

HOW EMBEDDED FINANCE DRIVES RETAIL PLATFORM INNOVATION

November 2024 Report

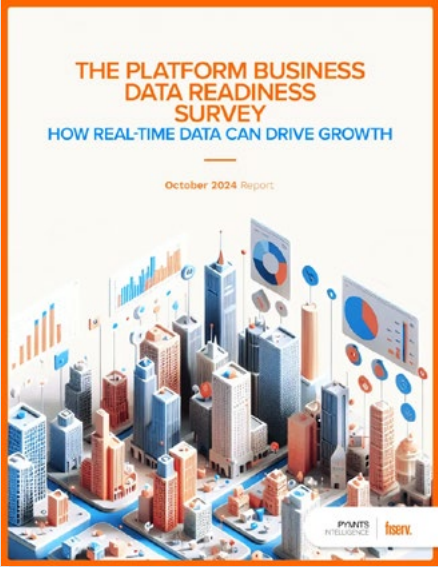


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HOW EMBEDDED FINANCE DRIVES RETAIL PLATFORM INNOVATION

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How Embedded Finance Drives Retail Platform Innovation was produced in collaboration with Carat from Fiserv, and PYMNTS Intelligence is grateful for the company’s support and insight. [PYMNTS Intelligence](#) retains full editorial control over the following findings, methodology and data analysis.

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WHAT'S AT STAKE

Improving the customer experience has become crucial for retail platforms in an increasingly competitive arena — so much so that firms are continuously enhancing their payments acceptance offerings to meet customers' expectations of an easy online buying experience. Retail platforms — such as marketplaces and independent software vendors (ISVs) — offer services and products but need additional support from payment facilitators (PayFacs) to receive payments. To further engage consumers, PayFacs, ISVs and marketplaces also show interest in integrating new embedded finance solutions into their platforms.¹ Such offerings provide consumers with seamless access to financial services directly through a retail platform, helping these businesses deepen their relationships with current customers while adding services that will help attract new ones.

¹ This is an evolving field, and definitions can vary, but for this report series, "payment acceptance" is enabling the receipt of a payment and may include support for credit cards, open banking, digital wallets and other methods. "Embedded finance" encompasses capabilities beyond payment acceptance related to financial services or lending, such as BNPL, embedded insurance and loyalty or rewards features.

PYMNTS Intelligence data shows PayFacs, ISVs and marketplaces in the retail arena recognize how important embedded finance offerings are to their innovation plans. Even so, enhancing these features may take two to five years for many firms. The embedded finance features emerging as top priority for PayFacs, ISVs and marketplaces going forward include loyalty and rewards features and buy now, pay later (BNPL) support. Data also reveals the integration of digital wallets has become a must-have payment acceptance feature for PayFacs, ISVs and marketplaces.

These are just some of the findings detailed in How Embedded Finance Drives Retail Platform Innovation, a PYMNTS Intelligence and Carat from Fiserv collaboration. Based on a survey of 280 executives — 40 at PayFacs, 120 at ISVs and 120 at marketplaces — this report examines the sentiments and behaviors of PayFacs, ISVs and marketplaces in the retail sector regarding embedded finance innovation. The survey was conducted between May 28 and July 20.

This is what we learned.



PayFacs: Entities that facilitate payments from one person or business to another. Some aggregate multiple providers to enable payments that connect one customer to one merchant.



ISVs: Individual companies that sell software to companies as single units and that may or may not have payment features incorporated.



Marketplaces: Platforms that allow customers to complete transactions with many retailers on a single website or application that connects one customer to many merchants. (Amazon is an example of a marketplace, as users can purchase from multiple vendors in a single transaction on its platform.)

KEY FINDINGS

Most PayFacs, ISVs and marketplaces in the retail sector say embedded finance offerings are important to their innovation strategies, but enhancing these features is likely to take two to five years for many.

