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Innovation Unleashed: The Rise of Embedded Finance in Banking and FinTech

Amsterdam Embedded Finance Conference
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**Speaker
today**



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Agenda



What is the Embedded Finance opportunity and why is it relevant now?



What are the "hot themes" in the Embedded Finance space?



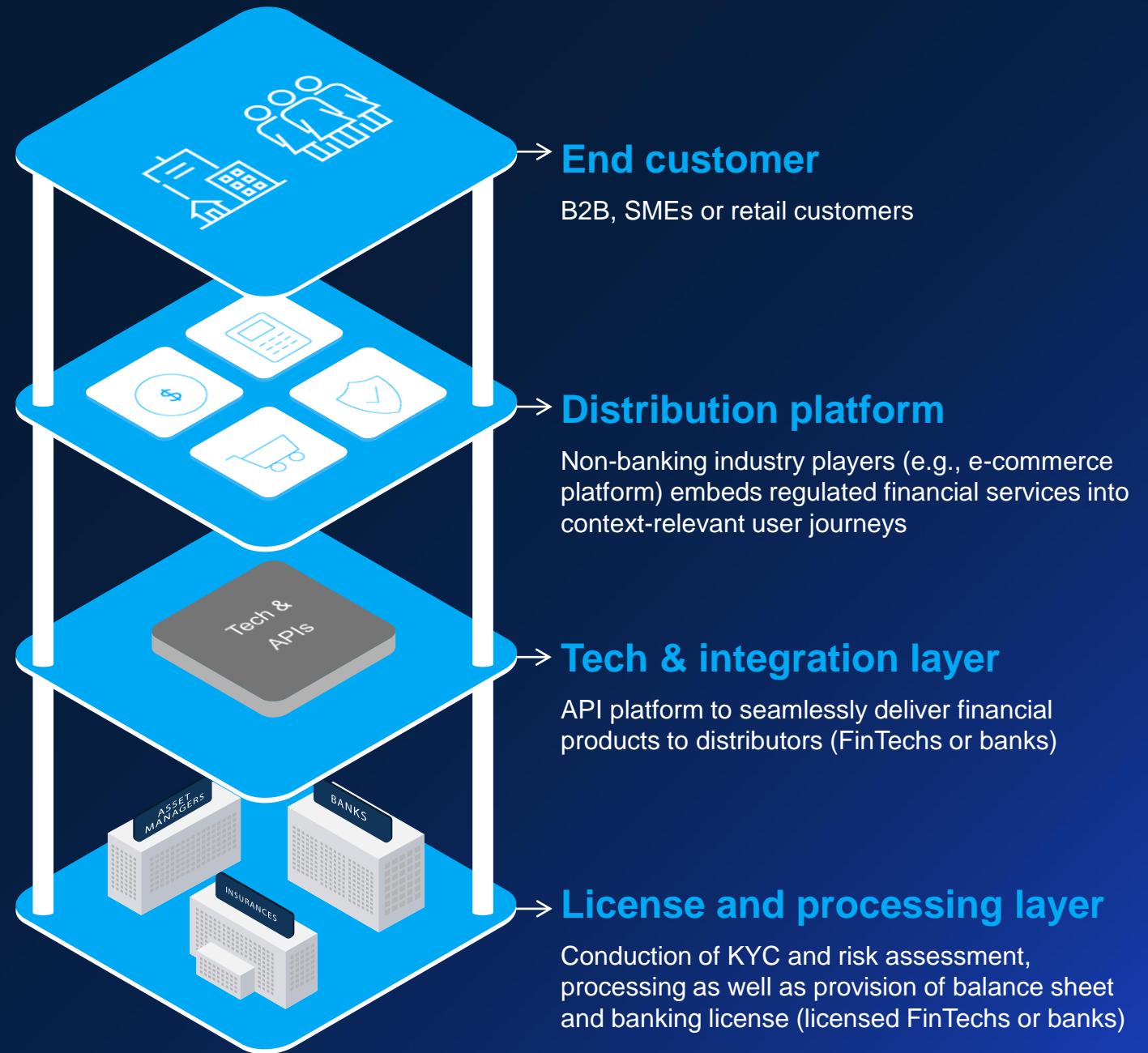
What could be strategic directions for banks and FinTechs to position in the market?

Can everyone in the audience raise hands if you have invested or if your bank / FinTech has started to engage in Embedded Finance?

