

# Scaling the UK and European embedded finance frontiers

Lessons from Pacesetters

This is an authorized reprint of an excerpt from a Celent report. The reprint was prepared specifically for NatWest Boxed, but Celent retained full control of the content. For additional information please contact us via [celent.com](https://www.celent.com).

# **SCALING THE UK AND EUROPEAN EMBEDDED FINANCE FRONTIERS**

Lessons from Pacesetters

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# EXECUTIVE SUMMARY

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The European embedded finance market is entering a new, more mature phase of development. The pacesetters profiled in this report shine the light on the path forward that others can learn from as they craft their own embedded finance strategies.

The global embedded finance market has experienced some growing pains but is emerging stronger and is here to stay. It's too early to call the sector 'mature', but the attitudes and approaches are already changing. As the sector is leaving its toddler-like overexuberance behind to experience its 'teenage years', we take a closer look at the European embedded finance market and its pacesetters.

The European embedded finance market is highly competitive, with many players jostling for position. A distinctive market feature is Electronic Money Institutions (EMIs), which over the years have played a hugely important role in catalysing competition and product innovation across the region.

Banks compete by leveraging their strong brands, balance sheets, and existing client relationships and by supplementing their capabilities via partnerships, joint ventures, and acquisitions. Over 60% of respondents to Celent's recent Dimensions survey of retail and corporate banks in Europe said that they 'have a clear strategy to engage in the open ecosystem'. However, the views start to diverge about their success to-date. When asked if they are already generating commercial gains from their activities in open finance, Banking-as-a-Service (BaaS), and embedded finance, the French banks are much happier with their progress than the Italians, for example.

Lending use cases are high on the priorities list for both retail and corporate banks. However, banks are concerned about managing risk and security around their embedded finance initiatives and view that as the biggest barrier to success. Corporate banks are also particularly worried about customer adoption, while 20% of retail banks view their technology systems as the number one barrier.

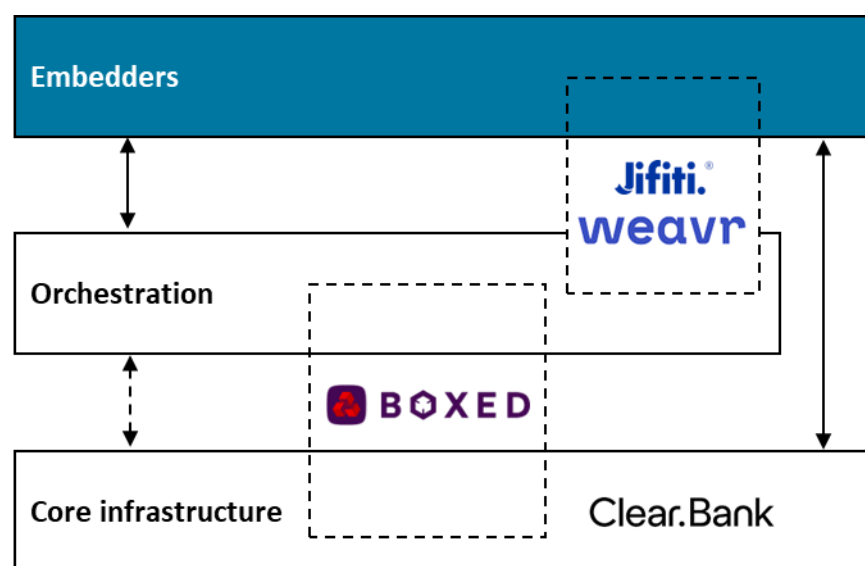
We wanted to take a closer look at the European embedded finance scene. We set out to profile a small number of 'pacesetters', companies that we thought were doing something interesting in embedded finance.

Many BaaS companies assemble the full stack needed to embed financial services into third party digital experiences. However, we are also beginning to observe the separation of at least two key layers—the core banking infrastructure and an orchestration layer—with players specialising in one or the other.

