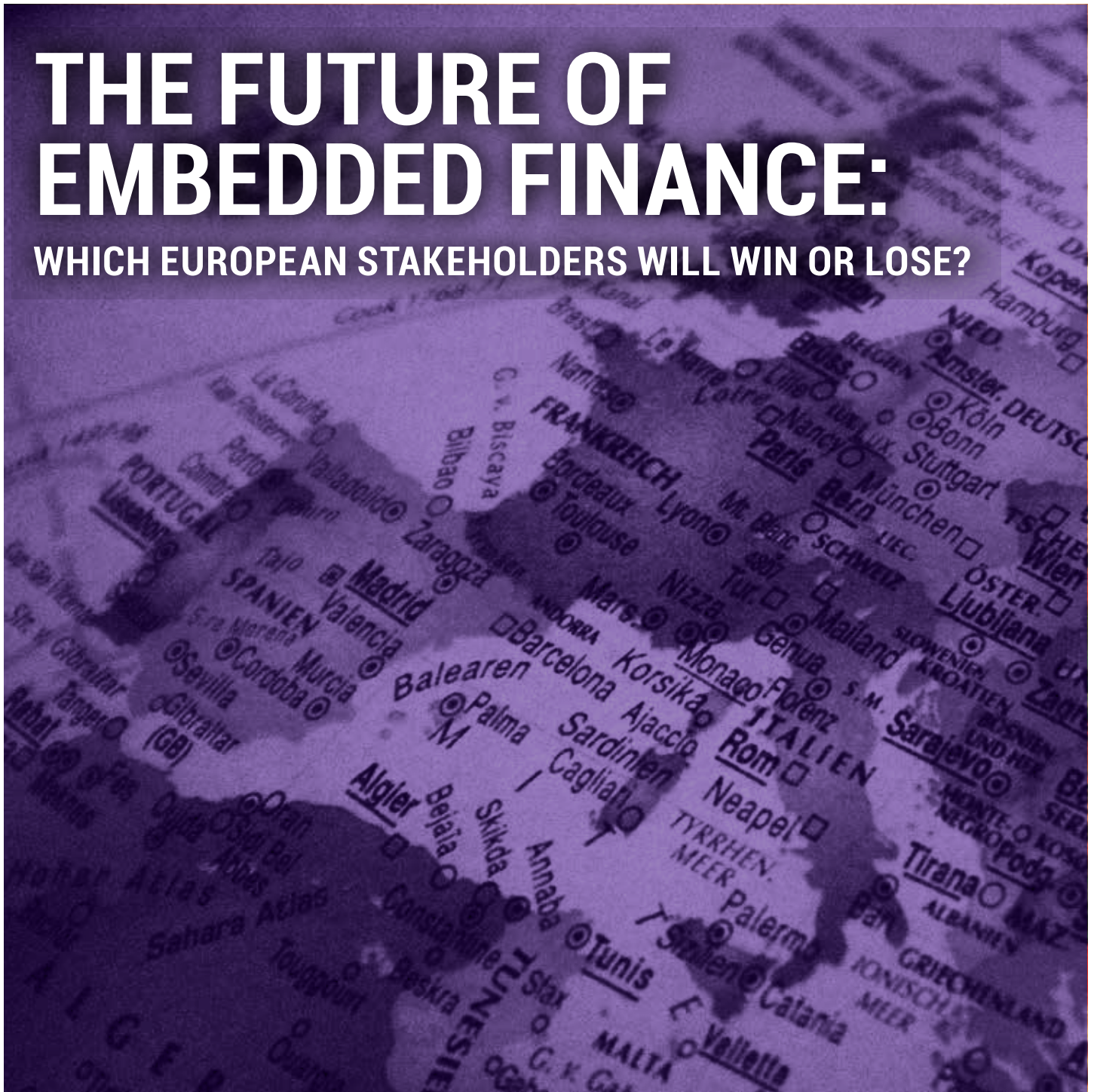


The
FUTURE SERIES
2022

**THE FUTURE OF
EMBEDDED FINANCE:**
WHICH EUROPEAN STAKEHOLDERS WILL WIN OR LOSE?



03

AUTOMATION AND THE FUTURE OF FULLY DIGITAL:

NEOBANKS, CHALLENGERS AND FINTECH FIRMS

BaaS platforms are becoming an integral part of the customer journey for newcomers to the financial industry, supporting these firms in their extension of their product offering and innovation for niche groups. While very few traditional banks have completed their migration journey and many still operate with legacy infrastructure, many fintechs were born in the cloud.

APIs enable applications to connect and exchange data in a programmable and automated way: neobanks, challengers and fintech firms also realise that when connecting multiple bank accounts into just one application, the application behind the scenes must connect to the different banks' APIs to trigger and aggregate the data. These technical interfaces have huge business benefits. They are digital products ready to be embedded to deliver and export capabilities enabling new banking customer experiences.

In the early 2010s when the first neobanks were launched, their unique selling point was their customer experience. Neobanks and challenger banks are agile, convenient and are less expensive to run and use, but are yet to capitalise on scalable profits. In fact, a 2019 [Medici](#) report found that while neobanks will have 85 million customers by 2023, profitability will still be a rare opportunity for the majority.

This is the reason why many newcomers are looking to what is referred to as vertical banking – delivering highly personalised banking experiences to a specific type of customer. By creating a product that meets the tailored needs of a particular audience and targeting psychographic traits such as a shared lifestyle, shared attitudes, and shared beliefs, neobanks are going beyond technological excellence to accelerate progress.

CEO of neobank Nomo, Xavier Capellades, highlighted that embedded finance is “the natural way to introduce financial services specifically at this precise moment that users or customers demand them. It doesn't make sense that users need to access their operative banking services through other channels or providers that are not integrated on the natural flow of their activity. The market potential is all the markets!”

Neobanks and non-financial brands are at an advantage in this respect because they already have the agility and efficiency to offer an optimal user experience.

“In the first phase, BaaS has focused on offering some operational financial capacities such as bank accounts or cards, but we need further smart integration to use the new verticals’ data and offer more sophisticated solutions. Regulation is a must and it should offer the same guarantee to the final users,” Capellades added.

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Carlo Panella, head of direct banking at Italian neobank Illimity states that because of this evolution of the banking industry, “70% of the Italian population would consider GAFAs (Google, Apple, Facebook, Amazon) as providers of banking services, a percentage that is even higher than in the United States.”

Neobanks, challengers, and fintech firms will “emerge as winners in a fiercely competitive arena in which big tech companies will begin to occupy larger shares of the services that are data based,” Panella continued that these banks will be those with new, yet sustainable business strategies. There is opportunity for a new ecosystem that is built on a ‘platform as a bank’ model “in which different forms of openness and collaboration will combine to enhance different competitive advantages within highly differentiated customer experiences” – as Panella explored.

Putting this into practice, Nomo uses BaaS to aggregate over 60 banks into their accounting platform and recently launched a new bank account and virtual debit card with Mastercard that is fully integrated with their accounting software solutions. Their super app or super platform has a holistic vision to integrate all operative financial services with their business management platform so that it can become the key operating system for freelancers and SMEs. In a similar fashion, Illimity has no branches and 80% of new customers are acquired via smartphone, relying on the holistic nature of their cloud-native infrastructure and APIs to enable rapid integration with external partners.

Further to this, sharing data with partners allows innovation to come to the fore and for customers to have access to all their accounts with different banks in one application, personalised tools and tailored profiles that can help them manage their finances and most importantly, ensure information security is strengthened with evolved onboarding processes.