WHY THE FUTURE OF FINTECH IS EMBEDDED FINANCE

Whitepaper
1.1 Introduction

Since the announcement of PSD2 (Second Payment Service Directive) in the EU, the financial services market has inexorably been moving towards a model which is more open, transparent and interlinked. Open Banking and APIs are major enablers to changing the financial services market in this fundamental way.

Creating an ecosystem where financial tasks are present in non-financial activities creates a profoundly different market – new opportunities for partnerships and additional revenue streams will come to the fore, while traditional financial institutions will struggle with the threat to their once distinct role in financial services.

1.2 Definition

Juniper Research defines embedded finance as: ‘Any use case where financial services tasks, such as banking, insurance or lending, is embedded in non-financial user experiences.’

User experiences in this sense will commonly mean eCommerce checkouts, for example where payment options are embedded to avoid having to re-enter details, or where options like insurance are embedded within the checkout process. However, there are many use cases for embedded finance, which will be examined throughout this report.

1.3 Embedded Finance Segments

Embedded finance is a broad definition, made up of several different areas where APIs are enabling the integration of different functions in new areas. There are five distinct segments we recognise as being the main use cases for embedded finance, which are defined as follows:

- **Embedded Payments**: Where payments are embedded in the checkout process or in other processes, such as one-click checkout buttons via digital wallets, or account funding via Open Banking for investments.

  **Figure 1: 1-Click Process with Amazon**

- **Embedded Lending**: This is where lending solutions are embedded at the point of sale. This is often referred to as ‘Digital Buy Now Pay Later.’ This is also covered in our recent Buy Now Pay Later report.
Embedded Investments: This is where investments are embedded within other processes, such as where purchases are rounded up to automatically build an investment portfolio.

Embedded Insurance: This is where insurance is bought as part of the purchase process of the item, for example, Tesla offering insurance during the purchase process, or an electronics retailer offering insurance on a new device as it is purchased.

Figure 2: Klarna Example Checkout Appearance

Payment method

- Klarna. Pay in 30 days
- Klarna. 4 interest-free installments
- Klarna. Monthly financing
- Card
- PayPal. PayPal

Source: Klarna

Embedded Banking: This is where banking functions, such as debit card accounts, are made available through a non-banking app; for example, Wise’s debit card or Uber financial services. This can allow a wide range of non-banking players to offer certain banking services via BaaS.

As embedded finance is a broad area, there will be new use cases added over time, but these are the primary use cases involved in the current market ecosystem.

1.4 Key Embedded Finance Trends

This section will explore some of the key trends that are driving the embedded finance market forward.

1.4.1 Big Techs Leading Embedded Finance Innovation

For a significant period, much of the excitement surrounding embedded finance has been around the extent to which its development will allow big tech companies (eg Facebook and Amazon) to enter markets, such as financial services, which are new for them. This interest from big techs is a major driver for embedded finance development for several reasons.

Firstly, big techs continue to diversify. For example, Facebook has continued to expand its offerings; aiming to become a major payments player with Facebook Pay, which is increasingly integrated across Facebook, Instagram and WhatsApp. For Facebook, it is diversifying away from advertising revenue by using payments to create an extra revenue stream.
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For many other technology companies, the diversification of revenue is highly relevant, including for players such as Amazon and Microsoft, or even vendors such as Uber and Lyft in the ride-hailing space. Apple and Google have also been exploring the payments opportunity, with services such as Apple Card and Google Pay giving access to financial services from primarily non-financial vendors.

However, it is not all about additional revenue streams. Big tech companies have definite value to add in the financial services area. What these technology companies are good at is user experience, which is something that has traditionally been more challenging for financial services. By combining their expertise in user experience with third-party capabilities, big tech can add value and significantly broaden their appeal in a constantly evolving market.

1.4.2 B2B Vendors Have an Important Role to Play in Embedded Finance

Under embedded finance, the brands leveraging the ability to create new financial services are not the only beneficiaries. Embedded finance is an important way for B2B vendors to generate revenue, and is increasingly seen as an additional stream for financial services vendors.

One example is Starling Bank, which is offering a BaaS platform, alongside its own direct-to-consumer offerings. Starling chose to develop its own banking platform to power its banking services. Offering BaaS services under an embedded finance model is an important way for Starling to increase its ROI (Return on Investments) on that development, by generating an additional revenue source.

For other vendors, embedded finance is growing in prominence. As financial services become more intertwined and more open with the use of APIs, vendors have a major opportunity to generate revenue from this space. As such, we believe that B2B enablement in the embedded finance sector will be a significant growth area over the next 12-24 months, as embedded finance moves to dominate the discourse around the future of fintech.

