WHITE PAPER
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Revolutionizing Payments:
The Power of Embedded Finance

Abstract:

Over the last decade, the demand for seamless e-commerce solutions has compelled financial and non-financial entities to cater to digitally savvy customers by offering them unified and smooth payment options. Beyond meeting customer expectations, businesses recognize the potential for monetizing digital opportunities and the imperative to enhance loyalty through a competitive suite of services. Due to these factors, the momentum has steadily grown towards embedded finance in the day-to-day transactions of individuals as well as businesses. In this whitepaper, we will explore how fintech companies strive to embed payment solutions into non-financial products and services while transforming the digital payments industry.

DNA Growth

Embedded Finance: What You Need to Know

Banking has been the exclusive provider of services like lending and payment processing for many years if not millennia. It was essentially impossible for other institutions to offer any banking services due to the various rules and limitations.

But in today's era of digital payments, small business startups may find themselves no longer needing the services of established banks. As an alternative, they can fulfill their financial needs by getting access to services like opening bank accounts, getting debit cards, and financing directly through their e-commerce or accounting platforms. These platforms are often not run by banks but rather by software firms that work with banks and digital companies.

At the heart of what is known as the embedded finance revolution is a unique cooperation model including banks, technology providers, and marketers of financial products on non-financial platforms, that creates a unified, user-friendly customer experience by smoothly integrating financial goods into the non-financial domains. Payments are one of the earliest embedded finance applications that are at the nexus of commerce, banking, business services and many new embedded finance processes. Put in simple terms, embedded finance involves incorporating a financial product into a non-financial customer experience, path, or platform. While this concept is not groundbreaking, it has been in practice for decades. Non-financial entities have traditionally provided financial services through private-label credit cards in various sectors like retail chains, supermarkets, and airlines.

Additionally, common instances of embedded finance encompass sales financing at appliance retailers and offering auto loans at dealerships. These arrangements serve as a means for the banks supporting these entities to connect with and serve end customers.

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Unlocking the Power of Embedded Finance for Businesses

While embedded finance has already transformed the financial services industry, the B2B space remains largely undisrupted, presenting a substantial opportunity for Financial Service Institutions (FSIs). Integrating financial products, particularly those involved in trade financing and ERP (Enterprise Resource Planning) systems, provides FSIs and their partners with considerable advantages and benefits, including:

- ✓ Enhanced cash-flow management
- ✓ Increased product engagement
- ✓ Greater customer retention
- ✓ Reduced fraud risk

The use cases for embedded finance are virtually endless, but some of the most often-invoked examples include Uber, which delivers an end-to-end experience inside its app, from requesting a ride to paying for it with a debit or credit card on file, and e-commerce companies that now offer one-click buy-now-pay-later (BNPL) solutions at checkout, which has been shown to increase basket size by 20-30%.[1]

Along with these upcoming opportunities, the FSIs also face certain challenges in the B2B space, mainly including financial stress within the supply chain, long waiting times for funding, and the lack of agility of large-scale FSIs to respond to fast-evolving customer needs. A proactive approach to integrating financial products into clients' business processes shall ensure that all relevant data is consolidated within the clients' ERP systems and can help overcome these challenges and facilitate embedded finance innovation.

$22 billion

Embedded payments, lending, and banking market in the US alone.[1]

$51 billion

Embedded payments, lending, and banking market expected to reach by 2026.[1]

The Fusion of Finance and Technology: A New Era in Payments

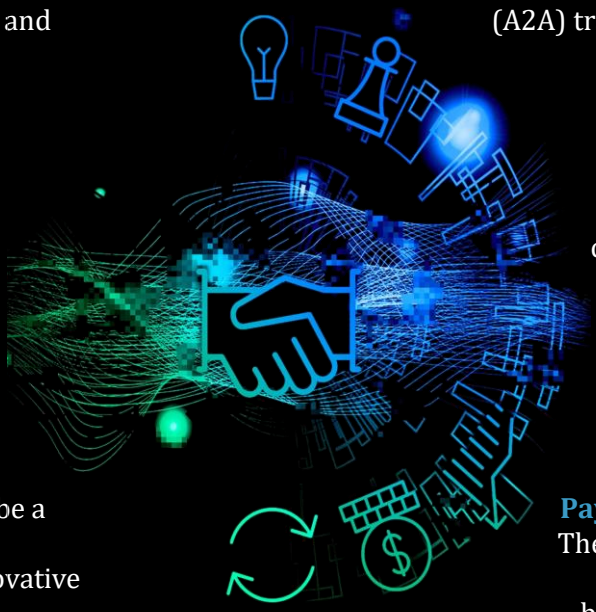
In today's payments landscape, several key factors are exerting significant influence and driving rapid evolution. These key areas include open banking, real-time payment systems (RTP), buy now pay later (BNPL) services, digital wallets and super apps, embedded payments, digital currencies, and cross-border payments.

