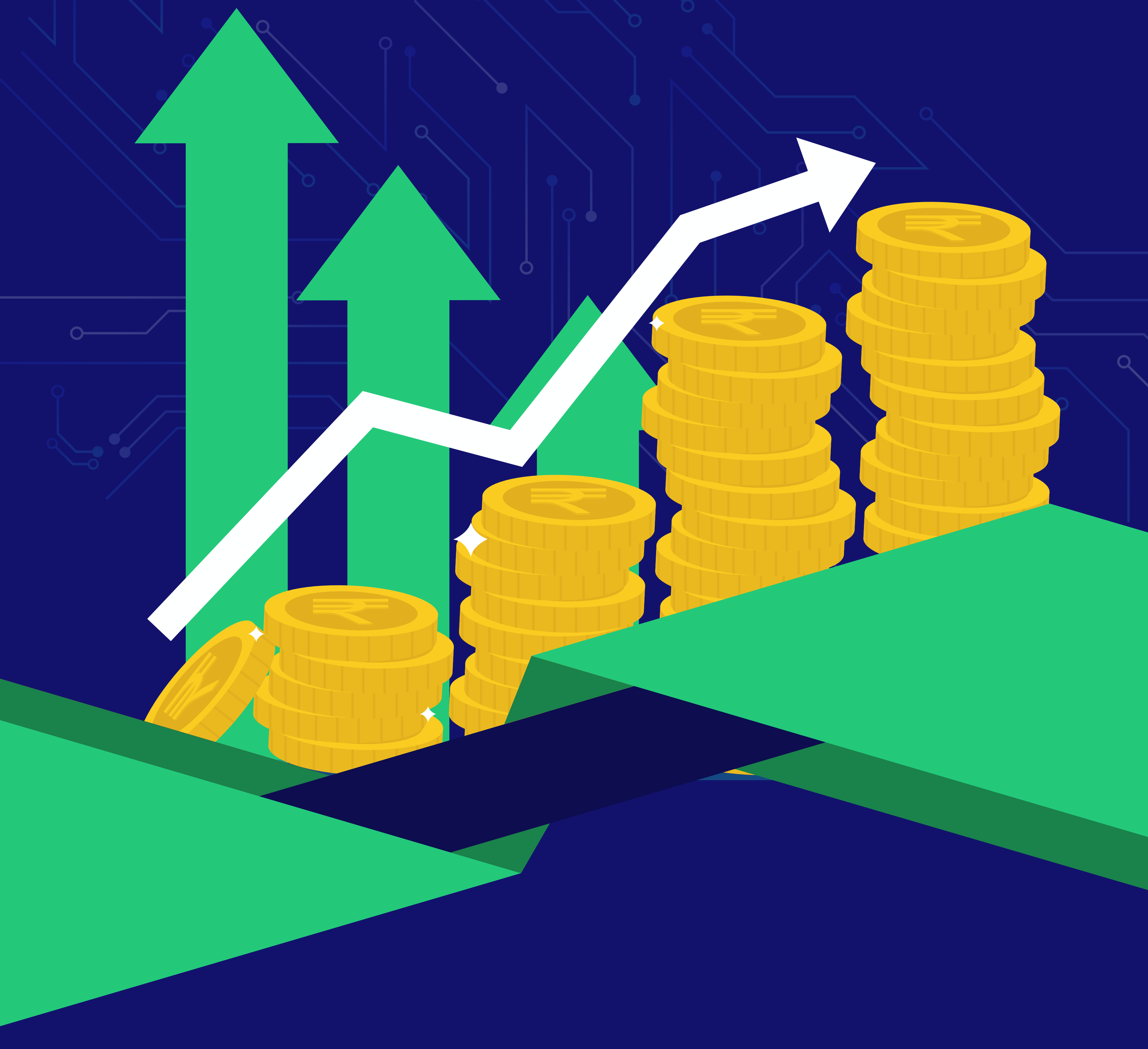
FinBox

ACCELERATING BUSINESS GROWTH

WITH EMBEDDED FINANCE



What is Embedded Finance?

Embedded Finance, also known as embedded banking, is the seamless integration of financial services into a traditionally non-financial service. It enables customers to access financial services within the ecosystem of the business (website, apps, etc) and in-context.

For example, customers can make cashless payments within a ride-hailing app, or make a cashless purchase on an online store without having to leave their buying journeys. E-Commerce platforms such as Amazon leverage Embedded Finance to offer a 'Buy Now Pay Later' option that converts the cost of a purchase into an automatic loan disbursed through the platform itself (though it is backed by a licensed lender).

