

Embedded Banking – Understanding the “Invisible” Bank

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Invisible Banking

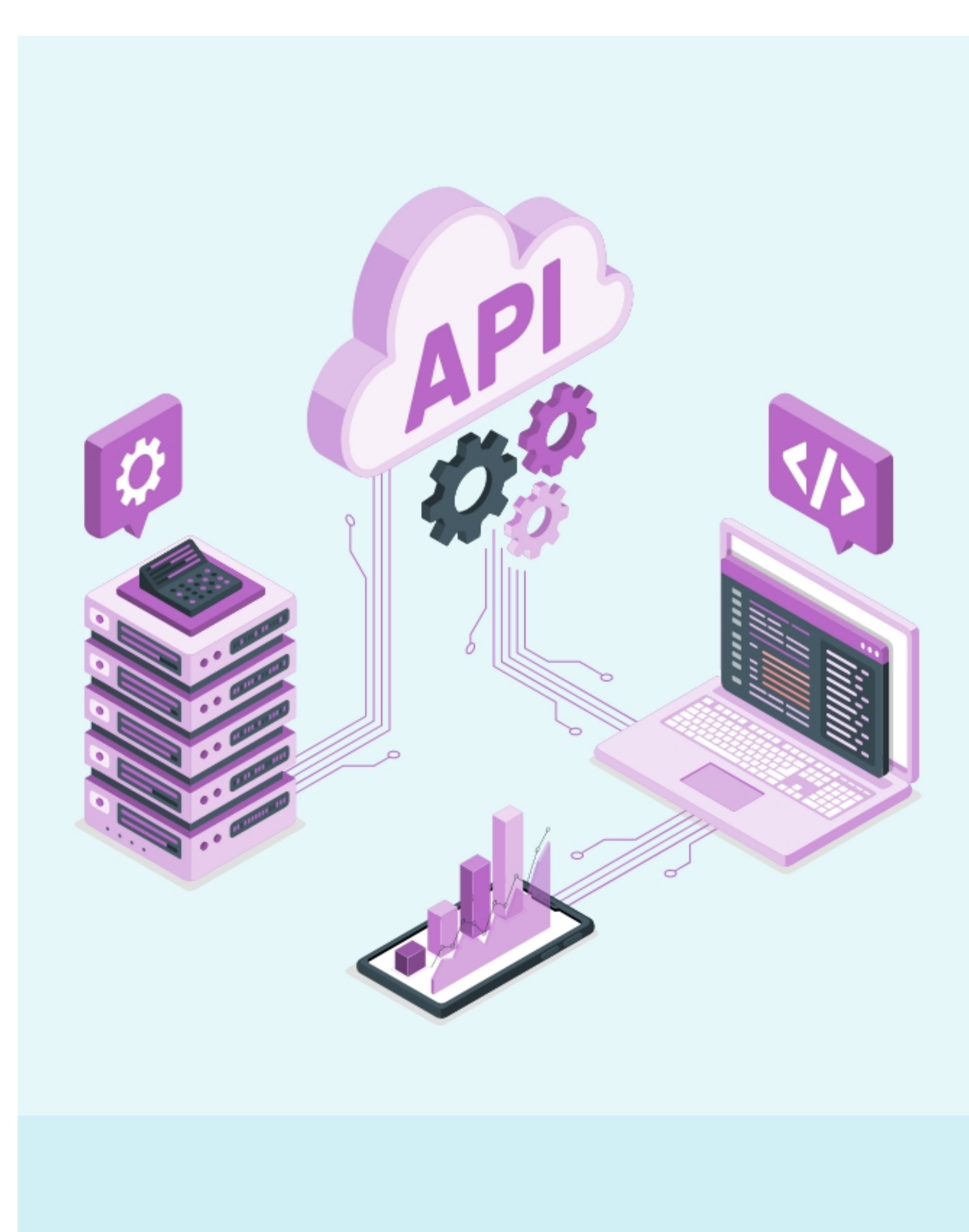


An ING Bank customer in the Netherlands can travel on public transport without purchasing tickets or swiping a physical transport pass of any kind. No, ING Bank is not offering free rides as a promotional scheme. It is piloting an innovative “Invisible Tickets” for users where an app on their mobile phones automatically detects the mode of transport once the passenger boards it. When the passenger disembarks, the app calculates the fare for the distance traveled and debits it from their bank account. Modern banking is no longer restricted to the physical branches and the way customers bank is being reimagined. Internet and mobile based options took services to the customer's fingertips anywhere and anytime they needed.

