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OpenPayd

EMBEDDED FINANCE RESEARCH REPORT

EMBEDDED FINANCE SURGE TO NET 720BN EURO FOR EUROPEAN BRANDS BY 2026

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THE RISE AND RISE OF EMBEDDED FINANCE

Embedded finance is one of the hottest topics in fintech today. It started hitting the headlines back in 2019 when Angela Strange proclaimed "every company will be a fintech company". Following this bold assertion Simon Torrance, an expert in business model transformation, stoked the flames further in 2020 by claiming that embedded finance would be worth US$7.2 trillion globally by 2030. And in 2021 Grab Financial Group reported a 95% compound annual growth rate in its revenue - 93%, or US$320m, of which derived from embedded financial services.

Embedded finance enables any brand or merchant to seamlessly integrate financial services into their core product at their customers' point of need. This creates new opportunities for any brand to add value by building more frictionless digital experiences for customers, adding convenient payment methods and offering customised financing solutions. Ultimately, employing embedded finance solutions allows the financial services element of a purchase to fade into the background of customer journeys.

EMBEDDED FINANCE WOULD BE WORTH US$7.2 TRILLION GLOBALLY BY 2030

The four dominant areas of embedded finance are:

PAYMENTS

LENDING

BANKING

INSURANCE

One commonly used example is in-app payments. Instead of having to dig into wallets, a consumer using an app with embedded payments can pay with just a few taps - Uber, for example. Other current embedded finance products include ‘buy now, pay later’ options offered at checkouts in ecommerce stores, such as those offered by Klarna, and embedded banking services such as Shopify Balance which allows merchants to hold money, pay bills and spend directly from their Shopify Balance account.

On the back of this wave of enthusiasm, investments and valuations in embedded finance and Banking-as-a-Service (BaaS) vendors have rocketed.

But, aside from a handful of well-publicised examples, are large brands outside of the fintech bubble really taking embedded finance seriously? Are they putting concrete plans in place to launch embedded finance solutions? Are they even aware of the term or is fintech shouting into its own echo chamber?

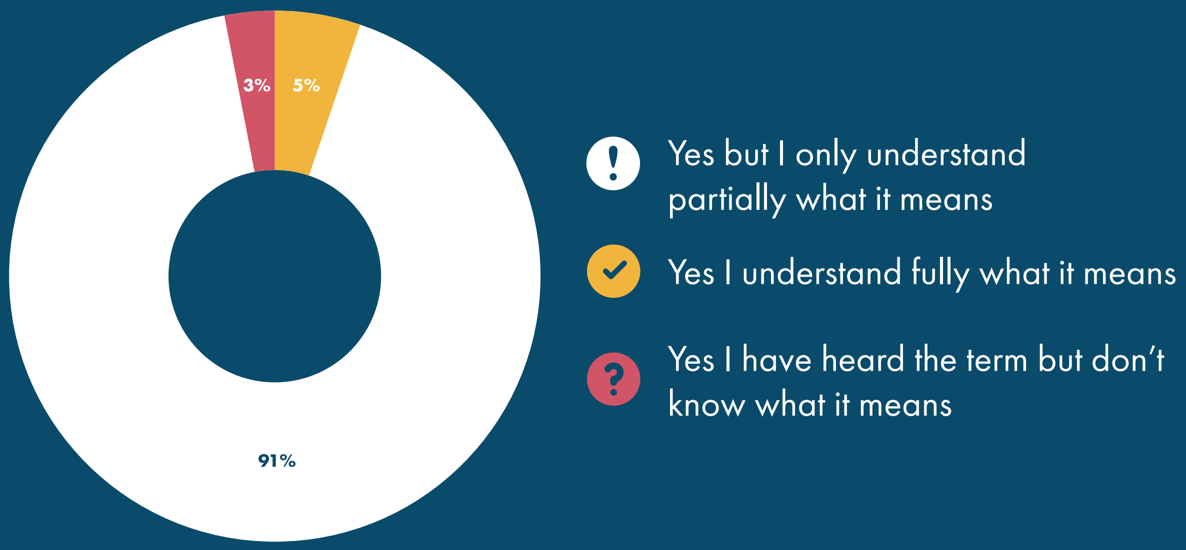
To answer these questions, OpenPayd commissioned the largest ever independent study of attitudes towards embedded finance, completing in July 2021. Conducted by Coleman Parkes, it surveyed 150 decision makers from brands across Europe with responsibility for the identification and implementation of new products and services. They include B2C and B2B marketplaces, horizontal and vertical SaaS brands and gig economy platforms, covering markets from eCommerce and manufacturing to technology services and mobility. A full methodology is outlined at the end of this paper. Together the insights provide a unique perspective on the future of embedded finance in Europe, and a much-needed view from outside a hype-laded fintech bubble.

