KFX
An AdvisoryKONNECT Company

The Rise of Embedded Finance: The Never-Ending Innovation

A KFX Services Paper
AUGUST 2021

Global Perspective

KFX
An AdvisoryKONNECT Company

Barclays predicts that embedded finance revenues will grow from $16.1 billion in 2020 to $140.8 billion by 2030

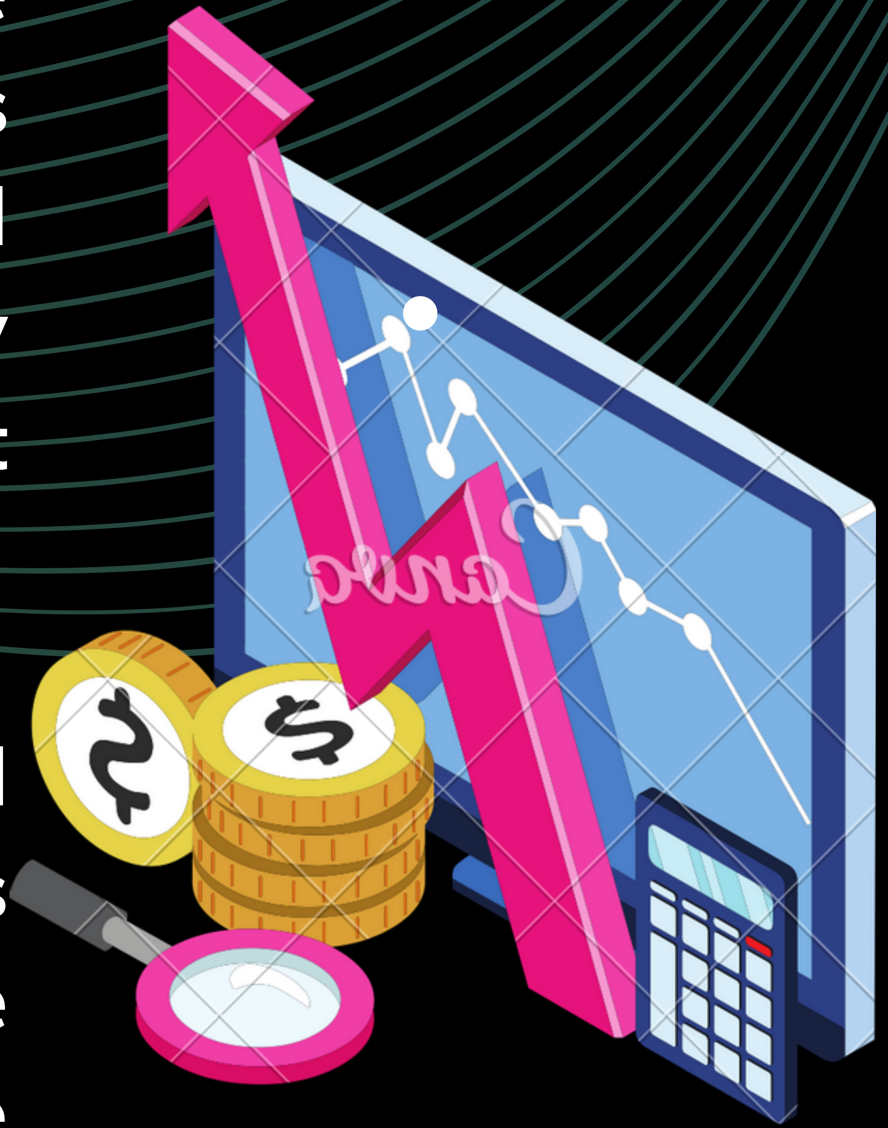
Digital finance is transforming the industry as we know it, putting customers at the centre of all services. Consumers are looking for easier ways to manage and access financial services where they need them. With the industry transforming, new models are empowering customers to manage their money on their own terms.

As banks are undertaking digital banking transformation, embedded finance is a trend that many are undertaking. Embedded finance changes business models and market structures, with banks having the appropriate infrastructure to support embedded finance, changing the nature of businesses across multiple industries.

KFX
An AdvisoryKONNECT Company

What is Embedded Finance?

Embedded finance revenues are estimated to reach over **$7.2 trillion by 2030**. The growth of embedded finance has been supported by the pandemic forcing a change in consumer needs and behaviour, less resistance in sharing data and greater willingness to try non-traditional channels for credit. Embedded finance is the opportunity for every company to become a FinTech, integrating forms of payment, investment and insurance into customers' end experience at low costs.



Facilitated by a platform, embedded finance is the integration of financial services or technology within traditionally non-financial services, products or technology. Through enabling businesses to seamlessly integrate financial services into their businesses through APIs, embedded finance transforms industries through enabling the integration of financial services into larger ecosystems.

