

EMBEDDED FINANCE

IS CHANGING THE WORLD



Table of contents

- 3 The paradigm shift of embedded finance
- 4 How companies are embracing embedded finance
- 7 Unlocking the power of embedded finance: hear from the startups leading the way
- 11 The future is behind the corner

Foreword

Embedded finance brings a vast range of innovation and business opportunities within the reach of any company. However, the definition is often imprecise and can be confused with other closely related concepts. A comprehensive understanding of its scope is key to taking advantage of its infinite possibilities.

The interest in embedded finance is more than justified. It is a booming trend with extraordinary growth potential. The market is forecast to be worth more than \$7 trillion in the coming years. This is equivalent to twice the current value of the 30 largest banks in a new, addressable market. [Source: Fintech Futures (1)]

Therefore, it is important to look at this concept in greater depth and understand the various alternative applications. This explanatory report aims to guide the understanding of embedded finance offerings, advantages, and all these entail.

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The paradigm shift of embedded finance

Interest in embedded finance is more than justified. It is a booming trend with extraordinary growth potential. The market is forecast to become worth more than \$7 trillion in the coming years. This is equivalent to twice the current value of the 30 largest banks worldwide [Source: Dealroom and ABN AMRO Ventures (2)].

It is, therefore, important to look at this concept in greater detail and understand the various alternative applications.

Basically, embedded finance can be defined as the integration of financial solutions into the products and services of non-financial firms.

It should not, however, be understood as a simple affiliation or adherence to a banking entity. Instead, non-financial companies adopt financial tools as part of their business processes.

In the eyes of the customer, the bank disappears. Operations are centralized within the non-financial organization through its website or mobile applications.

The ultimate goal of this integration is to optimize the user experience, making it easier for users to access and manage their finances and interactions with the non-financial company. This could be, for example, taking out insurance, applying for a loan, deferring, or processing payments. Everything takes place within one platform and without additional cumbersome steps.

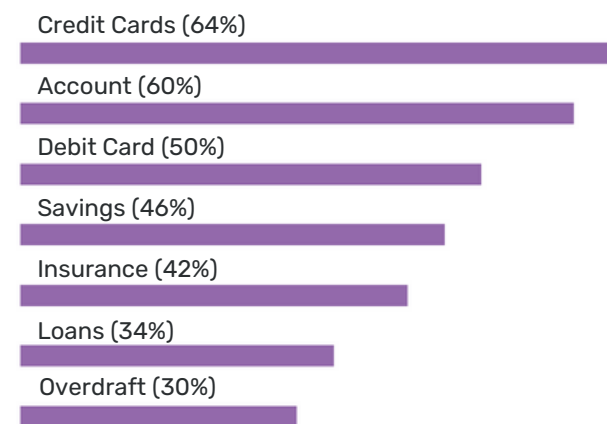
Ultimately, it is a win-win situation.

Undoubtedly, embedded finance is a radical change in how financial services are delivered. But this does not mean that the

market is not ready yet. On the contrary, a report by Statista states that 55% of non-financial firms plan to offer integrated financial services in the next two years [Source: Statista (3)]

Even small and medium-sized enterprises could benefit.

Embedded banking could capture around 25% of the SME banking market. These are the banking products that arouse as the most interesting for SMEs:



[Source: Accenture (4)]

This represents a paradigm shift in financial and transactional thinking, driven by the development of APIs, open banking, and Cloud technology.

FinTechs, more than others, have seized this opportunity by creating partnerships with non-financial firms. In doing so, they provide customers with a solution that makes embedded finance agile, flexible, and customizable.



The rise of embedded finance is closely related to the startup momentum.

As innovative and flexible businesses, startups need original solutions to overcome market challenges. However, this is not limited to startups. Other companies also turn to embedded finance to solve problems and increase retention. Technological developments and the involvement of new non-financial actors have created the ideal niche for embedded finance.

Embedded payments

Uber

Generally, embedded payments use payment gateways to simplify and manage transactions. In this way, payment processing is streamlined, as buyers are not required to enter their details for each transaction.

Uber is a good example of what can be achieved by wisely leveraging embedded payments. For end customers, it offers *Uber Cash*, a card that allows you to pay in advance for future Uber hires or purchases.