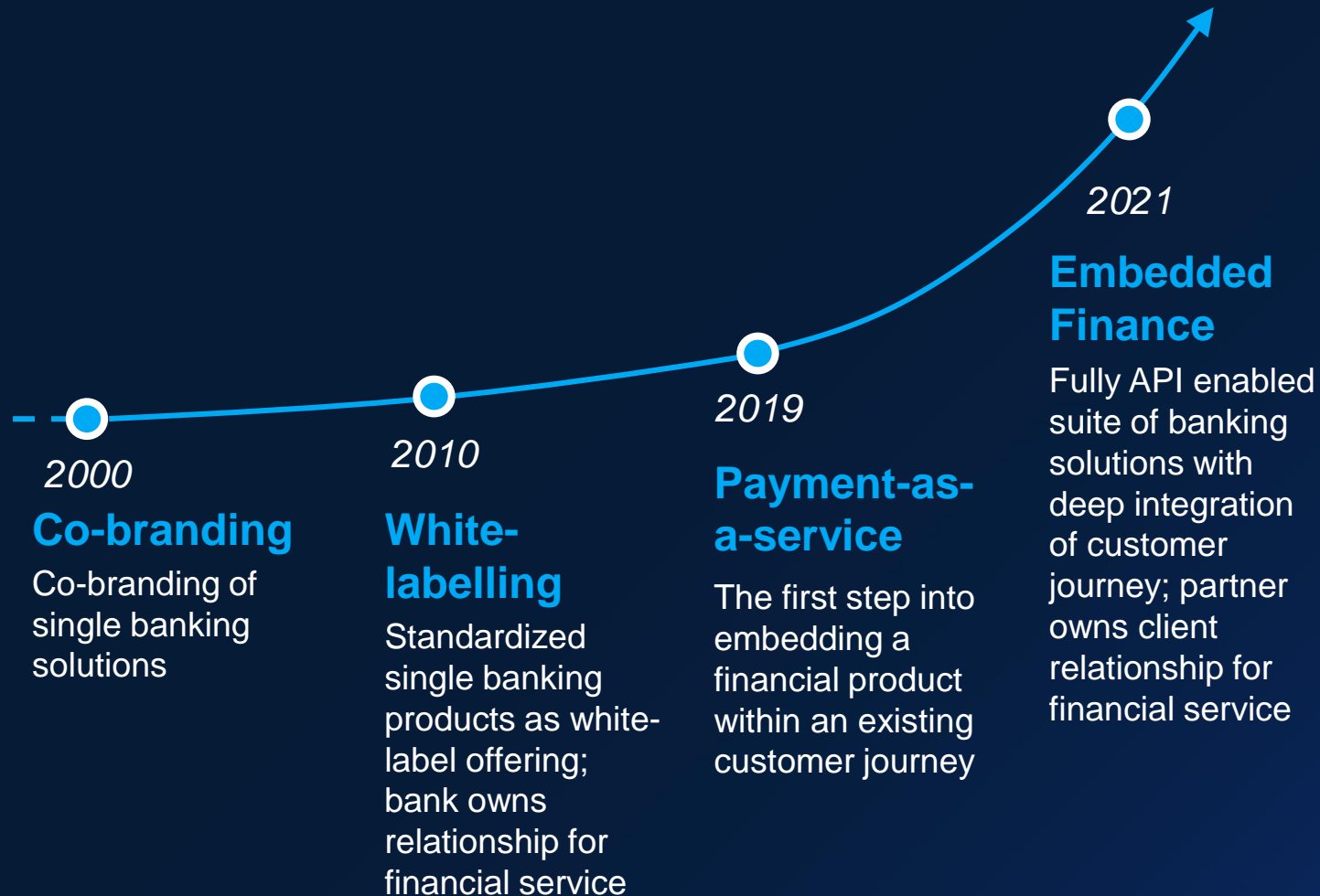


What we define as Embedded Finance

Embedded Finance is the seamless end-to-end integration of financial products and services into non-banking platforms and business models



The trend around Embedded Finance is not new – in fact, it has been around for more than 20 years



Market, customer and tech trends are driving acceleration:



Growth of **platform-based digital** economy, facilitating inter-**connectivity** of mobility options



Digital solutions becoming **must-have**, with customers **demanding** seamlessly **integrated financial solutions**



