In-Class Exercise: Embedded Finance Business Models

Exercise 1: Structured Debate — "Is Solaris a Bank or a Platform?"

Format: Split into two teams. Each team prepares its position, then presents. After both sides speak, the class votes — but first read the debrief questions. For grounding, use Solaris as the reference case: it holds a full credit-institution licence in the European Union and simultaneously operates as a BaaS platform for dozens of brands.

Team A — "Solaris Is a Bank"

Anchoring evidence: Solaris holds a credit-institution licence, accepts deposits, lends from its own balance sheet, is supervised by BaFin, and is subject to the full prudential stack applicable to any German bank — capital requirements, liquidity coverage, stress testing, resolution planning.

	Team A: Solaris Is a Bank
Argument I	
Argument II	
Argument III	
Concession	*Strongest argument AGAINST your position:*
Closing	*How you address the concession:*

Team B — "Solaris Is a Platform"

Anchoring evidence: Solaris sells wholesale access to its charter through an API catalogue. Its customer is a brand, not an end consumer. Its revenue logic is platform-like: per-account fees, per-transaction fees, and programme-management contracts. Its competitive peer set includes Unit, Treasury Prime, Marqeta, and Synctera — none of which would call itself a bank.

	Team B: Solaris Is a Platform
Argument I	
Argument II	
Argument III	
Concession	*Strongest argument AGAINST your position:*
Closing	*How you address the concession:*

Debrief Questions

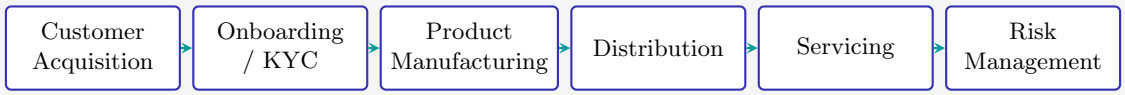
Q1: Does the answer — bank or platform — matter for how prudential regulators should supervise Solaris? Why or why not?

Q2: Could the answer genuinely be "both, at the same time"? If so, what does that imply for the usefulness of the classification in the first place?

Q3: Name another financial-services infrastructure provider that blurs a category boundary in the same way. What tension does the blurring create for its investors and supervisors?

Exercise 2: Value Chain Mapping

Scenario: The banking value chain has six links. In embedded finance, each link is owned by either the brand, the BaaS provider, or the sponsor bank — and sometimes the link is hosted (rented as a service) rather than owned. For each link, identify which of the five BaaS providers on the reference slate (Solaris, Unit, Treasury Prime, Marqeta, Synctera) most clearly controls the link, describe what the BaaS is substituting for the traditional bank-integrated approach, and predict whether the link forms a moat or a margin cap.



Value Chain Link	BaaS Provider Controlling It	What It Substitutes For the Traditional Approach	Owned or Hosted?	Is the Link a Moat or a Margin Cap?
Customer Acquisition				
Onboarding / KYC				
Product Manufacturing				
Distribution				
Servicing				
Risk Management				

Synthesis Questions

Q1: Which value-chain link creates the strongest moat for a BaaS provider, and which link most clearly caps its margin? Defend both answers with reference to ownership, data, and regulatory barriers.

Q2: For at least two of the five BaaS providers on the reference slate, identify a link where the provider "hosts" a capability from a sponsor bank. What would it take for the BaaS to convert that hosted link into an owned one — and should it?

Facilitator Solutions

Sample answers for instructor reference. These are illustrative; student reasoning may diverge and still be valid.

Exercise 1: Debate Sample Answers

Team A (Solaris Is a Bank) — sample arguments

Argument I. Solaris holds a full credit-institution licence granted by BaFin. That licence obligates Solaris to hold regulatory capital commensurate with its credit exposure, maintain liquidity buffers, submit to stress testing, and participate in the deposit-insurance scheme for its balances. A platform classification carries none of those obligations; Solaris bears all of them, which places it inside the banking regulatory perimeter by construction.

