Rob Rubin, and Eleni Digalaki

The Banking & Payments Show: Who will win BaaS in 2026?

Audio

Today's episode is all about the future of banking as a service (BAAS). In our "Headlines" segment, we use Railsr's fall from grace to discuss how today's economic uncertainty has slowed down the progress of embedded finance and BaaS. In "Story by Numbers," we examine a cornerstone advisor's forecast of BaaS revenues in 2026 and how a 2022 study from Endava found that about half of fintechs are having scaling and platform issues with their BaaS providers. And in "Pretend CEO," we ask guest Leda Glyptis to pretend that she's teamed up with a giant private equity firm with unlimited capital resources and a vision of building or buying her way to win a material share of the $25 billion of BaaS revenues in 2026. Join the fun with host Rob Rubin, our analyst Eleni Digalaki, and special guest Leda Glyptis, chief client officer at 10x Banking and author of the recently released book "Bankers Like Us."

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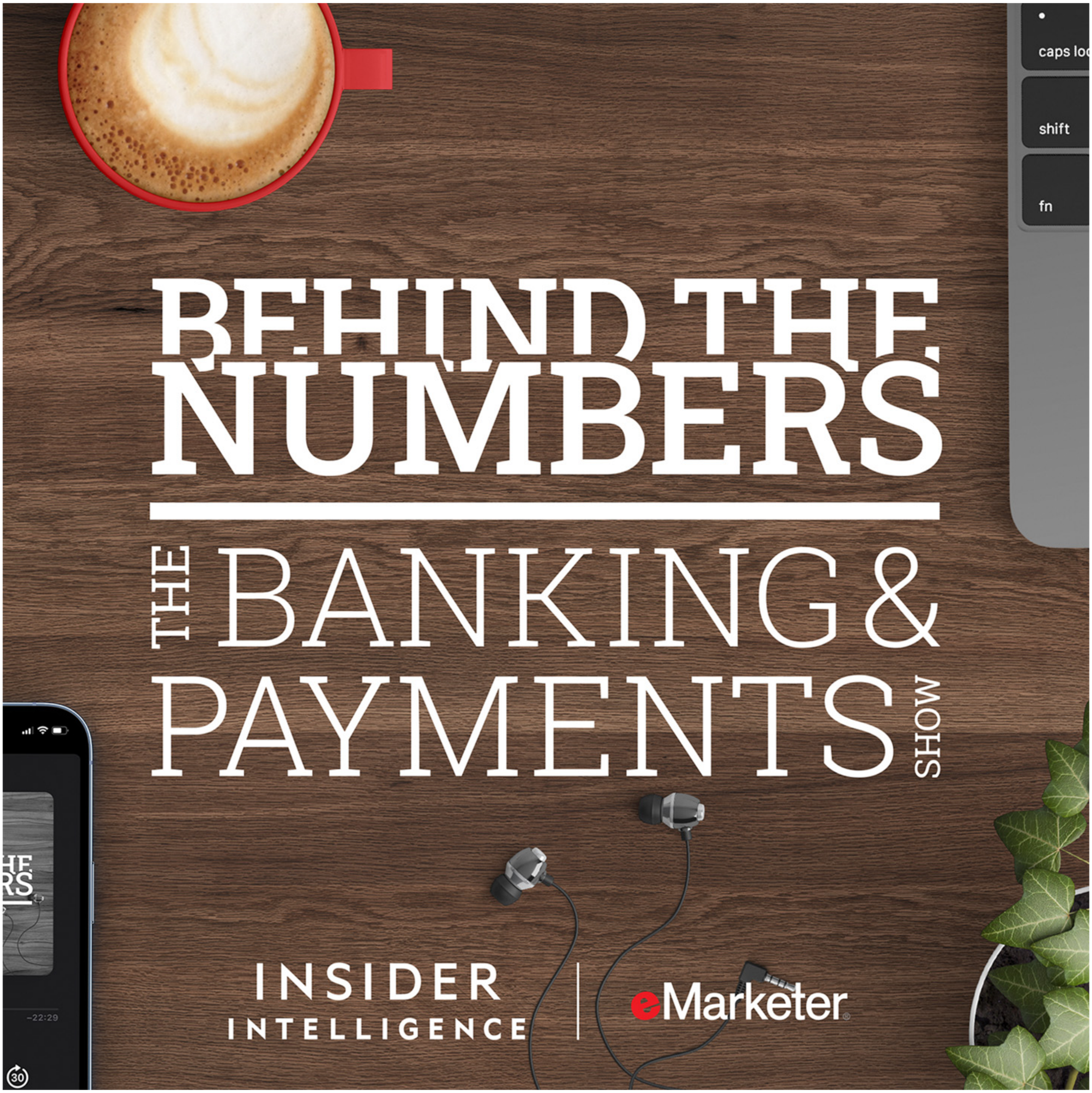

