BaaS Transformation Strategy Model Summary

Nubly Research

The Banking-as-a-Service (BaaS) revolution is redefining the financial industry by enabling non-bank entities to offer banking services leveraging licensed banks' digital infrastructure. This paradigm shift, driven by fintech evolution, necessitates deeper strategic partnerships between financial institutions and fintech companies to ensure competitiveness, enhanced customer experience, and operational compliance. This paper explores the opportunities and challenges of BaaS in the context of the overall financial landscape, assumptions about innovation potential and risks. Additionally, this paper aims to examine the strategic rationale for deeper integration of fintechs into banks or credit unions highlighting potential implications of such collaborations. We provide model outputs as case studies to demonstrate the effects of transforming community banks and credit unions of various conditions via a BaaS strategy. Our goal is to explore assumptions about the BaaS strategy to model how legacy financial institutions can modernize their infrastructure, diversify banking books, and adapt to modern customer experiences from deep integration with fintechs.

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1 A BaaS Revolution: Transforming the Financial Landscape

A growing Banking-as-a-Service (BaaS) revolution is transforming the financial landscape, enabling small banks and occasionally credit unions to survive and adapt in the digital age. BaaS enables legacy banking providers to collaborate with financial technology companies (fintechs), leveraging the banks' existing licenses to modernize their infrastructure and deliver new banking services in innovative ways.

The following is a model summary detailing a set of assumptions about the modern banking industry. The report gives an overview of the current industry, BaaS and its ability to transform legacy financial insititutions.

1.1 BaaS Revolution and Fintech Evolution

The BaaS revolution is enabled by fintech evolution, which has progressed through three distinct phases:

- Digitalization: Introduced digital channels and online banking services, laying the groundwork for further innovation
- Dis-intermediation: Emerged fintech companies disrupted traditional banking functions, creating opportunities for new partnerships
- Embedded Infrastructure: Enabled BaaS platforms to integrate banking services into non-bank businesses, fostering seamless user experiences

BaaS has become the key approach in this latest phase, empowering small banks and credit unions to expand financial inclusion and reach.

1.2 Partnerships and Innovation

As the BaaS revolution gains momentum, legacy financial institutions are incentivized to partner with fintech companies to:

- Stay competitive in the digital age
- Enhance customer experience through modern user interfaces and AI driven services
- Improve operational efficiency through streamlined processes, compliance and automation

Recent market events highlight the importance of resilient partnerships, pathways for fintechs to own charters, and the need to foster an interconnected fintech ecosystem to ensure robust compliance and scalability.

1.3 Modern Banking Model and Key Success Factors

A community bank or credit union adopting a BaaS-first approach can achieve success by partnering or acquiring and transforming existing financial institutions, such as Column Banks efforts with Northern California Bank. This approach enables the elimination of middleware bloat, streamlining financial application development for partners, and unlocking various revenue streams.

2 The Banking Industry and the Role of BaaS

2.1 Banking and Credit Union Landscape

2.1.1 Comparative Analysis of Banks and Credit Unions

Similarities Both banks and credit unions are experiencing growth in assets and facing rising delinquency rates. Both sectors are well-capitalized, though banks tend to hold slightly higher capital ratios.

Differences

- **Asset Size**: Banks are significantly larger, controlling $26.3 trillion in assets, compared to $2.30 trillion for credit unions.
- **Loan Growth**: Banks have stronger loan growth in commercial lending, while credit unions focus more on residential real estate.
- **Profitability**: Banks benefit from higher profitability due to lower cost pressures, whereas credit unions face declining net income due to rising costs.
- **Loan-to-Deposit/Share Ratios**: Credit unions deploy a higher proportion of deposits into loans compared to banks.

2.1.2 Key Implications

- **Credit Unions**: Should focus on controlling costs and bolstering profitability in a high-cost environment.
- **Banks**: Need to monitor commercial loan delinquency rates and adjust their lending strategies.
- **Both Sectors**: Must emphasize capital adequacy and risk management, particularly as economic conditions shift.

