



Thought Leadership

NAVIGATING THE PATH TO EMBEDDED FINANCE

EBA Open Finance Working Group

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EXECUTIVE SUMMARY

The rapid progression of open finance globally is reshaping market dynamics and redefining how value is created in financial services. Against this backdrop, embedded finance (i.e., the integration of financial services into non-financial platforms to provide seamless customer experiences) offers financial institutions a strategic opportunity to leverage open finance, form new partnerships, reach new customers, and develop new revenue streams.

The market potential for embedded financial products is immense, driven by digitalisation, evolving customer expectations, and advancements in API technology. This will, however, also entail a significant shift of market volume from traditional channels to embedded finance, putting at risk institutions that ignore the trend towards embeddedness.

Against this background, this report aims to provide guidance for EBA members to understand the fundamental mechanisms of embedded finance, grasp the opportunities it provides, identify promising embedded finance use cases, and shape their own journey towards embedded finance.

Leading financial institutions are now shifting their API programmes to embedded finance use cases or to develop complete Banking-as-a-Service (BaaS) offerings. This strategic focus on collaboration aims to enhance overall service delivery.

Embedded finance integrates financial services into non-financial platforms, offering seamless experiences for customers and monetisation opportunities for providers. BaaS and open banking are closely linked with embedded finance, providing the technological foundation for its implementation.

Financial institutions can play various roles in the embedded finance value chain, including as providers, enablers, and distributors of financial services. Embedded finance benefits all stakeholders, enabling financial institutions to extend their reach, platforms to enhance their offerings, and consumers to enjoy integrated services.

The embedded finance market is projected to grow significantly, with an emphasis on consumer payments, POS lending, and B2B payments. Financial institutions need to understand the dynamics of embedded finance, its market impact, and strategic implications of shifting from traditional to embedded finance channels.

The scope for embedded finance is broad, with potential applications across payments, accounts, lending, saving, and investing insurance as well as use cases to be uncovered in a wealth of different vertical spaces.

Financial institutions must choose strategic areas to engage in embedded finance based on their strengths, market presence, and customer needs. Various value chain scenarios exist for financial institutions in embedded finance, ranging from balance sheet provision to full-service enabling and distribution.

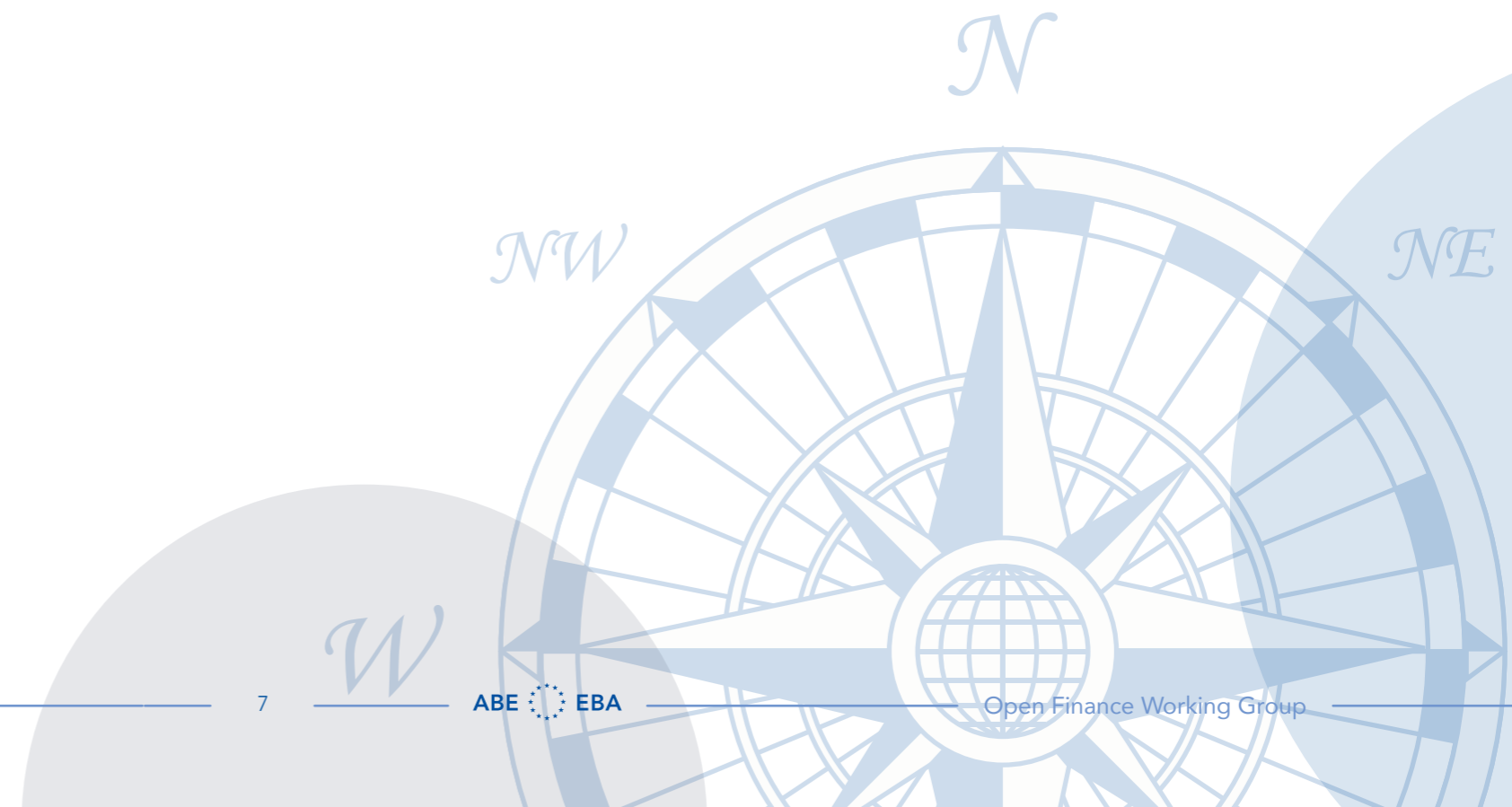
Amidst the landscape of embedded finance, banks grapple with distinctive challenges arising from their long-standing legacy systems and traditional organisational structures. However, within this dynamic ecosystem, banks have a spectrum of strategic avenues to explore, such as providing balance sheet provision, organic enablement, venturing into BaaS, establishing, and managing bank-operated platforms and strategic investments.

Developing embedded finance capabilities requires financial institutions to adopt customer-centric product development, an API-first approach, agile innovation processes, and effective partnership development. Financial institutions also need to foster a culture of innovation, collaboration, and customer centricity.

A collaborative approach to embedded finance could offer cost efficiencies and innovation synergies for participating financial institutions. Existing collaborative models and initiatives provide precedents for joint efforts in embedded finance enabling.

Benefits of a collaborative approach include cost savings, shared innovation, control over the enabling layer, and while the challenges of such an approach include agreeing on a common vision, managing complex stakeholder interests, and addressing data security concerns.

To conclude, the transition to embedded finance is inevitable, driven by digital transformation and changing customer expectations. Financial institutions need to carefully consider their strategies in embedded finance to maintain customer relationships, ensure continuation of revenue streams, and capitalise on new market opportunities. Further exploration of collaborative models in embedded finance could offer financial institutions a pathway to more effectively innovate and serve their customers in the evolving financial services landscape.



1. INTRODUCTION

1.1 BACKGROUND OF THIS REPORT

The trend towards open finance is picking up speed in Europe and worldwide. The increasing scope of consent-based sharing of financial data is likely to pose growing challenges for coping with the changing channels for financial services.

Embedded finance, however, shows significant promise as a strategy for financial institutions to leverage openness to form new partnerships, reach new customers and develop new revenue streams. The market potential of embedded financial products is projected to be immense, reflecting a “perfect storm” created by all-encompassing digitalisation, customer expectations that favour seamless and integrated experiences both for private individuals and in business environments, and application programming interface (API) technology that allows for efficient and scalable connectivity between services and platforms. It is safe to assume that financial institutions ignoring this trend will experience adverse effects in the mid- to long-term.

