Embedded Finance Business Models

Brand wins the customer — rails win the margin — nobody builds the franchise

Digital Finance

The Brand Storefront

vs.

The Rails Behind the Wall

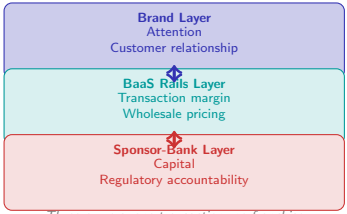
"The customer sees a brand. The margin sits behind a wall. Nobody sees the bank."

Why Does the Embedder Win the Customer While the BaaS Provider Keeps the Rails?

The Invisible-Economics Paradox
Embedded finance splits a single transaction across at least three value-capture pools: the brand that owns the customer, the banking-as-a-service provider that owns the rails, and the sponsor bank that owns the charter. Each pool is billed differently; none of them alone owns the franchise. The customer sees only the brand.

- **Brand owns attention:** the customer opens the brand's app many times per week; the rails provider is never named.
- **Rails owns margin:** per-transaction economics live in a wholesale contract the customer will never see.
- **Sponsor bank owns risk:** regulatory accountability and capital sit on a balance sheet the customer never chose.

The BM question this structure raises: who is building a franchise? The brand has the relationship but not the margin. The rails has the margin but not the relationship. The sponsor bank carries the risk but not the growth.



Three owners, one transaction, no franchise

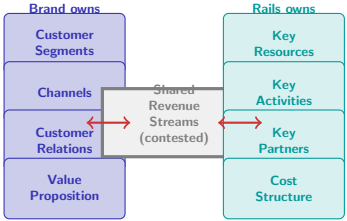
Osterwalder BMC anchor — Value Proposition, Customer Relationships, and Revenue Streams are held by three different entities on the same transaction.

Which Canvas Blocks Split Cleanly Between Brand Owner and Rails Owner?

The Business Model Canvas, Split in Two
Osterwalder's Business Model Canvas assumes one firm owns all nine blocks. Embedded finance violates that assumption explicitly. Of the nine blocks, four anchor to the brand, four anchor to the rails, and one is genuinely shared.

- **Brand owns:** Customer Segments, Channels, Customer Relationships, Value Proposition.
- **Rails owns:** Key Resources, Key Activities, Key Partners, Cost Structure.
- **Shared (and contested):** Revenue Streams — how the per-transaction economics are split is the entire commercial contract between the two firms.

The insight: neither a brand nor a BaaS provider can build a full canvas alone. Every embedded-finance BM is a joint canvas where the boundary between "brand blocks" and "rails blocks" determines who captures the franchise surplus.



Osterwalder BMC anchor — the nine blocks no longer belong to one firm. The Revenue Streams block is the contested surface where the commercial contract is negotiated.

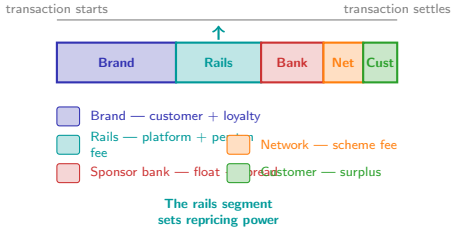
Where Does Each Cent of an Embedded Transaction End Up When Solaris Is the Rails?

The Solaris Attribution Case

Solaris (Germany-based, fully-licensed credit institution) offers its charter, ledger, and compliance machinery to brands that want to issue accounts and cards without operating as a bank. The commercial shape of a single embedded transaction is a multi-party attribution: the customer pays; the brand books the relationship; the rails takes a wholesale fee; the sponsor bank (here, Solaris itself, because it holds the charter) absorbs the capital cost.

- **Brand share:** branded merchant offer, loyalty uplift, and retention revenue attributed to the brand's P&L.
- **Rails share:** platform fee per account and per transaction, plus a monthly contract minimum.
- **Sponsor-bank share:** interchange split, deposit-float margin, and lending spread when applicable.
- **Card-network share:** the scheme fee levied on every authorisation that touches the rail.
- **Customer share:** the perceived-value surplus the customer receives in exchange for using the embedded product.

The platform-economics point: whoever controls the widest segment of the bar also controls the pricing power on the next repricing cycle.



Platform-economics anchor — attribution shares on one bar reveal which actor holds pricing power on the next repricing cycle.