Until recently, if a business wanted to offer financial services, they had to create a FinTech arm within their organization. This includes significant expenditure, takes years to build, and even longer to be profitable. Embedded Finance Infrastructure reduces the barrier by 10x for digital platforms to natively offer financial services to their customers.

For the customer, Embedded Finance enables native FinTech experiences as part of the non-financial digital platforms that are closest to the customer, and provides financial services just when they are needed.[1]

Embedded Finance in action

Embedded Payments

- Integration of payments infrastructure for seamless payment within an app or a platform
- Enables in-game purchases, payroll automation software, subscription-based payments for SaaS, etc

Embedded Credit

- Frictionless integration of credit products into non-financial digital platforms
- Facilitates loan applications and repayments in-context: lower drop-offs, more engagement

Embedded Insurance

- Bundles insurance within the purchase of a product (e.g. Tesla offers auto insurance at Point-of-Sale)
- Creates an integrated insurance flow with the help of transactional APIs that allow insurance solutions to work inside partner ecosystems

Embedded Investments

- Integration of financial markets and investing products into a platform's vertical offerings
- Enables unbundling of finance through API-based microservices play - ranging from account opening to portfolio management

Why Embedded Finance?

All companies will be FinTech companies

Embedded Finance is the evolution of Digital Lending and Decentralized Finance. In terms of the sheer opportunity, it is potentially as broad as the financial services sector itself. Since opportunities for deployment exist in every segment, Embedded Finance plays a category creation role.

It is expected to increase the total size of the financial services sector through exponential creation of credit and other use-cases. Market analysts predict that the market for embedded banking will be worth $7 Tn[2] in less than a decade.

Greenshoots of unbridled growth are already emerging. Finance has become a native component of every company's stack (both technology stack and as a business model) - think Tesla offering insurance or Shopify enabling payments within its platform.

It's a people-first approach to finance that allows consumers to access financial services exactly where and when they need them without diluting the context or breaking their journey.

As a result, the benefits of Embedded Finance are distributed squarely across every stakeholder in the ecosystem. It brings together digital platforms, financial institutions, and Embedded Finance Infrastructure companies and helps them play to their strengths.

Winning with Embedded Finance

Benefits for digital platforms

Improves Customer Lifetime Value (CLTV) and other key business metrics

By providing in-context credit that helps customers purchase more, Embedded Finance improves Average Order Value (AOV), customer retention, and Customer Lifetime Value (CLTV)[1]

Unlocks an alternate source of revenue

Enables a revenue share for the platforms with minimal or no financial liability

Increase in customer activation

Adding credit facilitates merchant acquisition by making the platform value proposition more attractive

Stand out from competitors

Improves the product and helps vertically scale the platform by activating new use-cases

Get valuable data

Unlocks data on customer behavior which can be leveraged to enable precise, data-driven sales and marketing

Benefits for Financial Institutions

Access to new and larger pools of customers

Leverages the distribution capabilities of platforms to access diverse borrower pools with in-built decision-making intelligence that optimizes for profitability and portfolio health

Build a more profitable business

Increases margins and reduces costs for end customers through enhanced underwriting and credit lifecycle management

Benefits for Users

Increased access to affordable financial services

Enables access to flexible financial services on user-friendly terms

Receive customized offerings

Tailors financial solutions to fit customer requirements

Improved customer experience

Improves experience through in-context financial offerings

From Amazon to Uber, Embedded Finance is powering growth across industries

Amazon India

In 2020, Amazon introduced its zero-interest credit service called Amazon Pay Later. This was an upgrade on the Amazon Pay EMI offering which was applicable only to big-ticket purchases over INR 8,000/-. Amazon Pay Later has no such restrictions - customers in India can use it to purchase products on the platform and repay the entire amount without interest within a predefined period of 30-60 days.

Those looking for smaller payments or longer tenures can convert their purchases immediately into an EMI schedule where the repayment can be done within 12 months at a monthly interest of 1.5% to 2%.[3]

This enabled Amazon India to launch a full-fledged financial services stack and now users can avail a variety of financial services such as paying for insurance or their utility bills.

For Amazon, adding a finance stack proved to be an immediate success. Soon after the launch, during its Great Indian Festival Sale, Amazon India disbursed over INR 600 Cr of credit to customers through its 'Pay Later' offering. Every second shopper had access to EMIs that were enabled through partnerships with 24 banks and lenders.

Tesla

The electric vehicle company launched its own auto insurance in 2019, which covers certain models. The company can offer more affordable insurance since it leverages its own intelligence on the technology, safety, and serviceability of its cars. It also uses the data that it collects from Tesla vehicles to assess the risk profile of its customers.