Leading financial institutions that have invested in and experimented with open banking approaches for years are now starting to shift their efforts towards embedded finance. Embedded finance is built on a foundation of open APIs and Banking-as-a-Service (BaaS) architectures and goes beyond by focusing on successful collaboration.

Therefore, understanding and successfully executing embedded finance is not merely an IT or operational extensions, and effective alignment to achieve measurable outcomes.

This paper aims to provide guidance for EBA members to understand the fundamental mechanisms of embedded finance, grasp the opportunities it provides, identify promising embedded finance use cases and help EBA members to define their own embedded finance opportunities.

With this aim, the paper’s structure loosely follows the logic of the “strategy choice cascade”, a framework popularised by Roger L. Martin¹ that proposes to address five interrelated questions that jointly define an organisation’s strategy from broad direction to executability: What should be the bank’s aspiration regarding embedded finance based on a thorough understanding of the concept, its market impact and potential benefits; where could the bank play in terms of products, use cases and market segments; and which key capabilities are necessary to build or strengthen in order to increase the chances of success. It goes without saying that, while this paper can provide inspiration, developing a strategic viewpoint is specific to each individual bank or other financial institution.

1.2 THE CONCEPT OF EMBEDDED FINANCE

Traditionally, financial institutions and other financial institutions distribute their services through their direct channels, such as website, customer portals, and physical outlets or, in the case of insurers, through their agent networks. Typically, however, the need for customers to acquire or use financial services arises in

¹ See e.g. A.G. Lawley and Roger L. Martin, “Playing to win: how strategy really works”

specific non-financial contexts: the purchase of an expensive good which requires financing, traveling abroad often requires a specific insurance, and a taxi ride requires payment.

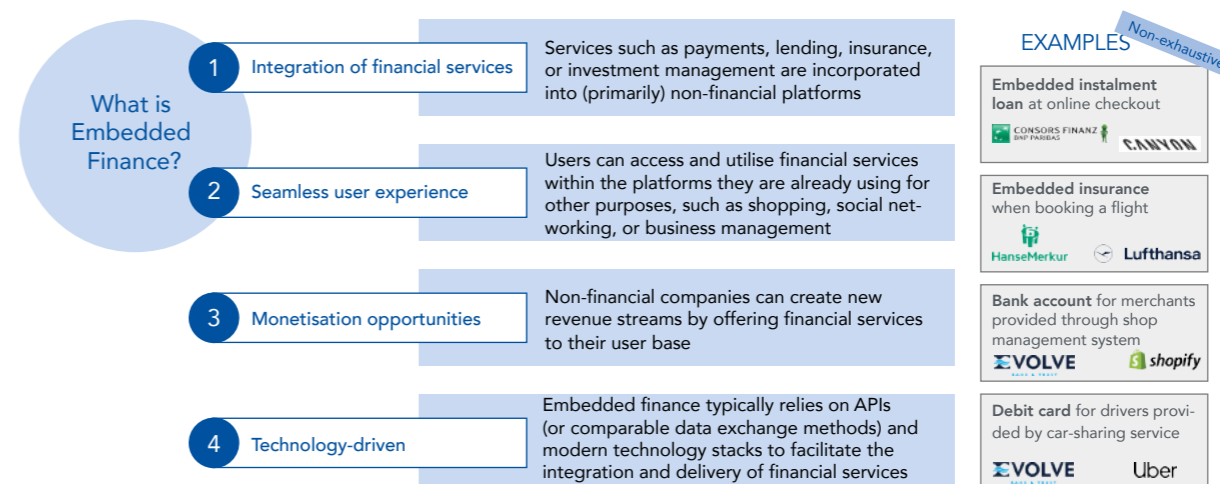
This is where the concept of embedded finance comes in. Embedded finance, in a nutshell, describes the integration of financial services into non-financial contexts, so that end-customers can use these services seamlessly as needed without leaving the non-financial customer experience. This implies the forming of partnerships between financial service providers and providers of contextual platforms as a core element of embedded finance.

In sum, there are four key components to the embedded finance concept:

- 1. Integration of financial services:** Services such as payments, lending, insurance, or investment management are incorporated into (primarily) non-financial platforms
- 2. Seamless user experience:** Users can access and utilise financial services within the platforms they are already using for other purposes, such as shopping, social networking, or business management
- 3. Monetisation opportunities:** companies can create new revenue streams by offering financial services to their user base (adjacent to the core proposition) or enhance the core functionality of their own service, driving user experience, conversion or boosting revenues (integral to the core proposition)

Figure 1 KEY ASPECTS OF THE EMBEDDED FINANCE CONCEPT

Embedded finance is the integration of financial services into primarily non-financial platforms



Source: Be analysis

4. Technology-driven: Embedded finance typically relies on APIs (or comparable data exchange methods) and modern technology stacks to facilitate the integration and delivery of financial services

Whereas the above-mentioned use cases – and endless more – can be catered for using traditional channels, contextually embedding these services creates obvious advantages for customers, financial service providers and the intermediary that provides the non-financial context in terms of convenience, reach and additional revenue.

1.3 EMBEDDED FINANCE VERSUS BaaS AND OPEN BANKING

Embedded finance is very closely linked with the concept of BaaS – and both have a strong relationship to the overall idea of Open Banking. For the purpose of this report and in line with previous work of the Open Finance Working Group (OFWG), Open Banking generally describes the provision as well as consumption of bank data, functionality, and services via modern technology such as APIs. This includes both the regulatory scope of the Second Payment Services Directive’s access-to-account (PSD2 XS2A) rules and similar regulation in other regions, as well as so-called premium APIs that go beyond the regulatory scope.

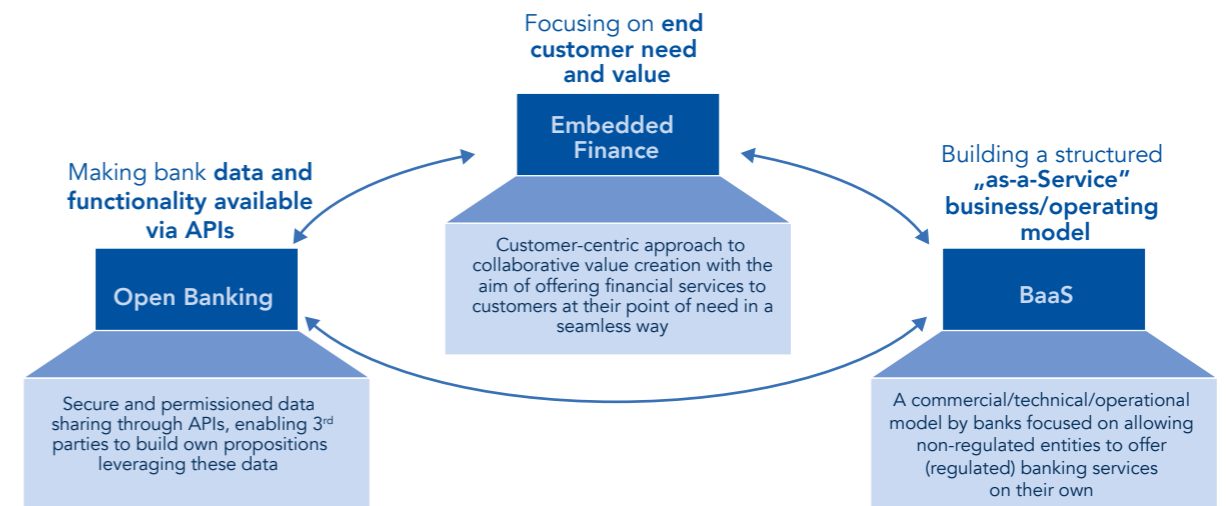
The concept of BaaS can be viewed through two different lenses. Often, BaaS is described as an operating technology and infrastructure stack that covers all aspects necessary for providing access to a bank’s core functionalities, i.e., of executing open banking to its fullest extent. This comprises back-end, middleware, and application layers, including, for example, API management and provision, but also third-party onboarding, identity and access management, security, or compliance as well as related operational processes. Next to this, there is also a business model view of BaaS. In this view, BaaS specifically relates to the business model of enabling of non-licensed third parties to provide regulated financial service under their own brand.