Customers increasingly **trust non-banking players** for financial services



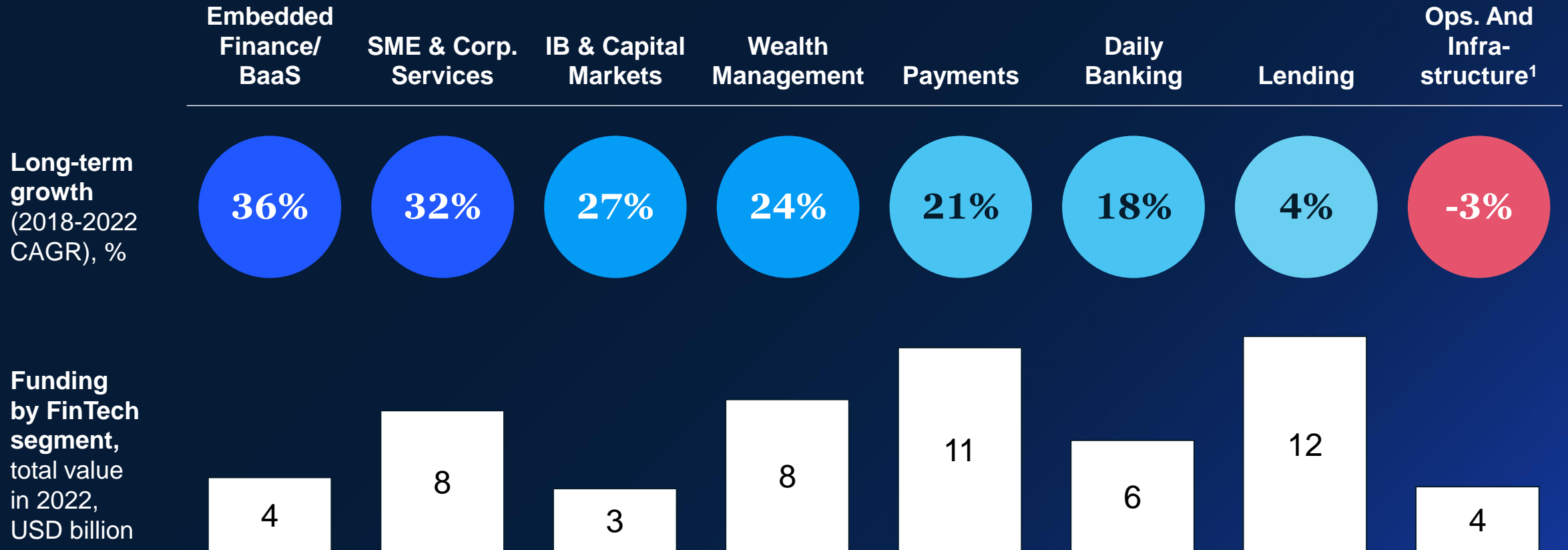
Increasing relevance of **non-traditional** mobility segments (i.e., non-car) and **flexible ownership models**



Technology readiness to enable EF solutions, e.g., API technology matured and highly scalable