2.2 Recent Performance of Banks and Credit Unions

2.2.1 Key Performance Metrics (Q1 and Q2 2024)

- **Net Interest Margin (NIM)**: Banks have a higher NIM (3.44%) than credit unions (3.05%), reflecting better income from interest-earning assets.
- **Fee Income**: Banks generate significantly more fee income than credit unions ($77.8 billion vs. $9.7 billion).
- **Delinquency Rates**: Credit unions have a lower delinquency rate (0.84%) than banks, though credit unions see higher consumer loan delinquencies.
- **Profitability**: Banks maintain higher net income ($64.2 billion) compared to credit unions ($15.7 billion), driven by stronger fee generation and interest rate advantages.

2.2.2 Implications

- Banks could be more vulnerable to future interest rate shifts due to their reliance on NIM.
- Credit unions may continue to take on greater credit risk, as indicated by their higher loan-to-share ratios.
- Both institutions must balance profitability with risk management, especially as interest rates and delinquency rates fluctuate.

2.3 Recent Trends

2.3.1 Net Interest Margin (NIM) and Fee Income Outlook

- Banks and credit unions both saw improvements in NIM due to rising interest rates, though banks have benefited more significantly.
- Fee income remains higher for banks, but a continued reliance on overdraft fees in the banking sector may limit future growth as consumer preferences shift.

2.3.2 Impact of BaaS on NIM

BaaS has the potential to enhance NIM through improved operational efficiency and scalability, but it introduces challenges like increased fintech competition and regulatory hurdles. Both banks and credit unions must weigh these risks when adopting BaaS models.

2.3.3 Financial Data Overview: Credit Unions vs. Community Banks

- **Small to Large Credit Unions**: Smaller credit unions face higher credit risk and higher funding costs, while larger institutions enjoy lower costs and better risk management.
- **Small to Large Community Banks**: Community banks, especially the larger ones, benefit from stronger funding buffers and lower credit risk compared to their smaller counterparts.

2.4 Banking-as-a-Service (BaaS) Strategy in Current Economic Conditions

2.4.1 Positive and Negative Economic Impacts of BaaS

- **Positive Impacts**: Efficiency gains, increased access to financial services, job creation, and enhanced competition.
- **Negative Impacts**: Potential for job displacement, rising dependence on technology, and regulatory challenges.

2.4.2 BaaS's Influence on Economic Metrics

BaaS influences broader economic conditions, including GDP growth, employment rates, inflation, and financial stability. Its expansion requires careful regulatory frameworks and workforce development.

2.4.3 Strategic Positioning for Financial Institutions

A BaaS-first strategy enables banks and credit unions to modernize their technology, improve customer experience, and gain efficiency. Key value propositions include:

- Modernizing Legacy Systems
- Improving Risk Management

- Fostering Innovation

2.4.4 Competitive Advantage of BaaS

Financial institutions adopting BaaS benefit from:

- Cloud-Based Infrastructure
- Scalability and Security
- Regulatory Compliance

2.4.5 Partnerships and Key Metrics

BaaS success relies on strategic partnerships with fintechs, technology providers, and regulatory bodies. Key performance indicators to track include:

- Customer Acquisition and Retention
- Operational Efficiency
- Risk Management

2.4.6 Conclusion

As both banks and credit unions navigate a rapidly changing financial landscape, BaaS offers significant opportunities for growth, innovation, and efficiency. However, institutions must carefully manage the associated risks, particularly around regulatory compliance and technological dependence. For community banks and credit unions, integrating BaaS could be a key strategy for remaining competitive in the evolving financial ecosystem.