In contrast to the infrastructure view of BaaS, embedded finance centres around customer use cases that, to a large extent, leverage BaaS infrastructure.

In sum, the concepts of Open Banking, BaaS, and embedded finance build on each other and overlap partially. It is important to note that the use of the three terms is not consistent across institutions and they are often used interchangeably.

Figure 2 EMBEDDED FINANCE, BANKING-AS-A-SERVICE AND OPEN BANKING

The three concepts build on each other but also represent an evolution from functionality to packaged services to putting the (end) customer in focus



Source: Be analysis

2. DEVELOPING AN ASPIRATION

2.1 INCREASING THE RELEVANCE OF EMBEDDED FINANCE

The idea of embedded finance is not new: well-established examples such as co-branded credit cards and instalment loans offered by retailers jointly with a partner bank have demonstrated the benefits of financial products enriching non-financial customer journeys for decades.

Yet, developments in recent years have resulted in a “perfect storm” that exponentially increases the potential of embedded finance as a superior means of delivering tailored financial products to the right customer at the right time and place – and all of this in a highly scalable manner:

IMPLICATIONS OF CHANGING CUSTOMER BEHAVIOUR

The change in customer behaviour builds on three underlying developments: First, today’s digital natives build trust differently than consumers in the past. Trust instilled by brick-and-mortar branches and personal relationships is replaced by one conveyed through high-quality digital experiences.¹ Second, as tech savviness of consumers increases, they demand best-practice experiences in financial services. The benchmark is set by best-in-class apps from social media, e-commerce, and other fields. Third, consumers enjoy greater choice and flexibility due to the opening up of the financial sector. This expansion has led to a growing number of providers and options for consumers. Consequently, consumers increasingly turn to providers addressing their needs with tailored services.

¹ For a deep-dive see the EBA OFWG report on digital trust: https://www.abe-eba.eu/media/azure/production/2897/eba_paper_open_banking-working-group_digital-trust_single_pages-2.pdf

≡ **Regulation** – PSD2 and comparable regulation across the globe which have accelerated the provision of access to bank services, necessitated financial institutions to set up appropriate infrastructure and services, setting the ground for novel business models and spurring a new ecosystem of providers. The trend towards broader data access regulation such as the EU’s financial data access framework (FIDA) but also various market-driven initiatives underline the continuity of this trend.

≡ **Technology** – Advanced APIs, cloud computing, and artificial intelligence (AI) enable scalable, secure integration of banking services into diverse platforms, lowering entry barriers and fostering innovation in the financial sector.

≡ **Market and competition** – Traditional financial service providers are accompanied by other players such as Big Techs, Fintechs and other non-bank players. Large digital platforms become the nexus for specific customer journeys at scale and are keen to complement these with seamless and highly differentiated financial offerings.

≡ **Customer expectations** – Customers, both individuals and businesses, increasingly demand seamless and personalised digital experiences maximising convenience and trust.

In essence, financial institutions will not be able to ignore embedded finance because customers want it, technology allows it and the market is developing at immense speed, all the while the regulatory framework for boosting open finance continues to take shape.

2.2 THE MARKET IMPACT OF EMBEDDED FINANCE

Various parties have tried to put a number on the current and future market size for embedded financial products. One frequently cited study estimates the size of the addressable market for embedded financial services (including embedded insurance) to amount to USD 7.2 trillion by 2030 – another predicts a 10% share of total transaction volume and USD 51 billion of associated revenue in 2026 for embedded finance in the US market alone.² According to the latter, the by far largest share is consumer payments, followed by point-of-sale (POS) lending, banking & cards, B2B payments, buy now-pay later (BNPL) offerings, and business lending. While other research boasts different numbers, all agree that the growth potential for embedded financial offerings is outstanding. As a growth market, embedded finance provides sufficient space for a multitude of providers, financial institutions and others, to play their part.

On the flipside, it would be misleading to consider embedded finance simply as an additional opportunity on top of existing revenue streams. A shift of the existing market from traditional to embedded distribution channels by way of substitution will likely account for a significant share of the total effect. According to the previously mentioned study, penetration of embedded consumer payments in the US market will amount to almost 30% of total transaction value, for B2B payments and card spending it estimates around 10%. Consequently, engaging in embedded finance as a new channel can be as much (or more) a defensive play as it is to tap into new potential.

² <https://www.linkedin.com/pulse/embedded-finance-game-changing-opportunity-incumbents-simon-torrance/>, <https://www.bain.com/insights/embedded-finance/>

For individual financial service providers, it is not the overall market size that matters. The embedded finance potential is found in the customer segments they serve and their need for financial solutions. As a basic principle, any financial product or service that currently causes friction in relation to the underlying non-financial process or customer journey has the potential to be embedded, thereby improving customer experience, and ultimately strengthening the provider’s competitiveness.

2.3 ROLES IN THE EMBEDDED FINANCE VALUE CHAIN

Embedded finance means that the value chain of providing financial services to end customers, traditionally covered in full by a single financial institution, is split into multiple parts, each of which is fulfilled by a different provider – or role. The value chain starts with the **embedded finance provider**, typically a bank or other regulated financial institution. Its task is to initiate the financial operation and provide the balance sheet based on its regulatory license, ensure compliance, conduct customer due diligence, manage risk, and technically integrate “down the value chain”.

Next is the role of **embedded finance enabler**. The enabler role typically provides a technology layer that connects the licensed entity with the embedded finance distributor (or platform), manages APIs and provides developer experience, potentially combined with specific vertical expertise in selected customer segments or use cases. It also engages in designing end user experience and providing support services. The embedded finance enabling role can be covered by either the financial service provider, the distributing platform, or by a separate entity focusing on technical integration and/or orchestration.

The role of **embedded finance distributor** typically refers to digital platforms such as online marketplaces, apps or software providers serving consumers, small and medium-sized enterprises (SMEs) or large corporates. The distributor hosts the underlying non-financial customer journey and thereby provides the user interface. It markets and promotes the embedded financial service, contracts with, or refers users, provides customer support, and may provide customer data relevant to the financial product.

Finally, the **embedded finance consumer** uses the embedded financial product in the context of the platform's customer journey. The term refers to private individuals, businesses, corporates or any subset or other group of users unified by a common need catered for by the distributor.

These roles should be considered archetypes – different constellations are possible in practice and multiple roles may be fulfilled by a single entity, depending on its positioning, and chosen embedded finance strategy.

2.4 EMBEDDED FINANCE AS A WIN-WIN-WIN

In principle, the embedded finance value chain as depicted creates a win-win-win situation for all roles involved. Financial institutions and other providers can increase their reach to new customers or customer segments, address new target markets, diversify their distribution channels and potentially leverage client data they otherwise would not have access to – in turn enabling them to tailor their products more specifically to customer needs and/or offer more competitive conditions.