OpenPayd commissioned the **largest ever independent study** of attitudes towards embedded finance, completing in July 2021.

The phenomenal pace of embedded finance adoption

The first insight to emerge from the research is the incredible levels of awareness of embedded finance around boardroom tables across Europe. 100% of companies surveyed were aware of the term 'embedded finance'. It appears that the hype surrounding embedded finance in fintech circles has permeated the mainstream. However, awareness differs from understanding.

AWARENESS OF THE TERM 'EMBEDDED FINANCE'



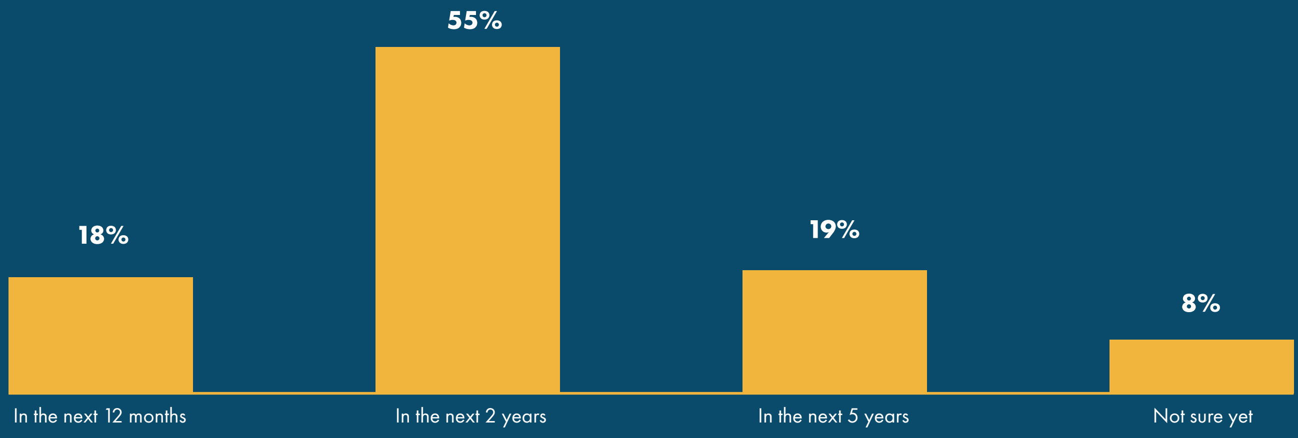
Just 5% of respondents say they fully understand what embedded finance means, while 91% only have a partial understanding. Interestingly, this lack of understanding does not appear to have diminished board room discussion, strategic planning – or action.

5% of those surveyed already offer embedded financial services. Of the remaining, a staggering three quarters (73%) of respondents say their brand plans to launch embedded financial services within the next two years – 18% in the next 12 months - while nearly all (92%) will do so within the next five years.