Episode Transcript:

Rob Rubin:

Hello everyone and welcome to the Banking and Payment Show. A Behind the Numbers podcast from E-Marketer. Today is May 2nd. I'm Rob Rubin, GM of Financial Services and your host today. If you enjoy this podcast, please give us a five star rating and subscribe. The title of today's episode is Who Wins Banking as a Service, and I've invited back Head of Financial Services Research, Eleni Digalaki and Leda Glytis, Chief Client Officer at 10X Banking and author of recently release book, Bankers Like Us, an Amazon link will be in the show notes. Hey Eleni, hey Leda, how are you?

Eleni Digalaki:

We're great. Thank you for having us.

Leda Glyptis:

Yeah, same here. Thanks for having us, Rob.

Rob Rubin:

Yeah, I'm really looking forward to it. Leda, before we get into it, just to help our audience get to know you, I have a couple of quick fire questions for you.

Leda Glyptis:

Go for it.

Rob Rubin:

Where do you live?

Leda Glyptis:

I live in London.

Rob Rubin:

And what country, aside from where you live, have you spent the most time?

Leda Glyptis:

Greece where I was raised. You have a very high saturation of Greeks on this call.

Rob Rubin:

I know, I'm very happy. Aside from Greece, where would you like to visit? Well, you have visited Greece, but where would you like to visit, but you haven't had a chance yet?

Leda Glyptis:

There is nowhere on the planet I don't want to go, but I have managed to travel very extensively and never been to Japan. So, if any of your lovely listeners would like to invite me to a book signing in Tokyo, I would quite like that.

Rob Rubin:

If we could just move ourselves to Kyoto right now because the cherry blossoms are in bloom there at the moment. And then I have an oddball question. When you eat cake, do you prefer to eat it with a fork or a spoon?

Leda Glyptis:

I prefer to eat it with a fork.

Rob Rubin:

There you go.

Eleni Digalaki:

Controversial.

Rob Rubin:

Yeah. Well I eat with fork too. That was fun.

Eleni Digalaki:

A high saturation of fork eaters too.

Leda Glyptis:

Yeah, exactly.

Rob Rubin:

Let's get right to the headlines to cover everything. In the headlines, we chat about a top story as it relates to our episode and for the headline today, I want to go back to an article we published in March. Railsr's fall from grace shows embedded finance Fintechs can fail, despite market growth. Railsr was basically sold to an investor at a discount because their need for capital left them vulnerable when the funding climate dried up. Leda, how has today's uncertain economic environment slowed down progress of embedded finance and banking as a service?

Leda Glyptis:

I think it's fair to say that, what I'm about to describe affects pretty much everyone, and I will explain in a second why I think it affects those deeper players more. When Rails had its fall from grace, or whichever way you want to discuss it, it was a big shock to everyone in the financial services ecosystem in a big shock to the FinTech world. Both because Nigel's a very well known figure and we had all observed the rise of Railsbank and hailed it as an advent of a new era for FinTech and a bit of a coming of age because at the beginning of this journey, the capabilities that fell into the bucket of FinTech tended to be more digital experience driven more around the sort of front end of things. When Railsbank as was, was one of the examples that people pointed to that FinTech is coming of age, it's doing more complicated things, lower down the stack, right?