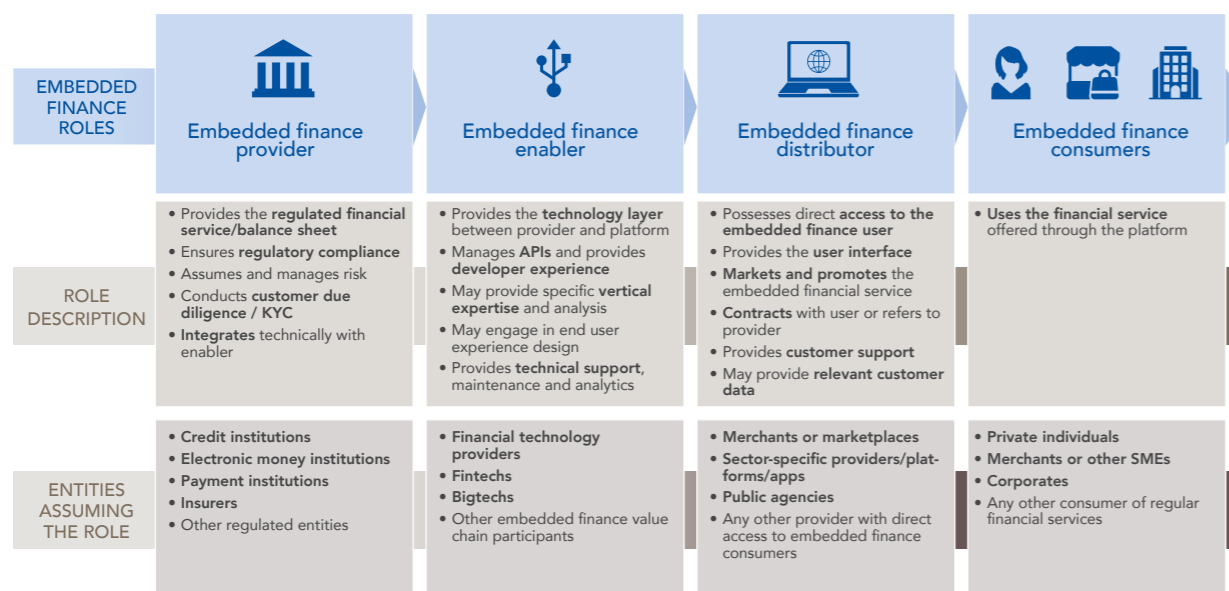
Platforms as embedded finance distributors, on the other hand, can provide additional value to their customer base by augmenting and complementing their core offering. Monetisation of the partnership with the embedded finance partner will unlock new revenue streams, all the while user engagement and stickiness receive a boost.

Bridging the technical, operational and knowledge gap between the financial provider and the platform creates the value space for embedded finance enablers which can leverage technical capabilities and/or vertical expertise while scaling their offering across multiple partnerships.

Finally, embedded finance consumers reap the benefits of seamlessly integrated and highly personalised offerings that save time and (potentially) money, or simply allow them to conduct transactions that they otherwise could not. An important consideration from a customer perspective in embedded finance scenarios is choice. Whereas this might be less relevant in pure value-added cases, such as a business credit card offering for marketplace sellers, it is more so when the financial product is closely integrated with the core experience, such as with point-of-sale lending: having different options available without compromising a seamless experience could greatly enhance the value for embedded consumers and, by that, the distributing platform.

Figure 3 ROLES IN THE EMBEDDED FINANCE VALUE CHAIN

Typically, four distinct roles are involved in any Embedded Finance transaction



Source: Be analysis

KEY TAKE-AWAYS

Embedded finance is more than a hype – it will become even more relevant in the future and should be on the board agenda of any bank or other financial institution. A first step towards developing a strategic approach is understanding the basics: how embedded finance works, its significance in relation to the overall market, the effect on value chain dynamics and the potential benefits – as well as the possible threat of not participating in an evolving market.

3. CHOOSING YOUR STRATEGY

3.1 POSSIBLE USE CASES

The potential for viable embedded finance products is virtually limitless. Any financial product or service that is currently not seamlessly embedded into a customer journey can be a possible starting point. An instalment loan taken out at the local bank branch to finance a new kitchen can be replaced by a seamless buy-now-pay-later product at the point of sale. Searching for a suitable provider of a business bank account when working as a contractor is unnecessary when opening an account and applying for a payment card can be done easily within the website or portal of the company you are working for. If a travel booking portal can check whether your existing insurance coverage is suitable for the trip you are about to book and offer options for upgrades automatically, your customer experience will be better than if you had to research all the relevant information yourself. And why go through the hassle of manually moving smaller amounts to a savings account or investment plan when one can round up purchases automatically and have spare change transferred without even bothering?

These are only a few examples of the potential of embedded finance to improve individual use cases. Determining “where to play” depends on the bank’s current positioning, customer segments and services offered.

3.2 TOWARDS “EMBEDDED EVERYTHING”

Embedded finance use cases extend across the full range of financial products, most notably:

≡ Embedded payment

With the rise of digital payment methods and e-commerce, payments have naturally become embedded in users’ transactional journeys. However, other use cases³ are more relevant in terms of how we have defined embedded finance: integration of digital wallets as a means of payment in user apps, built-in digital payment acceptance in shop management software for merchants, or automated pay-outs integrated in companies’ ERP systems, for example salary payments for employees or claim settlement for insurance customers.

≡ Embedded accounts

Embedded account propositions allow customers to open, access and manage money accounts directly through a platform they interact with. One example is Stripe Treasury, where payment processor Stripe enables online marketplaces and similar platforms to offer a bank account (among other financial services) to their clients, such as small merchants, and allow them to collect incoming payments directly on this account. Stripe works with bank partners such as Goldman Sachs and Evolve as regulated entities and powers platforms including Shopify.⁴ In Mexico, Uber partners with BBVA for a similar proposition for its drivers.⁵

³ However, these use cases are largely monetisation opportunities for the platforms offering these services.

⁴ <https://stripe.com/gb/treasury>

⁵ <https://www.bbva.com/en/what-is-embedded-finance-and-how-is-it-revolutionizing-financial-services/>

≡ Embedded cards

Issuing credit cards through digital platforms often goes hand in hand with embedded account propositions. Attractive use cases range from pay-out cards for sole traders⁶, to company cards for smart expense management and benefit cards for employees, to name a few. Relevant platforms include for instance marketplaces, shop management software, enterprise resource planning (ERP) system providers or specialised applications for payroll management. One example is HR software provider Lucca, which partners with Swan, an e-money-licensed embedded finance enabler, to provide integrated expense cards and other financial products.⁷

≡ Embedded lending

Embedded lending facilitates seamless access to credit directly within the environments where customers shop, work, or manage their businesses. This can significantly enhance the customer experience by offering immediate financing options without the need to approach traditional financial institutions or undergo lengthy application processes. For consumers, this might be buy-now-pay-later (BNPL) or integrated consumer loan options at checkout on e-commerce platforms. For small businesses, embedded lending could take the form of merchant cash advances or invoice financing offered through business

⁶ Pay-out cards for sole traders are cards designed for individual entrepreneurs or freelancers to receive payments easily and manage their business expenses. Company cards for smart expense management are issued to employees or departments within a company to streamline expense tracking, simplify the reimbursement process, and enhance overall financial management. Benefit cards for employees are provided as part of a compensation package, offering benefits such as meal vouchers, travel allowances, or other perks that can be used for specific purposes.

⁷ <https://thepaypers.com/online-mobile-banking/swan-partners-with-lucca-1264803>

management platforms or B2B marketplaces. This direct integration helps businesses manage cash flow and invest in growth without stepping away from their operational tools. A notable example includes Shopify Capital, which offers funding to merchants based on their sales through the Shopify platform, making capital more accessible for growing their business.⁸

≡ Embedded saving and investing

Embedded saving and investing can take various forms. These services can range from micro-savings tools integrated into payment apps, where transactions are rounded up and the difference is saved or invested, to robot-advisors within personal finance apps that automate investment based on the user’s financial goals and risk tolerance. Acorns, for example, lets users round up their purchases to the nearest dollar and invests the spare change in diversified portfolios. Another example is the integration of investment services into banking apps, allowing users to seamlessly transfer funds between savings accounts and investment portfolios, thus encouraging more users to start investing.

≡ Embedded insurance

Embedded insurance integrates coverage directly into transactions or platforms, streamlining how consumers and businesses obtain insurance. Examples include offering travel insurance when booking trips online, warranty extensions for consumer electronics at sale, or renters’ insurance when leasing an apartment. Such integrations ensure timely and intuitive insurance purchases. Lemonade, for example, embeds renters’ insurance in property management platforms,

⁸ <https://www.shopify.com/lending/capital>

simplifying the process for tenants. Booking.com offers travel insurance at checkout, boosting insurance uptake and customer satisfaction by delivering pertinent products at the right moment.

