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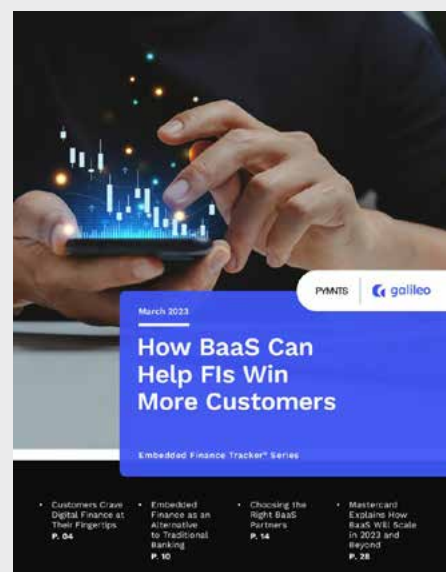


April 2023

How Nonfinancial Brands Can Benefit From Embedded Finance

Embedded Finance Tracker® Series

■ Read the previous edition



MARCH 2023

Embedded Finance Tracker® Series

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Need to Know

Nonfinancial Brands Can Partner With Banks to Offer Embedded Finance

At a time when consumers want convenience in all aspects of their lives, nonfinancial companies are increasingly turning to banking as a service (BaaS) from regulated partner banks to fulfill that demand. By leveraging offerings from these banks, such companies are able to [integrate](#) financial products seamlessly into what were traditionally nonfinancial platforms and experiences.

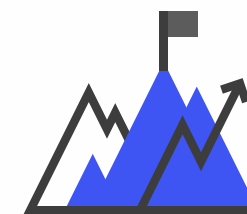
Known as embedded finance, this integration of financial services into various products and experiences has become exceedingly popular among consumers and businesses alike — so much so that embedded finance is now ubiquitous. In 2021, for example, businesses and consumers in the United States spent \$2.6 trillion in transactions through embedded financial services, according to a Bain & Company [report](#).

Embedded finance's popularity is growing rapidly among consumers and businesses.



\$2.6T

Amount spent by U.S. businesses and consumers in transactions through embedded financial services in 2021



\$22B

Total revenue generated in 2021 by embedded finance platforms and enablers

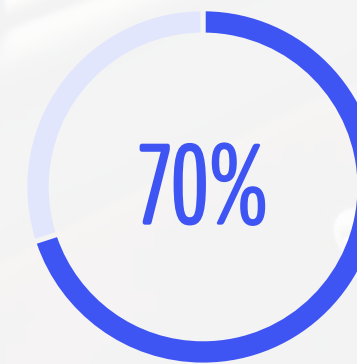
Need to Know

Consumers' use of financial products from nonfinancial companies is extensive.

On the consumer side of the equation, examples of embedded finance abound. Uber, by enabling users to hail and pay for rides easily in the same app, is one of the best-known examples. Another common example is in auto lending, with consumers now [acquiring](#) nearly 70% of auto loans at the dealership during the purchasing process.

Merchants' mobile apps that enable consumers to load funds into them are another prominent use case. According to a [report](#), consumers have between \$30 and \$50 worth of funds stored in these apps each week, on average. Other examples include options to [insure](#) a purchase or pay using buy now, pay later at the point of sale as well as the ability to [purchase](#) street parking through Google Maps.

Consumers are using nonfinancial companies to provide a variety of financial services.



Share of consumers' auto loans acquired at the dealership during the purchasing process

**\$30-
\$50**

Average amount of funds consumers keep in merchants' mobile apps on a weekly basis

Need to Know

Businesses are embracing embedded finance, too.

Embedded finance not only is helping consumers but also is increasingly common in the business world. According to a recent Galileo and Juniper [report](#), 63% of U.S. business-to-business (B2B) companies are offering some form of embedded finance to their customers.

The report found that the most common use of embedded finance was for payments, cited by 74% of companies, followed by employee and employer services or benefits, at 63%, and credit and lending, at 60%. Notably, of the B2B companies not currently utilizing embedded finance, 65% reported that they would be in the future. Whether the end user is a company or a consumer, embedded finance's presence is growing everywhere.