3 Implementing BaaS: Understanding the Transformation

3.1 Summary of BaaS Strategy

A Banking-as-a-Service (BaaS) strategy empowers financial institutions to modernize their infrastructure, expand their deposit base, lower funding costs, and increase non-interest income. By partnering with BaaS providers, banks and credit unions can:

- Digitalize core banking systems
- Offer services via APIs
- Provide white-labeled banking products
- Gain advanced customer insights
- Streamline compliance and risk management processes
- Access developer tools for innovation

3.1.1 Key Benefits

- **Diversification of deposit base**: Reduces concentration risk
- **Lower funding costs**: Enhances liquidity
- **New revenue streams**: Drives non-interest income
- **Operational efficiency**: Improves customer experience and reduces overhead
- **Enhanced compliance**: Strengthens risk management and regulatory adherence

3.2 The BaaS Transformation Journey

3.2.1 Stages of Transformation

Timeframe	Transformation Stage
Short-term (0-12 months)	Strategy development, exploration, and planning
Medium-term (12-24 months)	Integration with legacy systems, implementation, testing
Long-term (24-36 months)	Realization of improved efficiency, customer experience, and revenue growth

3.3 Size-Specific Considerations

- **Large Banks**:
  - Strengths: Ample resources, scalable infrastructure
  - Challenges: Complex legacy systems, increased regulatory scrutiny
- **Medium-Sized Banks**:
  - Strengths: Flexibility, partnership potential
  - Challenges: Limited resources, integration hurdles
- **Small Banks and Credit Unions**:
  - Strengths: Community focus, agility
  - Challenges: Resource constraints, dependence on third-party providers, regulatory pressures

3.4 Challenges and Benefits Despite Size or Type

- **Challenges**:
  - Legacy system integration
  - Cultural shift towards digital banking
  - Regulatory compliance hurdles
- **Benefits**:
  - Increased operational efficiency
  - Improved customer experiences
  - New revenue opportunities
  - Stronger risk management processes

3.5 BaaS Strategy Impact

3.5.1 Positioning BaaS as a Strategic Approach

BaaS is positioned as a forward-thinking model for banks and credit unions aiming to:

- **Modernize infrastructure**: Addressing outdated systems and embracing digital platforms
- **Meet Evolving Customer Demands**: Through data-driven insights and automated processes
- **Improve efficiency**: Reducing operational overhead and increasing scalability

3.6 Key Offerings of a BaaS Strategy

3.6.1 Core Banking Innovations via BaaS

- **Personalized banking**: Tailored financial services based on customer data
- **Advanced security**: Cutting-edge cybersecurity measures and fraud prevention
- **Intelligent support**: AI-powered customer service
- **Automation**: Streamlined banking processes, reducing human error and increasing speed
- **Data-driven insights**: Enhanced customer understanding and tailored product offerings
- **Digital payments**: Seamless integration of payment systems
- **Credit scoring**: Advanced models for evaluating creditworthiness
- **Investment services**: Providing innovative investment opportunities
- **Compliance management**: Simplified adherence to regulatory requirements
- **Open banking**: Facilitating secure data sharing with third-party providers

3.7 Impact on Traditional Banking

- **Disruption of Legacy Models**: BaaS disrupts traditional banking practices by introducing digital-first approaches.
- **Transformation of Legacy Banks**: Forces incumbents to innovate or face losing market share to fintechs and neobanks.
- **Shift to Digital-First Banking**: Physical branches are increasingly replaced by online, API-driven services.
- **Increased Competition**: Both from fintech entrants and non-financial companies offering embedded finance services.

3.8 Impact on Banking Financials

- **Changing Revenue Streams**: BaaS allows banks to diversify revenue beyond traditional interest income.
- **Increased Efficiency**: Automation and digital systems reduce costs and improve operational efficiency.
- **Improved Risk Management**: Enhanced compliance tools and risk assessment frameworks help manage exposure.
- **Stronger Customer Relationships**: Data-driven insights foster deeper customer engagement and loyalty.

3.9 Conclusion

Implementing a BaaS strategy enables financial institutions to transform their business models, modernize infrastructure, and stay competitive in the digital age. By understanding the benefits, challenges, and key offerings of BaaS, banks and credit unions can harness its potential to drive growth, improve efficiency, and enhance customer experiences. As the banking landscape continues to evolve, embracing BaaS can help traditional institutions stay ahead of the curve and thrive in a digital-first world.

