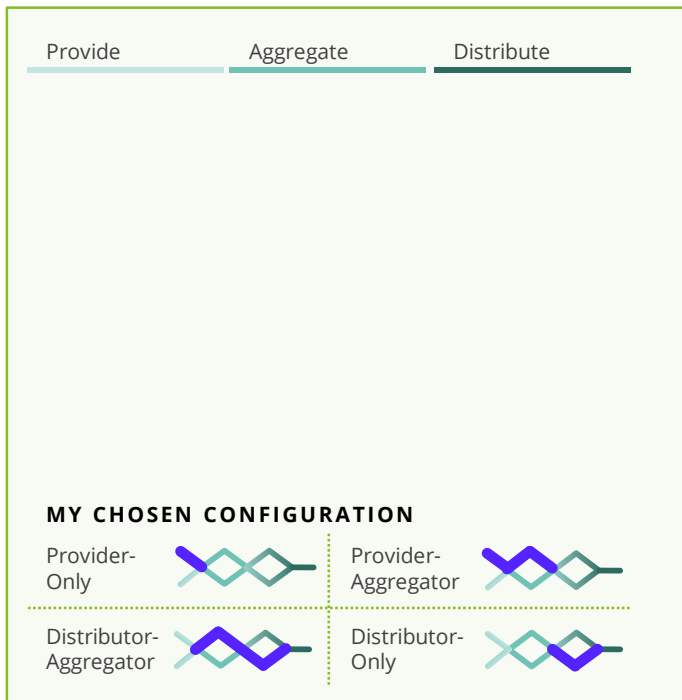
# Desirability

A framework for defining your role in the evolving ecosystem

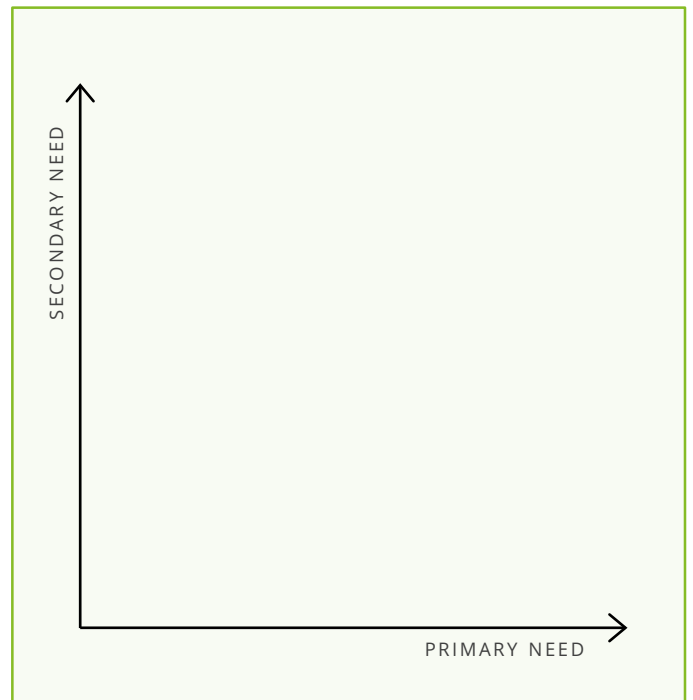
## End Customer Needs

TARGET CUSTOMER	NEEDS
e.g., SMB owners	e.g., better information on financial health of their business

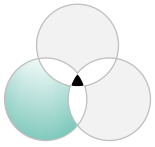
## Market Needs



## Competitive Landscape







# Feasibility

*What will it take to deliver?*

## Buyer Proposition

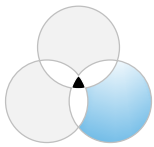
<b>PROPOSITION PROMISE</b> What is the value I promise to the buyer of my service?	<b>CUSTOMER BENEFITS</b> Are there distinct benefits of my offering?
<b>FEATURES</b> What will I offer to buyers in order to deliver on my proposition promise?	<b>BUSINESS MODEL</b> How will I (and my buyer) monetize my new proposition?

## Customer Experience

What is the end customer experience that my proposition enables?

## Capabilities

REQUIRED	EXISTING	GAP
TO RUN		
TO WIN		



# Viability

*Is it worth it?*

## Market Attractiveness

### MARKET FOCUS

What product lines will I offer (e.g., payments, deposits)?

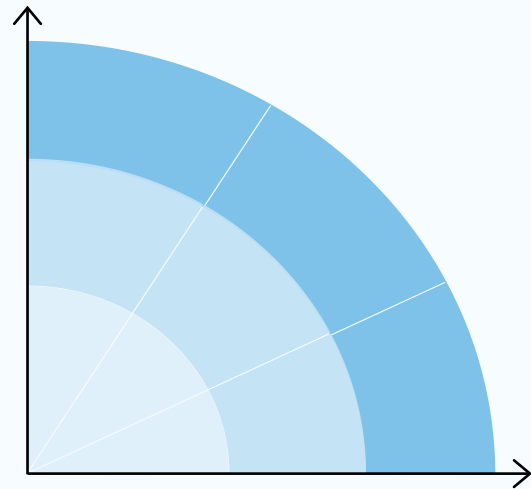
### MARKET SIZE

### MARKET STRUCTURE

### MARKET TRENDS

## Growth Path

How will the key pillars of this proposition scale over time?



## Enabling Partnerships

What partnerships do I need in order to deliver my proposition efficiently?

How can I use partnerships to support growth?



## Financials

How many customers do I need to acquire to make my proposition profitable?

How will returns for the proposition vary over time?