Embedded Finance Tracker® Series Report

Modular Design: Can Composable Banking Find Favor with FIs?

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In the era of digital and hyper-personalization, traditional financial institutions (FIs) must look beyond offering one-size-fits-all solutions to compete with their FinTech rivals. Composable banking presents a viable solution, enabling FIs to mix and match services for a more agile banking infrastructure.

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02 New banking systems are often difficult to integrate into existing technology stacks. Despite the integration challenges, many banks are pressing ahead with new embedded finance strategies to expand product offerings and enhance customer loyalty.

03 Rather than attempting to wedge one-size-fits-all digital solutions into existing technology stacks, banks can embrace a far more agile and future-proof approach. Composable banking allows for seamless integration of best-of-breed components and services from a vast ecosystem of innovative technology partners.

Banks face constant competitive pressure from their digital-native FinTech counterparts, which attract younger, digital-native customers, who value seamless digital experiences, real-time services and innovative offerings. Traditional FIs often find themselves unable to compete in this space without making comprehensive — not to mention expensive — digital renovations, a challenge that can be extremely difficult to achieve atop legacy systems.

Instead of adopting one-size-fits-all digital suites, many banks are finding success with composable banking solutions — a modular, application programming interface (API)-driven approach provided by external partners that facilitates greater agility, flexibility and faster time to market for new products and services. This strategy allows banks to rapidly adapt to changing market conditions, customer demands and new technologies by swapping out or adding new components as needed without disrupting the entire system.

Traditional Banks Face Fierce Competition

Traditional FIs are increasingly contending with competition from challengers, especially as younger generations look outside their primary banks for certain financial services. In fact, studies show that young consumers favor using a service, card or app from a provider other than their bank for online payments.

Younger consumers increasingly prefer FinTechs over traditional banks.

One study found that 36% of consumers ages 18-24 prefer to use a service, card or app from a non-bank, such as a FinTech, rather than a traditional FI, with 34% expressing the same preference for peer-to-peer payments and money transfers. Research from PYMNTS Intelligence reveals that this shift is largely due to cost: Lower fees and access to better financial conditions (for example, higher interest rates on savings/deposit accounts) are key factors in choosing a bank, especially a digital bank. Additionally, more than 40% of consumers who maintain their primary bank account at a digital-only bank also use a digital-only bank for their main credit card.

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Customers are likely to switch FIs due to dissatisfaction with services.

More than three-quarters of consumers said they were willing to change FIs for better services, a sharp rise from 52% in 2020. The customer segment most likely to jump ship was millennials. Even baby boomers expressed significant willingness to move, with 67% of this cohort indicating they would switch banks. Digital banking, fraud protection, customer service, low fees and competitive interest rates were cited as the top banking desires among all generation groups.

Legacy Technology Holds Banks Back

New banking systems are often difficult to integrate into existing technology stacks. Despite the integration challenges, many banks are pressing ahead with new embedded finance strategies to expand product offerings and enhance customer loyalty.

4 in 10

customers are dissatisfied with banks' current payment processing speeds.

Outdated payment systems could cost banks $57 billion by 2028.

The costs of legacy systems are rising at an annual rate of 7.8%, according to a recent study, and the potential opportunity cost of not upgrading is even greater. Banks that fail to modernize their systems could miss out on a 42% increase in additional payments revenue, as well as a 21% reduction in annual maintenance costs. Despite these rising costs and possible missed opportunities for revenue growth and cost savings, fewer than one-third of large banks are investing in new digital financial ecosystems.

Many consumers are dissatisfied with their banks' existing systems.

According to a PYMNTS Intelligence survey, 45% of customers said the current payments process their banks offer can take up to seven days to complete, a turnaround that four in 10 deemed "unsatisfactory." While only a small fraction of payouts — 5.3% — could be processed in about a minute by leveraging real-time payment networks, a significant 92% of customers reported being "extremely" satisfied with this near-instant processing speed. These survey results suggest that by upgrading their technology stacks to enhance customer experiences, banks could substantially boost customer satisfaction levels.