With the constant evolution of Payment Technology (PayTech), certain noteworthy shifts and takeaways emerge in the industry:

Connected Commerce: All new payment solutions aim to directly connect merchants and consumers, streamlining transactions to be faster, more cost-effective, and more secure.

Real-Time Payments (RTP): The adoption of RTP unleashes innovation in overlay services, improving customer service through account-to-account (A2A) transactions, further accelerated by open banking.

Value Beyond Payments: Many payment players are focusing on enhancing the holistic customer experience by offering services before and after payments, aiming to become comprehensive "one-stop shops."



Embedded Payments: Anticipated to grow and become less conspicuous as non-financial service providers seamlessly integrate payments into customer journeys, driven by the surge in e-commerce, platforms, and marketplaces.

Open Banking: This promises to be a game-changer, with more entities embracing "pay by bank" and innovative payment methods like variable recurring payments (VRP).

PayFacs (Payment Facilitators): They are fundamentally reshaping the collaboration between businesses, acquiring banks, and card networks.

Crypto and Digital Currencies: Not only offering new payment methods but also a new infrastructure enabling instant settlement through distributed ledger technology (DLT), programmability, smart contracts, and tokenization.

New PayTech Ecosystems: Emerging to securely manage and leverage consumer and merchant data generated by payment transactions, offering radical data monetization opportunities and unique customer offerings.

While the pace and impact of these forces may differ across markets, they all signify fundamental changes. PayTechs continue to drive transformation, but established PSPs (Payment Service Providers) also play a pivotal role in shaping the future of the sector to better serve their customers and navigate the next phase of payments.

PaaS: Transforming Non-Financial Products into Payment Platforms

Payments-as-a-service (PaaS) is a novel concept that uses the software-as-a-service (SaaS) model to simplify payments for the end customer, whether it be an Integrated Software Vendor (ISV) or merchant.

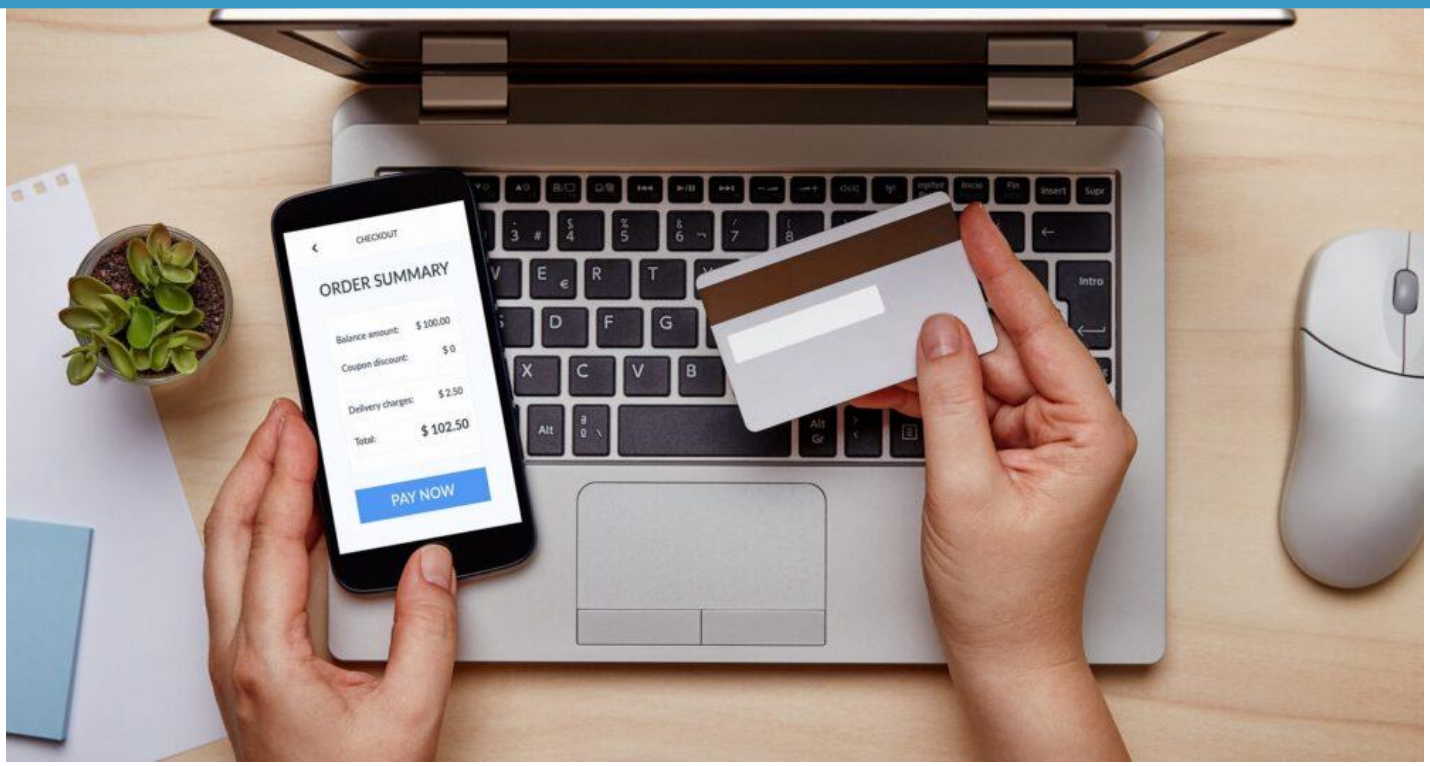
Payments-as-a-Service (PaaS) distinguishes itself from conventional payment systems through four pivotal aspects: the consolidation of services under a single provider, the versatility of its technology, comprehensive support offerings, and the development of a more coherent payment ecosystem.