According to a [report](#), the majority of B2B companies are offering embedded finance options.

63%

Share of B2B companies offering at least one form of embedded finance to customers

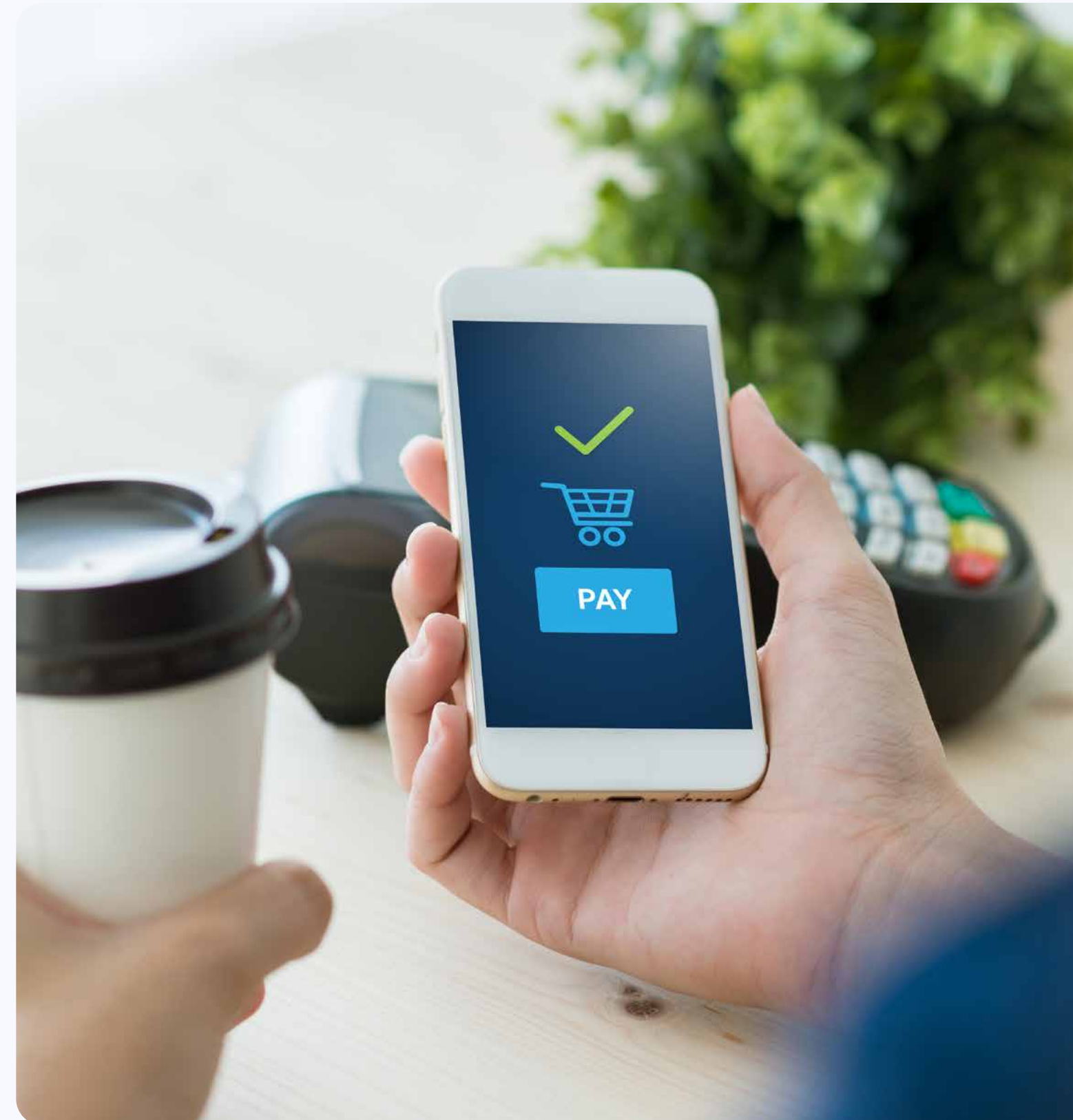
74%

Share of these companies that identify payments as the top embedded capability they offer

News and Trends

Embedded Finance's Impact Grows Amid Mounting Consumer and Industry Interest

Recent [research](#) from DECTA revealed consumers' interest in a range of embedded finance offerings. DECTA found that 54% of Americans favor integrated add-ons such as financing and insurance. Other popular features included loyalty benefits, same-page checkout functionality and seamless payments capabilities. The report also detailed factors causing unpleasant shopping experiences: The top responses were difficult checkouts and not enough payment options.



