



Bocconi Students Fintech Society

The rise of Banking-as-a-Service in e-Commerce

www.bsfintechsociety.com

What is banking as a service?



BaaS refers to the provision of financial services by nonbanking entities through licensed banks

- Seamless **integration of financial services** and products in other kinds of customer activities
- Has the potential of **increasing interactions** with the brand, **customer fidelity**, **affordability** of the product and overall **benefitting sales**
- Examples include **small loans**, calculation and sale of **micro insurance** and **white labelled credit cards** that offer fidelity points

Quantifying the market:

- Initially dominated by **small Fintechs**, this market has seen rapid growth, sparking the **interest of incumbent banks** such as Goldman Sachs and BBVA
- Valued at **USD 356.26 Billion** in 2020 and a projected **USD 2,299.26 Billion** by 2028
- **CAGR of 26.33%** from 2021 to 2028

Enabling factors:

- **Cloud and digital** to improve automation and rapid scaling
- **Open banking** enabling distributors to natively embed their BaaS proposition into their experience
- **Rising customer expectation** drive demand for new fintech and embedded finance experiences



Earliest examples of BaaS include **partnerships** between **distributors** and **banks** to launch **co-branded or white labelled credit cards**



Nowadays, distributors can **embed standardized BaaS solutions** directly on their websites through **open banking and APIs**



The market is shifting towards more **sophisticated solutions** that can better accommodate money management needs of users. Examples include implementation of **A.I.**, **insurance** and **innovative financing methods**

Deloitte Digital, *Banking as a Service, Explained*

Research and Markets, *Global Banking As-A-Service Market Size By Enterprise, By End User, By Geographic Scope And Forecast*

BaaS: operations and players



Three key institutions cooperate to offer financial solutions to customers



Brands

Commercial companies embedding financial services in their offer to broaden the customer experience



Providers

Tech companies that offer financial capabilities to help brands embed the service requested through modern API-driven platforms



License holders

Bank licence holders that enable partner brands to provide financial services by renting their licence out as a service, often through partnerships with an as-a-service provider.



The **BaaS stack** enables:

- **Collaboration:** It requires cooperation from multiple providers
- **Speed:** companies design and build new propositions far faster than they could on their own
- **Specialization:** an ecosystem of specialized providers deliver services

11:FS (2020), Banking as a Service: reimagining financial services with modular banking

E-Commerce applications



Low costs, time efficiency and automated inventory management are the keys to the E-commerce growth



Embedded Finance through API

- API is a software that allows two applications to **interact** and **exchange** the essential data safely.
- It allows **interaction** between banks and Fintech operators **without** having heavy financial **issues**.
- It allows interaction between e-commerce and websites by **transferring information** from one software to another
- For businesses in shipping and logistic softwares it is used to **coordinate** and **manage** operations with features like labeling and tracking



Time saving with Cloud

- With Baas banks can lower the costs and time to build up departments.
- They **deploy** ready-made business processes and use **technology** to **increase** customers **experience**.
- With Cloud the entire services of department can be managed remotely.
- Executives and teams **focus** more on the **organizations core** offerings and not on business building.



Solarisbank

Solarisbank is a Berlin based fintech company that offers Banking-as-a-Service Platform with its German banking license. Their services include **digital banking, payments, lending and KYC**.

One of their partners is the biggest German e-commerce **Otto**.



Baas used for KYC principle

- **Non-financial** companies incrementing e-commerce payments have a major **insight** on the customer's **financial** situation
- With the Baas application they **analyze** financial service required and **gather** the information
- **Efficiency** and **granting security** to their financial services are their main powers.

Case study: Shopify

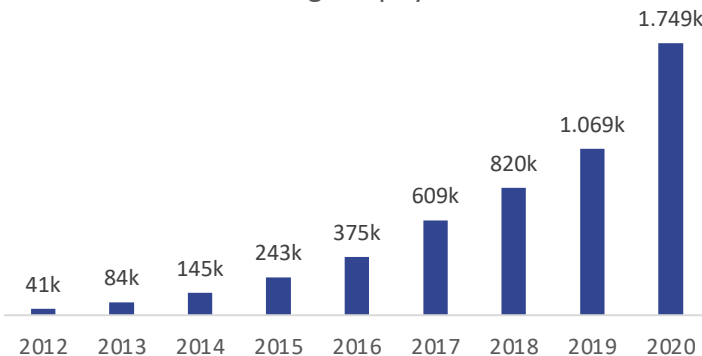


In 2020, Shopify launched Shopify Balance, a non fee banking account designated for independent businesses that will be embedded in the Shopify admin

What is Shopify?

