



Where to Find Your First Embedded Banking Partner (Part 2 of 2)

third party small business payments fintechs

Summary: Embedded banking allows CFIs to provide financial products and services through non-bank, third-party partners such as retailers and service providers. In this second part of our embedded banking series, we explore ideas of how CFIs might partner with non-bank organizations to offer embedded banking services. We also address some of the legal, compliance and technology challenges associated with launching embedded banking.

Having a café or a deli with ready-made lunches and snacks is becoming more common in workplaces. It's a business-with-a-business approach that both serves the needs of the larger company by making meals easily accessible for their workers, and it also provides the restaurant a guaranteed stream of customers. These kinds of partnerships aren't reserved for just retail transactions, though. This approach can be applied to any business that receives money from its patrons. In the financial world, it can take the form of embedded banking, where financial institutions (FIs) provide businesses a way to process transactions with their clientele using the FI's platform at the point of sale.

In yesterday's article, we covered [how embedded banking can be a growth avenue for community financial institutions](#) (CFIs) by enabling them to provide financial products and services through non-bank, third-party partners. In the final part of this series, we're shining light on which industries and small businesses have the most potential for an embedded banking partnership, and how your CFI can prepare to offer embedded banking services to them.

Streamlining Financial Processes for Consumers

Embedded banking streamlines financial processes for consumers by making banking and payment processes more seamless, like a one-stop-shop approach. In a physical setting, that could mean putting a bank branch inside a supermarket, offering customers the convenience of grocery shopping and banking all in a single location. This helps the FI with brand recognition and access to customers who may not otherwise be exposed to its services. In a digital setting, it could be a bank that is embedded into an app that customers use for services that require a payment.

According to a report by Bain & Company, embedded finance was involved in \$2.6T financial transactions in 2021. This number is estimated to grow substantially to [\\$7T by 2026, with embedded banking handling around 10% of total US transaction value](#). To be part of that profitable growth, your CFI will need to know where to build embedded banking partnerships among your community and your customer base.

As an example of how some financial institutions are using embedded banking, a regional bank in Alabama acquired a provider of home repair and improvement loans. This allowed the bank to offer customers who are remodeling their home to work with a participating contractor and complete a paperless loan application that integrates with the contractor's sales software. This greatly simplifies things for consumers by enabling them to get their loan approved via the contractor and pay the contractor installment payments as the work progresses.

Similarly, Sunlight Financial, a fintech specializing in solar loans, allows contractors to offer homeowners lines of credit at the point of sale for solar panels, completely circumventing the traditional loan process.

Contractors and construction hold good potential for CFI embedded finance partnerships, but there are other markets that may also be a good fit. Here are some examples of businesses that could benefit from partnering with a CFI for embedded banking services:

- **Ride-sharing companies.** This has been one of the main applications of embedded banking so far. FIs partner with a ride-sharing service (e.g., Uber or Lyft) to allow passengers to pay using the service’s app. Similarly, Uber allows drivers instant access to pay, a huge recruiting factor, as more than a fifth of the company’s drivers who work multiple jobs reported using their Uber debit card to deposit those earnings.
- **Medical and dental practices.** Instead of collecting copays and payment for services using a credit or debit card, or keeping patients’ card numbers on file, medical and dental practices can use embedded banking to collect payment for their services. Hospitals can support embedded banking as [a way for patients to finance hefty bills with little interest](#).
- **Wedding planners.** CFIs could embed financial options in a wedding planner’s software to allow consumers to plan, finance, and pay for their weddings using the planner’s software or app instead of having to use a credit or debit card.
- **Utility companies.** Utilities could embed bank services into their enterprise resource planning tools or customer-facing applications to making bill-paying easier for their customers. They could then send text messages to customers who are nearing a payment deadline and allow them to pay right away using the app.

Choose Your Partners Carefully

There are many possibilities for embedded banking partnerships, including some of the ones listed above. Select your embedded banking partners carefully and make sure that strategic alignment exists since their products and services will essentially be an extension of your institution’s brand. Regulators will examine and confirm that appropriate policies are in place and being followed by your CFI and your partners. If your embedded banking offering depends on a fintech partnership, be sure to [conduct your due diligence](#), according to the most recent guidelines.

While there are certainly challenges and potential obstacles in launching an embedded banking initiative, these shouldn’t deter you from investigating the many benefits for your institution, as embedded banking continues to grow quickly.

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ECONOMY & RATES

Rates As Of: 11/30/2022 06:40AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.38	0.16	4.32
6M	4.72	0.15	4.53
1Y	4.80	0.17	4.41

2Y	4.50	0.02	3.77
5Y	3.94	-0.29	2.68
10Y	3.74	-0.31	2.23
30Y	3.80	-0.37	1.89
FF Market		FF Disc	LOBB
3.83		4.00	3.90
SOFR		Prime	QBFR
3.81		7.00	3.82

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