73% of respondents plan to launch embedded finance in the next two years

92% of respondents plan to launch embedded finance in the next five years

PLANS TO OFFER EMBEDDED FINANCE TO CUSTOMERS



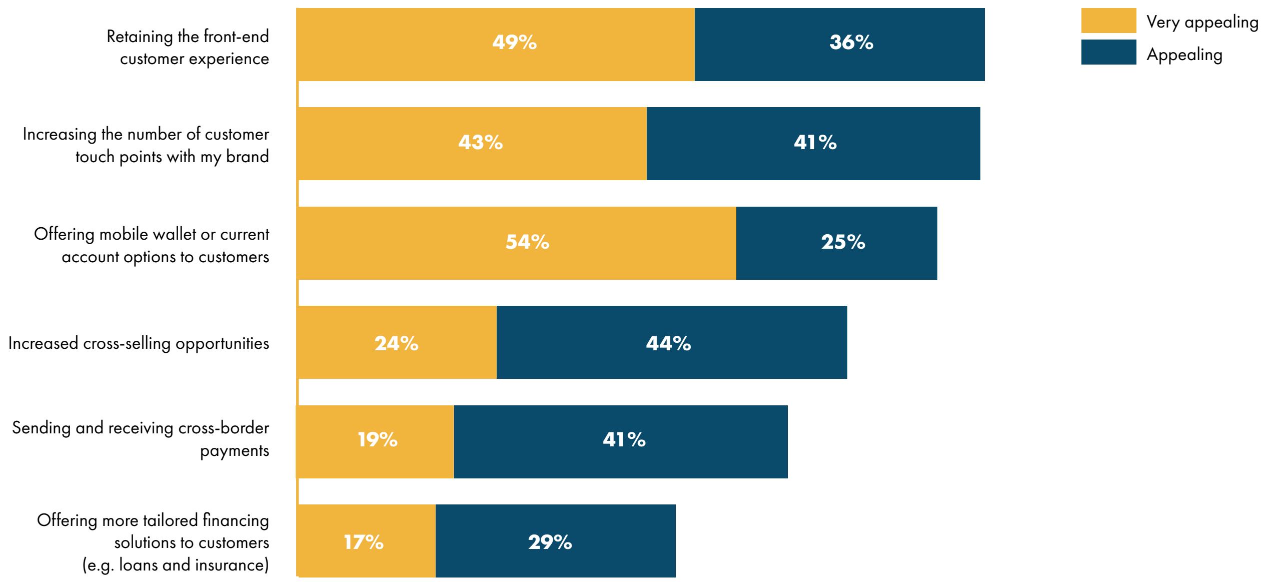
What has excited so many brands about embedded finance is the prospect of developing new personalised solutions, new customer journeys and new ways to add value to the customer experience. According to EY, that excitement has been supercharged by the added pressure from consumers who warmed-up to using financial services through non-traditional channels during the pandemic. A recent EY study of changing consumer views revealed that 63% of consumers would “highly value” open banking and embedded finance solutions that connect and personalise their experiences across third-party ecosystems.

Embedded finance catalysts

Given the evidence, Europe can expect an embedded finance bonanza by 2023. But what's driving brands to embed financial services into their offerings?

According to respondents it is actually brand – rather than financial – considerations fuelling their push into embedded finance. Retaining the front-end customer experience (85%), increasing the number of customer touch points with their brand (84%) and offering mobile wallet or current account options to customers (79%) ranked as the top three most appealing impacts of embedded finance.

APPEAL OF EMBEDDED FINANCE OFFERING



Financial gains – increased cross-selling opportunities, sending and receiving cross-border payments – ranked lower.

And not all elements of embedded finance are created 'equal'. Embedded banking and embedded payments are by far the biggest offers being planned, dwarfing embedded insurance and lending in the short term.

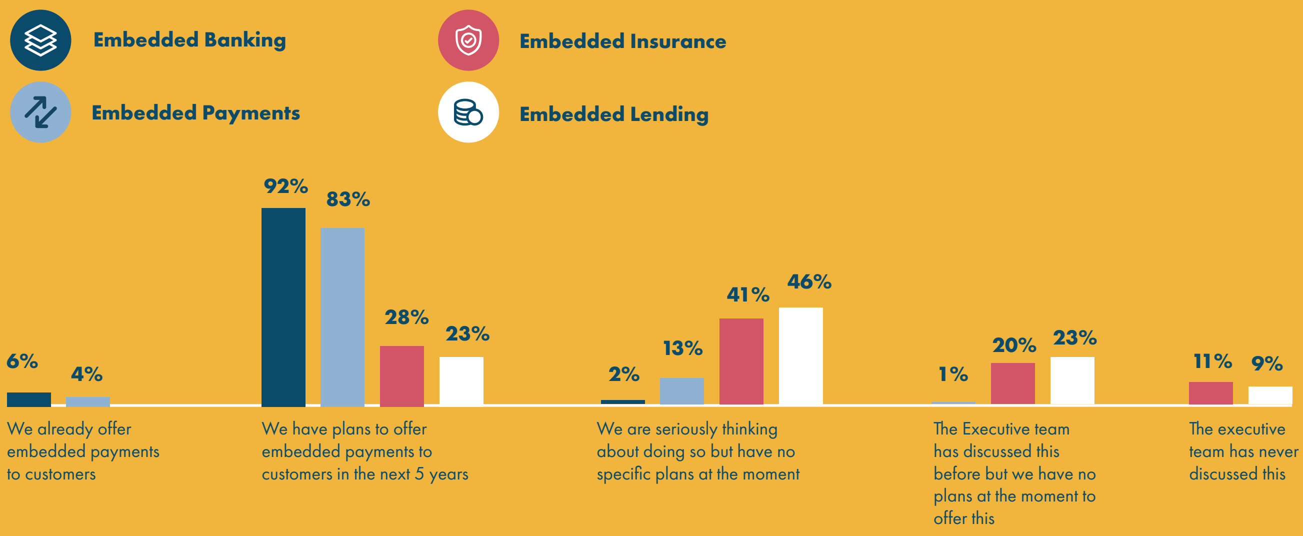
Banking:
6% already offer embedded banking to customers and nearly all (92%) plan to offer it in the next five years.