Continued

Embedded finance leverages the full power of technology and connectedness, allowing companies to embed payments into their business workflows. Through the integration of APIs, embedded finance increases customer experience allowing merchants to grow loyalty and provide data that can personalise customer experience even more.

Companies are able to focus on their core services and select 3rd party partners to deliver the financial infrastructure. Through implanting financial services onto non-financial platforms, companies are able to offer financial products to customers right at the source.

The Players

There are 4 players in the embedded finance landscape. All players work together to bundle financial services as per customer segment and business requirement.

- Solution Providers
- Data Enablers
- Showcase Platforms
- Financial Institutions

Continued

Solution Providers

Solution providers embed financial solutions onto online platforms focused on loyalty

Data Enablers

Data enablers transport information back and forth between solution providers and showcase platforms

Showcase Platforms

Showcase platforms is where the solution is embedded and presents frictionless buying experiences, creating a link between banks and consumers by providing end-to-end financial services

Financial Institutions

Financial institutions are banks and entities whose services are extended by solution providers to showcase platforms

Types of Embedded Finance

Embedded finance gives customers a means to reach the goods they desire, bringing collaboration and sustained innovation among banks, FinTechs and businesses. There are different types of embedded finance, from embedded lending, payments to embedded insurance. An example of embedded payments is making cashless payments whilst ordering food from food delivery mobile apps.

UBER

Customers don't hand the driver money, but pay once they arrive.

Starbucks

Consumers are able to order and pay through the app

Klarna.

A type of embedded lending, it divides payments into instalments.

Types of Embedded Finance:

Any companies that wants lending capabilities, can embed pre-built solutions from financial partners via API integration. With embedded finance, customers are able to delay payments and can buy on the spot and be debited later. Embedded lending is the seamless integration of lending on digital platforms. Platforms can offer credit to their customers through their platform, as opposed to redirecting them to a 3rd party website.

In doing so, consumers have greater flexibility and convenience, removing barriers at checkout, thus increasing conversion rates. Embedded lending at point of sale is a massive opportunity, with buy now pay later services accounting for over 50% of embedded finance market revenues by 2026

Benefits of Embedded Finance

There is a rise in demand for finance and banking that meets the customers at their convenience. Embedded finance is an opportunity for financial institutions to increase agility and keep up with changing demands. The pandemic has changed financial expectations and needs, creating a new demand improve user experience. Embedded finance aligns the needs of clients with on-trends and scalable technical solutions.

Embedded finance allows for an open financial system that is easy to navigate. Embedding account creation to platforms helps end customers create transactional accounts to hold money. Such accounts allow for the easy collection of frequent payments, lowering bank transfer times. Through embedded finance, companies provide a better payment experience, forcing customers to stay loyal.

Benefits of Embedded Finance

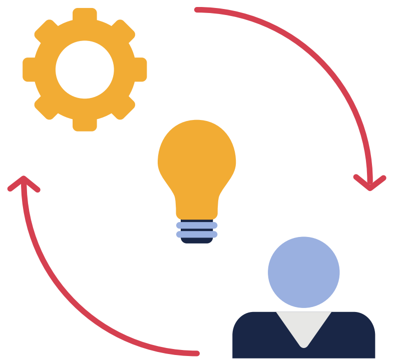
Many companies are implementing easy to use services that focus on the clients' primary need for services. Payments insurance and lending is embedded into the client journey. Existing players can offer a proposition that builds on the existing products and expertise. Embedded finance allows new entrants to leverage the model by creating embedded finance within a range of existing offerings. Embedded finance increases competition allowing for non-financial companies to compete. In doing so creating new and improved user journey and more choice and flexibility.

Barclays introduced a platform called **Rise** which facilitates embedded finance, creating seamless experiences that provide customers with many options to pay for goods and services. By expanding their offerings and innovating can cement their relevance. As platforms add financial services, they can make opportunities in markets deemed too small or not cost-efficient to be viable. Using embedded finance when on a digital banking journey is vital. It allows banks to have a clear proposition across all products and proposition that is viable with low costs.

Benefits of Embedded Finance

Opportunities:

Embedded finance gives financial institutions access to a large pool of borrowers. Embedded financial gives businesses the opportunity to scale their operations along with helping monetise their customer base. In doing so, institutions are able to expand their customer base, offer tailored products, increase profits and customer satisfaction. Through the easy integration of APIs barriers to entry are lowered for financial services, creating revenue streams.



APIs:

API integration drives embedded finance, enabling fast, less costly and more efficient feature development approaches. Embedding payment APIs in e-commerce platforms allows for the deeper understanding of customer payment habits and leads to the delivery of superior payment experiences. This leads to faster checkout and settlement processes.