4 The Bank Book and a BaaS First Strategy

4.1 Overview of BaaS Strategy

Adopting a BaaS strategy transforms the banking book by enhancing:

- **Profitability:** Through optimized pricing and operational efficiency.
- **Risk Management:** Better asset-liability management and diversification.
- **Funding Stability:** Income and deposit diversification, less wholesale dependence.
- **Asset Utilization:** Streamlined and algorithmic lending and investment processes.
- **Revenue Growth:** New subscription-based services and fintech partnerships.

4.1.1 Key Metrics to Track

Category	Metric	Description
Profitability	Revenue Growth Rate	Change in revenue over time.
	Cost-to-Income Ratio	Operating efficiency.
	Return on Assets (ROA)	Profitability from assets.
	Net Interest Margin (NIM)	Lending profitability.
Risk Management	Risk-Adjusted Return on Capital (RAROC)	Risk-adjusted profitability.
	Asset-Liability Mismatch Ratio	Liquidity risk.
	Stress Test Results	Bank resilience to downturns.
Funding Stability	Deposit Growth Rate	Funding stability and customer confidence.
	Liquidity Coverage Ratio (LCR)	Short-term liquidity.
	Net Stable Funding Ratio (NSFR)	Long-term funding stability.
Asset Utilization	Loan-to-Asset Ratio	Asset allocation.
	Investment Yield	Investment portfolio performance.
	Capital Adequacy Ratio	Capital sufficiency.
Revenue Growth	Subscription Revenue Growth	Recurring revenue growth.
	Partnership Revenue Growth	Collaborative revenue growth.
	Fee Income Growth	Non-lending revenue growth.

4.1.2 Impact by Bank Size

- **Small Banks:**
  - Higher impacts on NIM, ROA, Loan-to-Deposit (LTD), and Current and Savings Accounts (CASA).
- **Medium Banks:**
  - Moderate impacts on revenue and deposit base.
- **Large Banks:**
  - Lower impacts due to existing scale and infrastructure.

4.2 BaaS Strategy: Diversification and NIM

4.2.1 NII and NIM Diversification

Net Interest Income Diversification:

- Digital lending growth
- Optimized deposit and funding strategies

Non-Interest Income Diversification:

- New fee-generating services like payments and account management
- Treasury services and fintech partnerships

Drivers: Digital channels, data analytics, API infrastructure.

Strategic Implications:

- Diversify funding sources
- Create high-margin fee income streams

4.2.2 NIM Impact

- **Positive:** Improved asset yields, better asset-liability management.
- **Negative:** Increased funding costs, low-yield assets from diversification.

4.3 Select BaaS Strategy Benefits

Category	Description
Credit Risk	Reduces credit risk through diversified income streams and strengthened financial resilience.
Loan-to-Deposit Ratio (LDR)	Lowers LDR through increased non-interest income and improved liquidity.
Funding Costs	Reduces funding costs through diversified income streams and optimized asset-liability management.
Minimum Deposit Spread	Reduces Minimum Deposit Spread through lower funding costs and optimized pricing.
Deposit Critical Mass	Increases Deposit Critical Mass through expanded deposit sources and improved funding stability.
Funding Buffers	Increases funding buffers through better asset-liability management and enhanced liquidity.
Excess Deposits	Optimizes liquidity management and improves profitability through better asset utilization.
Return on Assets (ROA)	Enhances ROA through increased non-interest income, improved asset utilization, and operational efficiency.

5 Case Studies of Transformation of Financial Institutions

5.1 BaaS Transformation on Community Banks

5.1.1 Case 1: Golden Goose Community Bank

Profile: Golden Goose Community Bank is a small community bank with a healthy financial position and moderate risk profile. The bank has a strong capital adequacy ratio and liquidity ratio, indicating a stable financial foundation. The bank's NIM and ROA are above industry averages, indicating strong profitability. The bank is growing at a steady rate of 5.00% per annum, with a focus on expanding its loan portfolio and increasing deposits.

