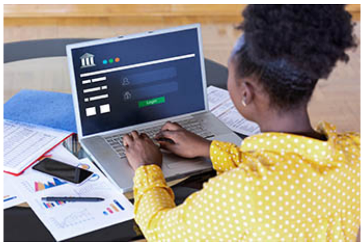

Embedded Banking Is Expanding

business customers digital banking

Summary: First Uber and now Goldman Sachs. Embedded banking is growing with Goldman Sachs recently joining this market. We lay it out for you so you can consider its effects and start to prepare.

According to Merriam-Webster, the definition for embed is "to make something an integral part of." While you may not mind this with some things, like computer code that allows your online banking to work, others are concerning. This is the case with embedded banking.

The growing trend of embedding banking services in other, non-financial applications has the potential to chip away at community financial institutions (CFIs) and their customer relationship model. Here are some of the details so that you can be prepared.

Goldman Sachs just began offering companies a newly developed software that "embeds business bank account experiences within their own applications" and allows client companies to offer branded banking services. The financial institution has already amassed $28B in deposits from over 200 clients with this offering and could grow to $125B in 5Ys.

The growth of Goldman's embedded banking service is a wake-up call to financial institutions with a focus on relationship banking. While there is no personal touch in Goldman's embedded banking model, bank customers seem willing to move significant banking business to this model for its promise of easy-to-use banking services that operate within a company's own computer systems. Consider Uber.

From Uber to Goldman Sachs.

Embedded banking is not brand new. It has been a staple of certain retail and service businesses for some time, particularly emerging companies. Uber, for example, uses an embedded banking model that allows customer payments to flow directly to Uber's accounts. The Uber ride-sharing app through which a customer engages a driver also collects the customer's payments without Uber having to use an outside financial service to execute the transaction. The transactional service is embedded in Uber's business application.

The Goldman model takes this idea a step further. It offers an application that allows any business to embed certain banking services into its own systems. Thus, a business that now uses a bank for payments and receipts can also execute those transactions in-house on its own platform with the addition of the embedded banking app.

Is embedded banking in your community?

Is embedded business banking being adopted in the community your financial institution serves? In one sense, it is already there. The Goldman model knows no geographical boundaries.

But in another sense, embedded business banking has a long way to go to dislodge CFIs. Goldman's initial success in amassing $28B in deposits from its embedded banking app is certainly not a number to ignore. But all that money represents just 200 business customers. That small number suggests the product initially appeals to larger businesses, perhaps with lots and lots of transactions. Smaller businesses — the ones loyal to CFIs — may or may not find embedded banking as useful and thus worth making the switch, at least in the short term.

Digital banking strategy still needs to consider embedded banking.

Disruptive digital change has been one of the defining trends in finance over the last few years, and embedded business banking is now one more challenge that traditional banks must face. How CFIs meet that challenge is an open question, but one definitely worth pondering, analyzing, and ultimately answering. Existing, long-time business customers may feel comfortable with their CFI relationships and remain loyal. But what about new businesses whose owners have grown up in the digital world who may view financial services as just a commodity that can be relegated to an app? It is specifically for those customers that you may want to have a good answer to embedded banking. We will continue to keep you updated on the latest information on embedded banking.

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