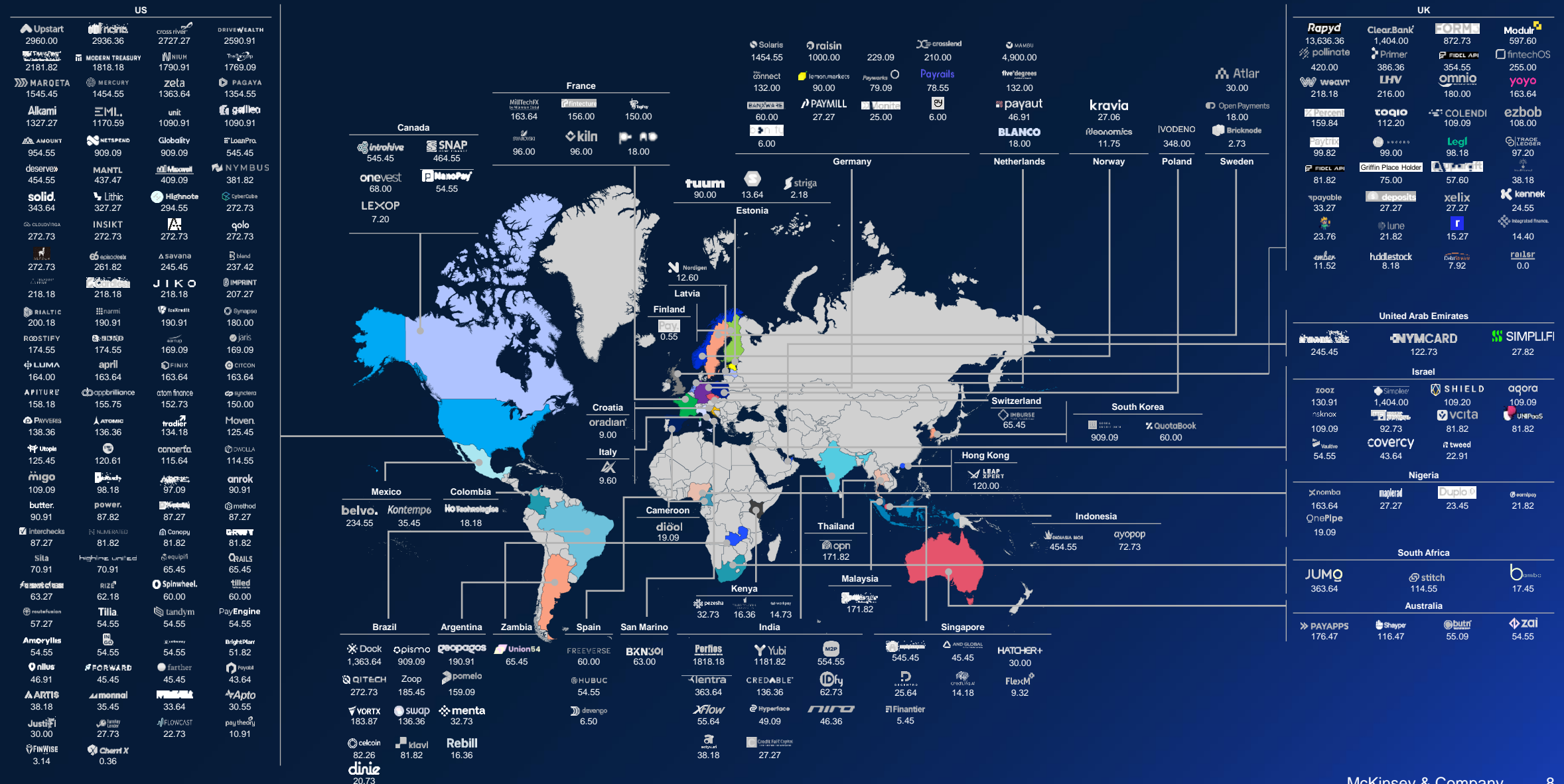
Embedded Finance has recognized the highest funding growth over the past 5 years

Global Funding in FinTech segment, 2018-2022



1. Includes core banking technology, RegTech, Open Banking | 2. <https://www.worldbank.org/en/topic/sme/finance>
Note: Crypto & DeFi segment not shown - 2022 funding of \$22.6 Bn with a 37% CAGR in growth for the 2018-2022 period

Globally, there are now more than 450 Embedded Finance / BaaS FinTech providers distributed across 40 countries



Source: dealroom.co, company website

Why Embedded Finance is relevant for banks: EF will not fade away and will play an important role in the future of banking



Our outlook on 2030



3rd party platforms will become a major distribution channel for financial products – up to **30%** of banking revenues on product level will be generated via Embedded Finance, amounting to a revenue potential of **100bn EUR**



Traditional boundaries between industries and banks will further blurr – **customers will consume majority of products via digital platforms with seamless integrated financial services**



Players investing in EF/BaaS will capture **disproportionate share of future growth opportunity**

Proof-points today

As of 2022, **16%** of payment revenues are already captured by non-bank channels

Almost 50% of Millennials (26-40 years) would open a bank account with Amazon – if Amazon would offer one









BaaS/EF focused FinTechs with strongest long-term funding growth of **36% CAGR** (based on past 3 years data) – leading players (Square, Stripe) with valuations USD **>60bn**

Growth outlook requires a continued lowering of barriers (e.g., increasing openness of regulators to innovative credit scoring approaches, ability to scale use cases among regions with different regulations etc.)

We see an expanding list of use cases across industries and products ...