Attributes	**Description**
Entity Name	Golden Goose Community Bank
Entity Type	Small Community Bank
Health Status	Healthy
Current State	
Growth Rate	5.00% per annum
Liquidity Ratio	20.00%
Risk Profile	Moderate
Compliance Status	Up-to-date with all regulatory requirements

Bank Book and Income Transformations:

Pre-transformation Balance Sheet: Healthy financial position, moderate risk profile, and strong capital adequacy ratio

Metric	2024	2025	2026
Assets	$500M	$525M	$551M
Deposits	$400M	$420M	$441M
Loans	$300M	$315M	$331M
Equity	$100M	$105M	$110M
Net Interest Margin (NIM)	3.25%	3.20%	3.15%
Return on Assets (ROA)	1.20%	1.15%	1.10%
Return on Equity (ROE)	12.50%	12.00%	11.50%

Post-transformation Balance Sheet: Improved financial performance, increased assets, deposits, loans, NIM, ROA, and ROE

Metric	2024	2025	2026
Assets	$550M	$605M	$665M
Deposits	$450M	$505M	$565M
Loans	$350M	$400M	$455M
Equity	$100M	$100M	$100M
Net Interest Margin (NIM)	3.50%	3.75%	4.00%
Return on Assets (ROA)	1.50%	1.75%	2.00%
Return on Equity (ROE)	15.00%	17.50%	20.00%

Pre-transformation (2024) Income Composition: Shift from reliance on net interest income (75%) to a more balanced mix of net interest income (60%) and non-interest income (40%)

Income Type	Amount	Percentage
Net Interest Income	$15M	75%
Non-Interest Income	$5M	25%

Post-transformation (2026) Income Composition:

Income Type	Amount	Percentage
Net Interest Income	$20M	60%
Non-Interest Income	$14M	40%

Golden Goose Community Bank 5-year NIM projection: Upward trend, reaching 4.20% in 2028

Year	NIM
2024	3.50%
2025	3.75%
2026	4.00%
2027	4.10%
2028	4.20%

Rationale:

Golden Goose Community Bank's NIM is expected to continue its upward trend due to its successful BaaS transformation, which has improved its asset-liability management and increased its non-interest income. The bank's focus on digital banking and fee-based services will enable it to maintain a higher NIM compared to its peers.

5.1.2 Case 2: Rose Community Bank

Profile: Rose Community Bank is a small community bank with a failing financial position and high risk profile. The bank has a weak capital adequacy ratio and liquidity ratio, indicating a precarious financial situation. The bank's NIM and ROA are below industry averages, indicating poor profitability. The bank is experiencing a decline in growth rate, with a focus on addressing its financial difficulties and improving regulatory compliance.

Attributes	**Description**
Entity Name	Rose Community Bank
Entity Type	Small Community Bank
Health Status	Failing
Current State	
Growth Rate	-2.00% per annum
Liquidity Ratio	10.00%
Risk Profile	High

Attributes	Description
Compliance Status	Delinquent on regulatory requirements

Bank Book and Income Transformations:

Pre-transformation Balance Sheet: Failing financial position, high risk profile, and weak capital adequacy ratio

Metric	2024	2025	2026
Assets	$300M	$290M	$280M
Deposits	$200M	$190M	$180M
Loans	$250M	$240M	$230M
Equity	$100M	$90M	$80M
Net Interest Margin (NIM)	2.50%	2.40%	2.30%
Return on Assets (ROA)	-0.50%	-0.60%	-0.70%
Return on Equity (ROE)	-10.00%	-12.00%	-14.00%

Post-transformation Balance Sheet: Turnaround efforts, improved financial performance, increased assets, deposits, loans, NIM, ROA, and ROE

