



▶ Embedded Finance

Executive Perspectives



Executive Perspectives on Embedded Finance Opportunities and Barriers

In a world of Paypal, Uber, BNPL and instant payments, we all have experienced some form of embedded finance. Embedded finance is the integration of financial services into non-financial offerings. With the growth of technology and changes in customer behavior related to a plethora of digital interfaces they experience daily, embedded finance is evolving and growing rapidly. The market for embedded finance applications **is projected to grow nearly fivefold**, from US\$54.3 billion in 2022 to US\$248.4 billion, by 2032.¹



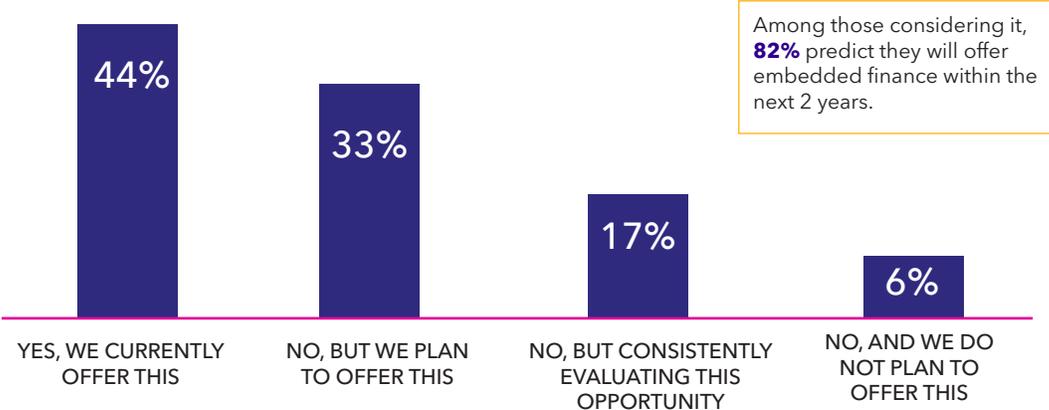
77% of Senior Executives are Embracing Embedded Finance

Survey: For 53%, Embedded Finance is a Primary Driver of Revenue.

► Here's Why

With the clear growth of embedded finance, it's easy to understand why this is high on the agenda for today's executives: not only do **44%** of executives work at companies that already offer it, but another **33%** plan to, and **17%** are evaluating it. Among those whose companies already offer embedded finance, nearly all senior executives (**99%**) have seen embedded finance become a driver of revenue – including **53%** who note it is a primary driver, reveals a survey of 500 senior executives in product, business development, technology, or marketing completed by Pathward®, N.A. in February 2024.²

SENIOR LEADERS OFFERING OR CONSIDERING EMBEDDED FINANCE*



*ASKED AMONG 500 US SENIOR EXECUTIVES WITH A MINIMUM SENIORITY OF VP IN ANY OF THE FOLLOWING ROLES: PRODUCT, BUSINESS DEVELOPMENT, TECHNOLOGY, OR MARKETING

Continued Growth

Embedded finance has become the new normal, for businesses and customers alike. Among those considering it, **82%** predict it will come within two years - including **39%** who expect it within the next year.

Size Advantage

Smaller companies need to keep up with important services before their bigger peers leave them behind. More than half of senior leaders at companies with annual revenues of \$50 million and above offer embedded finance (**53%**) - far outpacing their peers at companies with lower revenues (**34%**).

Follow the Money

With so many seeing the revenue power, it makes sense that business development (**47%**) is the most-cited champion pushing companies to implement these offerings - and they're not alone. **Senior executives cite leadership (40%) and finance (36%) as those most likely to be pushing for embedded finance - perhaps motivated by faster access to funds, which 40% of senior leaders cite as a top benefit.**

Crunching the Numbers

A surprising champion of embedded finance is the IT department: 42% of senior executives say the IT team is pushing implementation - and data could be why. **Two out of five senior executives (41%) cite the ability to collect more data as a benefit.**

Starbucks is a prime example of this loyalty. In an article published last month, Starbucks stated that: **"digital relationships drive significant long-term value to Starbucks through more frequent occasions, increased spend, improved customer retention, and marketing efficiency."** The company has also stated that: **"digitally engaged customers purchase 2 to 3 times as many products as those that are not digitally engaged."**³ More and more companies are looking to drive this behavior.



▶ LEARNING CURVE



ARE NOT VERY FAMILIAR
WITH EMBEDDED FINANCE.*

Among those who are very familiar (49% overall), **58%** recognize that companies need to embrace embedded finance to stay current with consumer demands.

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▶ Knowledge Gap

While senior leaders might agree on the benefits of embedded finance, they're not necessarily comfortable with every detail. A slight majority (**51%**) are not very familiar with embedded finance – they know what it is conceptually but don't have a strong working knowledge of the details.

▶ Necessity

Leaders are split on embedded finance's urgency: while **51%** believe companies need to embrace it to stay current with consumer demands, **49%** think companies will be fine whether they offer the service or not. However, learning about it can shift attitudes: **58%** of those who are very familiar with these offerings consider it a necessity, compared to **44%** of those who are less familiar.

▶ High Complexity

An overwhelming **91%** of those who have yet to implement these services are not completely ready to do so, and their peers who have taken the plunge are sounding the alarm. **A shocking 96% of senior executives whose companies offer embedded finance admit they underestimated the complexity of doing so when first integrating it - including 45% who significantly underestimated it.** This is even true among **95%** of those who are very familiar with embedded finance, highlighting how steep the learning curve can be.