Firstly, PaaS providers simplify fee structures, ensuring alignment with the pricing models already familiar to software application companies. This emphasis on easy-to-understand pricing facilitates enhanced transparency, enabling customers to readily comprehend their financial statements and streamlining the reconciliation of fees.

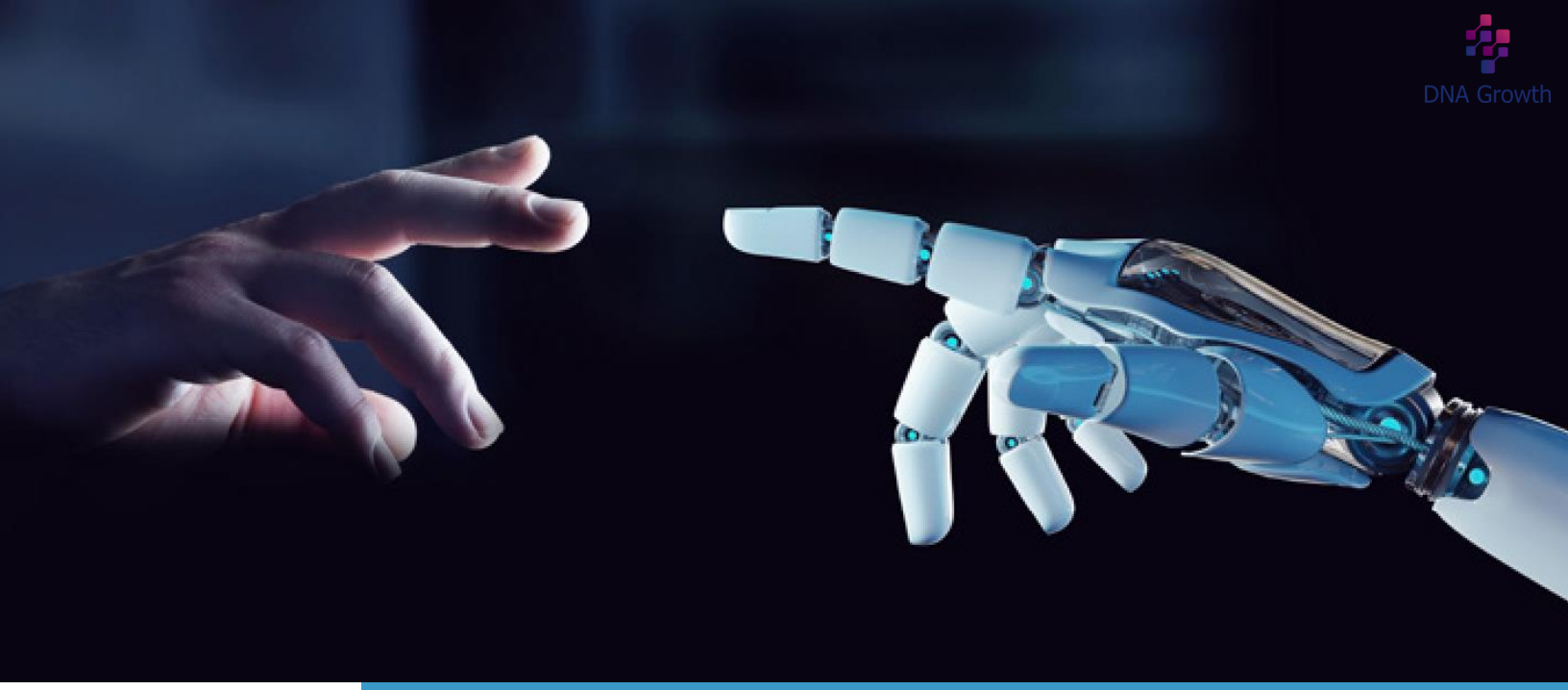
Secondly, PaaS exhibits its adaptability by consistently incorporating cutting-edge payment methods and staying abreast of evolving security standards. This flexibility guarantees that PaaS users experience a seamless and continually updated payment process.