Metric	2024	2025	2026
Assets	$320M	$350M	$385M
Deposits	$220M	$250M	$285M
Loans	$270M	$305M	$345M
Equity	$100M	$120M	$140M
Net Interest Margin (NIM)	3.00%	3.25%	3.50%
Return on Assets (ROA)	0.50%	1.00%	1.50%
Return on Equity (ROE)	5.00%	10.00%	15.00%

Pre-transformation (2024) Income composition: Shift from reliance on net interest income (70%) to a more balanced mix of net interest income (55%) and non-interest income (45%)

Category	Amount	Percentage
Net Interest Income	$7M	70%
Non-Interest Income	$3M	30%

Post-transformation (2026) Income composition:

Category	Amount	Percentage
Net Interest Income	$15M	55%
Non-Interest Income	$12M	45%

Rose Community Bank 5-year NIM projection: Improving to 4.00% in 2028

Year	NIM
2024	3.00%
2025	3.25%
2026	3.50%
2027	3.75%
2028	4.00%

Rationale:

- Rose Community Bank's NIM is expected to improve significantly over the next 5 years due to its successful turnaround and BaaS transformation.
- The bank's focus on expanding its lending portfolio and introducing new deposit products will help improve its NIM.
- However, Rose Community Bank's NIM is expected to remain slightly lower than Golden Goose Community Bank's due to its smaller size and more limited product offerings.

Note: These projections assume that both banks will continue to execute their respective strategies successfully and that market conditions will remain favorable.

5.1.3 Summary

The BaaS transformation has improved the financial performance of both banks, with increased assets, deposits, loans, NIM, ROA, and ROE over the 3-year period.

The BaaS transformation has led to diversification throughtout the banking operations leading to an increase in non-interest income for both banks, with a corresponding decrease in the percentage of net interest income. This indicates a more diversified income stream, with a greater emphasis on fee-based services and other non-interest income sources. Golden Goose Community Bank has seen a significant increase in non-interest income, while Rose Community Bank has turned around its negative metrics and is now showing a healthy mix of net interest and non-interest income.

This shift indicates that Golden Goose Community Bank may have successfully introduced new fee-based services, such as:

- Payment processing
- Wealth management
- Digital banking services

This shift indicates that Rose Community Bank may have successfully introduced new fee-based services, such as:

- Introduced new deposit products
- Expanded its lending portfolio
- Implemented cost-saving measures

By diversifying their income streams, both banks have reduced their reliance on NII and created a more resilient and sustainable business model.

Both banks have undergone significant transformations. Golden Goose Community Bank has seen significant improvements, while Rose Community Bank has turned around its negative metrics and is now showing positive growth. In addition, the banks have diversified their income streams, improved their efficiency ratios, and strengthened their capital adequacy ratios.

	Golden Goose Community Bank	Rose Community Bank
Assets (2024)	$500M	$300M
Assets (2026)	$665M	$385M
NIM (2024)	3.25%	2.50%
NIM (2026)	4.00%	3.50%
ROA (2024)	1.20%	-0.50%
ROA (2026)	2.00%	1.50%
ROE (2024)	12.50%	-10.00%
ROE (2026)	20.00%	15.00%
Efficiency Ratio (2024)	55%	65%
Efficiency Ratio (2026)	46%	45%
Capital Adequacy Ratio	12.5%	10.0%

Rationales:

Golden Goose Community Bank:

- ROA is expected to increase due to its improving NIM and growing non-interest income.
- ROE is expected to increase due to its growing net income and stable equity base.
- Efficiency ratio is expected to improve due to its growing non-interest income and decreasing operating expenses.
- Capital adequacy ratio is expected to remain strong due to its stable equity base and growing net income.

Rose Community Bank:

- ROA is expected to improve significantly due to its turnaround efforts and growing non-interest income.
- ROE is expected to increase due to its growing net income and stable equity base.
- Efficiency ratio is expected to improve due to its growing non-interest income and decreasing operating expenses.
- Capital adequacy ratio is expected to improve due to its growing equity base and stable net income.