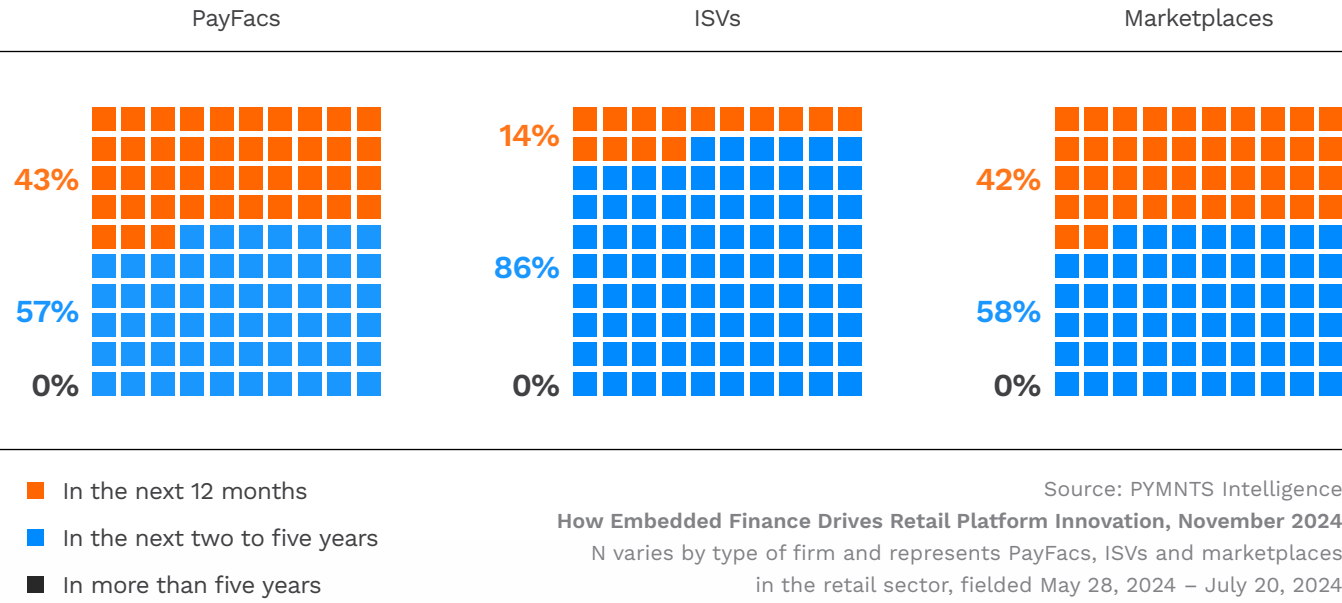
Offering both payment acceptance and embedded finance features is table stakes for PayFacs, and all surveyed in this study did so. Moreover, all surveyed PayFacs that operate in the retail sector say embedded finance offerings are at least somewhat important to their innovation strategies.

86%

Share of ISVs that **plan to expand their embedded finance offerings** in the next two to five years

In fact, 57% say they plan to expand embedded finance offerings in the next two to five years. Like PayFacs, 99% of retail marketplaces surveyed say embedded finance offerings are important. While 58% plan to expand embedded finance offerings in the next two to five years, the remaining expect to do so even sooner: within the next year. Among ISVs in the retail sector, 91% find embedded finance offerings important to their innovation strategies, with more than 8 in 10 expecting to enhance or start offering them in the next two to five years. These findings suggest these retail platforms recognize the value of offering embedded finance features in growing their businesses, yet these firms believe rolling the features out seems to be less an urgent concern and more a part of their future innovation roadmap.

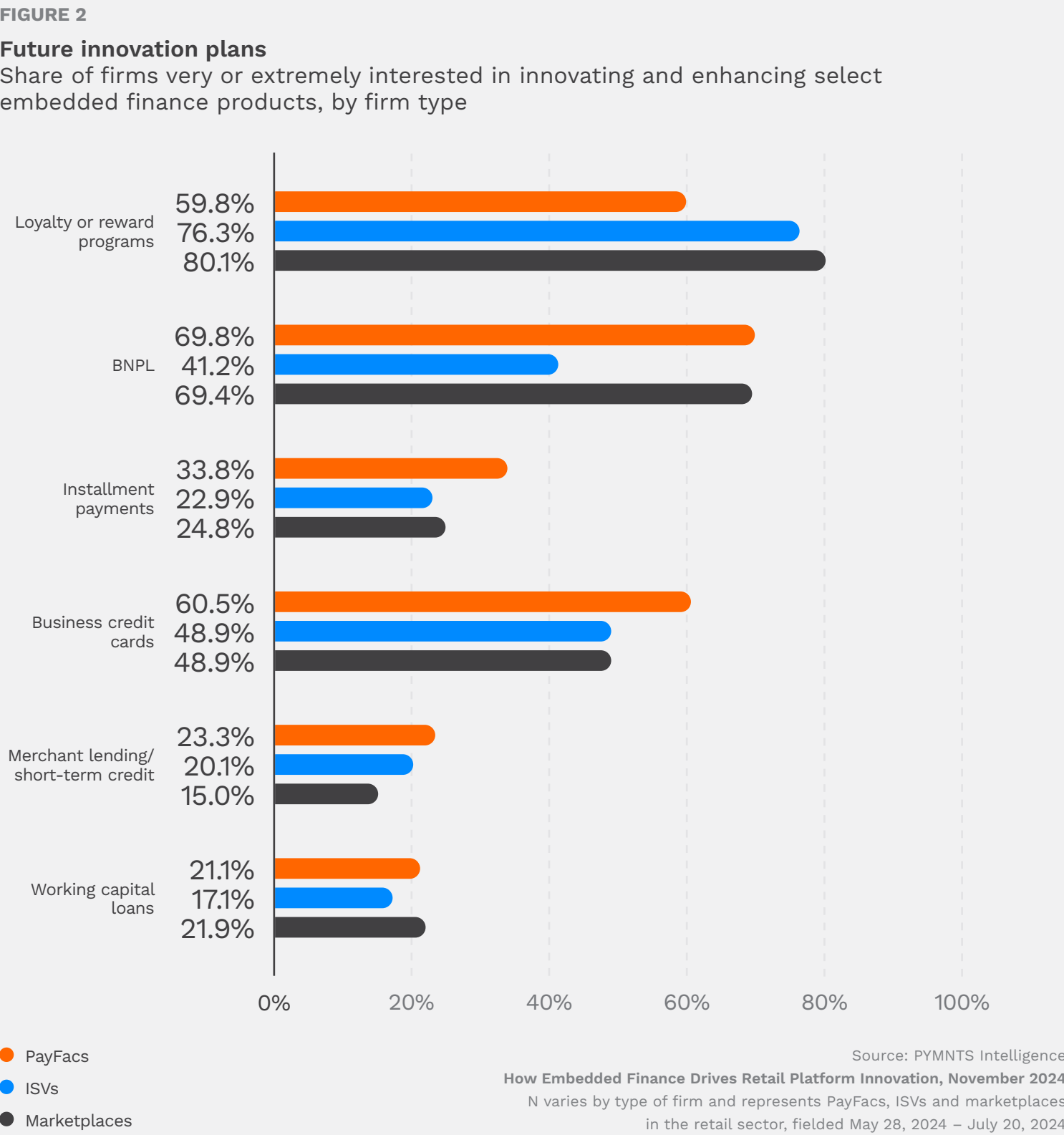
FIGURE 1:
Plans to expand or start offering embedded finance offerings
Share of firms indicating their plans to expand or start offering embedded finance products in the future, by firm type