For carriers or partners, it also incorporates a full range of financial resources. It offers rewards for members and discounts at both service stations and car repair centers. The system allows them to manage different payment methods and helps them to manage their earnings. In general, they are automatically paid weekly for the trips made. In addition, they can request flexible payment through *Flex Pay*, a feature which allows them to withdraw funds before that date. This is done by simply going to the "Earnings" menu and selecting "Cash Out."

This prompts a visual display of their accumulated earnings with the option to transfer them to their linked bank account. Depending on the conditions relating to the recipient of the funds, the money will be available within two to three working days.

The platform charges a small management fee and obtains market intelligence data that it incorporates into its strategy.



Photo (1)

Emirates

The airline company Emirates has introduced *Emirates Pay*, a new account-based payment method, for purchasing flight tickets by directly debiting their bank account.

The white-label solution originated from the company's collaboration with the International Air Transport Association (IATA) and Deutsche Bank.

The payment method offers a convenient and facilitated experience for users who do not own a credit card, allowing passengers to approve the payment initiation through online or mobile banking. At the same time, the airline company provides the necessary account and payment information.

Embedded insurance

Amazon

Last October, the American e-commerce giant announced the launch of its UK Home Insurance Store. The new marketplace covers the whole end-to-end insurance subscription journey, from comparing different offers to online check-out and payment. Customers can select from different home insurance products and get personalized offers based on an online questionnaire.

For the time being, Amazon will act only as a distributor of insurance products sold by its external partners Ageas UK, Co-op, and LV= General Insurance, with plans to expand the portfolio by early 2023.

Tesla

Tesla adopted an embedded ecosystem that included competitively priced insurance products in its service offering. Fares are calculated on the basis of the actual driving risk, using driving record data such as the number of forward collision warnings, the distance between vehicles, or sudden sharp turns or braking. To this end, they developed an algorithm that assigns an individualized safety score to each subscriber. With this system, they have been able to reduce insurance premiums by 20-40%, and the savings can be as high as 60% for drivers with higher safety scores.

Tesla's embedded insurance meets the needs of its customers. As a matter of fact, Tesla vehicle owners were adversely affected by the standardized annual premium scheme. The manufacturer not only removed the barrier of high insurance

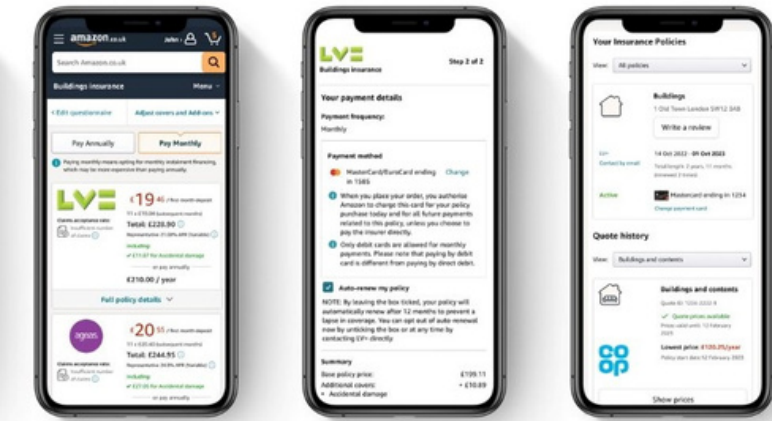


Image: Amazon

costs, which acted as a possible deterrent to the purchase of its cars, but it also generated a new source of revenue for the company.

Embedded lending

Lieferando and Banxware

Lieferando, a Germany-based food delivery platform, has partnered with Banxware to offer a liquidity solution that allows restaurant owners to apply for a loan directly on their platform.

Banxware's digital credit solution offers revenue-based finance products in partnership with traditional banks, leveraging open banking data, businesses' revenue statements, and other alternative data, such as restaurants' sales data on Lieferando. Therefore, firms without a solid credit history can access customized financing products based on their business performance.

Scalapay

In the last years, conventional financing mechanisms have given way to new models characterized by their short duration and interest-free nature. A well-known example of this trend is the *Buy Now, Pay Later*

How companies are embracing embedded finance

(BNPL) model.

Such consumer-focused embedded finance applications are available on Scalapay, set up in 2019 in Italy. In just three years, it has become one of the strongest competitors in Southern Europe and raised over \$ 727 million, leading to Scalapay becoming Italy's first unicorn.

This achievement has much to do with the convenience of the system. Without leaving the point of sale, the buyer can defer payments at no extra cost; by just selecting Scalapay as the payment method and linking their account to a credit, debit, or prepaid card from which the installments will be debited.