Payments:
4% of respondents said they already offer embedded payments to customers and 83% plan to offer in the next five years.

Insurance:
No respondents reported that they already offer embedded insurance to customers and only 28% plan on doing so in the next five years.

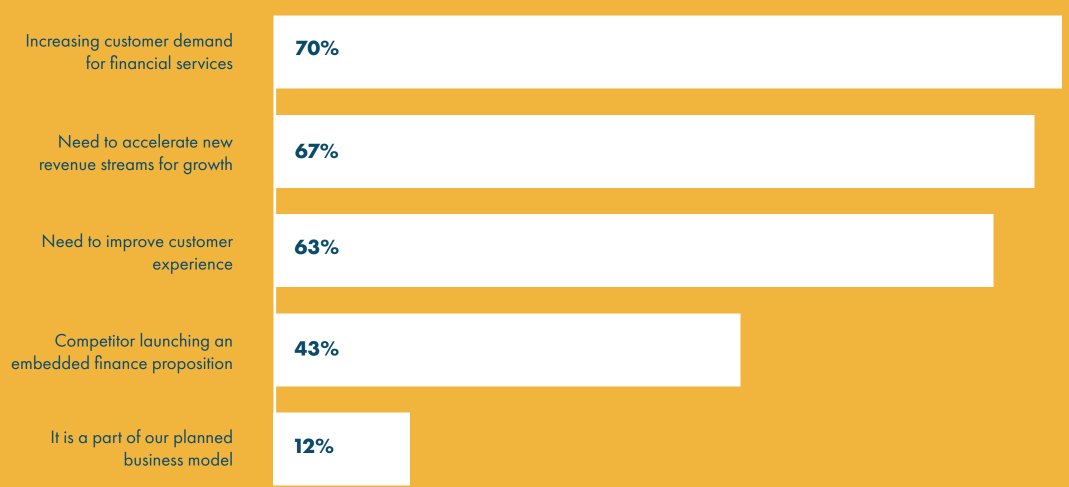
Lending:
No respondents reported that they already offer embedded lending to customers and less than a quarter (23%) plan to offer it in the next five years.

HAVE YOU CONSIDERED OFFERING EMBEDDED BANKING/ PAYMENTS/INSURANCE/LENDING TO CUSTOMERS?



When asked what might drive a faster roll out of embedded finance services, the importance of customer demand shines through. Despite already exhibiting ambitions to get embedded financial services to market quickly, customer experience of early embedded finance implementations may yet drive brands to roll out faster. In second place, the need to accelerate new revenue streams will speed up the launch of embedded financial services and demonstrates an understanding on the part of respondents that embedded finance could make a meaningful contribution to their future growth. The need to improve customer experience would encourage 63% of European brands to accelerate the introduction of services. What we can take from this is the importance of the earliest implementations of embedded financial services in convincing followers to speed up.