Retail marketplaces are prioritizing loyalty rewards and BNPL as their next embedded finance innovations.

Embedded finance innovation is on the horizon, and as firms prepare for future innovations, loyalty and rewards programs and BNPL are top of mind. For instance, 80% of marketplaces and 76% of ISVs in the retail sector are very or extremely interested in expanding or enhancing loyalty rewards for their embedded finance offerings. Relatively fewer (60%) PayFacs operating in retail are equally interested in expanding their embedded financing offerings related to loyalty and rewards. This lower interest highlights a disconnect in priorities between PayFacs, which operate more behind the scenes, and the often consumer-facing retail ISVs and marketplaces with which they work.

When it comes to BNPL offerings, 70% of PayFacs, 41% of ISVs and 69% of marketplaces are highly interested in expansion. Despite their structural similarity to BNPL offerings, installment payment innovations are less desired, with only 34% of PayFacs, 23% of ISVs and 25% of marketplaces in this sector highly interested. Installment payments do not offer the same streamlined user experience, possibly explaining why this type of pay later offering is less likely to be a priority.

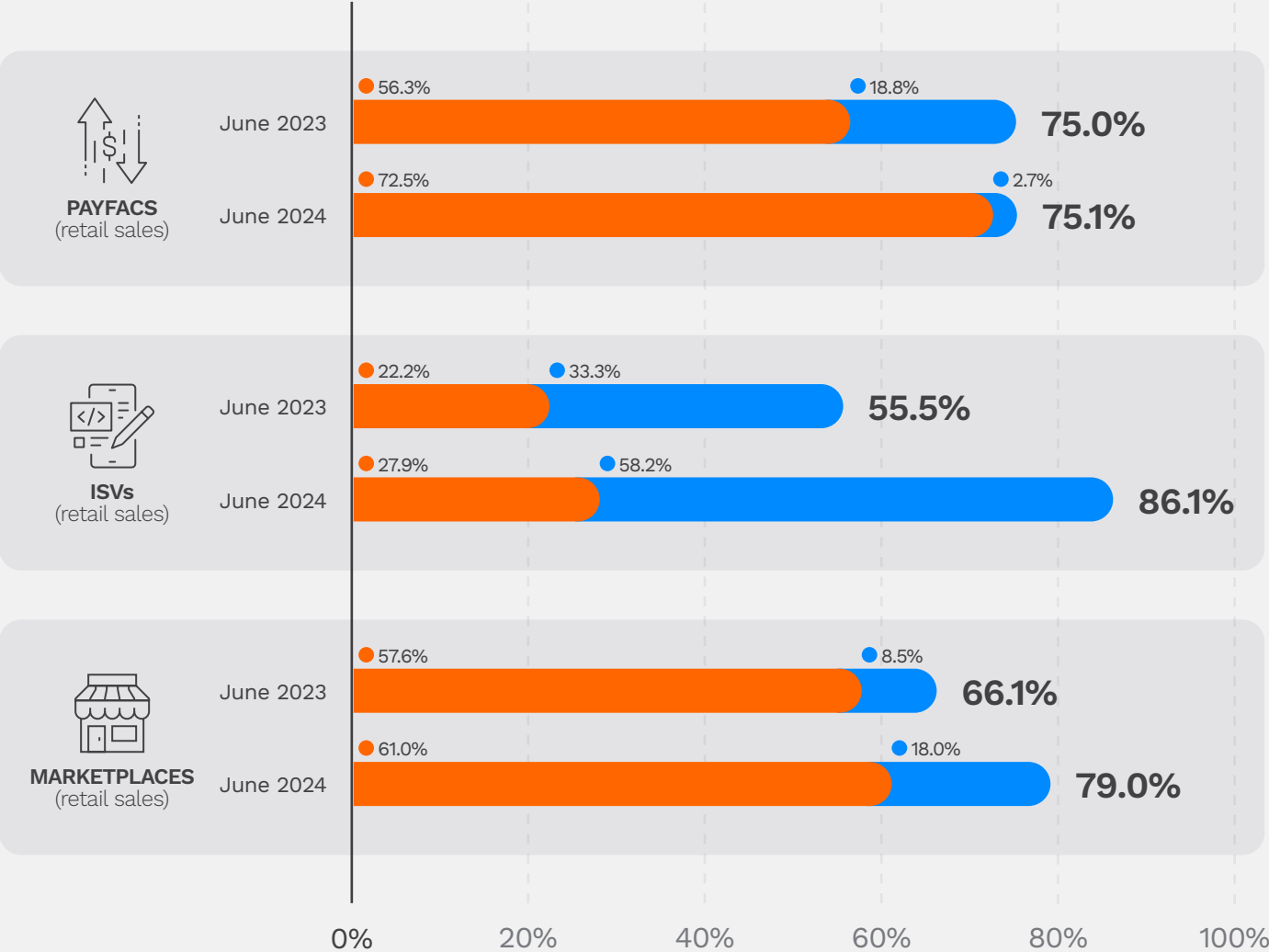


Digital wallet payment acceptance features are quickly becoming table stakes for platform businesses and PayFacs in retail.

Consumers increasingly expect retailers to allow them to pay via digital wallets, which streamline the payment process by removing the need to type debit or credit card numbers to complete a purchase. As of June, 86% of ISVs in the retail sector were very or extremely interested in enhancing and expanding digital wallet features, including the 58% that did not support payment acceptance via digital wallet. Meanwhile, 72% of PayFacs that serve retailers were highly interested in enhancing or adding digital wallet payment acceptance, as were 61% of retail marketplaces.