Exemplary

High Medium Low

Vertical	Lending	Cards & payments	Accounts	Investment
 Non licensed FinTechs	Overdrafts, personal loans	Debit cards, credit cards	Checking accounts, saving deposits	Securities brokerage, ETFs
 Retail / E-commerce	BNPL, PoS financing, Sales financing for SME	Branded credit cards, debit and gift cards, Checkout/cashier system	Seamless opening of checking account	Save now pay later, personal financial management
 Travel & Hospitality	PoS financing	Branded credit cards (incl. FX)	Interest income for prepaid services	Save now pay later, personal financial management
 Mobility & transportation	Subscription offers; PoS financing	Fuel cards, EV charging, In-car payment for fuel/charging	Current account for e-mobility (wallet)	...
 Tech	Refinancing via price comparison providers	Payment via social media	Current account linked to price comparison	Save now pay later, personal financial management
 Health / Insurance	BNPL for medical bills	Checkout/cashier system	...	Save now pay later, personal financial management
 Energy, Real Estate & housing	Solar/PV infrastructure leasing, Green retrofitting subscription	Smart meter billing, Smart home device payments
 Media	Micro lending to extend subscription	Payment for premium content

... with significant revenue pools of ~ EUR 100bn for Embedded Finance providers – highest potential in Retail and SME banking

2030 Market estimate for EEA + UK, revenues after risk in EUR bn

CAGR 2023-2030 <20% 20-50% >50%

Lending
 Accounts & Deposits
 Payments
 Investments
 Trade Finance



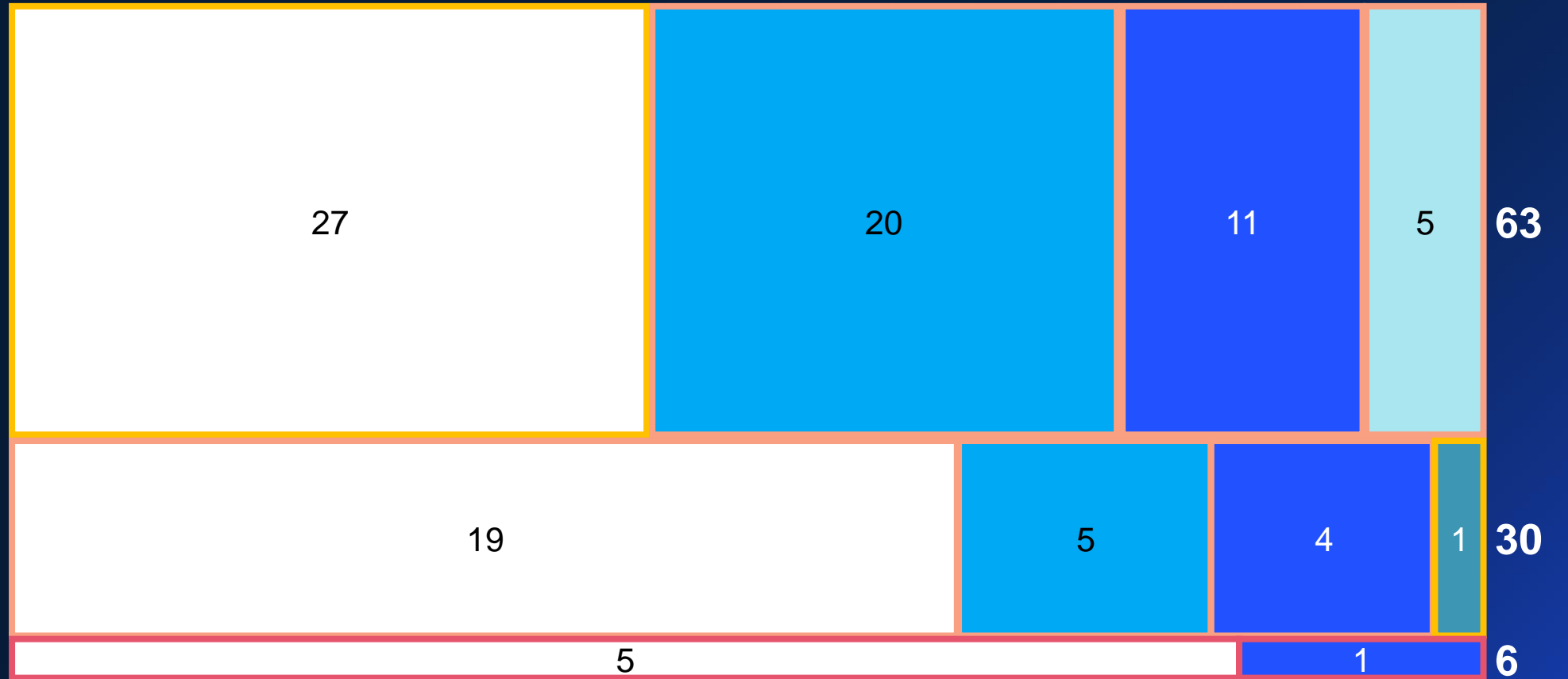
Retail



SME



Corporate



1. Including Specialized Finance
Source: McKinsey

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What is the Embedded Finance opportunity and why is it relevant now?