Composable Banking Facilitates More Effective Integration

Rather than attempting to wedge one-size-fits-all digital solutions into existing technology stacks, banks can embrace a far more agile and future-proof approach. Composable banking allows for seamless integration of best-of-breed components and services from a vast ecosystem of innovative technology partners.

Composable banking solutions significantly reduce banks' legacy technology limitations.

A recent survey revealed a troubling reality: 53% of bank executives are grappling with mounting technology debt from insufficient upgrades to their core banking systems, which could impede their ability to deliver innovative financial services. By contrast, composable banking enables traditional banks to shed these constraints. The modular, API-driven architecture of composable banking allows banks to cherry-pick and seamlessly integrate only the most sought-after services, tailored to their customers' evolving needs. Banks can strategically modernize specific segments, swapping in best-of-breed components without disrupting their core operations. Among the most coveted services ripe for composable banking are fraud prevention, instant payments and embedded banking.

53%

of bank executives are either concerned or very concerned about their rising technology debt.

APIs are a huge boon to composable banking integrations.

Real-time payments rank among the most requested services by bank customers, prompting FIs to partner with FinTechs to enable them. The numbers speak volumes: 59% of banks say they are adding Zelle — the trailblazing peer-to-peer payment service — to their offerings. Meanwhile, another 57% are integrating the FedNow® Service — the Federal Reserve's instant payment rail, poised to revolutionize the industry. Underpinning this transformation is the rise of API banking — a technological symphony that harmonizes disparate systems and devices. By using APIs, banks can embed real-time payment capabilities into their existing technology stacks without disruptive overhauls. The writing is on the wall: 57% of banks recognize API banking adaptation as a strategic imperative in 2025.

The Case for Composable Banking

Composable banking represents a significant paradigm shift in embedded finance by embracing the power of modularity to unlock unprecedented agility and customer-centricity for banks. By leveraging modular components offered by an ecosystem of external partners, banks can effectively decouple their infrastructure, assembling tailored solutions seamlessly. Banks are empowered to create highly personalized experiences — curated for each customer segment — delivered with the speed and agility of a FinTech. Composable banking enables banks to continuously evolve and adapt, seamlessly swap out components or integrate new ones as customer needs and market dynamics shift.

Today, customer experience reigns supreme. This level of adaptability is not only a competitive advantage but also a prerequisite for survival. As digital-native FinTechs and challenger banks continue to disrupt the industry, composable banking emerges as a vital strategy for traditional institutions striving to reclaim their relevance.

In a world where agility is the new currency, composable banking offers a path forward for banks. It is a paradigm that empowers institutions to adapt, innovate and, ultimately, redefine the banking experience for a new generation of customers.

> "***Composable banking*** *is where agility meets innovation. It empowers banks to rapidly tailor financial solutions to meet the ever-evolving needs of bank customers — without the constraints of legacy systems. We're not only building services for FIs but also architecting a new financial ecosystem that is flexible, scalable and responsive to market dynamics."*
>
> Michael Haney
> Head of Product Strategy
> galileo

About

galileo

Galileo is a leading financial technology company whose platform, open API technology and proven expertise enable FinTechs and emerging and established brands to create differentiated financial solutions that expand the financial frontier. Galileo removes the complexity from payments and financial services innovation by providing flexible, open API building blocks and a secure, scalable, future-proof platform. Trusted by digital banking heavyweights, early stage innovators and enterprise clients alike, Galileo supports issuing physical and virtual payment cards, mobile push provisioning and more, across industries and geographies. Headquartered in Salt Lake City, Galileo has offices in Mexico City, New York City, San Francisco and Seattle. Learn more at galileo-ft.com.

PYMNTS INTELLIGENCE

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multilingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

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