- Shopify is a **platform** that enables users to easily **create** and **manage eCommerce stores** and its main value propositions include **reliability**, **low cost** and **accessibility**
- Shopify is publicly traded and has a **market cap. of \$191.3 bn** with **revenue** for the quarter ending on sept. 30th 2021 of **\$1.124 bn**, a 46% increase from the previous Year over Year

Number of merchants
using Shopify



Shopify balance:

- Shopify balance is the **BaaS proposition** from Shopify, it uses **Stripe** to integrate **small business bank accounts** by collaborating with **Evolve**, users hold and manage these bank accounts **directly on the eCommerce platform**
- The interface provides **key information on the financial health** of the firm, serving as a functional tool for entrepreneurs as well as a **faster access to revenues** and physical and virtual **debit and credit cards** for the business

stripe

- Online payment processing platform for business
- offers a solution to **transfer funds** from the buyer to the seller
- Stripe is **easy to set up**, offers a **strong fraud protection** and provides services **worldwide** in 34 countries
- Currently partnered with **Lyft**, **Pinterest**, **Amazon** and **Shopify**

Brian Dean, *Shopify Revenue and Merchant Statistics in 2021*

FreshBooks, *what is stripe and how does it work?*

Case study: Amazon



Amazon's last partnerships with Affirm and Goldman Sachs are just the start for a complete implementation of the Banking as a Service model in its ecosystem.

Sellers' side

The Amazon's introduction of a **new digital credit line** for U.S.-based merchants with the online bank partner **Marcus** (Goldman Sachs subsidiary) aims at:

- helping SME **expand their business**;
- **creating a more competitive financing system** in its e-commerce as Bank of America has been offering term loans for years.

This trend is likely to continue as David Solomon, Goldman's CEO, wants its company to **become a "banking-as-a-service" provider for big corporations**.

A real threat to traditional banking?

- Amazon's main strategic goal is to **allow customers and merchants to make as many transactions as they want in the easiest possible way**, and to reduce any buying/selling friction.
- With the latest several fintech investments Amazon wants to **take the core components of banking and to use them to best support its merchants and customers**.
- As a CB Insights study highlights, **"In a sense, Amazon is building a bank for itself"**.

Buyers' side

Thanks to their new partnership, Amazon is testing offering **BNPL company Affirm** as a **financing option** in the US for orders over \$50.

This is the last move in the financial services world for Amazon, after the creation of:

- **Amazon credit card** with **Chase** that offers 3% cash back on Amazon;
- **Amazon store card** with **Synchrony** that offers 0% buy now pay later financing;
- **Amazon Pay**, a checkout and payments platform used by tens of thousands of merchants.



"If Affirm captures just 1% of Amazon.com's North America sales through this deal, it could add over \$900 million, or 10%, to revenue"
Julie Chariell, BI senior fintech industry analyst

Forbes, CBInsights, Bloomberg, CNBC

Advantages of Embedded Finance



The reasons behind the growth of Baas can be explained by the great benefits that the service offers to banks and the non-institutional companies.

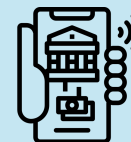
Banks benefits

- Can tap into the platforms' vast customer pools
- Obtain useful data to acquire new users and understand better the existing ones
- Can manage customers in a more efficient way, with the ability to increase their margins and reduce costs for customers



Non-institutional companies benefits

- Quickly assess the credit worthiness of the subjects almost in real time
- Process automation: the company saves time
- The automation of onboarding processes: thanks to this innovation, the process of collecting financial data that is difficult to access and the consequent customer management is faster, both for the bank and for its customers.
- Know your client automation
- VAS - Value Added Services - or a series of services such as, for example, expense analysis systems
- Guarantee maximum data security



I benefici dell'open banking, Banca Aidexa

Authors



Project Lead



Marco Foresio
Head of Generalist desk,
Board member



EMIT MSc student at Bocconi University. Former intern at Links Management & Technology S.p.a. Looking for new challenges and growth opportunities.



Luca Tondo
Project leader



Currently a 3rd year student at Bocconi University, coursing a BSc in Economics and Management. Inspired by innovation.

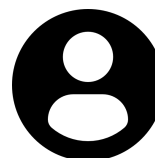
Junior Analysts



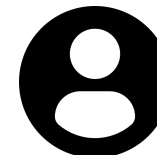
**Marco
Del Coco**



**Forese Francesco
Salviati**



**Sofia
Leali**



**David
Suraj**





[Instagram.com/bocconistudentsfintechsociety](https://www.instagram.com/bocconistudentsfintechsociety)



[LinkedIn.com/company/bsfintechsociety](https://www.linkedin.com/company/bsfintechsociety)



[Bsfintechsociety.com](https://www.bsfintechsociety.com)



As.bsfintechsociety@unibocconi.it

www.bsfintechsociety.com

Following presentation may have included forward-looking statements. These statements are not historical facts, but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside of our control. It is possible that the Firm's actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. These materials are based on information provided by the internet or otherwise reviewed by us. We have assumed that such estimates and forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments. These materials are not intended to provide the sole basis for evaluating and should not be considered a recommendation with respect to any transaction or other matter. Prior to entering any transaction you should determine, without reliance on us, the economic risks and merits as well as the legal, tax and accounting characterizations and consequences of any such transaction. These materials do not constitute an offer or solicitation to sell or purchase any securities and are not a commitment by us to provide or arrange any financing for any transaction or to purchase any security in connection therewith. We assume no obligation to update or otherwise revise these materials.