What are the "hot themes" in the Embedded Finance space?



What could be strategic directions for banks and FinTechs to position in the market?

Embedded Finance providers are facing several dynamics with recent trends impacting strategic directions

List non exhaustive



Relevance of scale to achieve profitability

As the Embedded Finance landscape continues to evolve, achieving profitability becomes increasingly dependent on scale. The trend emphasizes the importance of reaching a critical mass of users, transactions, and volume, whether through organic growth, mergers, or acquisitions



Growing importance of strong partnerships (or even M&A)

The significance of strong partnerships is growing. Recent funding adjustments and evolving market conditions emphasize the need for a diverse partner network. Some industry players are even exploring the possibility of establishing their own banking services



Competitive landscape is intensifying

Traditional banks, non-financial institutions, FinTechs, and incumbents are intensifying their competition for market share. This heightened competition demands innovative strategies to differentiate and capture customers



Emerging relevance of GenAI in Embedded Finance

The emergence of Generative Artificial Intelligence (GenAI) is reshaping the banking industry and with that also Embedded Finance. GenAI is finding applications in internal processes, risk assessment, and more, enhancing the efficiency and accuracy of various functions within the EF landscape

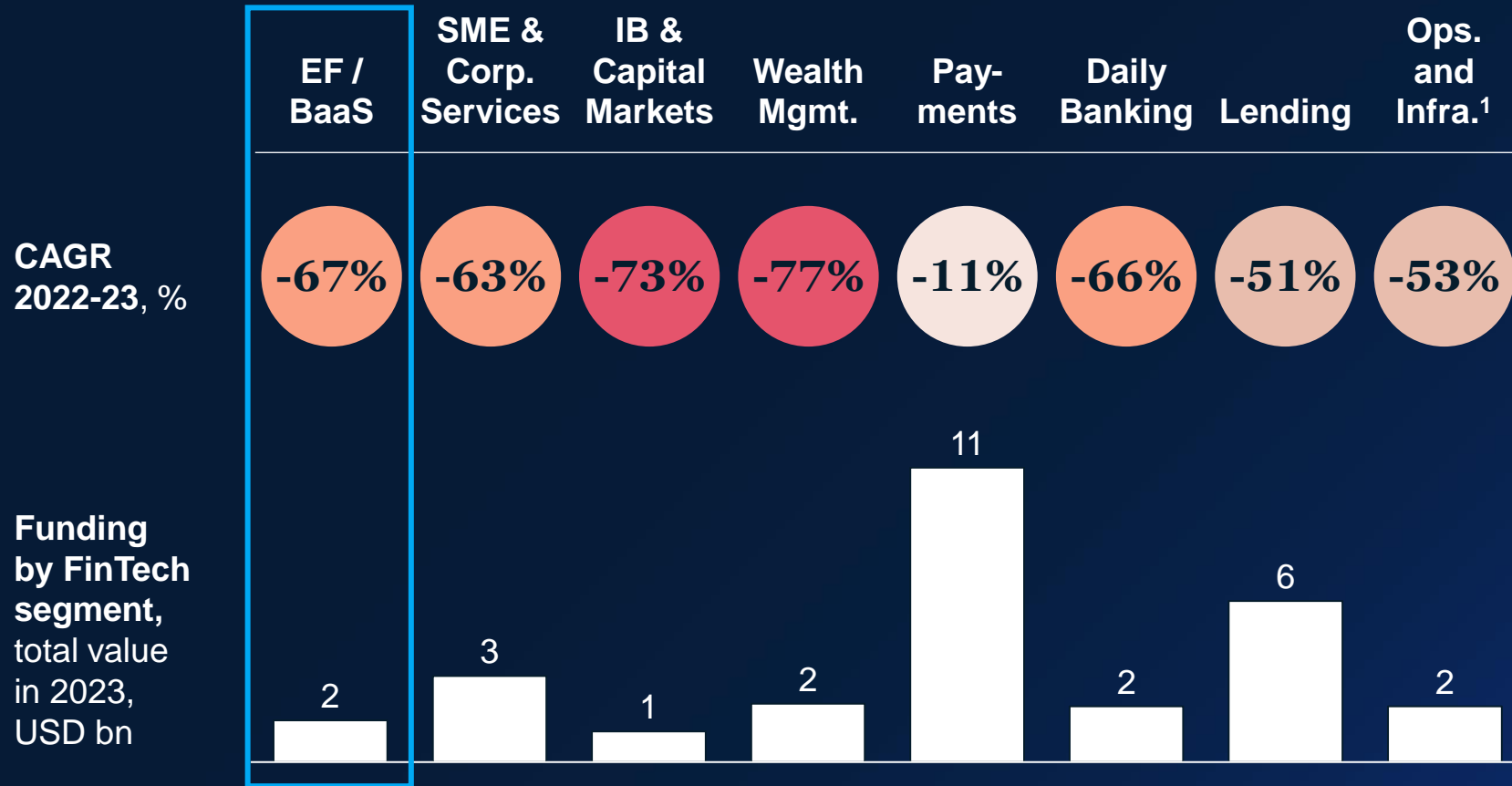


Adaptive Regulatory Compliance and Robust Security

Regulatory bodies and customers alike demand stringent financial compliance from Embedded Finance (EF) providers and distribution platforms. This includes safeguarding data, adhering to financial regulations, and implementing fraud prevention measures, all of which are crucial for building user trust

Relevance of scale to achieve profitability: EF / BaaS has seen a drip in funding since 2022 – driven by increased focus on profitability

Global Funding in FinTech segment, 2022-2023



Funding for FinTechs in general, but specifically for Embedded Finance FinTechs, has peaked in 2022 (i.e., ~2x normalized 2019/23 levels)

Since then, there has been an increased focus on profitability to drive sustainable business growth

1. Includes core banking technology, RegTech, Open Banking