Rob Rubin:

Yeah, [inaudible 00:03:50] structure.

Leda Glyptis:

So when they had the set of challenges, a lot of questions were asked, some of them fair, some unfair, and it was a massive reality shock that has sent shockwaves and didn't stop there because as you rightly point out, the capital environment has changed pretty radically and pretty quickly. And I think there are two pieces to call out there. It wasn't always going to be going up and up. And I called that a few years ago and I was told that I'm a pessimist, and you know what? I'll take that. I think it's more realistic to say that the funding of a variety of startups cannot continue as a bottomless, endless growth trajectory I gave a talk few years ago called Plants and Zombies. And it was exactly around the dependence culture that is created by the VC wave that has inundated the space.

So, go back to your question. The funding environment has dried out for everyone. It's particularly challenging for early stage infrastructure players. Railsr wasn't early stage, but for early stage infrastructure players, this could be a death note because the reality is you need a lot of money to get going if you're trying to create a BaaS platform or any embedded finance platform play. But it's not just them, it's everyone. The God of growth that has been fed by

VCs by quite a lot of money that wasn't easy necessarily, but was fairly cheap, that God has fallen.

Rob Rubin:

Can we take a step back and maybe Eleni you can help me here, why is banking as a service so hard and expensive?

Eleni Digalaki:

I think that's a good question and goes back to Leda's point about why it's particularly difficult for smaller players and early players. There's a lot you need to get right, whether it comes to the infrastructure, your ability to offer seamless integration to your clients, to ensure protection of data, and it's also fundamentally a very different and difficult business model, especially for small community banks that might be trying it out. And there's a lot of learning that needs to happen and new talent that needs to be acquired. And also, when it comes to risk controls, sometimes it's about how do you ensure regulatory compliance when a third party is involved. Especially in this climate, when we had the collapses of players like FTX, BlockFi, the regulator will be, why did you even decide to work with them? What's the due diligence that you did before you partnered with them?

And we're going to have more pasts, and everyone is aware of that. So, they're much more mindful of the fact that they need to be very careful with who they work with. Also, you need to be offering something that's flexible and customizable. If you're a small player, it's really difficult to do this because it's very costly, but it will pay off long term. And then lastly, Leda, I'm sure will have more to add, it's about scalability. I read somewhere that I think a survey by Endava that you're going to reference in a bit, that 50% of Banking as a Service providers have only one FinTech partner. This is where I want Leda to be like, does that sound about right? It sounds huge to me, but to the extent that it is true, this is very expensive. If you only have one client, a couple of clients, it's very expensive to make that business profitable, right?

Rob Rubin:

Right. They couldn't have started out with the idea that they were only going to get one client. So, I wonder if they're unhappy, if they only have one.

Eleni Digalaki:

I'm sure they are.

Leda Glyptis:

I bet they're looking at the economic model going, oopsy.

Rob Rubin:

Because a community bank is different than a startup and their business model's quite different in terms of profitability and looking at profit versus growth. So, how would a community bank go about getting the capital requirements and making the investments necessary to build a platform? How have they done that?

Leda Glyptis:

Let me take it a click up because I think what you said earlier is the crux of the question, Banking as a Service, it's in infancy as a business model.

Rob Rubin:

For sure.

Leda Glyptis:

But not in terms of the capabilities that make it possible. The regulation, the API first environment. The thing that we're still struggling to understand as an industry is the business model, as you rightly said, and people are toying with the idea of becoming the platform provider. People are toying with the idea of becoming part of an ecosystem. But the reality is most of the players I see are trying to replicate a pretty traditional banking ecosystem type business model, just do Banking as a Service as well. So, it becomes extremely expensive when you're trying to do it like that and it becomes extremely expensive because you're not doubling down on a particular business model, you're trying to leverage, but not destabilize the existing relationships.