The insurance is offered at the Point-of-Sale online and at the time of purchase at a company showroom. While it was only available in California initially, as of 2021, Tesla is seeking permission from state regulators to offer coverage in Illinois, Texas, and Washington. Founder Elon Musk has stated that someday, insurance could represent 30% to 40% of Tesla's auto business.

This is a classic example of an Embedded Finance use-case adopted by a non-financial company to improve its offering and build a long-term revenue stream.[4]

Uber

Uber supports over ten ways to accept payments via different payment processor integrations - from credit cards and Venmo to regional payment methods like Paytm in India or iDEAL in the Netherlands. The ride fare is automatically calculated and charged to the payment method linked to one's Uber account.

It's a prime example of the 'people-first' nature of Embedded Finance - the invisibilization of the payment process has been a major contributor to its reputation for excellent customer service. By introducing seamless payments that work inside its own app ecosystem, Uber removed friction from payments forever and at the same time, pushed its own customer retention by offering an experience that was a first of its kind in the industry.[5]

Getting started with Embedded Finance

There are two ways in which companies can ride the Embedded Finance wave and make it an integral part of their user experience.

Build

In theory, building one's own finance stack is a lucrative proposition that can provide a competitive advantage (enabling highly contextual use-cases). However, in reality, it can be complex, time-consuming, and the outcomes are uncertain.

Using your company's talent and resources to build Embedded Finance infrastructure and capabilities in-house[6]

It takes a team of at least 10 people in the organization to launch a new lending product. The organization itself must build or purchase new systems, integrate third-party models, develop, test, and deploy the feature. It requires a hefty upfront investment and involves complex processes.

Depending on the offering, building Embedded Finance Infrastructure in-house could also mean liaising with a regulated payments processor, a secure payment gateway, seeking the required licences and more. In doing this, the business may find itself distracted from its core services while also facing unforced delays and cost overruns in executing the project itself.

The costs don't end once set-up is complete. Maintenance is an ongoing, expensive process. In fact, 70% of the software costs[7] occur after implementation.

Hence, building an Embedded Finance solution is recommended for only large organizations with extra resources and talent to spare with a desire to own the entire stack.

Example

Starbucks has developed its own wallet solution to leverage its loyal customer base. Through its mobile apps and gift cards, customers can load money into the same, pay online in advance before collecting the order from a store, and earn rewards.

What this essentially implies is that all the money customers add to their cards and the app (an estimated $1.6 Bn), gives easy cash flows to Starbucks. The company has also made another $155 Mn from unredeemed cash balances. It reinvests this back into the business and other expansion opportunities. As a result, Starbucks has managed to take money from its customers at a negative 10% interest rate.[8]

PROS	CONS
Control over IP	Longest time to market
Internal knowledge building	High costs
Guaranteed integration with existing software stacks	Risk of market shift

Partner

Partnering with a specialist Embedded Finance Infrastructure provider is an efficient way for companies to leverage digital innovation with the help of domain expertise that comes with the partnership. It drastically reduces the time to market.

Using your company's talent and resources to build Embedded Finance infrastructure and capabilities in-house[6]

When it comes to capital, a company offering credit will probably deploy its own cash reserves to underwrite loans - money that could have been invested in other parts of the business.

With a lender in place as part of the Embedded Finance solution, the infrastructure costs are split across multiple partners, making it a cost-effective proposition for businesses. Maintenance and upgrades are also taken care of by the third-party Embedded Infrastructure provider.

Example

Stripe Treasury's Banking-as-a-Service API allows businesses to embed financial services into their platform. Shopify leverages this to offer its 'Shopify Balance' feature. It allows merchants to directly get a Shopify-enabled bank account to use their funds. The feature - powered by Stripe Treasury in the background - allows merchants to obtain a variety of financial products and oversee their finances, all within Shopify.[9]

PROS

Shortest time-to-market

Try before buy

Smaller capital outlays

CONS

Shared profits

Integration costs

Shared gross margins

Conclusion

Revenues from Embedded Finance services are projected to reach $140.8 Bn[10] by 2025. The sector is transforming the way in which consumers navigate financial services. It presents a huge opportunity for brands across industries to integrate financial services into their platforms that augment their business, generate additional revenue streams, and boost CLTV.

For most businesses, the best way to integrate a finance stack into their platform is by partnering with a specialist firm building Embedded Finance Infrastructure that can provide an almost turn-key and a fully white label offering.

Democratizing financial services for the next billion

At FinBox, we are building the Embedded Credit Infrastructure of the future. We provide full-stack API and SDKs for businesses to embed credit products into their platforms, and connect them with a diverse network of lenders.

Reach out to us and empower your customers with in-context credit through a simple, yet powerful integration.

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