



Embedded Banking: A Potential Growth Avenue (Part 1 of 2)

third party payments fintechs

Summary: Embedded banking could help CFIs expand into new markets, acquire new customers, and increase deposits. While there is huge potential for embedded banking, some CFIs are hesitant to give it a try due to perceived complexity and high cost. In the first of a two-part series, we discuss benefits and trends related to embedded banking.

The book of failed businesses is full of the names of companies that didn't recognize the impact technology would have on their industry and adapt their business accordingly. Kodak dominated photography for more than 100Ys, but didn't realize that digital photography would overtake film until it was too late. Also in 2000, [Blockbuster turned down an offer to buy its upstart rival Netflix](#) for just \$50MM, failing to see that digital streaming would soon replace DVDs.

In the same spirit, some financial institutions (FIs) might be overlooking the potential of a new technology that could help them expand into new markets, acquire new customers, and increase deposits. Known as embedded banking, this technology allows community financial institutions (CFIs) to provide financial products and services through non-bank, third-party partners.

The Starbucks app is a good example of embedded banking. Customers can store cash, make payments, and earn rewards for purchases using the app. A quarter of all Starbucks purchases in the US are now made using the app, and Starbucks holds as much cash in the app and on-store cards as some FIs hold in deposits.

While large corporations like Starbucks might not have qualms about diving into embedded banking, smaller companies and CFIs are taking more time to embrace the opportunity. Some CFI reluctance is due to concerns that embedded banking is too complex and expensive, or that only the largest banks can afford the investment of time and money to make it successful. However, it's important to note that 70% of banks currently using embedded banking have less than \$10B in assets, according to FedFis.

Embedded Banking Complements Mobile Banking

The emergence of embedded banking has coincided with the growth of mobile banking, which is now the most popular way for consumers to access their bank accounts. Between 2015 and 2019, the percentage of households that relied mainly on [mobile banking more than tripled to 34%](#). The pandemic accelerated this shift even more.

Non-bank companies like Starbucks, Walmart, Walgreens, and dozens of others are embracing embedded banking as a way to improve customer service by offering customers a more convenient way to pay for goods and services and store rewards. It helps these businesses increase customer retention rates and lifetime value.

Some venture capitalists have been encouraging companies in their portfolios to adopt embedded banking as a key monetization lever. The idea, stated one venture capitalist, is to make every company a fintech company.

Trends to Watch

McKinsey & Company has identified a [few embedded banking trends](#) that are worth keeping an eye on, including these:

- **Customers are demanding integrated experiences.** According to McKinsey's research, customers are flocking to integrated ecosystems that offer simple, holistic, embedded experiences.
- **The search for new revenue models.** Many CFIs are looking for alternative sources of revenue and growth. Embedded banking could be one of these.
- **The acceleration of digitization and automation.** CFIs can now scale technology faster, which puts embedded banking within the reach of more partner companies. These companies view their digital experiences as a composition of modules built by others, which frees them up to focus on their core competencies.

Tap into the Huge Potential

The potential of embedded banking is huge. [The embedded finance market is projected to grow three-fold to \\$183B by 2027](#), according to Juniper Research. With more small businesses launching ecommerce and digital payment methods each day, it's easy to envision this tremendous growth in banking directly through those businesses. If your CFI hasn't examined the potential benefits of embedded banking, now would be a good time to do so. In part two of this series, we share examples of [how embedded banking could work](#) in certain business sectors.

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ECONOMY & RATES

Rates As Of: 11/29/2022 06:39AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.41	0.19	4.35
6M	4.72	0.15	4.53
1Y	4.72	0.09	4.33
2Y	4.46	-0.03	3.72
5Y	3.89	-0.34	2.63
10Y	3.70	-0.36	2.19
30Y	3.75	-0.42	1.84
FF Market	FF Disc	IORR	
3.83	4.00	3.90	
SOFR	Prime	ORER	
3.80	7.00	3.82	

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