Argument II. Solaris earns a meaningful share of its revenue through the classic banking mechanisms: interest on deposits, lending spread, and interchange on issued cards. Platform-type revenue — per-account fees, programme contracts — sits alongside these, but the underlying economics still resemble a credit institution far more than a software marketplace. When the Business Model Canvas is applied, several blocks that matter most to a bank (Key Resources: the licence itself; Cost Structure: capital and compliance; Key Activities: balance-sheet intermediation) dominate.

Argument III. The brands that sit on Solaris rails rely on its banking capability precisely because they are not banks. Solaris serves as the regulatory counterparty for end-customer balances and as the resolution counterparty for systemic events. That systemic role is what banking supervision exists to police. A firm that plays this role in practice is a bank in economic substance regardless of how it markets itself.

Concession. The strongest argument against Team A is that Solaris's commercial surface — the API, the developer documentation, the programme-management teams, the network of integrator partners — looks and operates far more like a technology platform than a traditional deposit-taking bank.

Closing. Regulatory classification follows economic risk, not interface design: because Solaris intermediates credit, holds insured deposits, and bears the resolution burden, prudential supervision as a bank is the correct response even if its go-to-market model is platform-native.

Team B (Solaris Is a Platform) — sample arguments

Argument I. Solaris's primary customer is a brand, not an end consumer. Its commercial relationship is mediated through APIs, programme contracts, and developer-facing documentation — a clear platform-economics pattern. Its peer set is Unit, Treasury Prime, Marqeta, and Synctera, none of which considers itself a bank even when they rent charter capacity. Under the Business Model Canvas, Solaris's Customer Segments, Channels, and Customer Relationships blocks are all platform-shaped.

Argument II. Solaris's cost structure is dominated by engineering, orchestration, and compliance tooling rather than branch real-estate or a consumer-servicing operation. Its release cadence matches a software firm. Its network of sponsor-bank relationships and its integrator marketplace exhibit the cross-side network effects that platform theory predicts — more brands attract more partners, which attract more brands in turn. Those are platform dynamics, not balance-sheet banking dynamics.

Argument III. Investors have valued Solaris and its peers on growth and contracted-revenue metrics typical of technology infrastructure firms, not on the book-value multiples applied to traditional banks. That valuation logic reveals that the dominant competitive advantage is the platform — the network of sponsor banks, the orchestration layer, the developer relationships —

and not the underlying licence, which is a permission to operate the platform rather than the platform itself.

Concession. The strongest argument against Team B is that Solaris's banking licence, deposit-insurance obligations, and prudential supervision create genuine systemic responsibilities that pure software platforms never bear.

Closing. The platform classification captures where Solaris's growth, competitive advantage, and reinvestment priorities live. The licence is infrastructure — a permission to host the platform — rather than the identity of the firm.

Debrief Q1 — Regulatory supervision

Whether prudential regulators should supervise Solaris as a bank depends on the risks it creates, not on the interface through which it reaches customers. Solaris takes deposits, extends credit on its balance sheet, and serves as the resolution counterparty for brand programmes. All three functions can cascade into systemic risk if left unsupervised, which is why prudential tools — capital adequacy, stress testing, resolution planning, and deposit insurance — exist. Applying a platform-only supervisory frame would leave those balance-sheet risks unaddressed. The answer matters because the supervisory toolkit is calibrated to the risk, not to the distribution model through which the risk is accessed.

Debrief Q2 — "Both" as an answer

The answer can genuinely be "both at the same time." Solaris operates a regulated credit institution inside a platform-company organisational and commercial model. The duality exposes the limits of categorical industry labels inherited from a pre-digital era when distribution, manufacturing, and risk-taking were bundled inside one institution. If "both" is the right answer, the implication for classification is that functional regulation — regulating by what a firm *does* (holds deposits, extends credit, orchestrates brand programmes) rather than by what it *is* (a bank, a platform) — is more robust than institutional classification. Several supervisory authorities have already begun to adopt such functional frames for BaaS specifically.