And this next wave of innovation will embed financial services into disparate businesses that customers engage with every day. Banking is becoming contextual, intrinsic, personalized, and increasingly invisible.

How is Banking Embedded?

Embedded banking is the next evolutionary stage of financial services where banks and third-party software providers come together to leverage the emerging API economy. They also use emerging technologies like Artificial Intelligence (AI), Machine Learning (ML), Robotics, Voice based banking, Virtual Reality (VR), Augmented reality (AR), Blockchain, edge computing to create the invisible bank. It is mutually beneficial for banks and the businesses partnered with as it not only saves time and resources but also delivers a seamless customer experience. With PSD2 regulations and open banking norms facilitating a new era of financial services, the sector will soon see the emergence of Banking-a- a-Service (BaaS) models where banking APIs are embedded into third party businesses and services.



The Emerging API Economy

APIs help in conducting transactions in real time, improving the quality of decision making and providing a superlative customer experience. They are already being used to automate payments status enquiries, retrieve account details in real time, ensure faster settlement of claims in insurance and more. DBS in Singapore has launched hundreds of APIs across 20 categories allow other FinTechs and corporates to access a breadth of services like fund transfers and P2P payment services.

Companies like AIG, McDonalds, MSIG, and start-ups like PropertyGuru, Activpass, FoodPanda, Homage, and soCash have already joined the platform to offer a new, convenient and a value driven experience.

Data Driving the Embedded Era

The emergence of fintechs has revolutionized the sector with innovative technology offerings that give the modern customer uberized banking experiences. Fintechs like Wise are offering an all-in-one banking solution for e-commerce and other marketplaces managed by them. Players like Weaver have launched a range of embedded banking tools for the services sector. Fintechs like Loot and Pockit are offering real time notifications the moment a transaction is completed, even before the card is removed from the ATM. With their vast repositories of customer data, banks are well placed to fast-track their embedded roadmaps.



By using advanced data analytics technologies like AI, they can glean contextual insights from their customer data. This will then form the basis for key strategies including personalization, embedded banking and more. At this juncture, the move to open and embedded banking is no longer a choice but a matter of survival and growth for banks as fintechs pose serious competition and market disruptions accelerate.

Technology Modernization

The only thing standing in the way of traditional banks and the next wave of innovation are their legacy systems that cannot support advanced technologies. Modernizing their systems is a priority but transforming the core banking system is an expensive and risky proposition. Partnering with a third-party solution provider is a good idea. The partner can implement a middle ware to sit over the core system that can then form the innovation and technology engine. This will allow them to respond to the customer needs in real time and in a contextual manner.



A holistic view of each customer's engagement can drive a new wave of innovative personalized products and embedded services. Of course, given the data centric nature of this strategy, it will require customer permission and will be built on a foundation of deep customer trust in the bank. Banks must also embrace a culture of innovation and learning with ongoing assessment of customer satisfaction and quality of engagement provided.

Despite the tremendous potential of embedded banking, it is not without some challenges. Its main advantage of frictionless banking may prove costly to customers by facilitating impulse buying patterns. Additionally, the model does not fully fit in with current regulations and involves systemic and regulatory risks. Since these models are only just emerging there is still time for the sector to address these challenges quickly.

To thrive in the modern tech powered era banks must dissociate from the legacy systems and mindsets, and move towards consumer centric, personalized, contextual and insight driven solutions. As 5G becomes more pervasive, a new connected device ecosystem will emerge, which will in turn drive increased penetration of embedded banking services. Traditional banks must explore symbiotic partnerships with Fintechs and work with third-party vendors to offer a new innovative range of services. But at the same time, they must be careful to not become mere utility providers, to be leveraged by Fintechs and tech giants. Thinking beyond the core functionalities to become a platform orchestrator of a complete ecosystem of players is the way forward for the sector.