Beyond The Branch: A New Digital Growth Strategy for Community Banks and Credit Unions

Expand Your Institution's Footprint with Embedded Banking

A Glimpse into How Embedded Banking Works

The following demonstrates the power of embedded banking to benefit the business user, non-financial partner, and financial institution.

Travel agency manager Danielle uses a software program called Wanderhub to manage her business. She uses this software for day-to-day operations, including invoicing, managing travel bookings, and time tracking. Wanderhub has partnered with her community bank, Chicago Bank and Trust, to add banking capabilities directly within the travel agency software. Instead of leaving her agency to visit a branch or leaving the practice management application to open the Chicago Bank and Trust website, Danielle can handle her banking business needs conveniently within the practice management site. For example, she can open a new bank account, transfer funds, or view account balances.

With this strategy, the non-financial partner offers added convenience to users by adding banking capabilities to its existing functionality.

The financial institution benefits by reaching new users outside of its existing community, potentially attracting a younger demographic or users not previously exposed to its brand.

To survive in the digital age, community banks and credit unions must evolve beyond the branch to compete against the biggest banks. Offering digital banking solutions that provide unique, in-demand features is table stakes for financial institutions today—but how else can community and regional institutions level the playing field with larger banks?

With an embedded banking strategy, banks and credit unions can expand their digital footprint by adding banking capabilities within third-party partners' software. For example, a financial institution might add account opening, balance transfer, and other capabilities directly within a homeowners' association, travel agency, or medical practice management software. This exposes their brand to new users outside of the branch or traditional digital banking environment and offers convenience to users by enabling them to complete banking activities where they already are, without the need to visit a financial institution's website or app.

Simply explained, embedded banking is analogous to putting a branch inside a supermarket. Both the financial institution and the supermarket offer convenience to consumers through the combination of grocery shopping and banking in a single location. At the same time, institutions gain access to consumers who may not otherwise be exposed to its brand, helping them expand their user base and stretching their footprint beyond their existing community.

Although the technology offers much promise, many financial institutions have not yet explored its possibilities. As they begin to understand how the technology works and the benefits it can offer, forward-looking institutions have a chance to see how it could deliver a competitive edge.

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Embedded Banking's Tremendous Potential

Embedded banking represents an entirely new channel, providing financial institutions with the opportunity to increase their relevance with existing consumers and businesses while fueling growth of new accounts. Though some have suggested it could be a passing trend, consumers and businesses are demonstrating an openness to accessing financial services in new and different ways.

Consider that there are 39 million challenger bank users in the U.S. today, and the number is growing. That's 39 million consumers and/or small businesses who have actively engaged with a non-traditional partner to help simplify their financial lives.

At the same time, the number of financial institutions is shrinking, with the U.S. seeing a 70% decline from 1982 to 2022. In other words, 7 of 10 banks from 1982 no longer exist today. As today's financial institutions seek to avoid a similar fate, embedded banking represents a way to fundamentally expand how they are reaching and servicing customers and members.

Rather than thinking of embedded banking as a here today, gone tomorrow trend, consider it an entirely new channel to increase relevance with existing account holders. More importantly, it represents an opportunity for growth through exposure to communities not bound by geography, based on interest and the need for financial services.

Embedded Banking is Not BaaS

Some fear that embedded banking will power competitors to disintermediate their account holders. Those who take this position may be confusing it with Banking as a Service (BaaS)—but the two concepts are quite different.

With BaaS, challengers like Chime and Cash App directly provide financial services to users, and the financial institution brand powering these services is hidden to the end user.

Conversely, in the embedded banking model, financial institutions partner with an organization whose primary function is not banking, extending financial services to these non-banking applications or programs. Like putting a physical branch in a supermarket, the bank or credit union's brand is visible, enabling it to grow its user base through a new channel.

The takeaway? Rather than creating conflicts of interest or powering competitors, embedded banking functions as a bridge between the non-financial partner's app or website and the banking capabilities provided by the financial institution. The result is an opportunity to reach consumers and businesses outside of the institution's typical geographic area.