 Note: Crypto & DeFi segment not shown



Competitive landscape is intensifying: EF / BaaS FinTech providers are consolidating

xx 2018-2021 xx 2021-2022 xx 2022-2023

Drop in funding¹ after high growth

+76%

Growth p.a. of funding, 2018-21

-25%

Decline p.a. of funding, 2021-22

-67%

Decline p.a. of funding, 2022-23

Continuously growing valuation²

+88%

Growth p.a. of valuation, 2018-21

-14%

Decline p.a. of valuation, 2021-22

+11%

Growth p.a. of valuation, 2022-23

Consolidated market environment

10 players

Capture ~50% of valuation in Europe and North America

4 players

Capture ~50% of valuation in Asia

3 players

Capture ~50% of valuation in other countries³

1. Based on data as of March 19, 2024.

2. Valuation data as of March 19, 2024

3. Other countries = ROW excluding North America, Europe, Asia, Middle East, Africa

Competitive landscape is intensifying: Incumbent banks launched multiple EF solutions in past years to not miss out on opportunity

List non exhaustive



Santander Consumer Finance launches Uility, its new technology platform for vehicle subscription-based solutions for companies

RELATED DOCUMENT

07-06-2022
Press release 109.1 KB 

Uility, Santander Consumer Finance's new white-label technology platform, creates subscription-based solutions within the mobility service sector.

16.03.2022

TRAXPAY, LANDGARD AND NORD/LB EXPAND COOPERATION WITH DIGITAL GUARANTEES




Bank11: New white label offer for partner banking

May 18, 2021 10:39 am | Reading time: 2 min



Jörn Everhard, Managing Director of Bank11
© Photo: Bank11

With the help of a digital application module for consumer loans, Bank11 wants to enable its partners to grant loans under their own brand. The bank assumes the organization and credit risk.



MAINPAY

DEINE EINTRACHT ALTERNATIVE FÜR KONTAKTLOSES BEZAHLEN

“mainpay”: Mobile payment made easy

Eintracht Frankfurt supporters can now use a digital wallet – in Deutsche Bank Park and beyond. Find out here how “mainpay” makes life smarter and more convenient.

HSBC joins forces with Tradeshift to launch embedded finance business

Written by [Tyler Pathe](#) 2nd August 2023



HSBC has come together with San Francisco, California-headquartered B2B fintech [Tradeshift](#) to launch a jointly-owned business focused on the development of embedded finance solutions and financial services apps.