5.2 Baas Transformation on Credit Union NIM

5.2.1 Case 3: Electricians United Credit Union

Profile: Electricians United Credit Union is a small credit union with a struggling financial position and high risk profile. The credit union has a weak capital adequacy ratio and liquidity ratio, indicating a vulnerable financial foundation. The credit union's NIM and ROA are below industry averages, indicating weak profitability. The credit union is growing at a slow rate of 2.00% per annum, with a focus on improving its financial stability and resilience.

Attributes	Description
Entity Name	Electricians United Credit Union
Entity Type	Small Credit Union
Health Status	Struggling
Current State	
Members	1,500
Branches	1
Employees	10
Growth Rate	2.00% per annum
Liquidity Ratio	10.00%
Risk Profile	High
Return on Assets (ROA)	0.2%
Funding Costs	High
Credit Risk	Medium
Operational Efficiency	Low
Deposit Critical Mass	Low
Minimum Deposit Spread	High
Compliance Status	Up-to-date with all regulatory requirements

Strategic Goals	Challenges
Improve financial stability and resilience	Limited resources and budget constraints, High funding costs and limited access to wholesale funding
Increase deposit critical mass and reduce funding costs	Small membership base and limited growth opportunities, High funding costs and limited access to wholesale funding
Enhance operational efficiency and reduce costs	Inefficient operations and outdated technology
Improve credit risk management and reduce loan losses	Limited resources and budget constraints, Difficulty competing with larger banks and fintech companies
Increase ROA and improve financial performance	Limited resources and budget constraints, Difficulty competing with larger banks and fintech companies

Credit Union Book and Income Transformations:

Pre-transformation Balance Sheet: Struggling credit union with limited resources, small membership base, and high funding costs

Metric	2024	2025	2026
Assets	\$10M	\$10.5M	\$11M
Deposits	\$8M	\$8.5M	\$9M
Loans	\$6M	\$6.5M	\$7M
Members	1,500	1,600	1,700
ROA	0.2%	0.2%	0.2%
Funding Costs	2.5%	2.5%	2.5%

Metric	2024	2025	2026
Credit Risk	Medium	Medium	Medium
Operational Efficiency	Low	Low	Low
Deposit Critical Mass	Low	Low	Low
Minimum Deposit Spread	1.5%	1.5%	1.5%
Net Worth	$1M	$1.25M	$1.5M

Post-transformation Balance Sheet: Improved financial stability and resilience, increased deposit critical mass, and enhanced operational efficiency

Metric	2024	2025	2026
Assets	$12M	$15M	$18M
Deposits	$10M	$12M	$14M
Loans	$8M	$10M	$12M
Members	2,000	2,500	3,000
ROA	0.5%	0.7%	1.0%
Funding Costs	2.0%	1.8%	1.5%
Credit Risk	Low	Low	Low
Operational Efficiency	High	High	High
Deposit Critical Mass	Medium	High	High
Minimum Deposit Spread	1.0%	0.8%	0.5%
Net Worth	$2M	$3M	$4M

Rationale:

Electricians United Credit Union undertook key strategic initiatives, including implementing a BaaS platform, introducing new digital channels, advancing credit risk management tools, and forming strategic partnerships, to drive growth, improve member experience, and strengthen its financial position.

- Implemented BaaS platform to improve operational efficiency and reduce costs
- Introduced new digital channels to enhance member experience and attract new members
- Implemented advanced credit risk management tools to reduce loan losses
- Developed strategic partnerships to increase deposit critical mass and reduce funding costs

Pre-transformation Income Composition: Shift from reliance on interest income to a more diversified income stream, including non-interest income, fee income, and other income

Income Source	2024	2025	2026	2024 %	2025 %	2026 %
Interest Income	$1.2M	$1.3M	$1.4M	77.4%	78.8%	80.0%
Non-Interest Income	$0.2M	$0.2M	$0.2M	12.9%	12.1%	11.4%
Fee Income	$0.1M	$0.1M	$0.1M	6.5%	6.1%	5.7%
Other Income	$0.05M	$0.05M	$0.05M	3.2%	3.0%	2.9%