The firms we selected to profile reflect this increasing specialisation (Figure 1 on page 4). The report includes in-depth profiles of four diverse firms, in alphabetical order:

- **ClearBank**, an embedded banking infrastructure provider with a banking licence.
- **Jifiti**, an embedded finance enabler with a white-labelled embedded lending platform for banks and lenders to embed their loans at any point of sale.
- **NatWest Boxed**, a joint venture between NatWest, one of the largest UK banks, and Vodeno, a leading European BaaS player.
- **Weavr**, a technology company offering ‘embeddable by design’ financial solutions to B2B SaaS companies, connecting them with a complex partner ecosystem of technology and financial services providers.

**Figure 1: This Report Profiles Four Companies**



Source: Celent

Pacesetters profiled in this report offer many insights and lessons for financial institutions and other players seeking to capture the embedded finance opportunity. Our five key takeaways and recommendations are:

- Don't waver on commitment to compliance and risk management.
- Specialise and focus, not just for competitive differentiation, but also to help manage risk and compliance.
- Explore efficiency opportunities with commercial clients, from SMEs that rely on vertical B2B SaaS platforms to large corporates that are looking to cocreate and innovate.
- Assemble required technology capabilities in the cloud, by building or partnering.
- The consensus is emerging for the commercial model; tailor it to your needs, but don't reinvent the wheel.

This Celent report extract only features the profile of NatWest Boxed. Full report is available to Celent research clients.

# NATWEST BOXED

NatWest Boxed is a joint venture between NatWest, one of the largest UK banks, and Vodeno, a leading European BaaS player. The partnership combines NatWest's best-in-class financial services capabilities with Vodeno's proven success in supporting over 35 live clients.



**Table 1: NatWest Boxed at a Glance**

Company name	<b>NatWest Boxed</b>
Website url	<a href="http://www.nwboxed.com">www.nwboxed.com</a>
Headquarters	London, UK
Year founded	2022
CEO and other key executives	Andrew Ellis, CEO. Other key executives: <a href="https://www.nwboxed.com/leadership/">https://www.nwboxed.com/leadership/</a>
Number of employees	500–1000
Ownership	Boxed is 82% majority owned and consolidated by National Westminster Bank Plc, with Vodeno TechCo holding the remaining minority interest.
Funding	When the JV was announced, NatWest committed to make in total a capped commitment of ~£115m to enable the establishment of the new UK entity. NatWest Group also took a minority interest (initially a 9.9% holding, increasing to 18% subject to certain conditions and approvals being met) in Vodeno Limited, which owns 100% of Vodeno TechCo and Aion Bank.
Key investors	National Westminster Bank and Vodeno
Geographic reach (client locations)	UK
Revenue (or another metric to indicate size)	Not disclosed
Approximate revenues from embedded finance propositions (% of total)	Not disclosed
Recent relevant acquisitions	N/A

## Target Market and Value Proposition

NatWest Boxed offers a cloud-native Banking-as-a-Service (BaaS) platform that enables brands to seamlessly offer own-branded financial services to their customers, securely and at scale. Boxed was established in 2022 through a strategic partnership between NatWest and Vodeno to create a new BaaS business in the UK.

In essence, Boxed brings together the NatWest Group balance sheet and regulatory licence; a modern, cloud-based, purpose-built core banking system that was developed for Mettle, a NatWest-backed digital account for UK small businesses; and an API and orchestration layer. It is now entering the market; the platform is live with several clients coming onboard.

According to the company, its unique selling points (USPs) are:

- **Trusted brand:** Boxed is backed by the balance sheet of NatWest, a Tier 1 global bank which serves over 19 million customers every day.
- **Decades of banking expertise:** The Boxed team combines subject matter experts across banking and finance technology as well as the retail sector. Every Boxed solution complies with the strictest regulatory regime, with a wealth of risk and legal know-how in the team.
- **Technology and product flexibility:** Cloud-native technology that is secure, scalable, and always on. Additionally, Boxed can configure its capabilities to different customer segments, data, and channels, enabling the client to evolve their offering as they grow.
- **End-to-end operations:** Boxed's full-service provision extends into operational and logistical fulfilment for the end consumers, for complete control over the quality of the experience. With these capabilities, Boxed can handle all the elements that are required to run a bank and offer financial services compliantly to the client's end consumers.