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Projected 10X Increase in Embedded Banking Market Value

2020	**$22.5 Billion**
2025	**$230 Billion**

Embedded Finance Forecast Report
from Lightyear Capital

Tailored for Smaller Institutions

Embedded banking has gained significant traction in the industry, and it's true that large, national financial institutions are getting into the game. However, of all the banks live with embedded banking solutions today, 70% have less than $10 billion in assets.

With a market projected to reach $230 billion by 2025, the opportunity is significant for financial institutions of all sizes. And because only a small portion of the market currently uses embedded banking, forward-looking community banks and credit unions who embrace the technology look to gain the most from early action.

Understanding and embracing this new business model requires a cultural shift to embrace the non-bank partner's brand as a customer. This breaks from traditional business-to-consumer digital banking models where the end user is generally the customer.

Compliance Should Not Be a Roadblock

Financial institutions must certainly adhere to legal and compliance issues around embedded banking. However, the market has demonstrated that incorporating policies around the technology does not result in an undue burden.

Legal and compliance teams should certainly be an integral part of strategy development, completing much of the compliance work up front as the financial institution maintains ownership of Bank Secrecy Act (BSA) policies to cover account underwriting, anti-money-laundering (AML) monitoring, and ongoing watchlist screening. The financial institution also owns the policy regarding identity verification (IDV/IDA/KYC) and sets the rules and audit adherence to these policies. Finally, the institution owns the underwriting standards for both accounts and loans.

Ultimately, regulators will confirm policies are in place and being followed by the financial institution and its partners. In short, responsibility for risk and compliance management requires collaboration between all involved parties.

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Putting Together a Playbook

Integrating financial technology with a partner's software may sound complex, but the right fintech advisor can provide access to a proven playbook that facilitates an embedded banking strategy.
To get started, consider the following:

1. **Evaluate growth strategies.** How does embedded banking fit into your organization's overall growth strategy? Does it make sense for your brand? Where might it fit in your strategic planning?

2. **Establish a technology enablement partner.** The right enabling partner—like Apiture—can arm you for success with insights gained from experience and artifacts like agreements you can tailor to leverage with your non-bank partners. In addition, an experienced technology provider can establish connectivity through easy-to-implement developer toolkits and components that enable partners to easily bring banking services into their applications.

3. **Determine what services to embed.** Consider starting by offering account servicing options where users can view their accounts and transactions, then progressing into money movement and account and credit origination over time.

4. **Identify embedded banking partners.** There are numerous possibilities for embedded banking partnerships, including practice management solutions, industry applications, and others. Select these partners carefully and ensure strategic alignment since their solutions will serve as an extension of your brand. Should you require assistance in identifying an appropriate partner, an experienced embedded banking technology enabler like Apiture can help.

Acting on the Opportunity

Embedded banking offers community banks and credit unions an exciting way to serve existing customers and members with greater convenience and to reach entirely new users through partnerships.

How can smaller institutions take advantage of this opportunity? The key is working with an experienced embedded banking technology enabler that can facilitate the necessary integrations, bundling and integrating your institution's financial services into a module available within the non-bank partner's application.

With the potential to create a meaningful difference in your financial institution's balance sheet, the time to act on this opportunity is now. Not sure how to get started? Contact us to learn more.

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About Apiture

Apiture delivers award-winning digital banking solutions to banks and credit unions throughout the United States. Our flexible, highly configurable solutions meet a wide range of financial institutions' needs, from leveling the playing field with larger banks to enabling unique, digital-only brands. Through our API-first strategy, our clients can maximize the capabilities of their platform while preserving a seamless user experience. Our exclusive focus on digital banking means we're dedicated to delivering innovative solutions that meet the unique needs of our clients while providing a level of support that's unmatched in the industry. Apiture is headquartered in Wilmington, North Carolina, with offices in Austin, Texas.

To learn more, visit www.apiture.com

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