Scalapay is currently available in Austria, Belgium, Finland, France, Germany, Italy, the Netherlands, Portugal, Spain, and Finland and has some major clients like Shopify and Salesforce.

Embedded investments

DriveWealth

The stock market has become accessible to ordinary consumers thanks to embedded investments. Anyone can download an application and become an investor. It is no longer necessary to hire a brokerage firm and shell out a good deal of money to engage them.

FinTechs have played a decisive role in the massification of embedded investments. In turn, these companies rely on technological solutions such as the infrastructure developed by DriveWealth. This New Jersey firm provides a cloud-based, API-driven brokerage infrastructure. In the words of its

founders, the goal is to "make buying Starbucks shares as easy as buying a coffee."

As pioneers of fractional share trading and integrated investing, DriveWealth has successfully partnered with over 100 FinTechs, including Revolut and MoneyLion. Its main competitive advantage over other solution providers is its ability to offer the instant financing of securities transactions. This avoids the delay involved in settling shares in the conventional market.



Solaris



We met **Federico Roesler Franz, General Manager Italy at Solaris.**

"Solaris is Europe's leading embedded finance platform empowering the future of financial services. The tech company enables businesses to easily provide trusted and innovative financial experiences to their customers."

What role do ecosystems play today and what, from your experience, are the main challenges that banks face when building them?

"The greatest risk is that companies integrate financial services that do not meet the needs of their customers. And then it becomes difficult to convince internal and external stakeholders to revisit a project or continue with the strategy. Many companies will only have one shot at becoming an early adopter."

We also believe that Europe has the potential to establish itself as a leading global FinTech location. To ensure this competitive market, the EU needs harmonization of the regulatory framework between individual states."

How are banks fighting back to compete with FinTechs and how do you see their role evolving in the next few years?

"Financial services have become a tech game and traditional banks need FinTechs to win. In the end, collaboration is about bringing together the best of both worlds. While FinTechs offer the tech capabilities most traditional banks are lacking, the latter provide access to customers and networks,

thus creating business opportunities. Most important, the partners need to focus on what they can do best and build up a strong value proposition."

"Based on our research, more than 60% of retail customers are already willing to use financial services provided by their favorite online shop."

"Solaris believes that long-term successful and sustainable banking is highly dependent on technologically advanced and efficient processes and, from a customer perspective, a strong brand and distinctive value proposition. It's time for traditional financial institutions to take action and decide how to position themselves in relation to the embedded finance trend."



Photo: Federico Roesler Franz, Solaris

What factors determine whether a brand can successfully offer embedded financial services?

"The key factors relate to Customer Satisfaction but also contextualization – being seamlessly integrated and providing an end-to-end customer experience. More practically: a high number of customer touchpoints lead to demand for accounts, while high shopping cart values make loans attractive."



Photo: Stefano Vaccino, Yapily

Yapily



We met **Stefano Vaccino, Founder and Ceo of Yapily.**

"For years, card networks have monopolized the global movement of money, and banks have monopolized the ownership of, and access to, financial data. Yapily's vision is to make this landscape more accessible, enabling innovative companies to build better and fairer financial services for everyone".

What do you think is 'game-changing' about embedded finance today?

"The most exciting changes happening in this space today are at the intersection between embedded finance and open banking.

Embedded payments are already woven into the fabric of our everyday lives, enabling businesses to host payment services without redirecting the end-user to another website, platform, or app. At the same time, open banking-enabled payments are growing exponentially, driven by a desire for a faster and more secure

service for the end user, while reducing lengthy settlement times for the merchant.

Combining these powerful forces will enable banks, lenders, and businesses to tap into a complete banking and payments ecosystem via a single connection, whilst benefiting from all that embedded finance and open banking have to offer. In turn, they will be able to unlock exciting use cases, remove even more friction, and create new growth opportunities."

"Innovation is a buzzword we hear very often, but stripped back it really means finding new ways of doing things."

Open banking is moving rapidly - how does Yapily keep pace with changes?

"What makes Yapily unique is that we focus purely on building infrastructure and tools of the highest quality, broadest coverage, and deepest capability. This makes us highly scalable whilst empowering our customers to build tailored products and services on top of our platform to keep pace with change."

How do you think Yapily contributes to promoting and transforming today's financial sector?