News and Trends



Software vendors seek improved embedded payment solutions

With companies using embedded payment solutions more than ever, it appears that providers might need to step up their games. According to a recent TSG and KeyBank [survey](#), only 55% of software vendors were satisfied with their embedded payment providers' application programming interfaces (APIs). More problematic still, only 41% were satisfied with the quality of their providers' customer service.

Although the findings highlight that providers have work to do, the survey results also underscore how much of an opportunity there is for providers to meet software vendors' needs. A striking 91% of respondents identified embedded banking options as important or extremely important to their companies.

PYMNTS Intelligence

BaaS Makes Embedded Finance a Winning Strategy for All Parties

Embedded finance would not be possible if not for BaaS, a fee-based model that [allows](#) nonfinancial companies to offer financial services to their end users by connecting directly with banks' systems using APIs. This connection enables third parties to leverage banks' licenses to build banking products and services, which they can then offer to users themselves or sell as white-label solutions to other companies.

Through the use of APIs, BaaS platforms [provide](#) the necessary infrastructure for companies to become financial service providers in a quick, cost-effective way. Such a system benefits everyone involved, from the banks to the businesses to the consumers being served.



PYMNTS Intelligence

Embedded finance improves the consumer experience

Embedded finance benefits consumers by allowing them to expand and personalize interactions with their preferred brands. Many consumers want to stay within their favorite brands' ecosystems for a variety of interactions instead of needing to leave for another provider. More than two-thirds of fitness-minded consumers, for example, are [interested](#) in receiving health insurance from home fitness providers, with rates tied to individuals' workout habits.

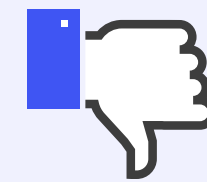
This streamlined approach also helps consumers by creating more convenient and seamless customer journeys. In online shopping, for example, embedded finance [makes](#) same-page checkouts and seamless payments possible. This is important because, according to a [survey](#), the primary causes of negative experiences in online shopping are difficulty checking out and a lack of payment choice, with 49% of respondents saying they would probably quit shopping if they encountered these issues. Even modest improvements in the customer experience can go a long way toward improving customer satisfaction.

Embedded finance creates better experiences for customers by making things seamless, convenient and personalized.



68%

Share of health-minded consumers [interested](#) in obtaining health insurance from home fitness providers, with rates based on their personal fitness habits



49%

Share of consumers who would probably [quit](#) an online purchase upon encountering checkout difficulties or a lack of payment choice

PYMNTS Intelligence

What is good for consumers is also good for businesses

What makes embedded finance so powerful — and popular — is that the benefits for consumers also benefit companies. Because embedded experiences create more avenues for consumers to interact with their favorite brands, they promote customer loyalty and engagement. Indeed, 88% of companies that offered some type of embedded finance option [reported](#) increased engagement, and 85% said it helped them acquire new customers.

Share of companies offering embedded finance that [reported](#) increased customer engagement

88%

Share of consumers who [reported](#) spending more with a nonfinancial brand as a result of receiving a financial product from that brand

32%

Embedded experiences can further benefit businesses by creating revenue opportunities in two ways. In addition to driving direct revenue from the financial products themselves, the heightened engagement and loyalty they impart can increase consumers' general spend with a given brand. According to one [report](#), almost one-third of consumers who received a financial product from a nonfinancial brand reported spending more money with that brand as a result.

