



BaaS Transactions Hit \$22.5B & Continue To Grow

🔗 [technology](#) [fintechs](#) [digital banking](#) [API](#) [pandemic](#)

Summary: Banking as a Service (BaaS) activity has been steadily climbing, but the pandemic put it into high gear. In 2020 alone, BaaS transactions hit \$22.5B and rapid growth is expected to continue. We share the BaaS basics, the banking industry's response to it, and how a community financial institution is staying competitive with it.

With shelter-in-place orders making many feel isolated during the pandemic, animal adoptions across the country experienced a huge spike. So much so, that some shelters literally ran out of animals in need of homes. This surge of pet adoptions is believed to have saved roughly 4MM animals.

Of course, pet adoption isn't the only thing that has experienced a surge of interest since the coronavirus. The pandemic has also fueled the growth of Banking as a Service (BaaS) and adoption over the next year is only expected to increase. With community financial institutions (CFIs) seeking new revenue sources amidst ongoing low interest rates and paltry loan activity, BaaS may be an area worth considering.

BaaS basics

What it is. BaaS is an end-to-end process where licensed banks enable other businesses to integrate digital banking services directly into their own products. These businesses can include fintechs, online retailers, and even brick-and-mortar businesses.

How it works. The businesses are connected to the BaaS provider (the financial institution) via an application programming interface (API), allowing the businesses to offer digital lending services, account management, and payment services in their own apps and websites.

BaaS provides a seamless, convenient customer experience, which many people expect these days. [In 2020 alone, BaaS transactions totaled \\$22.5B](#) and that number is expected to soar 10x over the next 4Ys.

The banking industry embraces BaaS

The growth prospects of BaaS have not been overlooked by the banking industry. [Eighty-five percent of managers at financial institutions expect widespread adoption of BaaS over the next 12 months](#) and anticipate that it will have a major impact on the industry. In fact, 81% of financial institutions view BaaS as an appealing way to expand their businesses and distribution channels, enabling them to get new offerings to market more quickly.

Not only can CFIs leverage more distribution channels, but also the latest technologies. In partnering with fintechs, CFIs have access to their innovative offerings, without the overhead costs of developing in-house. This allows CFIs to compete better and stay up-to-date.

This technological foothold with BaaS and APIs brings CFIs one step closer to the inevitability of [open banking](#) and open finance. Both are quickly becoming a reality, given the rise in digital banking and customer expectations for real-time access to financial services.

Example of CFI BaaS

A \$2B-asset WA CFI decided to expand its partners at the end of last year after reviewing more than 900 possible BaaS partners. Twenty-one were chosen and six were onboarded in the beginning of 2021. The reasons that this institution is focused on BaaS? Competition is fierce and the revenue can be sizeable. Last year, the institution collected \$2.3MM in fees from BaaS, which rose almost 15% over 2019. Furthermore, the CFI has increased its customer base, with a lower acquisition cost. Leveraging the technology of partners to stay competitive, gain customers, and increase revenue is key for CFIs. Says the CEO, *"Everyone's looking at BaaS because their margins are under pressure. I would challenge other banks to not think, 'I want to get into partner banking', but instead ask, 'What are we good at and what are we trying to accomplish? What are we trying to solve for?'"*

Answering those questions may help you decide if the journey into BaaS is right for your institution or not. It is not an easy decision. Whether it is the time now or not, you know best, but certainly worth considering.

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ECONOMY & RATES

Rates As Of: 09/01/2021 05:19AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.04	-0.02	-0.05
6M	0.06	0.01	-0.03
1Y	0.08	0.00	-0.03
2Y	0.21	0.00	0.09
5Y	0.78	0.01	0.43
10Y	1.32	0.01	0.40
30Y	1.94	0.01	0.29
FF Market	FF Disc	IORB	
0.08	0.25	0.15	
SOFR	Prime	QBFR	
0.05	3.25	0.07	

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