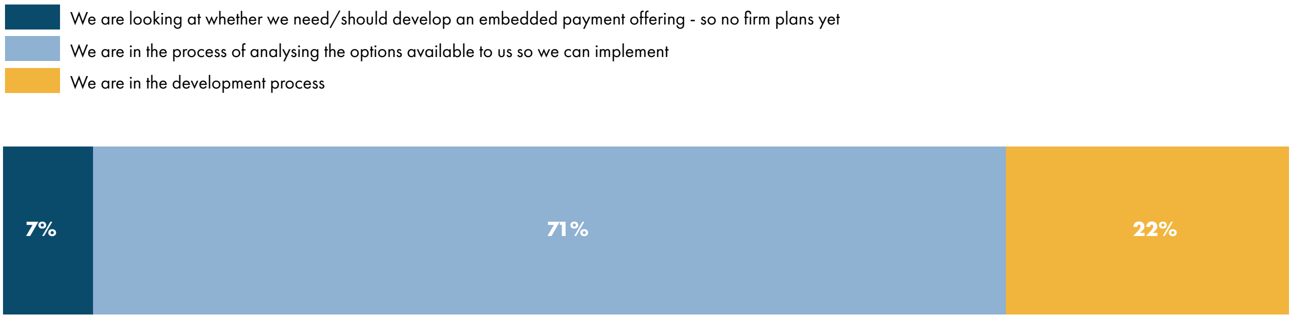
DRIVING A FASTER ROLL OUT/EXPANDED OFFER OF EMBEDDED FINANCE



BLOCKERS TO EMBEDDED FINANCE SUCCESS

For embedded banking and payments, the majority of respondents are either already in the development process (22%) or in the process of analysing the options available to them so they can implement (71%) embedded finance offerings. But what barriers exist?

STAGE OF EMBEDDED PAYMENT AND EMBEDDED BANKING PLANS

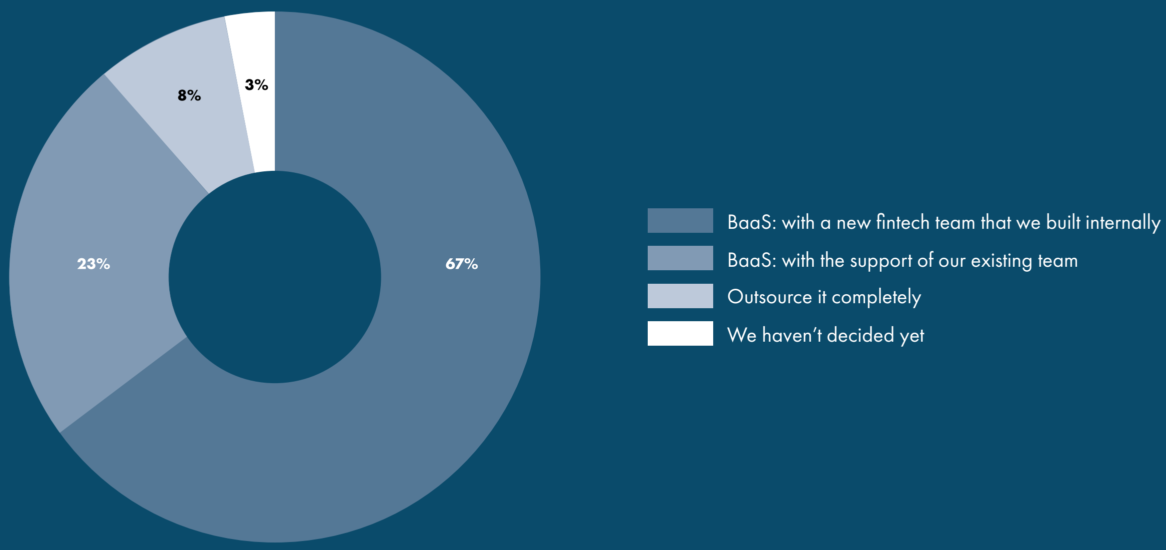


TOTAL - 285

Knowledge and talent

Brands recognise their knowledge gaps and the research suggests they're planning a huge ramp up in hiring fintech talent to fill the ranks of their newly minted internal fintech teams. One recent case is Booking.com, recently claiming it will use its new internal fintech unit to remove friction between cross-currency transactions and different global payment practices. And the study shows that two thirds (67%) of all companies plan to build a new internal fintech team to develop their embedded payments offers, working alongside BaaS providers. And more than 7 in 10 (71%) plan to build a new internal fintech team to work alongside BaaS partners to implement their embedded banking offer.