Potential applications for embedded finance could extend to novel service or functionalities based on financial institutions' data and capabilities – ESG-related services and bank-based identity verification are only two areas likely to receive growing interest over time.

According to recent consultancy analysis, around 60% of embedded finance use cases currently implemented relate to embedded payment

or embedded insurance products, followed by accounts, cards, and lending.⁹ Embedded investing currently plays a niche role, even though the potential is likely to be significant as well. From an industry perspective, aside from third-party financial applications sector, leading industries include software solutions, retail and e-commerce. Other significant sectors are utilities, leisure, and human resources. There are numerous attractive embedded finance use cases spanning across a wide range of industrial verticals including retail, health, education, mobility, hospitality and more.

⁹ <https://www.innopay.com/en/publications/innopay-launches-embedded-finance-radar>

EXPLORING USE CASES IN TWO INDUSTRY VERTICALS

Two examples of industry sectors that are likely to have an especially strong embedded finance growth potential are health and education.

Increasing cost in the **healthcare sector** drives demand for alternative financing and insurance solutions. Digital health platforms are increasingly gaining traction and as in other sectors, consumers expect seamless payment, financing options and claim settlement. Overall, the market is expected to grow significantly and with it, the potential for embedded finance offerings. Relevant platforms in this space could be telemedicine providers, health systems, specific software solutions or health-focused apps – targeting patients, general practitioners, or pharmacists as embedded finance consumers. Financing solutions for medical expenses, embedded health insurance or automated reimbursement for insured health services for patients could be potential use cases. Two interesting examples from the US include Payzen, which uses proprietary technology to tackle health care affordability by partnering with hospitals and using health and financial data to determine optimal payment plans and financing options for patients, and Lynx, providing a cloud-based suite of finance functionality around a “consumer-directed health account”, including payment processing, cards, and investment options, to be embedded via APIs into systems and apps of healthcare providers.¹

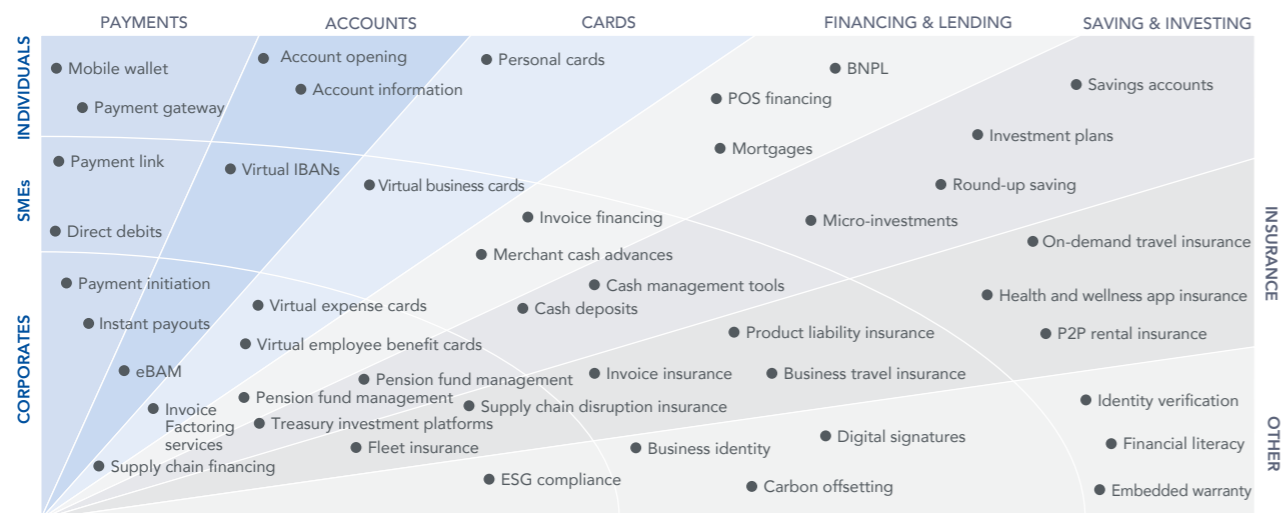
In the **educational sector**, rising tuition fees for educational programmes drive the need for flexible financing solutions. At the same time, the Covid pandemic accelerated the development of new and the expansion of existing digital educational offerings. As one of the fastest-growing sectors, the educational sector shows great potential for embedded finance. Online course providers, universities, or platforms for student loans could be relevant distributors, targeting prospective students, their parents, or professionals in need of upskilling. Use cases might include tailored student loans, educational savings accounts, or embedded tuition payment solutions. Prodigy Finance, for example, provides tuition loans to students applying at universities around the world, based on assessment of future earnings potential. It partners with selected universities that integrate Prodigy's offering into their student enrolment journey. Leif addresses a similar need and partners with leading continuing education institutions to offer income share agreements to students as a form of performance-based repayment. Both are examples of embedded financing that rely on data specific to the platforms they partner with.²

¹ <https://payzen.com/>, <https://www.lynx-fh.com/>

² <https://www.leif.org/>, <https://prodigyfinance.com/>

Figure 4 EXEMPLARY EMBEDDED FINANCE PRODUCTS

In all product areas and across segments, relevant embedded finance use cases can be identified



Source: Be analysis. Note: not exhaustive. Some mentioned use cases are applicable across multiple segments, which is not explicitly highlighted

4. DETERMINING HOW TO WIN

4.1 DIFFERENT VALUE CHAIN SCENARIOS

The roles described in the embedded finance value chain model are archetypes – in practice boundaries can blur and there is a host of different ways in which actual entities fulfil one more of the three roles of embedded finance provider, enabler, and distributor. In a distributed value chain scenario that closely reflects the model, a bank or other regulated entity acts as provider of the embedded product, a Fintech or technology provider enables the embedded proposition leveraging technical integration, user experience (UX) design and/or industry-specific capabilities, whereas the distributing platform is a separate party enriching its own offering. The embedded finance chain of Goldman Sachs, Stripe, and Shopify to provide in-app banking services to small merchants is an example of that.

In effect, platforms can also provide their own enabling stack – as Apple does in case of the Apple Card – or financial institutions can provide in-house enabling services – like Skandinaviska Enskilda Banken AB (SEB), which has built their own embedded finance enabling unit (SEB Embedded¹⁴). Both scenarios eliminate the need for a third-party technical intermediary. At the same time, Fintechs with a core proposition of smoothly integrating with digital platforms, such as Swan, can become licensed entities and provide a broad range of financial products themselves. Finally, a single entity could cover the full embedded value chain itself. SumUp, for example, provides a point-of-sale system, including financial services, comparable to Shopify to small merchants. Unlike Shopify, however, SumUp is also a regulated financial institution that issues its own payment cards and accounts.

¹⁴ <https://sebembedded.com/>

3.3 EMBEDDED FINANCE USE CASES BEYOND RETAIL

Some of the most prominent embedded finance use cases focus on the retail domain, including the often-cited invisible payment in the Uber app or a multitude of BNPL propositions. Deutsche Bank, as another example, has partnered with Eintracht Frankfurt football club to offer a card-based embedded wallet functionality within the club's supporter app "mainaquila".¹⁰

However, SMEs and corporate banking, too, have enormous potential for a variety of use cases. SMEs, as a segment long underserved by traditional financial institutions¹¹, can benefit from embedded financial services to streamline processes, improve liquidity and reduce costs. Rabobank, for example, has developed a suite of accounting APIs and partnered with leading vendors of business accounting software. The integration allows businesses to seamlessly access account information as well as trigger and manage various types of payments.¹²

Access to liquidity is a key issue for small businesses. Embedded lending partnerships allow SMEs to access capital when and where they need it. Performance data accessed via the respective platforms provides for a better and more predictable view of a company's health and therefore optimised loan conditions. One example is Berlin-based Fintech Banxware which integrates with online marketplaces, payment gateways and other platforms to offer financing to small businesses. The platforms

¹⁰ <https://www.deutsche-bank.de/pk/lp/db-api/embeddedfinance-de.html>

¹¹ For a deep-dive into this aspect see the EBA OFWG report "Open Banking for SMEs – Enhancing financial services for the backbone of Europe's economy", <https://www.abe-eba.eu/thought-leadership-innovation/open-finance-working-group/>

¹² <https://www.rabobank.nl/en/business/embedded-services>

provide critical merchant revenue data for the loans. These, in turn, are originated by several credit institutions that cooperate with Banxware and act as balance sheet providers in this setup.