Thirdly, PaaS offers full-service support, making the onboarding process a breeze. Additionally, it opens up opportunities for businesses to expand globally without the usual complications associated with international transactions.

Lastly, PaaS fosters a more unified and harmonious payment ecosystem. By reducing complexity and confusion for customers, PaaS simplifies payments, enhances security, introduces innovative payment methods, streamlines onboarding, and opens doors to global business expansion.



In this dynamic and ever-evolving financial landscape, PaaS not only transforms the world of Integrated Software Vendors (ISVs) and merchants but also attracts attention from banks aiming to provide their customers with competitive and reliable payment options.



Case Studies in Embedded Finance: Success Stories and Lessons Learned

Three primary economic offerings regions where “embedded” have become the brand new norm are payments and regular banking, loans, insurance, and other domains in the B2B space. Below are some of the examples and popular use cases of embedded finance:

Embedded Payments: Among embedded fintech applications, embedded payments stand out as a well-known use case. This technology seamlessly integrates with websites or platforms, enabling users to make quick payments with stored banking information securely. For instance, services like Lyft allow users to pay drivers with their debit cards, showcasing the convenience of embedded banking.

Embedded Lending: Embedded lending, also referred to as Buy Now Pay Later (BNPL), offers a fintech solution that allows for convenient deferred payments at the point of purchase, eliminating the need to visit a bank or lender. This service is not only limited to consumers, but businesses can also benefit by accessing digitized trade credit quickly and efficiently. Financial technology companies like PayPal Pay and Amazon Pay are some examples of BNPL providers.

Embedded Insurance: Similar to payments and loans, embedded insurance ensures timely access to necessary services. In this case, it pertains to insurance products available immediately after purchase to provide the needed coverage. A prime example is travel insurance accessible when purchasing train or flight tickets.

Embedded B2B Financing: In the B2B sector, another application of embedded finance is invoice finance. This involves a business borrowing either the full amount or a portion of an unpaid invoice, providing early funding for the business. Notably, during the pandemic, receivables finance emerged as a versatile solution for enhancing working capital efficiency. It is used regularly in a wide range of sectors and industries, such as construction, retail, transportation, and consumer goods.

Embedded finance has the prospect to transform the B2B financial services industry and FSIs that act first to integrate financial products into clients' business processes, letting them gain a considerable competitive advantage.

Conclusion

The evolution of embedded finance over the last few years presents a significant opportunity for brands aiming to tap into this thriving market; many institutions have faced challenges in enhancing their IT infrastructure and complying with regulatory standards.

The urgency felt by traditional financial institutions to digitally evolve presented an opportunity for neobanks and non-financial brands to leapfrog their competitors. Being digitally agile and having the technology to quickly deploy and improve SaaS solutions has proved to be the perfect formula to exploit weaknesses in traditional banks' tech capabilities while growing market share thanks to ever more personalized and efficient embedded finance solutions. While these changes may appear at face value to have emerged in reaction to significant global events, the simple fact is that we have long been trending toward a future where customer experience dictates that payments are carried out on their terms.

The push toward digital has resulted in a significant shift in consumer behavior. With customers seeking the most efficient means to make purchases, their spending habits have naturally transitioned online, where offerings can be tailored and timed to the customer's every preference. While there are challenges to overcome, the future of embedded finance is bright, and the growth potential is enormous.

To know more about this paper, please contact: hello@dnagrowth.com

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