"Financial inclusion is the future. Millions of people worldwide are stuck using ineffective financial services and prevented from improving their lives due to poor credit scores or access to the right financial products. Yapily's mission remains centered around creating an open financial system that works for everyone, and our platform empowers companies to build better, fairer, and more accessible products and services for businesses and consumers alike."

Kevin.



We met **Filippo Bergamin, Head of Retail Europe & Country Manager Italy, at Kevin.**

"Kevin. is revolutionizing the financial sector by eliminating all unnecessary steps from the transaction process chain and re-inventing online and in-store payments to be customer-centric, direct, and therefore, 100% safe."

How is the change in customer behavior related to this embedded finance momentum?

"We're seeing a change in consumer payment behavior in their daily lives. Consumers are increasingly interested in security and convenience, no matter the website, the app, or the store. Consumers tend to choose that option when a particular method offers both factors. That's where open banking outdoes other popular forms of payment."



Photo: Filippo Bergamin, Kevin.

How do you see the role of banks evolving in the next few years?

"Banks will be crucial in the customer experience. They will remain the place where people have their savings, where they get their salaries, and from here, the customer will want to make their payments without intermediaries. This is a massive opportunity for banks."

Open banking has been considered the end of traditional banks, but that isn't necessarily the case. It presents banks with a perfect opportunity to adapt to consumers' changing wants and needs and to stay relevant.

By using open banking, a bank improves the range of services offered to its customers. Bank customers are given new ways to use their accounts that allow the more secure, simplified, quicker, and easier transactions that customers want - and customer satisfaction is at the forefront of any bank's priorities."

What the future trends would you recommend paying attention to?

"Account-to-account (A2A) payments are the method we need to look out for in the coming years. According to the last FIS Global Payments Report, A2A payments will overtake card payments by 2023."

This method of payment will be increasingly integrated into all kinds of experience: web, mobile and POS, and will also be able to compete with cards when it comes to tokenization and recurring payments, but with a much more efficient and effective structure."

Treezor



We met **Didier Lallemand, CEO of Treezor.**

"Treezor offers a one-stop shop embedded finance solution that covers the entire payment cycle, from acquiring to issuing, making it easy for businesses to add payment services to their offering."

PSD2 has been a crucial regulation for the entire sector. In your experience, which factors will determine future growth?

"Even though PSD2 was adopted in 2015, not all of its scope has been implemented so far. Indeed, the purpose of PSD2 was to establish a European payment area to foster competition between existing players and enable the creation of new ones. Still, today's regulations are unfortunately not homogeneous throughout the SEPA region, and becoming a European FinTech is still not an easy journey."

Banking-as-a-Service plays a key role in enhancing and growing the financial services ecosystem by addressing three key points:

- reducing the time to market in a highly regulated and evolving environment;
- supporting product development to keep up with the pace of innovation;
- streamlining the approach for working with banks and FinTechs, leading to growing customer loyalty and engagement with new customers."

"In the future, we see the role of technology players becoming more and more important within the payments area and the financial industry in general"



Photo: Didier Lallemand, CEO

How can open data power new business models?

"The data that is being processed enables companies to enhance the customer experience and finetune their customer loyalty programs. In the end, the purpose is to better understand customer behavior to increase sales."

Open data will enable interaction between different applications and streamline many processes, from buying a car or a house to insurance, employee benefits, or mobility. These are some of the rising use cases we have been handling at Treezor."

How do you think Treezor contributes to promoting and transforming today's financial sector?

"One of our mottos is 'Our customers' success is Treezor's success.' We focus all of our effort on being the 'middleman' to support the success of our customers' projects."

Treezor plays the role of an innovation and disruption enabler to support its customers' use cases, not only in the financial sector but also in the tech sector in general (mobility, employee benefits, proptech, utilities)."

The future is behind the corner

The future of embedded finance seems to be secure. The first steps are only being taken and have been well received. It has enormous growth potential, far exceeding the most optimistic projections of conventional solutions.

Embedded finance for end users

The relationship between embedded finance and end users is symbiotic. It is the result of a change in purchasing patterns, and, at the same time, the stimulus that has driven this transformation. This has led to an increasing preference among buyers for financial services offered by alternative providers.