ROLLING OUT EMBEDDED PAYMENTS

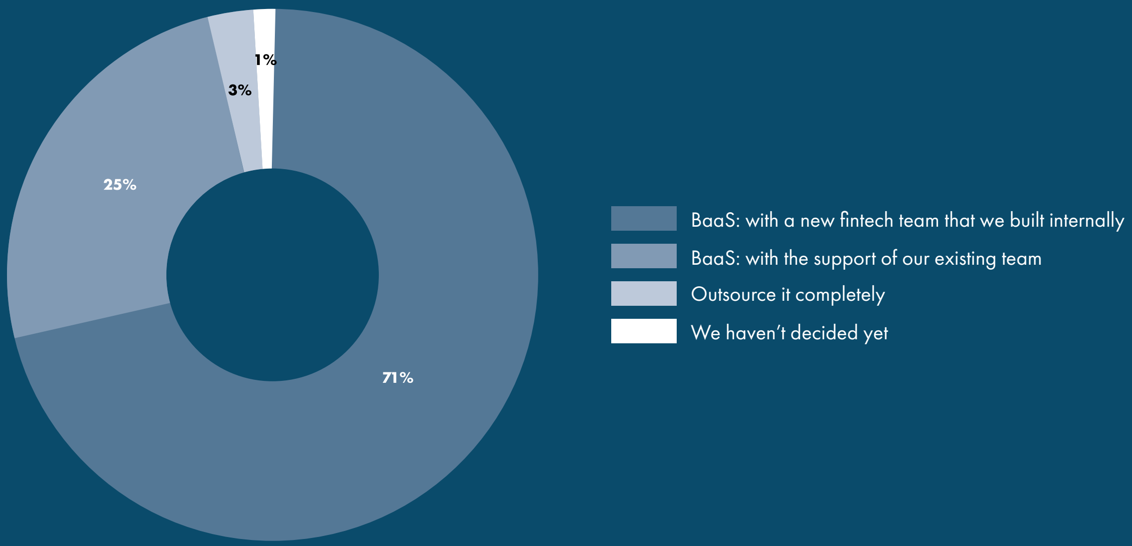


Best-in-class talent will be critical for analysing and building the offerings that will prove most useful to each sector. However, the demand for fintech talent over the last few years has already proved insatiable, and unsustainable. The labour market has not been able to keep pace with demand so despite fintech's huge potential, the recruitment and retention of talent has always been an ongoing challenge.

There are accessible ways for brands to develop this capability, such as collaborating with educational institutions or investing in upskilling their own employees. No matter the method it is extremely important to develop talent in a way that empowers traditionally underrepresented groups because the fintech sector has always thrived on innovation, driven by diverse thinking. Nurturing underrepresented talent from the classroom to the workplace, time and again has proven a good investment.

But, building and nurturing an internal team to make good on embedded finance plans is just the start. Enlisting the help of the right partners will be critical in addressing the 'expertise squeeze'. The need for experts with the appropriate knowledge as well as access to regulatory and technical resources unique to a company's location and sector is clear.