You're trying to create relationships that don't antagonize your main business, and that becomes extremely expensive. What we've seen so far is, some players that you would classify as FinTech players coming in and saying, let me create a Banking as a Service, bank in a box type offering, for all of you non-FS people who might want it. That needs a lot of scale to wash its face financially. You need to have a pretty clear idea of what the end state is. Are you trying to replicate an ecosystem version of a full consumer bank? Are you trying to do something different? What does it look like when it's complete, and what would it take in terms of numbers of partners to get there? Or are you just coming in leveraging your license, and just creating capabilities for customers and using your license, because if you're doing that, it could be quite cheap, but nobody's coming in cold to do that.

For me, the big question is, the big boys are beginning to dip a toe in this water. Some pretty big banks are beginning to say, I can probably do that. They probably already have a lot of that infrastructure, particularly if they're embedding wholesale payments, if they're doing any transaction banking type embedded capabilities. But the question goes back to what you said earlier, Rob, are they picking a business model to service or are they trying to do a little bit of everything? Because to do a little bit of everything with brand new infrastructure is an extremely unprofitable endeavor.

Rob Rubin:

Yes. I think that just to sum up this section, we have learned that Banking as a Service is very hard and expensive and that the capital market drying up has definitely slowed it down a bit in terms of the newer startups perhaps challenging some of the early entrance to their business model. In our next segment story by numbers, I want to dig into the opportunities and challenges that banks face getting into the market. In story by numbers, we pick a number or two that helps us dig into the episode's topic. For story by numbers, the first number I want to focus on is 25 billion.

That's Cornerstone Advisor's forecast for Banking as a Service revenue in 2026. And when I first read this number, I think back in 2022, I thought, yikes, that's big given where we were because insider intelligence had sized the US Banking as Service revenue in '22, a bit north of $2 billion. But on the flip side, I'm very much on board with the opportunities of embedded finance. So, I believe we're still in the real infancy. So, we've already talked about the capital markets cooling up, but how does the cooler climate for FinTech investments impede the development of the market? What we were just getting at.

Leda Glyptis:

Goes back to business models for me always. Because we all agreed that BaaS is hard and expensive, but there's a caveat there. It's hard and expensive if it's not your primary business. If you're trying to do it side of desk, if you're trying to scale it from a standing start. And the reason I say that is because it needs scale to wash its face, right?

Rob Rubin:

Right.

Leda Glyptis:

And that scale doesn't come if you're tentative about it. So when you look at that 25 billion, it looks like a big number. I actually think that number will in time be much, much bigger.

Rob Rubin:

Alright.

Leda Glyptis:

But what I keep saying, and make consultants very unhappy with me is that, that's not net new money. That's not money that will come out of nowhere. BNPL is taking market share away from credit cards or unsecured loans. It's not money that's materializing in an additive fashion. So when somebody's looking at the possibility of going for a BaaS market share, for me, the two questions that they need to answer for themselves is one, who am I cannibalizing? Is it me or is it someone else? Am I going to provide a service that takes away business from my competitor, in which case it's net new money to you and well done?

Or am I going to launch an offering over here, like a lot of banks toyed with the idea of PNPL and take market share away from my own credit card business? If it's the latter, the question of unit economics becomes the most significant one. Are you driving down your unit economics? In which case there may be sense in you doing that, which ties everything we've talked about together. If you're investing in infrastructure, you need to understand what you're investing in, what it's costing you, and how it's driving down your cost to serve, and also what market share you'd need for that to balance itself out. Everything goes back to business model, as you were saying earlier.

Eleni Digalaki:

Yeah, I totally agree with everything you just said Leda, but I'm also thinking if it's the latter, if it's going to end up cannibalizing your own business, yes, it is about unit economics, but is it also something that you are forced to do? Because if you don't do it, someone else will?