Debrief Q3 — Cross-sector blurring example

Plaid provides a close parallel. It began as a data-connectivity platform for financial applications, expanded into payments and identity verification, and now operates as infrastructure that sits behind dozens of consumer-facing fintech apps. Investors and regulators struggle to classify it: is it a data platform regulated under consumer-data rules, a payments institution regulated under payments rules, or an identity utility regulated under anti-fraud rules? The tension is analogous to Solaris's. For investors, the blurring creates uncertainty about peer-group valuation; for regulators, it creates uncertainty about which supervisory toolkit should lead. The parallel reinforces the conclusion that functional regulation matches these firms more cleanly than institutional labels.

Exercise 2: Value-Chain Mapping Sample Answers

Value Chain Link	BaaS Provider Controlling It	What It Substitutes for the Traditional Approach	Owned or Hosted?	Moat or Margin Cap?
Customer Acquisition	Synctera (marketplace matching brands to banks)	Bespoke sales cycles matching one bank to one brand at a time; Synctera replaces them with a curated marketplace	Owned	Moat (the two-sided directory is hard to replicate)
Onboarding / KYC	Unit (identity orchestration layer across endpoints)	Fragmented KYC stacks rebuilt by each brand from scratch; Unit collapses identity into a single orchestration call	Hosted (sponsor bank decides accept / reject)	Margin Cap (sponsor bank captures the regulatory economics)
Product Manufacturing	Solaris (full credit-institution charter on an API)	Outsourced manufacturing across several specialist vendors; Solaris manufactures in-house on its own balance sheet	Owned	Moat (licence scarcity + balance-sheet capacity)
Distribution	Treasury Prime (multi-bank network accessed through one API)	Single-bank lock-in for every brand integration; Treasury Prime distributes across many charters from one integration	Owned	Moat (network breadth is the distribution advantage)
Servicing	Marqeta (modern card-issuer processing at scale)	Legacy issuer-processor stacks with slow programme-launch cycles; Marqeta substitutes flexible programme management	Hosted (sponsor bank owns the customer of record)	Margin Cap (servicing economics shared with sponsor)
Risk Management	Synctera (network-wide risk tooling across participating banks)	Each bank building its own risk stack in isolation; Synctera pools fraud and compliance signals across the network	Hosted (individual decisions remain with each sponsor bank)	Moat if the pooled signal quality compounds across participants

Synthesis Question 1 Sample Answer

The link that creates the strongest moat for a BaaS provider is Product Manufacturing, when the BaaS holds its own credit-institution licence (as Solaris does in Europe). Manufacturing is capital-intensive and licence-scarce; a brand cannot replicate it without pursuing a multi-year regulatory path of its own. The moat compounds with every brand that integrates: each additional programme exercises the licence further, builds the balance-sheet scale, and makes the infrastructure more efficient. The link most likely to cap margin is Onboarding / KYC when the BaaS hosts the capability but the sponsor bank retains the accept-or-reject decision. The BaaS bears the integration work but cannot keep the full economics because the sponsor bank can always insist on a revenue share for decisions made on its charter. Converting this from hosted to owned requires the BaaS to obtain its own licence — a fundamental strategic choice, not a tactical roadmap item.

Synthesis Question 2 Sample Answer

Unit hosts its Product Manufacturing link from partner sponsor banks in the United States; converting that hosted link into an owned one would require Unit to obtain a US bank charter, satisfy capital requirements, submit to Federal Reserve supervision, and build a compliance infrastructure calibrated for a regulated deposit-taker. The case for converting is improved economics, greater product control, and margin capture on every account. The case against is the capital drag, the operational cost, and the risk that Unit's sponsor-bank partners become competitors. Treasury Prime hosts its Distribution link as a network across partner sponsor banks; converting to owned would either require buying a bank or abandoning the network model. The strategic question for both is whether the platform-economics advantages of staying hosted outweigh the margin-capture advantages of owning. For some BaaS providers, renting the link is the rational steady state; for others, converting signals the transition from platform to infrastructure.