1.5 Embedded Finance Challenges

This section will explore some of the major challenges to the future growth of embedded finance, and what needs to happen in the market for it to flourish.

1.5.1 Need for Partnerships/Lack of Infrastructure

As discussed previously in this chapter, embedded finance has key enablers in the form of Open Banking, BaaS and payment APIs. While these have all developed to a degree to which embedded finance becomes viable, this is not the case for all markets, meaning that embedded finance’s prospects are not universally strong.

1.5.2 Traditional Mindsets at Financial Institutions

For some time, it has often been said that banks and financial institutions are among the slowest to adopt new technology, and this has certainly been the case, with many banks still using outmoded technological infrastructures. Outside of the technological question, there is a broader question of mindsets. Embedded finance requires a different way of thinking – for banks, it means partnering with non-fintechs, and playing a
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less important role for the end user, which will be very difficult for them to accept.

For insurers under embedded insurance models, they have to acknowledge that traditional distribution models are being uprooted, in favour of distribution alongside other activities (eCommerce purchases for example). This requires a change in attitude, which will be difficult and will require time.

However, time may be lacking for incumbents. If established financial industry players fail to adapt to embedded finance, or fail to improve their own user experiences to combat the threat of embedded finance, then they will begin to lose substantial market share. As such, rethinking their role in a changing environment is critical.

1.6 Forecast Summary: Total Embedded Finance Market Value

The value of the embedded finance market will exceed $138 billion in 2026, from just $43 billion in 2021. The market value includes insurance premiums, transaction revenue and licencing costs.

- This extraordinary growth of over 215% will be driven by the increasing availability of APIs from financial services vendors. The easy integration of these APIs will lower the barriers to entry for financial services and create a significant new revenue opportunity for providers of embedded finance.

- Revenue from Buy Now Pay Later services, which embed lending seamlessly into the eCommerce checkout process, will account for just over 50% of the embedded finance market in 2026.

- Embedded insurance holds promise as a compelling way to boost the uptake of insurance for high-value products with eCommerce users. By bringing insurance directly into the checkout process and pairing it directly with the individual high-value item, product insurance becomes a compelling proposition. This integration and greater use by high-end eCommerce retailers will see global embedded insurance premiums grow to over $10 billion in 2026, from just $3.8 billion in 2021.

Figure 3: Embedded Finance Market Value ($m), Split by 8 Key Regions, 2026: $138 Billion

Source: Juniper Research
Order the Full Research

Juniper Research’s new Embedded Finance research delivers a rare in-depth analysis of this rapidly emerging area, opportunities for vendors, and considerations when assessing the market. Featuring extensive trends and segment analysis, discover the success of embedded finance to date, as well as an insightful future outlook into its disruptive potential.

Key Features

- **Embedded Finance Sector Dynamics**: Analysis of key trends and primary challenges across the emerging embedded finance space; including the following elements:
  - Open Banking and what is needed to support embedded finance
  - Key challenges restricting embedded finance growth
  - How Banking-as-a-Service will enable new entrants

- **Embedded Finance Segment Assessment & Future Outlook**: Specific assessment of how embedded finance is going to fare across several different verticals, across embedded banking, embedded payments, embedded insurance, embedded investments and embedded lending, as well as a future outlook for the overall market.

- **Juniper Research Embedded Finance Leaderboard**: 15 embedded finance vendors positioned on the Juniper Research Leaderboard; accompanied by heatmap-based scoring and individual player analysis. Vendors covered include:
  - Bankable
  - Flywire
  - Plaid
  - Q2

- **Benchmark Industry Forecasts**: Forecasts sizing markets up to 2026 for embedded finance, split by embedded banking, embedded payments, embedded insurance, embedded investments and embedded lending, as well as by our 8 key regions and 25 countries.

What’s in this Research?

1. **Market Trends & Opportunities**: Detailed analysis and strategic recommendations for understanding the embedded finance market, including evaluation of the trends and different methods influencing the growth of embedded finance segments. This also includes analysis of areas such as segment variations, key challenges and future outlook.

2. **Juniper Research Leaderboard Analysis**: Detailed and insightful evaluation of 15 key embedded finance vendors via a Juniper Research Leaderboard; accompanied by a heatmap analysis and a thorough assessment of each individual vendor’s product range, strengths and weaknesses.
3. **Interactive Forecast Excel**: Highly granular dataset comprising over 14,700 datapoints; allied to regional and sector analysis tools. It contains regional and key country-level analysis, together with five-year forecasts for the embedded finance market, including embedded banking, embedded payments, embedded insurance, embedded investments and embedded lending.

4. **harvest Digital Markets Intelligence Centre**: Visualises all the data in easy to use and exportable graphs, tables and charts, and features continuous data updates for 12 months.

**Publication Details**

Publication date: July 2021

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