Leda Glyptis:

Before long, some of these things come at you. I remember when we first started having corporate clients asking for API connectivity rather than portals or documents being prepared, packaged and sent over to them and there was resistance inside the banks. Because like, no, no, no, we get paid more if we do it the other way. And it's like, well, but both the regulator and the client want to consume it differently, and before long, that pressure is inexorable. Will we see Banking as a Service become the dominant way of doing bad business? I think we'll see embedded services becoming the dominant way of doing business.

Rob Rubin:

But aren't some of those embedded services, new services? Because you were talking about how it was sort of replacing or cannibalizing, but I feel like when you talk about embedded finance in some of these user applications of putting finance within the user experience of a purchase path, that feels like that's new to me. That doesn't feel like for a bank that's cannibalization, there're not losing that business.

Leda Glyptis:

So, it depends, right? If you are doing point of sale financing and you're managing to capture market share, away from Klarna, that's net new business for you and fantastic. If you're doing embedded payments for treasurers and you're doing real-time liquidity, that is net new business because you're giving the treasurer information to actually give you more business. So I do agree with you if you're doing more of the same, if you're thinking about credit unions or actually any traditional bank offering a Banking as a Service marketplace with embedded solutions, the main question becomes about marketing.

Are you marketing those services to a demographic that's different to the people who have your credit card in their pocket right now? If you are, then it's net new money to you. These guys we're probably going to spend anyway just not with you, so it's a fantastic way of growing market share. But the reality is that for big players that we're beginning to see, tier ones that we're beginning to see to enter this space, the big question is, am I cannibalizing my existing customer base? And there will be an element of that, right? Because if you offer an amazing user experience, why wouldn't I prefer it to the alternative?

Rob Rubin:

Yeah. I want to throw something out there and see if you guys agree with me, because I think that a lot of the BaaS providers today tend to be smaller banks as we talked about, they have limited tech resources, and we've talked about how hard and expensive Baas is. But the few high profile bad events have certainly increased regulatory scrutiny, that's going to result in more demands on staff, systems and processes. So, while I'm particularly bullish on embedded finance overall, I think that the bar to win a material share of that 25 billion or more of BaaS revenue is really going to be too high for most banks. Last episode I argued that 95% of US banks and credit unions aren't going to exist in 10 years, which will leave about 500 or so. And I feel like this is another nail in their coffin. It's like small banks that are establishing the market today, they're creating the opportunity, they're really priming the space for the big banks to own and operate moving forward. Do you guys agree with that, a little?

Leda Glyptis:

A lot actually. I do think that the tier one players entering this space. In Europe, the big movers are [inaudible 00:15:54] NatWest, moving into this space. These big players that have the reach, the distribution and the technical capability to actually accelerate access. And if they choose to double down on the business model, then it really blows some of the smaller players out of the water. As everything you're saying today ties together, the uncertain climate applies to everyone. If you are a FinTech or a third party or a NFS player and wants to experiment with a new distribution model, that would be your BaaS partnership. The chance of wanting to do it with someone whose future feels secure is higher than ever now. So, I think that everything we've talked about, conspires to making the entry of the big banks into this space more likely and more scary for the small players.

But I do think that as we look at the banks in general, banking, the activity of banking has been part of human life in one way or another for a while. The need for regulated banking service is not going to go away, but the banks as a way of delivering those services, the way we know them now, they're incidental, they're historically derived. They're actually quite new in terms of the shape they are today, and so the fact that there will be consolidation and will be shift is inevitable. It's the way the industry flows and changes, and the combination of new technology, new players, new distribution models, and a pretty difficult funding environment for the small players, and a fantastic interest rate environment for the big players, means we will see consolidation for sure.

Rob Rubin:

Eleni, you agree?

Eleni Digalaki:

I agree. And it's a difficult environment not just for the small Banking as a Services providers, but also for the clients they're targeting. The fintechs and they're not growing as they were, which also impacts how many deposits the partner banks are getting from them, and it's an all around difficult environment. But I think, and I wanted to mention that earlier, and it links very well to Leda's point just now that, the economic environment right now it's tough, but there was never really room for all the players in the market, it's a very crowded space. So, I think at the end of the day, what the current environment is doing is just accelerating the inevitable, it's just going to happen faster.