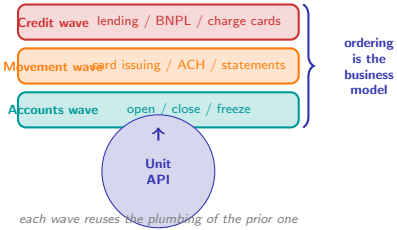
How Does Unit Expand From a Single API Call to a Full Product Surface?

Unit's Product-Surface Arc
Unit (US-founded BaaS platform) launched as a single endpoint — create a deposit account via API — and has deliberately expanded the surface outward from that single call. Each wave of additional endpoints reuses the identity, compliance, and ledger plumbing built during the prior wave.

- **Early wave (account-centric):** open, close, freeze, and list deposit accounts. Zero lending logic.
- **Middle wave (movement-centric):** card issuing, ACH transfers, instant payments, statement generation. Reuses the identity store without adding credit risk.
- **Late wave (credit-centric):** lending, buy-now-pay-later financing, business charge cards. Requires underwriting and capital; layered on top of the prior two waves.

The sequence is the business model. Brands can buy into any wave without buying the whole catalogue, which means Unit captures wallet share incrementally, from brand onboarding to full embedded banking, on a schedule each brand chooses.

Unbundling = pulling one service out of a historical bundle and offering it alone; *rebundling* = stacking adjacent services onto that foothold. Clayton Christensen's disruptive-innovation thesis says entrants start narrow at the low-margin end, cement a habit (Unit: accounts only), then rebundle adjacent capabilities as each brand's appetite grows.



Christensen unbundling-rebundling — Unit expands in waves; each reuses prior plumbing.

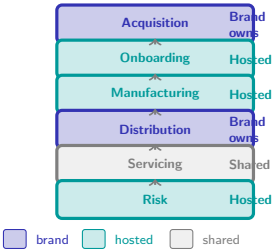
Which Links in the Banking Value Chain Does Treasury Prime Host for a Brand?

Value chain = the ordered sequence of activities a service passes through. Evans and Wurster (BCG) argued that when information is cheap, chains *deconstruct* into independent layers.

The Evans-Wurster Hosting Pattern

Treasury Prime (US-founded BaaS orchestration layer) sells wholesale access to a network of chartered community banks, with the BaaS layer hosting the parts of the value chain that a brand has no reason to build. A brand is effectively subscribing to a hosted version of the banking value chain.

- **Acquisition (brand-owned):** the brand supplies all of its own customer-acquisition flow; Treasury Prime never touches the top of the funnel.
- **Onboarding (hosted):** KYC and identity are delivered through Treasury Prime's orchestration layer, with the sponsor bank making the ultimate accept-or-reject decision.
- **Manufacturing (hosted):** deposit accounts, card programmes, and ACH movement are manufactured inside the sponsor-bank balance sheet.
- **Distribution (brand-owned):** the brand's app is the distribution surface; Treasury Prime is invisible.
- **Servicing (shared):** in-app servicing is the brand's; dispute resolution escalates to the sponsor bank.
- **Risk (hosted):** fraud detection, transaction monitoring, and regulatory reporting live on the BaaS layer.



Evans-Wurster value-chain anchor — hosting replaces ownership; the brand buys capability as a service and the BaaS layer captures the hosted-link margin.

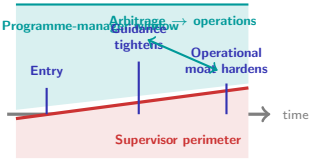
Is Marqeta's Card-Programme Arbitrage a Durable Rail or a Closing Window?

Regulatory arbitrage = a firm earns profit specifically because it faces a lighter rulebook than competitors — the advantage lasts only as long as the rulebook gap does. A *moat* = a competitive advantage rivals cannot easily copy.

The Programme-Manager Window

Marqeta (US-founded modern card-issuer processor) plugs brands into card networks under a programme-management framework that until recently was lightly supervised relative to traditional card issuers. Brands that would never have qualified to run a card programme in-house can launch one through Marqeta in weeks.