For corporate customers, relevant embedded finance use cases revolve around integration of corporate banking services into their ERPs to streamline liquidity management processes, improve cash flow, access funding, and better manage risks. Examples include embedded purchase order finance to manage supplier payments along complex supply chains, embedded invoice finance to provide flexible access to liquidity as invoices await payment, or embedded virtual accounts to provide clients a way to efficiently issue and manage virtual accounts or IBANs. Next to a seamless "treasurer experience", the combination of bank services with direct access to ERP data is at the core of successful embedded propositions for corporates.¹³

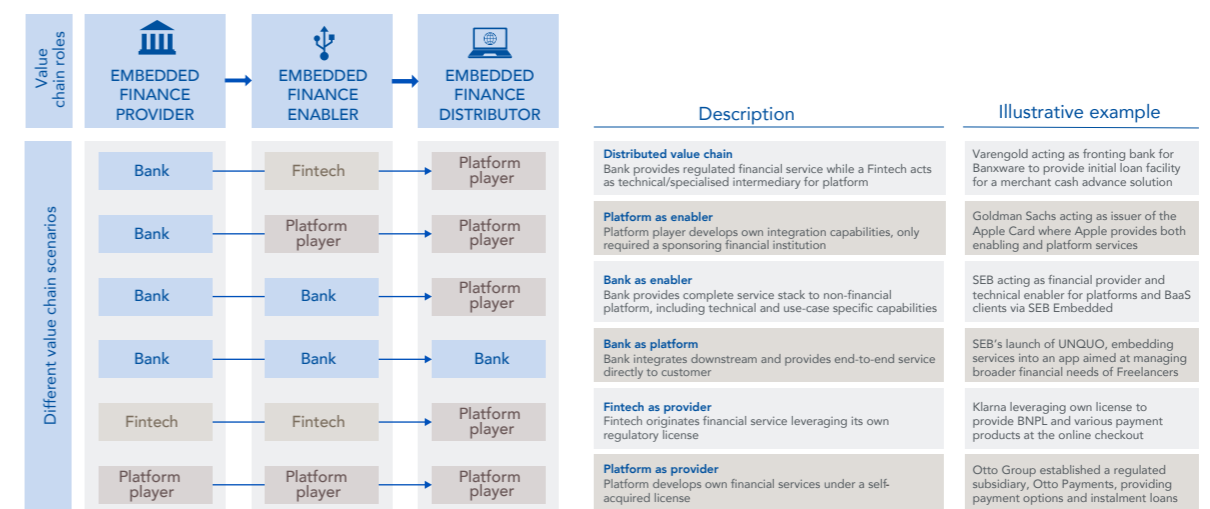
¹³ See also the EBA OFWG report "Open Banking for Corporates: Unlocking real added value in transaction banking with APIs", <https://www.abe-eba.eu/thought-leadership-innovation/open-finance-working-group/>

KEY TAKE-AWAYS

Embedding financial services into third-party platforms as a novel means of distribution can be viable for any financial product, any customer segment, and any industry vertical. With application scenarios being virtually endless, financial institutions need to identify "where to play" based on the markets they serve, and the concrete needs and pain points faced by their customers while identifying relevant partners and platforms in those spaces. This interplays with both the chosen positioning and their available (or future) set of capabilities, covered in the following sections.

Figure 5 DIFFERENT SCENARIOS OF THE EMBEDDED FINANCE VALUE CHAIN

The roles of provider, enabler and distributor can be fulfilled by different types of players



Source: Be analysis

AN EXEMPLARY SME LENDING CASE

Revisiting a use case featured in a previous OFWG report¹ provides deeper insight in how an actual embedded finance setup may work: German Fintech Banxware provides revenue-based business loans to small and medium-sized companies engaged in digital commerce. Banxware does so by partnering with several financial institutions that originate the loans as well as with a range of different platform providers including online marketplaces, payment gateways or e-commerce software providers. The latter have a direct customer relationship with merchants selling on or using their platforms. Also, they have a detailed understanding of the businesses' financial performance including sales and other data.

Well beyond merely delivering technical integration, Banxware conducts onboarding and pre-scoring of the merchant, credit decisioning, risk management and loan management. Leveraging platform data plays a key role therein.

In this example, the partnering credit institutions act as fronting financial institutions that originate loans and resell them to a special purpose vehicle operated by Banxware. However, the partnerships extend beyond mere transactional agreements to involve joint strategic product development and, partially, a financial investment in the Fintech.²

¹ "Open Banking for Corporates - Unlocking real added value in transaction banking with APIs" is available for download for EBA Members: <https://www.abe-eba.eu/thought-leadership-innovation/open-finance-working-group/>

² <https://www.banxware.com>, <https://paymentandbanking.com/banxware-und-varengold-bank-gehen-strategische-kooperation-ein>

4.2 FINDING AN EDGE INTO EMBEDDED FINANCE

Unsurprisingly, it is Fintechs that have taken a lead in innovating the way financial products are delivered by bridging the gap between traditional banking and seamless, contextual financial experiences. This can be achieved through specialisation in a specific use case, building specific capabilities and orchestrating focused partner networks – such as championing merchant cash advances – or broader propositions involving full-range embedded finance enablement.

Due to their lean set-up, Fintechs can focus entirely on solving the complexities inherent in embedded finance setups, such as contracting, swift integration, optimising user experience,

streamlining compliance, and managing risk and fraud. Traditional financial institutions, however, first need to address internal challenges¹⁵ to be able to begin their embedded finance journey. Some of the reasons making the effort worthwhile are:

≡ **The market potential leaves room for everyone.** The market opportunity for embedded finance is indeed vast, and it is expected to grow significantly in the coming years.¹⁶ However, the scale and complexity of this market mean that no single Fintech company will be able to cover it all. The

¹⁵ See chapter 5 for details.

¹⁶ According to Bain & Company, the transaction value of embedded finance in the U.S. alone is projected to more than double to \$7 trillion by 2026: <https://www.bain.com/insights/embedded-finance/>

rapid expansion and diverse applications of embedded finance require collaboration across various industries and partnerships between Fintechs, traditional financial institutions, and non-financial companies.

≡ **Full regulatory scope is still a domain of financial institutions.** Having acquired electronic money or payment institution licenses, many Fintech enablers are able to provide a broad range of financial products without becoming or involving a fully licensed bank. What is more, the third Payment Services Directive (PSD3) and Payment Services Regulation (PSR) are poised to further strengthen the role of non-bank payment institutions and level the playing field. The positioning of traditional and non-traditional players may undergo an influence of the changing economic environment.

≡ **The changing economic environment favours financial institutions.** In recent years, funding for non-traditional market participants has been abundantly available. But a changing economic environment has exposed vulnerabilities that not every Fintech is likely to overcome. Traditional financial institutions may gain momentum against this backdrop with the promise of stability and opportunity to replace or partner with non-traditional players.

≡ **The important of trust.** Trust is an important element for many parties when it comes to financial operations. This is especially true for business or corporate clients.

≡ **Financial institutions have already done (some) groundwork.** PSD2 has mandated financial institutions to implement secure ways of sharing data, and a sizeable number has gone further to engage in open banking more broadly through "premium APIs". Based on this groundwork, targeting embedded finance use cases might be a small step.¹⁷ In fact, leading institutions have refocused their open banking/API programmes on doing exactly this.