Rob Rubin:

This has been a really interesting conversation around what's going to happen with Banking as a Service as we're in this time of economic uncertainty and whether that's going to really put the squeeze on some of the initial entrance into the Banking as a Service market and lead the way eventually for the big banks to take it over, which is where I think it's going to go. Before we jump to our last segment, which is called Pretend CEO, and Leda, we're going to have a really good time. I want to first take a break so I can tell everyone about our new Analyst Access Program.

Whether you need a deep dive into a specific report or want to explore the latest trends shaking things up in the financial service sector, or need help benchmarking your business, look into our new Analyst Access Program. This new service by Insider Intelligence puts you in direct contact with the thought leaders who craft our quality reports so you can gain a deeper understanding of shifts impacting your growth goals. Visit insiderintelligence.com/analystaccess and find out how it can help you better prepare for an uncertain year ahead.

In our final segment Pretend CEO, we're taking advantage of having Leda join us today. Pretend you've teamed up with a giant private equity firm with unlimited capital resources and a vision of building and buying your way to winning a material share of this $25 billion of BaaS revenue we're talking about. So my first question for you is, who would you buy?

Leda Glyptis:

My first instinct was to say I wouldn't buy anybody but the reality... No, I wouldn't buy anyone. I would partner extensively.

Rob Rubin:

Okay.

Leda Glyptis:

Despite my career in building software for the last 20 years, I actually think that if you are the business, driving financial outcomes, you should build as little as possible and partner for almost everything. Create evergreen agreements with your partners and if your partners stop being best in class, swap them out. It reduces your risk, it reduces your cost. So, it's the 10X principle, let us build the utility. You build your business on top of it. So, if I were sitting here, I'm pretend CEO, I have, let's argue bottomless cash right now.

Rob Rubin:

Yes.

Leda Glyptis:

I wouldn't focus on acquiring, I wouldn't focus on building, I would focus on creating a set of accelerating partnerships with people who are best in class in the utility component they're building, and I would focus on hiring a team of people who first and foremost understand the unit economics of what we're trying to do, so they can actually manage that cost to serve tipping point, and give me the ability to get the numbers that wash themselves, which is where a lot of the players out there fall down. And I would get them to look at both what it costs to serve and also what the market capture needs to be for us to be a commercial runaway success. Because we've agreed already that you need scale to make this a success.

Rob Rubin:

Yes.

Leda Glyptis:

You can't do it with one or two customers. So people who really understand platform economics, who can really put the unit economics of the cost to serve of the infrastructure we're carrying, not an early proof point, but what does this real market capture need to look like for you to say, yes, I've made a success of my BaaS platform, not as a technological experiment, but as a business.

Eleni Digalaki:

What does your leadership team look like?

Leda Glyptis:

So, actually I'm working with a fantastic team in South Africa at the moment who are in stealth mode, and they'll be announcing the work they do. The team there have shown possibly the best understanding of the economic models they need to crack to get digital success than I've ever seen. So, I'd be hiring all of them from a management perspective. So, financial management, risk management, financial modeling and strategy would live together. And then you need some kick-ass product people who understand how to create platform product with good digital experience. It's very rare that you'll have people who can do both. People tend to either look in or out, and for me, pairing those people well would be fantastic. So if you have one unit that understands all the components of strategy so, money, investment, risk, pricing and strategy in one bucket, and the next bucket is those paired up product people who understand how to stand up and scale a platform, but also understand how to service the end customer meaningfully. You put those folks together with a good compliance lead, they'll take over the world.

Rob Rubin:

How important is compliance though? It feels like...

Leda Glyptis:

Hugely.

Rob Rubin:

Yeah, that's the whole name of the game now.