NatWest Boxed is starting with whole of market savings accounts and is expanding that offering into point of sale (POS) deposit solutions including digital wallet and Save Now Buy Later. It is launching term loans in the near future, followed by other lending offerings for POS, including revolving credit, Buy Now Pay Later (BNPL) and short term interest free credit solutions. Virtual or physical debit cards are also expected later this year, and the bank will be working with a third party for processing. All these solutions are focused on retail consumers (B2B2C) and the focus is only on the UK, as dictated by the NatWest licence.

**Table 2: NatWest Boxed: Value Proposition and Go-to-Market Strategy**

Products, use cases, client segments	Available currently/ imminently	On the road map/ future ambitions
Key supported use cases	Savings, loans	Merchant linked POS lending & POS deposits/ wallets
Customer deposit accounts	Interest-bearing Non-interest-bearing	Open payment accounts (including current accounts)

Card issuing	Debit	
Payments / money movement	Domestic (FPS & BACS)	Cross-border PISP (Open Banking)
Lending	Unsecured consumer (Term loans)	Unsecured consumer, including line of credit, revolving credit, BNPL, short term interest free credit, etc.)
Target industry verticals	Any applicable B2B2C vertical where the licensed activity sits with Boxed	
End customers of your clients	Consumers (B2B2C)	SMEs (B2B2B), businesses with simple structures
Additional comments	Both white-label and API integrations	

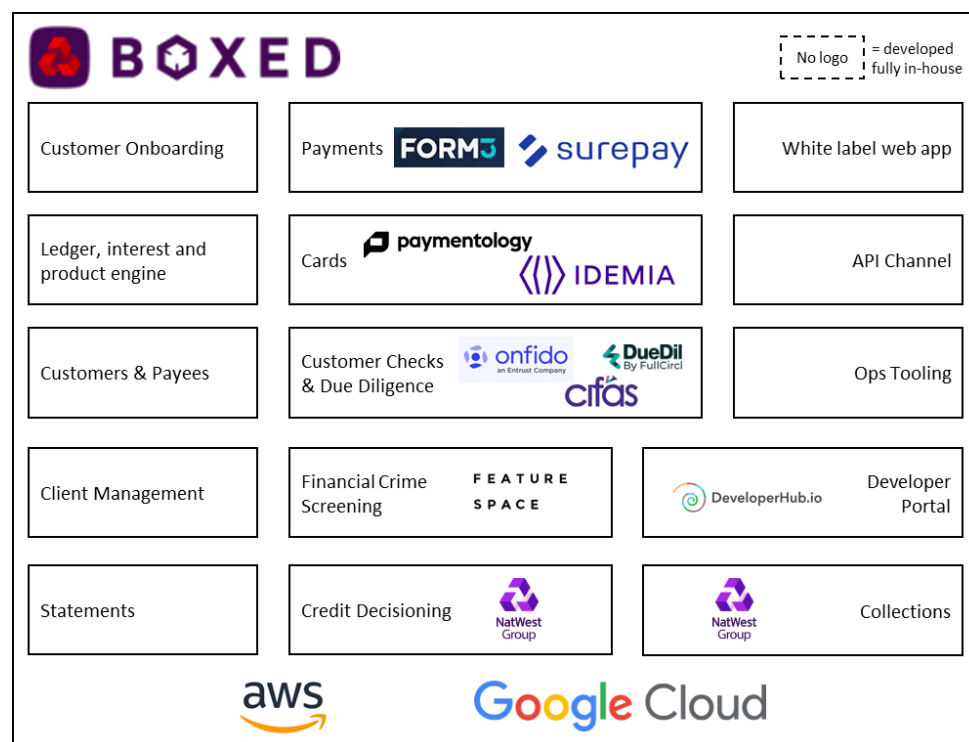
NatWest Boxed works with large retail and consumer facing brands to embed frictionless financial services into both new and established customer journeys. Boxed can service clients across a variety of sectors, e.g. home improvement, electronics, grocery, travel, e-commerce, etc. The ideal client would be a large brand, with an extensive customer base and established digital distribution channels.