▶ Embedded Hurdles

Embedded finance doesn't come without challenges: **60%** are concerned with costs, including start-up costs to implement and integrate (**39%**) as well as ongoing costs to operate and maintain (**34%**). But even more are simply concerned about their lack of knowhow (**63%**) – including **26%** who don't know who to partner with.

▶ Help Wanted

While **35%** of senior executives believe their company needs more expertise with the overall strategy and implementation of embedded finance, others need help with the day-to-day details and operations (**31%**) – another third (**35%**) claim they need support for both.

▶ CUSTOMER FIRST



An overwhelming 90% of senior executives rank the payment experience for the services or products their company offers as important for increasing or retaining customers, including 40% who view it as very important.

And their list of benefits makes clear why: **Top benefits for consumers offered by embedded finance include faster payments (52%), convenient payments (50%), and flexible payments (49%).**

Another 43% cite transparency and ease of understanding, while 38% boast it has lower fees - **a benefit that companies with revenues below \$50 million are particularly keen on (42%, compared to 33% of those with revenues of \$50 million and above).**

▶ FEELING SECURE

Senior leaders are confident that embedded finance can deliver for their customers - but believe security and fraud risks (59%) are more concerning than offering a poor customer experience (41%). This is even more pronounced among those who believe the customer payment experience is very important (71%).

Indeed, 45% of senior leaders cite security as a concern, a worry that rises to 52% among those at companies with revenues of +\$50 million. **As a result, half believe their company needs outside support for security and fraud protection when implementing and integrating embedded finance.** Nearly two in five (38%) need support for compliance. Again, finding a market expert to help fill this need will be critical to your success.

The good news is that when done correctly, embedded finance can not only overcome these concerns but even allay them. **Nearly two in five who offer embedded finance (38%) cite increased security as a top consumer benefit of embedded finance.**

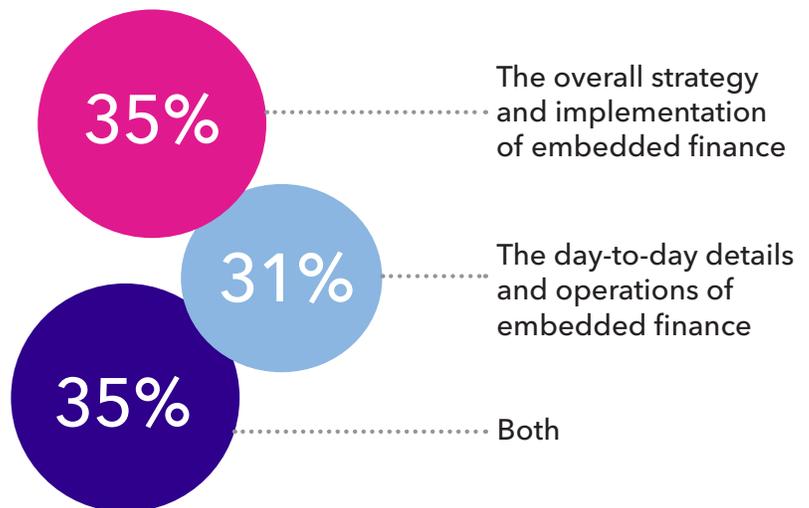


► SUPPORT NETWORK

Where Companies Need Support For Embedded Finance*

The need for support for the overall strategy and implementation of embedded finance rises to **39%** among those who are not very familiar with the service.

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Profit? While technical considerations such as backend integration (52%), maintenance and troubleshooting (49%), and design/UI (42%) top senior leaders' list of reasons for needing outside support, many need help in how they make it work for their company and their customers. **Nearly two in five (38%) need outside support for monetization strategy.**

Partnership matters. As executives outline, figuring out where to start is critical. As with everything, it's important to really understand what your customers' needs and behaviors are to determine what you need to solve or build. Spending time mapping this out before embarking on a solution will help the organization stay on course as they navigate the complexities of offering an embedded finance solution.

Once the team has a clear vision of the need they are addressing, evaluating how to go to market is a critical next step. An important question to evaluate: Is this a core offering to our business? Or, is this a capability or gap where you could benefit from partnering with someone who is already a core provider of this capability? This may be a smart place to start. Partner with an expert, test the offering in the market and

then determine if you want to build it yourself after you've learned some critical lessons.

Fintechs provide the technology to support the end businesses who want to incorporate an embedded finance solution into their customer offerings. There are providers often specializing in particular embedded solutions whether that be issuing, money movement or lending.

In the current environment, it is critical to deliver both a good customer experience and a safe, secure and compliant solution. The bank partnership is a critical decision. Banks provide the banking rails, access to lending and deposit, risk and compliance solutions. For businesses overwhelmed by where to begin, a conversation with a partner bank may be the right place to start. Well established partner banks should have a highly curated ecosystem of partnerships across the fintech landscape and can consult businesses looking to begin their journey around embedded finance. These partner banks are critical in helping define a solution that is delivered to the marketplace in a compliant way with a strategic risk and compliance framework.

Read the full report [here](#).

► SOURCES

¹<https://www.pwc.com/gx/en/industries/financial-services/publications/embedded-finance-challenging-common-assumptions.html>

²Embedded Finance Report, Pathward, N.A. February 2024

³<https://www.indigo9digital.com/blog/starbucks-mobileapps>