Income Source	2024	2025	2026	2024 %	2025 %	2026 %
Total Income	$1.55M	$1.65M	$1.75M	100%	100%	100%

Post-transformation Income Composition:

Income Source	2024	2025	2026	2024 %	2025 %	2026 %
Interest Income	$1.8M	$2.2M	$2.6M	69.2%	66.7%	65.0%
Non-Interest Income	$0.5M	$0.8M	$1.1M	19.2%	24.2%	27.5%
Fee Income	$0.2M	$0.3M	$0.4M	7.7%	9.1%	10.0%
Other Income	$0.1M	$0.2M	$0.3M	3.8%	6.1%	7.5%
Total Income	$2.6M	$3.3M	$4.0M	100%	100%	100%

Rationale:

The BaaS transformation has led to a significant increase in non-interest income, fee income, and other income, while interest income has also increased. This diversification of income streams has improved the credit union's financial stability and reduced its reliance on interest income.

Key Changes:

- Non-interest income has increased by 150% due to new digital channels and partnerships
- Fee income has increased by 100% due to improved operational efficiency and new services
- Other income has increased by 200% due to strategic partnerships and investments

Electricians United Credit Union 5-year NIM projection: Steady growth from 2.50% in 2024 to 3.50% in 2028

Year	NIM
2024	2.50%
2025	2.75%
2026	3.00%
2027	3.25%
2028	3.50%

Rationale:

- 2024: Initial NIM improvement due to BaaS transformation, with optimized asset liability management and reduced funding costs.
- 2025: Continued NIM expansion from increased non-interest income and improved operational efficiency.
- 2026: Further NIM growth driven by strategic partnerships, expanded financial planning, and insurance services.
- 2027: NIM increase due to enhanced credit risk management, reduced loan losses, and improved asset quality.
- 2028: Sustained NIM growth from established digital channels, increased fee income, and diversified revenue streams.

5.2.2 Summary

	Pre-Trans	Post-Trans
Assets (2024)	$10M	$12M
Liabilities (2024)	$8M	$8M
Net Worth (2024)	$2M	$4M
Deposits (2024)	$8M	$10M
Loans (2024)	$6M	$8M
ROA (2024)	0.2%	0.5%
Funding Costs (2024)	2.5%	2.0%
Credit Risk (2024)	Medium	Low

The BaaS transformation has significantly improved Electricians United Credit Union's financial performance and operational efficiency over the 3-year period. Key highlights include increases in assets, deposits, loans, and membership, alongside decreases in funding costs and credit risk. Notably, the credit union's Return on Assets (ROA) has more than tripled, indicating substantially improved financial performance.

This transformation was predicated on several key assumptions, including consistent economic growth and stable interest rates. Successful execution of the BaaS transformation and strategic initiatives, improved operational efficiency, and reduced costs were also crucial factors. Furthermore, enhanced credit risk management resulting from diversification and reduced loan losses contributed to the credit union's improved financial position.

About Nubly Research

Nubly Research is a division of Nubly, a company founded by Michael Ballard (CEO) and Lawrence Hon (CTO). As developers with financial industry experience, they share a passion for harnessing technology to revolutionize everyday people's relationships with finance. Powered by AI technology, Nubly's goal-based financial applications aim to empower individuals to create their best financial lives.

Nubly's mission is to make finance more inclusive by bridging the gap between traditional financial systems and underserved communities. This includes non-salaried and non-benefited workers, such as independent contractors, self-employed individuals, essential workers, and those in the gig economy. By offering financial education, community support, and partnerships with financial institutions for personalized tools, Nubly strives to close wealth disparities in an empathetic and profitable manner.

Ultimately, Nubly dedicates its resources to helping society achieve financial health, security, and generational mobility. With a focus on empowering individuals and communities, Nubly aims to create a more equitable financial landscape for all.

Select Sources

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