Additionally, 3% of PayFacs and 18% of marketplaces do not currently support payment acceptance via digital wallet but want to innovate and add these features. Moreover, the shares of firms accepting digital wallet payments have increased from June 2023, indicating retailers recognize the need to support digital wallets and enhance their payment acceptance features.

FIGURE 3
Future digital wallet innovation plans
Share of firms very or extremely interested in innovating and enhancing digital wallet payment acceptance offerings, by firm type



- Currently offer digital wallets and are very or extremely interested in innovating them
- Currently do not offer digital wallets and are very or extremely interested in adding them

Source: PYMNTS Intelligence
How Embedded Finance Drives Retail Platform Innovation, November 2024
N varies by type of firm and represents PayFacs, ISVs and marketplaces in the retail sector, fielded May 28, 2024 – July 20, 2024

CONCLUSION

PayFacs, ISVs and marketplaces in the retail arena recognize that embedded finance offerings are central to their innovation roadmaps, even as these roads may be somewhat long, with plans taking two to five years for many firms. Enabling the integration of such embedded finance features as loyalty and rewards and BNPL headlines innovations plans for PayFacs, ISVs and marketplaces, and supporting digital wallets has become a must-have payment acceptance feature. Making better payment experiences available through embedded finance feature improvements helps keep shopping convenient for consumers while raising the odds that new customers may complete their purchases seamlessly.

METHODOLOGY

How Embedded Finance Drives Retail Platform Innovation, a PYMNTS Intelligence and Carat from Fiserv collaboration, is based on a survey of 280 executives — 40 at PayFacs, 120 at ISVs and 120 at marketplaces. This report examines the sentiments and behaviors of PayFacs, ISVs and marketplaces in the retail sector regarding embedded finance innovation. The survey was conducted between May 28 and July 20.

THE PYMNTS INTELLIGENCE TEAM THAT PRODUCED THIS REPORT

Scott Murray
SVP and Head of Analytics

Yvonne Markaki, PhD
SVP, Data Products

Margot Suydam
Senior Writer

Matt Vuchichevich
Senior Content Editor,
Head of Reports

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