ROLLING OUT EMBEDDED BANKING



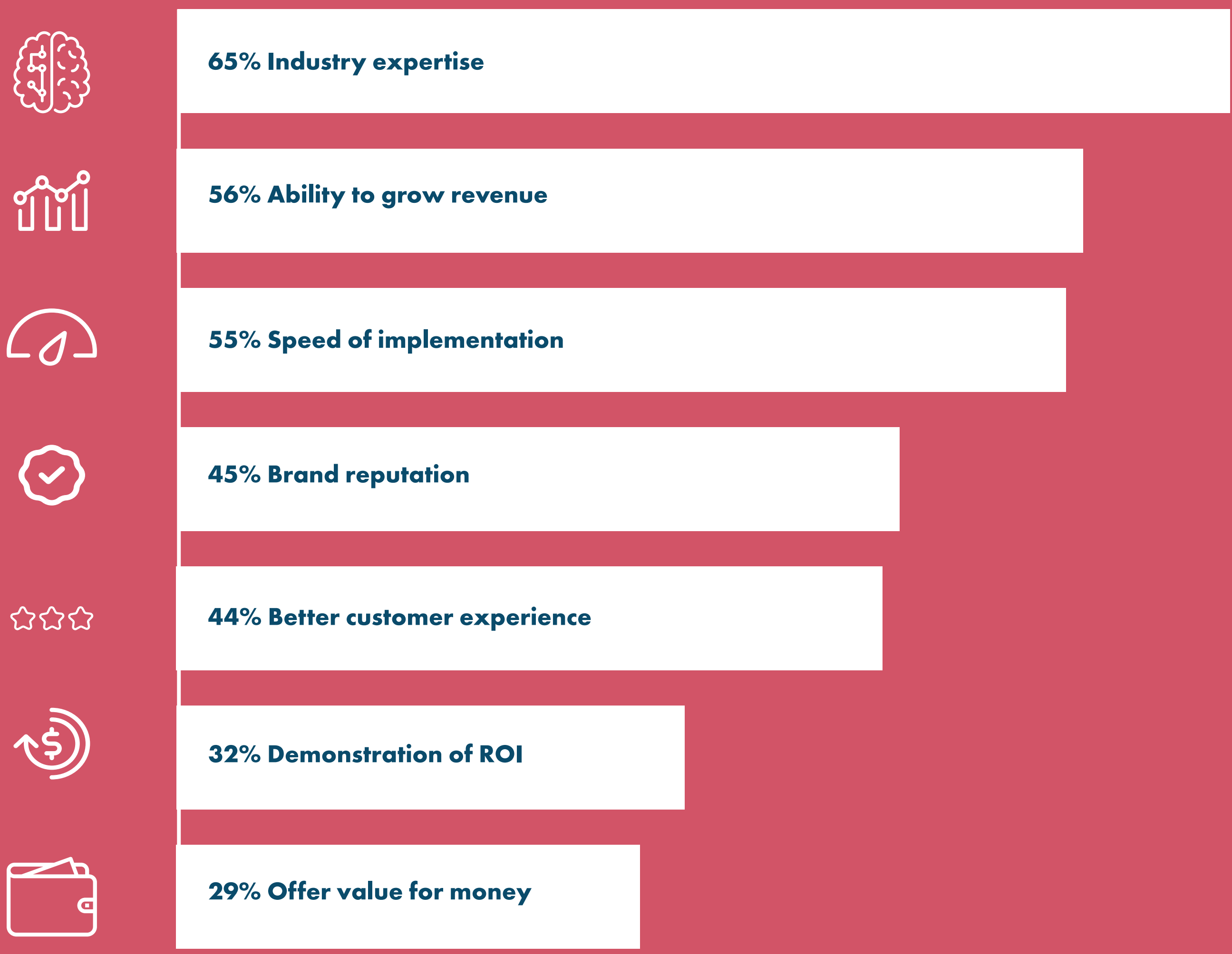
Partnerships

When asked to name potential embedded finance partners, Revolut took first place with a very modest 3.3% awareness, followed by currency management automation provider Kantox (2%) and Software-as-a-Service (SaaS) marketplace solution provider Mirakl (1.3%). Many embedded finance experts would not see these companies as providers capable of supporting the creation of scale embedded banking, payments, insurance or lending capabilities.

The lack of awareness demonstrated here is concerning and speaks to a lack of understanding and a need for operational support for brands hoping to capitalise on embedded finance. Identifying the most suitable partners is critical for navigating the complexities of embedded finance from a compliance, technical and user experience standpoint. Without the means to carve out an embedded finance roadmap, brands risk failure at a time when the potential dividends from embedded finance are most abundant.

Fortunately, brands are at least aware of their shortcomings. When asked what would be appealing reasons to speak to an embedded finance provider industry expertise (65%), ability to grow revenues (56%) and speed of implementation (55%) were the top three, indicating a growing demand for fintech specialists.

REASONS TO SPEAK TO A COMPANY ABOUT EMBEDDED FINANCE



Regulation

As embedded finance matures there will be more regulatory changes to contend with, as we have seen within various branches of fintech.

Embedded financial services require newer and different types of licensing with new controls and processes as regulators adapt quickly to address factors like data privacy and know your customer (KYC) requirements. Brands will need to seek licenses and comply with regulations which can be both time-consuming and expensive, especially if it is the brand's first foray into embedded finance.

The task of becoming an authorised provider of embedded finance is a rigorous process. Brands need to understand whether the services they offer are considered as regulated activity. If so, they may need to become a payments and/or electronic money institution, an authorised account information service provider (AISP) or a payment initiation service provider (PISP). In the future, new financial regulations will only add to the burden and their regional differences multiplies the complexity tenfold.

The rise of BaaS providers will help brands navigate these challenges, providing the expertise and tools they need for embedded finance success. By adopting an embedded finance strategy that is both tailored to their consumers and informed by delivery partners, brands can maximise service stickiness and from crucial new revenue streams.

THE IMPACT OF OF EMBEDDED FINANCE

For consumer and business customers

Cashless payments were already beginning to outpace cash and consumers have gravitated towards digital-only banking and making their purchases online post COVID-19. Embedded finance means slick, safe and invisible financial services of many types for consumers.

Consumers have come to see the value and convenience of consuming financial services from non-traditional channels. Take for example the option to pay in instalments, current accounts from ride share companies to allow drivers to be paid more quickly and the ability to apply for mortgages directly from a real estate app. For consumers, finance is fading into the background, tucked away nearly unrecognisably into the customer experiences of their apps, but fuelling all their everyday experiences. The 'finance' in embedded finance may take unfamiliar forms, but that's the way consumers increasingly prefer it - so simple and convenient that they don't even have to think about it. Over the next five years embedded finance is expected to add 171.78 billion Euro to the revenues of consumer marketplaces in Europe.