≡ **Embedded finance is about customer retention and improving the customer journey.** While embedded finance opens up new distribution channels and customer bases, its primary value lies in enhancing the service offered to existing clients across various segments. Traditional banks can leverage embedded finance principles to improve their current offerings. By integrating financial services into their platforms, banks can provide more seamless, efficient, and user-friendly experiences, thereby increasing customer satisfaction and loyalty. For example, integrating payment processing, lending options, and insurance services directly into online banking or mobile apps can streamline customer interactions and reduce the need for multiple service providers. This approach not only retains customers but also enhances their overall experience by offering tailored financial solutions at the point of need.

¹⁷ What Should We Expect to See From Embedded Finance in 2024? | The Fintech Times (<https://thefintechtimes.com/exploring-embedded-finance-trends-in-2024/>)

4.3 FIVE STRATEGIC EMBEDDED FINANCE PLAYS

This report has identified five basic embedded finance strategies for financial institutions:

1. Provisioning of core financial services

A bank's basic approach to participating in the embedded finance value chain is to focus on providing the underlying financial service, including funding a credit, carrying out a payment transaction, and the compliance, risk and security-related activities that go with it. The bank integrates with one or several enablers that act as "matchmakers" between the financial providers and distributing platforms and end-to-end technical and operational connectivity. The transformational challenges for financial institutions are limited in this scenario, but so is the differentiation potential and "stickiness". Nevertheless, financial institutions can compete on quality of execution, know-how, and pricing of the underlying service and attempt to scale their efforts to gain reach and generate growth in existing products. Institutions acting as fronting financial institutions in the described SME lending scenario are examples of this approach. Another example is the partnership of Citibank, next to other financial institutions, with ChargeAfter, a Fintech specialising in enabling merchant platforms to provide a choice of credit options for buyers.

2. Organic embedded finance enablement

Financial institutions can choose to go beyond merely providing core financial services for their embedded finance offerings. This can be achieved by building inhouse enabling capabilities that allow the bank to technically integrate with relevant distributing platforms,

bypassing any third-party intermediaries. This allows the bank to focus on strategically pertinent use cases and verticals. By partnering with platforms directly, financial institutions can customise their offering, build strong relationships with distributors, enter into strategic product partnerships and gain more direct access to end customers. While doing so, financial institutions need to deliver a high quality "enablement experience", ensuring that the customer journey is seamless, and both the initial setup and operational processes work smoothly. For financial institutions, the step towards organic embedded finance enablement is necessarily intertwined with a broader transformation effort that encompasses technology, organisation, processes, cultural aspects as well as adding new capabilities. Numerous financial institutions leverage their API initiatives to shift from merely offering APIs on a developer portal to a stronger focus on end-to-end enabling of value-added embedded finance use cases.

3. Banking-as-a-Service venture

A number of Fintechs, such as Swan, Solarisbank or Railsr, are offering universal Banking-as-a-Service (BaaS) or embedded finance enablers, building on highly modular, API-enabled technology stacks, broad coverage of customisable financial products – either based on their own license or sourced from partner bank –, efficient management of supporting processes and an optimised plug-and-play experience for partners. Financial institutions may want to choose a greenfield approach to build a dedicated technical enabler from scratch in a separate unit or entity. This would allow them to act with the expected agility and innovate rapidly, without

interfering with the existing bank processes and structures. One example of this approach is SEB Embedded, a separate unit founded by Swedish bank SEB and successor of the SEBx programme.¹⁸

As with the other approaches, this strategy comes with its own challenges: the new venture may still be constrained by less-than-agile processes of its "mothership". On the flipside, the innovation effect might not spill over to the traditional organisation in the same way an organic approach would. However, with clear ambition and dedication, well-positioned financial institutions could well succeed with this strategy.

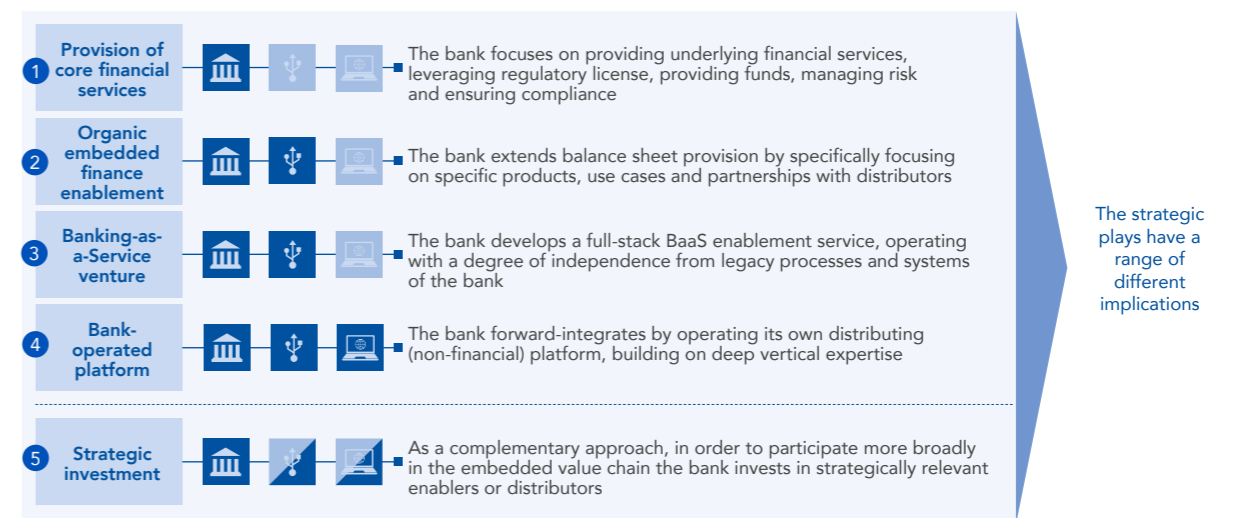
¹⁸ <https://sebembedded.com/>

4. Bank-operated platform

Financial institutions have various avenues ahead of them to engage in the embedded finance ecosystem. Distributing platforms on their own is one of them – provided they have the necessary capabilities and a suitable market position. This could take the form of building a vertical platform to support the needs of specific customer segments and enhance the bank's financial service portfolio. Financial institutions with an already strong market position to generate a sufficient pull-effect might consider a broad-purpose digital platform acting as a one-stop shop for the diverse needs of larger customer groups, featuring embedded financial products by

Figure 6 FIVE STRATEGIC PLAYS FOR BANKS IN EMBEDDED FINANCE

Five strategic plays for banks in Embedded Finance



Source: Be analysis

5. BUILDING THE CAPABILITIES NEEDED

the bank. One example of this approach is Singaporean bank DBS's marketplace.¹⁹

A Banking-as-a-Platform (BaaP) strategy requires careful analysis and may not be the best way forward for every financial institution.

5. Strategic investment

Finally, financial institutions can complement or substitute other embedded finance offerings by strategic investments in (or acquisition of) entities active in the embedded finance value chain. Fintech enablers in search of funding could be suitable investing, combined with strategic product partnerships or preferential commercial collaborations. Financial institutions may also opt for a portfolio investment approach to embedded finance players. Examples of strategic investments include BBVA's stake in Solarisbank or BNP Paribas' investment in Bankable. Likewise, next to a product integration, Citibank has also invested in embedded lending enabler Chargeafter via Citi Ventures.²⁰

¹⁹ <https://www.dbs.com.sg/personal/marketplaces/landing/main-home>

²⁰ <https://www.citi.com/ventures/perspectives/pressrelease/investing-in-chargeafter.html>

KEY TAKE-AWAYS

There are multiple ways in which financial institutions can successfully engage in embedded finance. The options outlined in this chapter can help to understand available possibilities. Deciding which approach is most beneficial depends on the specific ambitions, state of transformation, risk appetite, current position and capability set of a bank.