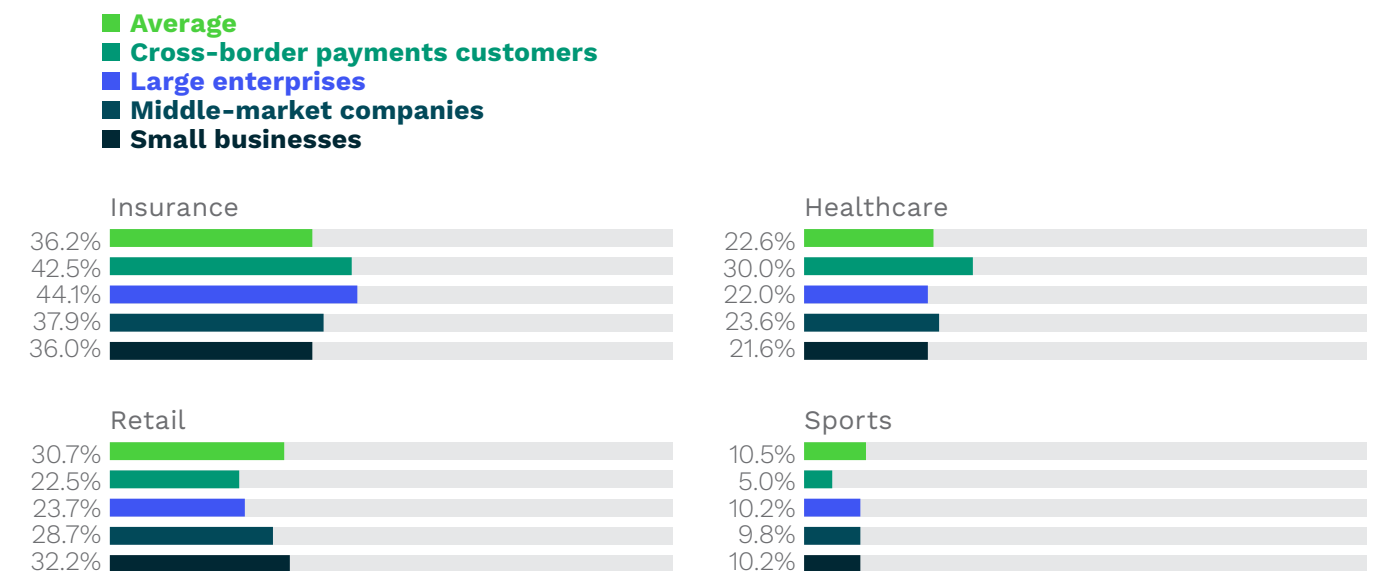
Chart of the Month

Insurance and Retail the Likeliest Embedded Finance Adopters

Financial institutions (FIs) seem to be aware that multiple industries are eager for embedded finance solutions. A PYMNTS [survey](#) asked FI executives in charge of treasury services or wholesale banking divisions to give their votes on which industries were the most likely to adopt embedded finance solutions. The insurance industry was the top answer, selected by 36% of respondents, with retail close behind, at 31%, and healthcare ranking third, with nearly one-quarter of the vote. The fact that no industry stood out as a clear favorite suggests that FIs recognize embedded finance’s industry-spanning appeal.

Industries Expected to Adopt Embedded Finance Solutions

Share of industries expected to be most likely to adopt embedded finance solutions, by type of corporate customer



N = 287: FIs that are currently innovating or planning to innovate embedded finance experiences for corporate payments

Source: PYMNTS

Meeting the Challenge of Payments Modernization, June 2022

N = 287: FIs that are currently innovating or planning to innovate embedded finance experiences for corporate payments: Complete responses, fielded Oct. 28, 2021 – Nov. 30, 2021

Insider POV

Mastercard on How BaaS Providers Can Reach Their Full Potential



SHERRI HAYMOND
Executive vice president,
global digital partnerships



“Banking as a service and embedded finance, taken together — they just represent where the world is going.”

With consumer preferences pushing BaaS and embedded finance to new heights, [Mastercard's Sherri Haymond](#) discusses how FinTechs are responding and what is needed for them to scale successfully.