- **Entry window:** programme-manager status classified brands as neither cardholders nor issuers, sidestepping the compliance stack an issuer must carry.
- **Adoption phase:** the gap let brands run pay-out, expense-management, and consumer-spend programmes at a scale unavailable without a sponsor.
- **Normalisation phase:** supervisors have since published guidance tightening programme-manager oversight; Marqeta has responded by investing heavily in compliance tooling and sponsor-bank partnerships.
- **Moat conversion:** the durable moat is not the arbitrage itself — it is the operational depth Marqeta built during the window to host brands at scale, which outlives the window's close.



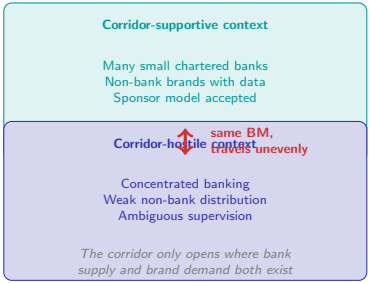
Regulatory-arbitrage anchor — the programme-manager window is closing; the moat is the operational depth the window financed.

Why Does Embedded Banking Travel From Community Banks to Consumer Brands at All?

The Synctera Counterexample
Synctera (US-founded BaaS connecting community banks and non-bank brands) bridges community banks on one side and consumer or fintech brands on the other. Its travel corridor — not every host economy supports it equally — reveals where embedded banking actually works and where the BM stalls.

- **Community-bank supply:** host markets with many smaller chartered banks hungry for non-interest-income diversification make embedded BaaS natively viable.
- **Consumer-brand demand:** host markets where large consumer brands already hold rich customer data and direct relationships create the demand side.
- **Regulatory clarity:** markets where the sponsor-bank model is accepted by supervisors let the corridor form; markets where it is ambiguous deter both sides.
- **Infrastructure fabric:** core-banking APIs, identity orchestration, and real-time payments must all be present at wholesale quality for the corridor to scale.

The context-dependency point: the Synctera corridor exists where the three preconditions coincide. In markets with a concentrated banking sector, weak non-bank distribution, or unresolved supervisory rules, the same BM template fails to travel.



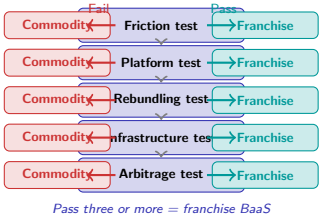
Context-dependency anchor — Synctera corridors open where small-bank supply and non-bank-brand demand coincide under supervisory clarity.

Which Five Tests Separate a Franchise BaaS From a Commodity One?

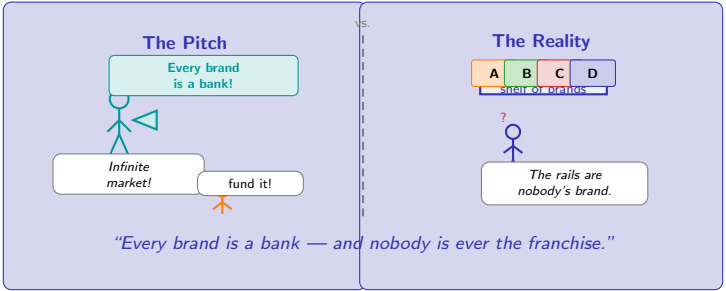
The Five-Test Synthesis

1. **Friction test:** does the BaaS actually remove integration pain for the brand, or does it shift the pain to sponsor-bank reviews and quarterly compliance sweeps?
2. **Platform test:** does the rail attract more brands as more sponsor banks plug in, and more sponsor banks as more brands plug in, or is each pairing bespoke?
3. **Rebundling test:** is the BaaS expanding the product catalogue deliberately — accounts, then movement, then credit — or opportunistically chasing whatever brand deal is on offer?
4. **Infrastructure test:** is the BaaS adding infrastructure the sponsor banks lack (orchestration, ledger, compliance tooling), or duplicating infrastructure they already own?
5. **Arbitrage test:** is the programme-manager or sponsor classification being converted into an operational moat, or is the classification gap simply closing?

Franchise BaaS providers pass at least three. Commodity BaaS providers end up as a line item on an acquirer's roadmap.



Synthesis anchor — the five tests apply the BMC, platform, unbundling, value-chain, and arbitrage frameworks to a single BaaS in a single question each.


The Pitch
Every brand is a bank!
Infinite market!
fund it!
vs.
The Reality
A
B
C
D
shelf of brands
?
The rails are nobody's brand.
"Every brand is a bank — and nobody is ever the franchise."