B2B industries will benefit too. B2B marketplaces, armed with a plethora of data, have a greater understanding of the businesses transacting over their platforms than large financial institutions. So, because of this dearth of transaction data, marketplaces can be better positioned to evaluate the credibility of a small business borrower and underwrite credit products to meet their needs.

Businesses often operate with volatile supply chains, dealing with fluctuating demand and varying turnover times. As a result they often need quick, flexible access to credit such as invoice finance, working capital loans and loans against accounts receivable. And marketplaces, with the help of the right embedded finance provider, can make obtaining credit effortless with tailored credit products built right into the process of placing orders. It's a win-win for companies and marketplaces alike. Overall, European B2B marketplaces are anticipating a 309.93 billion Euro embedded finance opportunity over the next five years.

For company bottom lines

There have been some incredible predictions as to the potential value of embedded finance on a global basis. This research provides the first insight into brand expectations of the value of embedded finance in Europe.

On average, across the four main sub-sectors of embedded finance – banking, payments, insurance and lending - respondents expected embedded finance to increase their current revenues by ~7% over the next two years, ~11% over the next five years and ~15% over the next ten years.

By analysing these expectations against the revenues reported in our representative sample, applying the filter of planned launch timeframes for different types of embedded finance and extrapolating these across the universe of similar brands in the UK, France, Italy, Germany and Spain, we can get to a conservative view of the revenues brands can expect to generate from embedded finance over the next five years.

Conservatively speaking, in total, embedded financial services are expected to deliver an additional 720.78 billion Euro in revenue for brands in Europe over the next five years, and will continue growing.

Summary

Embedded finance is top of mind for both the fintech community and the brands that will bring services to market. There's a veritable gold rush to launch embedded finance services over the next five years, with three quarters of brands expecting to have products in the market by 2023. The result will be more seamless consumer and business experiences, and an additional 720.78 billion Euro of revenue for European brands by 2026. But it is primarily brand, rather financial considerations, driving brands towards embedding financial services into their offerings. What were once services exclusively provided by banks and card issuers, divorced from the shopping experience, are now an invisible but inseparable part of the customer experience. However, a lack of fintech knowledge and capability – and a limited talent pool, confusion over partnerships and regulation are challenges brands must overcome to achieve embedded finance success.

About OpenPayd

OpenPayd is a leading global payments and banking-as-a-service platform for the digital economy. Through its API-driven technology, businesses can embed financial services into their products and create the seamless user experiences needed to drive business growth.

OpenPayd's platform removes the need to contract with multiple providers for different services and across different markets. Instead, businesses can access accounts, FX, international and domestic payments, acquiring and Open Banking services globally via a single API integration. With licensing across the UK, Europe, Canada and others, OpenPayd is committed to providing businesses with a fully compliant solution across all markets, leaving your business to focus on growth.

OpenPayd has the proven industry expertise and track record for performance to help brands get their embedded finance solutions off the ground quickly and achieve scale. OpenPayd is tackling complexity head-on to enable business to stay on top of every challenge. With its industry-leading global team and a global network of licenses, brands can enjoy the peace of mind that comes with OpenPayd's simplified approach to compliance and regulation.

For additional information on OpenPayd, please visit www.openpayd.com

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Methodology

- The survey was conducted in May – July 2021 by independent research agency Coleman Parkes.
- Respondents were decision makers for the identification and implementation of new products and service offers to customers.
- Businesses surveyed came from the following sectors: Vertical SaaS, Horizontal SaaS, Consumer marketplace, B2B marketplace and Gig economy platform, with more than £50m+ revenue.

Respondents by market:

- UK – **20%**
- France – **20%**
- Germany – **20%**
- Italy – **20%**
- Spain – **20%**

Organisation type:

- Vertical SaaS – **11%**
- Horizontal SaaS – **15%**
- Consumer marketplace – **26%**
- B2B marketplace – **35%**
- Gig economy platform – **13%**

Revenue:

- £50m and up to £100m – **10%**
- Over £100m and up to £250m – **23%**
- Over £250m and up to £500m – **25%**
- Over £500m and up to £1bn – **17%**
- Over £1bn and up to £5bn – **17%**
- Over £5bn – **9%**

Number of employees:

- 250 – 499 – **12%**
- 500 – 999 – **17%**
- 1,000 – 4,999 – **41%**
- 5,000 – 9,999 – **15%**
- 10,000 – **15%**

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