The present popularity of BaaS reveals both where the world is headed and where it has recently been. That is according to Sherri Haymond, executive vice president of global digital partnerships at Mastercard. In an [interview](#) with PYMNTS, she explained that BaaS's stunning rise — which she believes will continue well into the future — had its roots in COVID-19.

When the pandemic hit, people and businesses suddenly needed to conduct much of their lives online. Everyone then acclimated to this new reality, said Haymond, and became used to doing nearly everything online in a seamless, digital way. This shift in behavior has endured, even as the public health crisis has abated.

“People are back to doing things in person, but there has been a lasting, permanent change in people's expectations about the speed and convenience with which things will happen,” Haymond said.

Insider POV

BaaS and embedded finance are both fueling this major shift in consumer thinking and being powered by it. As Haymond explained, BaaS is being used to meet consumers' insatiable need for seamless solutions — and this, in turn, has changed the very concept of what BaaS is.

BaaS used to be associated mainly with the provisioning of bank accounts, she said. Now, however — at a time when consumers want to do their finances or pay bills or buy groceries all in one place — BaaS has expanded to support an ever-growing set of services. Haymond pointed out that many FinTechs are now providing products typically associated with traditional FIs, such as full-stack lending, underwriting and card issuing.

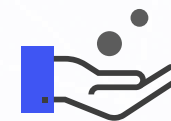
The FinTech approach to BaaS and embedded finance is as dynamic as it is diverse. Some FinTechs provide very specialized services, while others offer more generalized solutions. Further, some start with one model and then shift to the other, while others do not fit neatly into any category.

As far as Haymond is concerned, no model is inherently better than another, and as BaaS continues to grow, such a range of approaches will remain. Moreover, new use cases will keep arising, creating novel opportunities for FinTechs willing to pivot.

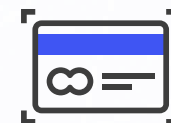
Nevertheless, she said, the FinTechs that will scale and reach their full potential are the ones that offer the solutions people need. To be successful, companies must keep up with their customers' demands and concerns — and that requires a relationship-oriented approach.

“You’ve got to allow people to transact where they are,” she said. “This just makes sense.”

FinTechs are using BaaS to provide an increasingly wide array of financial services. These include:



Payment capabilities



Card issuing



Expense-tracking tools

Companies to Watch

New Partnerships and Products Keep the Financial Innovations Coming



Adyen has [partnered](#) with Buildertrend to equip the latter's construction management solution with an array of financial capabilities. These include expedited payouts and an improved platform for handling business financial management needs.



Galileo Financial Technologies is [offering](#) Cyberbank Konecta, a conversational artificial intelligence (AI) engine, to FIs, FinTechs and nonfinancial brands. Companies can leverage the Konecta-as-a-Service solution to provide intelligent and personalized digital experiences for end users.



Grupo Coppel, Mexico's largest nonfood retailer, [selected](#) Alviere, an embedded finance platform provider, to enable the launch of its mobile wallet. Known as Coppel Access, the wallet will help unbanked and underbanked Americans access digital financial services.





What's Next

BaaS-Powered Finance Is Just Getting Started

All signs point to a future in which BaaS and embedded finance will play an even greater role. Already, 92% of all FIs are either currently innovating embedded finance solutions or planning to do so, according to PYMNTS [research](#). Moreover, nearly 50% of card spending in the U.S. already [occurs](#) via digital channels — and this will keep rising as tech-savvy Gen Z grows up, expanding the appetite for integration of financial capabilities into new products and services. In fact, BaaS's future is so bright that the majority of its enablers, including FinTechs, [expect](#) the overall market to grow by more than 50% in the next five years.

“Consumers are very interested in receiving financial services from their favorite nonfinancial brands. Meanwhile, the rise of BaaS and embedded finance affords these brands unprecedented opportunity to meet that demand and, in doing so, to reap significant benefits, including increased revenue, better product offerings and deeper, more valuable customer engagement over the long term.”

SETH MCGUIRE
Chief revenue officer



About

PYMNTS

[PYMNTS](#) is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.



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.

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