Boxed solutions can help these companies solve a wide range of business problems: increasing customer retention by integrating financial solutions directly with loyalty programmes, encouraging repeat purchases, and increasing basket value by helping customers to save for higher value purchases, or reducing card abandonment by offering flexibility on how the customer chooses to transact. By partnering with Boxed, retailers can seamlessly offer financial products and services to their customers, while driving significant performance improvements including increased checkout conversion, increased order value, and achieving revenue growth.

## Technology Platform and Operating Model

The Boxed cloud-native platform is built and managed in-house and is selectively augmented with specialist third party components (see Figure 2 on page 8). The platform is deployed in AWS and GCP public clouds and has an event-sourced data architecture throughout. Where external interfaces are exposed at the boundary, Boxed supports various APIs depending upon the functionality required, including synchronous HTTPS APIs; asynchronous HTTPS APIs, including the use of callbacks; and HTTPS event notification APIs, including webhooks for notifications. According to the company, over the last five months, the average weighted availability for the platform based on 'number of successful requests / number of requests' was over 99.993%.



**Figure 2: Boxed Platform: Key Functional Components and Selected Partners**

Source: NatWest Boxed, Celent

NatWest Boxed is proactively targeting new opportunities in the market via a combination of inbound and outbound channels. Four primary go-to-market channels include:

- Existing NatWest bank clients.
- Proactive outreach via sales teams.
- Marketing efforts across various channels.
- Inbound requests, where the NatWest logo is proving to be an advantage.

Boxed aims to sell standard products as much as possible; however, given the size and complexity of some of the clients, the team is open to tailoring core functionality where required.

To onboard the client, Boxed has established the processes and tools to complete all the Know Your Business (KYB) checks to ensure regulatory compliance. Technical implementation is focused on integrations, data sharing, security, and any required development, testing, and deployment. Rather than relying on third parties for implementation, Boxed tends to work directly with clients to integrate its BaaS offering into their customer experience.

Anything that has to do with regulation, compliance, risk reporting, is handled internally either by the Boxed team or by the bank, depending on the activity. Since the licence is from NatWest, some activities must sit within the legal entity of the bank, while others are driven within Boxed, but with the bank's appropriate oversight.

The key activities involving new end customer onboarding, such as KYC, identity verification, and AML are done by Boxed, and the account ultimately sits on the Boxed core banking platform. The bank also provides the 'backbone' for the client's communication to make sure all the promotional materials are compliant with regulations, although the client would promote them in 'their tone of voice'.

Credit risk and loan pricing is done to NatWest standards, again, either by Boxed with the bank's oversight or directly by the bank. The loan is essentially a NatWest group loan, so the bank needs to own it and make sure it's approved to the bank's standards.

For servicing, Boxed has a relationship manager (RM) structure. Each client is assigned an RM who would have access to operational and financial data and would be the client's first point of contact. The end customers can call a Boxed customer service agent for support. Some of those may be ring-fenced to a specific client and client-branded, while others may be pooled, depending on how the large enterprise clients want their customers to be managed.

Finally, Boxed today provides APIs, not the end user app, so it is up to the clients to develop the front end for their customers to manage the account. Boxed is currently developing a white-labelled offering as an option for clients seeking a less tailored product offering.

## Commercial Model and Future Plans

Commercial structures offered by Boxed vary by use case, but a typical structure would include:

- Set up fees, i.e., implementation fees.
- Live fees, i.e., platform fees and usage-based fees.
- Value sharing mechanisms, through which Boxed shares with the client a portion of financing revenue, where applicable.

Moreover, if applicable, the end customer may also receive a financial benefit, e.g., interest income for the funds in their deposit account. Given the range of the products offered, NatWest Boxed can work with clients to adapt the standard structure to ensure appropriate fit and economic case.

NatWest Boxed is confident about the future with a few large clients soon to be announced. The team acknowledges that an established bank brand, such as NatWest, can have both good and bad connotations. While such a brand stands for trust, stability, and experience, for some there may be reluctance due to legacy technology or lack of agility banks are sometimes associated with. Since Boxed operates as a separate legal entity ('more like a startup than a bank') and is built on modern technology, the team believes the client gets the best of both worlds. And any potential clients who may be questioning if Boxed is in for the long run are reassured by the £100+ million commitment the bank has made to ensure its success.

# LEVERAGING CELENT'S EXPERTISE

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