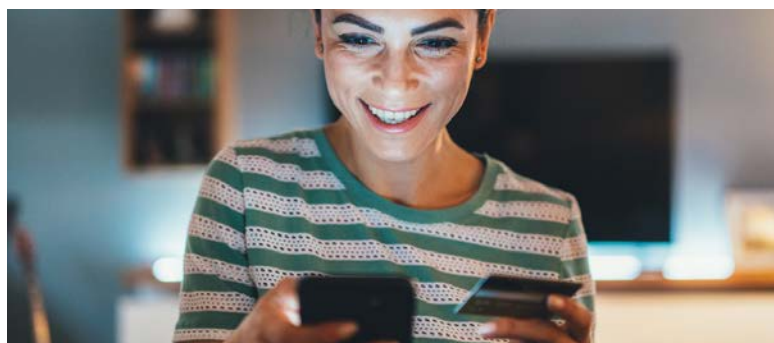
The development of e-commerce has undoubtedly played a crucial role in this paradigm shift. It represents a radical change in the rules of the game. As a result, customers benefit from better offers and customized, fast and flexible solutions.

The "footprint" of their transactions allows companies to design tailor-made responses and anticipate their demands. Moreover, the friction of the experience has been reduced, and the value of the core business proposition has increased.

Embedded finance for financial companies

There is often a mistaken belief that financial firms are the losers in the rise of embedded finance. Nothing could be further from the truth.

Banks and financial institutions have much to gain, but they must accept that their role has changed and focus on the development of suitable embedded finance models. The invisibility of conventional banking does not imply its disappearance.



A smart strategy would be to speed up the adoption of technologies and procedures to adapt them to embedded finance.

The battle to be fought is not for the defense of spaces, but for the survival of the business.

The digital transformation that embedded finance entails is an effective solution for retaining customers and expanding your market. Embedded finance opens up a new avenue for generating revenue and gaining additional user flow and volume.

For example, large financial institutions have a golden opportunity in launching niche propositions. This would allow them to reduce transaction costs and accelerate the procurement of their products and services. In addition, diversification of their portfolio would help to minimize business risk.

On the other hand, embedded finance boosts operational efficiency and reduces infrastructure investments.

In other words, it allows businesses to concentrate on the core operations of the industry without giving up the opportunity to expand their distribution.

The focus on innovation and compliance with increasing regulatory constraints is its main strength with regard to new competitors.

Embedded finance for non-financial companies

The most obvious and best-known benefits of embedded finance relate to its impact on non-financial firms:

Increased value of your offering

Verticalization, which is the incorporation of more functionalities and facilities for buyers, enhances the proposition of companies and allows them to get more out of the relationship they build with their customers. A bond of trust and credibility results in fewer barriers to the introduction of new services. At the same time, it increases the perceived value of the brand by providing "more" to the target audience.

Improved customer experience

Embedded finance simplifies procedures and enables innovative, fast and tailor-made solutions to be offered. A business taking advantage of this will therefore be able to offer a more competitive proposition than its competitors.

Reduced operating costs

Cost reduction translates directly into increased efficiency and profitability. While until a few years ago, embedded finance involved a considerable investment in resources and time, today technological optimization and white label solutions allow financial services to be integrated into virtually any type of industry.

Expanded customer base and generation of new sources of income

The obvious consequences of the three

benefits mentioned above are an increase in potential outreach and market share growth. The cost of customer acquisition is lowered, and retention is maximized.

Market Intelligence

Finally, data collection is an invaluable asset for companies. If used effectively, its analysis can guide all kinds of business decisions, from improving marketing efforts, optimizing production and commercial processes, to the creation of new products.

All these developments paint a promising picture for the embedded finance global market, valued at \$54.3 billion in 2022 and forecasted to reach \$248.4 billion by 2032. [Source: Future Markets Insights (5).]

The first wave of embedded finance has been driven by the demand to evolve brands' customer experiences into an end-to-end journey, with payment services technology leading the way.

The future seems to hold similar growth opportunities for technology providers offering the possibility to expand the integration to other core banking products, such as savings or lending.

The game is on for all the FinTechs and tech-savvy incumbents willing to invest in this new distribution channel and capture a share of the embedded finance market.

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Our INSIGHT SERVICES can help financial institutions stay up to date on disruptive challenges and potential threats around innovative digital trends worldwide. Get access to our global knowledge to accelerate research and benchmark your ideas against emerging use cases.

Our research includes topics such as metaverse, open banking, synthetic data, conversational AI, Web3/blockchain, and much more. Get in touch with us to find out more.

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Acknowledgments



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