Leda Glyptis:

A hundred percent. Compliance is hugely important. Actually, your control functions are really important because, you need to be compliant across everything from your material outsourcing, and your infrastructure, and your data governance, and the way you use that data, and the way you manage consent, the way you manage identity, the way you manage privacy, all the way through to how you price and externalize all your services. So, that piece of regulatory awareness and compliance is hugely important. But also everything we've talked about so far is an exercise in risk management. So actually, your entire control function, what we used to call in my early banking days, the business prevention department. So, your control functions become the biggest drivers of your business.

Rob Rubin:

I used that work with people, I like to call my sales prevention specialists.

Leda Glyptis:

Exactly.

Eleni Digalaki:

And how would it be different from the existing Banking as a Services providers or offerings in the market today?

Leda Glyptis:

It would start with the unit economics. I know it's my favorite topic, but it would start with an understanding of your unit economics and an understanding of the market share you need to get for. If you look at the majority of Banking as a Service providers now, they started with the art of the possible. Because they were pioneers in the space when the combination of technology and regulation made it possible for us to have Banking as a Service capabilities, they were first out of the gate to show that it is possible. A lot of our innovation has started with that question, can we do it? Is it possible? Can you build it? But the realization that, to go from sure it's possible to, yes, it's viable. That was a very big leap in terms of market capture. We haven't seen anyone do that yet.

Rob Rubin:

No one's done it?

Leda Glyptis:

In terms of market capture that makes them a viable business? Going to go out on a limb and say, I don't think so. I don't know if you guys disagree.

Rob Rubin:

Do you think Eleni anyone's close to proving viability?

Eleni Digalaki:

No. No one that I can think of right now.

Rob Rubin:

It's interesting because you were talking about buying, not really buying, but partnering, and I was thinking you might buy a bank first.

Leda Glyptis:

Yeah, I assumed I had one, to be honest with you. You're right, if you want to be a Banking as a Service provider, you need a license. So, I had assumed that my imaginary CEO status was inside the bank, but you're absolutely right, you need a license to do this, so you need to have the licensed institution behind you.

Rob Rubin:

So just buy the cheapest license you can get, right? And then build on top of it?

Leda Glyptis:

Well, that depends on whether you want to have a full consumer bank. If you want to have a full consumer bank, you need to be able to lend, which means you need a balance sheet.

Rob Rubin:

But didn't you say that it's hard, right?

Leda Glyptis:

Yeah.

Rob Rubin:

You can't do both. You are building a Banking as a Service business, not a bank.

Leda Glyptis:

See, I disagree that Banking as a Service business, that B is the critical point, right? You're rendering the Banking as a Service. If you want to be the provider of the platform, the provider of the capability, you need to do that B part pretty well. So, to your point earlier, and I'm correcting myself because that assumption needs to be spoken out loud, I see that the only players that can buy themselves to success here, are banks that already have the balance sheet to lend against, if that's what they choose to do, they already have the license, it goes back to your point earlier, Rob, and they choose to partner to build the platform for the distribution of this new service, but you can't do it without a license, and I personally think that if you want to go properly into Banking as a Service, you need the balance sheet.

Rob Rubin:

Well, that's all the time that we have for today, and this has been such a discussion that I wish we could go on longer to really talk about what are the different kinds of Banking as a Service offerings that we're going to see in the future and how it's going to sort itself out once the pendulum swings back to investing again. Leda and Eleni, thank you so much for coming today. This was fantastic. I really enjoyed it.

Leda Glyptis:

Thank you for having us.

Eleni Digalaki:

Thank you Rob, and so nice to have you Leda.

Leda Glyptis:

Thank you. Thank you so much.

Rob Rubin:

Yeah, this was great. And I want to thank everyone for listening to the Banking and Payment Show and e-Marketer podcast. I also want to thank our editor Todd, who has his work cut out for him. In today's episode, we referenced a few different numbers from a few different places. We produced a report called The Bank in 2025, and also our article on Railsr. Those links are going to be in the show notes. Our next episode is on May 16th, and you'll not want to miss it. See you then.