Emerging relevance of GenAI in Embedded Finance: GenAI can affect all steps of the Banking value chain

Non-exhaustive



Frontline / M&S

- Frontline proposal preparation
- Wealth prospect profiling
- Public AI assistant for clients
- Virtual portfolio assistant
- Virtual relationship manager
- Marketing multimedia generation

Operations & Technology

- Automated customer data collection
- Legacy code maintenance
- Virtual customer service copilot
- Automated call analysis
- Code acceleration
- Mid office AI assistant

Risk, compliance & fraud

- Automated model documentation
- Automated policy monitoring
- Virtual risk expert
- Generation of risk reports
- Advanced FinCrime detection
- Comprehensive Fraud assessment

Talent & Org

- Candidate screening
- Creation of interview content
- Self-serve HR functions
- Automatic feedback insights
- Generation of job profiles

Strategy & Finance

- Generation of strategy documents
- Insight generation
- Automatic expensing

Emerging relevance of GenAI in Embedded Finance: The access to additional customer data unlocks specific GenAI potential

Not exhaustive

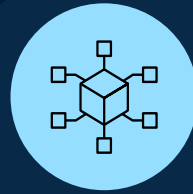


Highlighted GenAI use cases specific to the context of Embedded Finance

Generate personalized content tailored to client profile and history (e.g., personalized marketing nudges), and generate alternatives for A/B testing

GenAI potential

8-19%
expected time release for FTEs



Generate artificial datapoints based on holistic customer profiles (incl. qualitative and behavioral data) to test new products and features

3x-6x
faster speed to impact



Support fraud assessment by identifying red flags unstructured qualitative data sources in addition to real-time transaction data

5-10%
decrease in fraud losses



In light of rapid testing and development of new GenAI tools as well as their economic potential for Embedded Finance solutions, a self-accelerating adoption flywheel can be expected



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What could be strategic directions for banks and FinTechs to position in the market?

We see **three strategic directions** for banks to unlock the **Embedded Finance opportunity**

Strategic directions

Description

Example plays

Grasp the growth opportunity

Double-down on Embedded Finance, detailing out a tailored **strategy to unlock new business and customer segments** via Embedded Finance – ultimately **capturing greater market share** in core segments as well as initial market share in new segments

Unlock and expand into a **new business and customer segment** (e.g., mobility finance)

Avoid the threat of losing out

Banks should **get into action to avoid losing out** (again) – as they did partially in **payments** where new tech players like e.g., Adyen, Stripe are **now dominating a banking-native market**

Leverage existing (best-in-class) **capabilities of core products** to offer them in a **white-label solution**

White-label best-in-class product *or* offer **core EF products** most relevant to current customer group

Refocus on core (traditional) channels

Following an active decision against an Embedded Finance-enabled strategy, refocus on **core segments and products** – which have less relevance for Embedded Finance – and are served primarily through **core (traditional) channels of banks** (e.g., corporate business, mortgages, tailored financing products)

Allocate resources to (traditional) core segments and products

Independent which of the **three strategic directions** is chosen, a set of key actions need to be followed for successful implementation

Strategic directions

Grasp the growth opportunity

Avoid the threat of losing out

Refocus on core (traditional) channels

Key actions for successful implementation



Ambitious planning level in light of competitive landscape and first-mover advantages



Management commitment (e.g., time, focus) towards strategic direction



CapEx investment as well as allocation sufficient of resources to develop capabilities and launch new business



Success in Embedded Finance is not by luck – It's by design and determination!

Consider these four dimensions if you are looking to build a capable Embedded Finance organization



Truly embedded products

Commit to building **fully digital and seamlessly integrated customer journeys**, embracing the native capabilities of both the bank and the partner



Partnership building capabilities

Build required **B2B and GTM capabilities** to win large-scale partnerships
Thoroughly define the **level of service support** and pricing strategy



Future proof and scalable API tech

Invest into an **open, API-driven and cloud-based technology platform** that can be scaled (build vs. buy vs. delivery partner)
Have a well-developed data and analytics muscle to **leverage access to customer data**



Building quickly and to scale

Upgrade your **ways of working** to accommodate an **agile and scalable delivery model** with partners
Move into **build mode** and iterate quickly to validate and de-risk the investment

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