5.1 SPECIFIC CAPABILITY CHALLENGES ON THE WAY TO EMBEDDED FINANCE

If financial institutions decide to develop an embedded finance offering, especially one that goes beyond only providing the core financial service, they require a set of specific capabilities, not all of which are inherently available in a financial institution that still has to start the journey. In an ideal world, acquiring these capabilities takes place within the context of a broader transformation towards a "digital-ready operating model", including, among others, moving towards a modern IT stack leveraging cloud, microservices and APIs, the implementation of a dedicated data strategy, the usage of agile approaches and an overall mindset shift. The 2021 OFWG report on the digital-ready operating model provides deeper insight into the topic. Also, the technical prerequisites of making open APIs available to third parties and in turn using their open APIs – a key enabler for embedded finance use cases – has been explored in depth elsewhere.²¹

²¹ EBA OFWG reports "Ready or not? Gearing the bank operating model towards digital and Open Banking readiness" (June 2021) and a series of reports on the topic of APIs accessible under <https://www.abe-eba.eu/thought-leadership-innovation/open-finance-working-group/>.

One important design choice relates to the degree of centralisation or decentralisation of the embedded finance function. On one side of the spectrum is a fully decentralised responsibility for developing use cases, partnerships, and actual implementation, residing within the bank's business lines – typically aided by a central competence team to facilitate collaboration, propagate best practices, and ensure the use of common standards. On the other side a strongly centralised approach may go as far as encapsulating the full embedded finance operation within a separate, independently acting entity that operates at arms' length with the rest of the bank to drive embedded finance / BaaS.

5.2 PRINCIPLES OF "EMBEDDED BY DESIGN"

The Open Finance Working Group (OFWG) has identified a range of prerequisites financial institutions that make the successful development and distribution of embedded finance products for financial institutions more likely. Collectively, they could be described as principles underlying an "embedded by design" approach.

Use-case -centric product development

Product management should focus on addressing specific use cases relevant for the bank's customers segments and on identifying any friction in how these use cases are currently served. Next to developing a deep understanding of needs and pain points, this approach involves applying "ecosystem thinking" from the start by identifying customer journeys as well as relevant platforms (as distributors and potential partners) in this space.



API-first approach

In line with the above, products should be designed to be enabled by APIs from the start. This means that API specifications are defined at the outset, including defining endpoints, data format and protocols; compliance and security considerations should be integrated; and they should be designed for scalability and re-use. Proper API documentation and a standardised process for publishing APIs should be the norm. Several financial institutions have already adopted an API-first strategy for at least certain product areas.²²

Agile innovation process

Financial institutions should apply an agile innovation approach that is rapid, iterative, and informed by experimentation. Rabobank, for instance, employs an innovative methodology to develop API propositions. This approach involves consecutive hypothesis testing and experimentation, progressing from the discovery phase through problem identification, solution development, and market fit analysis. The goal is to create propositions that are both profitable and scalable.²³

Cross-functional partnership development

Success in embedded finance relies on forming effective partnerships with platforms and/or enablers. The optimal setup depends on the chosen strategic direction and derived organisational structure. When pursuing a BaaS venture strategy, partnership management should be a fully owned responsibility of that

dedicated unit. In more organic approaches, collaboration across different functions to execute partnership development and management is key. Central embedded finance or API teams need to combine expertise with business line experts to identify, onboard and collaborate with the partner organisations that are best fit for the chosen customer segments and use cases.

Clear stance on third party data

As part of a digital-ready operating model, a bank should define a data strategy as well as clear data governance and policies, placing the greatest emphasis on data security and protection while taking into account the increasing importance of data-driven insights. Embedded finance adds to this the component of customer data held by the platform, which can be highly valuable in both improving the offering and integrally using it as part of the product, e.g. to optimise credit scoring. While financial institutions may decide to not leverage platform-held customer data, they should consider it in their decision making.

Embedded risk and compliance management

Risk and compliance management should be interwoven throughout the product lifecycle, ensuring that all embedded finance offerings comply with applicable regulations and internal risk policies from inception. This principle mandates the early integration of risk assessment and compliance checks into the design and development phases, including thorough due diligence of third-party platforms. Often, existing regulatory compliance processes in traditional banks are thorough but can be slow and cumbersome to implement. This can hinder their ability to rapidly adapt to new market demands and technological advancements. To address this challenge, innovating compliance

processes has become crucial allowing banks to keep pace with the dynamic financial landscape. At the same time, licence holders need to ensure end-to-end control and accountability, making it particularly important to define a clear division of responsibilities and liability between partners.

5.3 ACHIEVING ALIGNMENT AND MINDSET SHIFT ACROSS AN INSTITUTION

Tackling embedded finance is a cross-functional endeavour by nature and requires a shift of mindset across units and departments, promoting collaboration, innovation, customer centricity and including the perspectives of other stakeholders such as third-party developers. The larger and more diverse an institution, the more complex the exercise of cross-organisational alignment and buy-in becomes.

However, there are measures available that can effectively support alignment: executive sponsorship and leadership buy-in are powerful enablers. For example, Deutsche Bank has emphasised the strategic importance of APIs as a core component of its digital transformation and operational efficiency initiatives. The bank's leadership has signalled this focus early on and thereby supported Deutsche Bank's API programme grow through its development phases – now with an increasing focus on building embedded finance partnerships. In addition, training and education programmes can spread the word about the benefits of embedded finance, both bottom-up and at the levels of business unit and department heads. This can be complemented with an alignment of performance targets – for example of customer acquisition, transaction volume, or product launch timelines – and corresponding incentives. Finally, fostering the involvement of external

partners in the development of use cases from the start can strengthen collaborative and open ways of working throughout the organisation.

Clearly, not every hurdle needs to be taken at once. Financial institutions that are not planning a fundamental renewal of their operating model can still benefit from tackling embedded finance propositions in a lighter way. This could involve initial experimentation with a few, select use cases, the use of external providers for API management and other components, and simpler integrations with partners, for example through referral models.

KEY TAKE-AWAYS

Ideally, preparing a bank for embedded finance takes place in the context of a wider transformation of the whole organisation towards an overarching digital-ready operating model. The identified “embedded by design” principles, such as use-case-centric product development and a cross-functional partnership approach, provide a range of attention points that are important to consider. Cross-organisational alignment is a foundation that should not be underestimated to successfully drive embedded finance forward.

²² One example is Standard Chartered's Payout-as-a-Service offering, <https://www.sc.com/en/press-release/weve-launched-our-payouts-as-a-service-solution-to-enable-next-generation-digital-commerce/>

²³ Rabobank presentation to Open Finance Working Group (OFWG) in November 2023

6. A COLLABORATIVE APPROACH TO EMBEDDED FINANCE

6.1 THE CASE FOR A COLLABORATIVE ENABLING SERVICE

Embedded finance enablers have the primary purpose of reducing friction between the financial offerings provided by the bank and the distributor's platform, with the aim of making the customer experience seamless and optimised for conversion. Next to ensuring technical connectivity and smooth operations, enablers can also serve as matchmakers bringing together an optimal fit between financial product and platform, leveraging a two-sided network of partners and deep expertise in specific product or market areas. Finally, enablers can also add value by augmenting a basic financial product to create a more compelling offering for platform customers.

The range of strategic approaches to embedded finance presents options for financial institutions to individually engage in embedded finance enabling. Yet these options involve a certain amount of risk and cost, and they might have far-reaching implications for the financial institutions operations. However, a collaborative approach might alleviate some of these factors.

Collaborative structures are far from uncommon in banking. Typically, the collaborative aspects cover infrastructure components that are relevant to the functioning of the overall ecosystem but can also extend to providing value-added services on behalf or in lieu of the infrastructure's stakeholders.

An example is Luxhub, a company founded by Luxembourgish financial institutions as a collective compliance utility for PSD2.²⁴ At

its core, Luxhub provides a single, technical point of entry for accessing its shareholders' PSD2 APIs as well as related operational and support services. Meanwhile, Luxhub also obtained a third-party provider (TPP) license to provide connectivity, data aggregation and payment services for non-financial institutions, thereby entering into the realm of open banking intermediaries. It also expanded its compliance services to other regulations such as the Central Electronic System of Payment information (CESOP) and launched a comprehensive API marketplace.

Another example is Singapore-based APIX, a collaboration platform founded by the Monetary Authority of Singapore, the ASEAN Bankers Association and the IFC.²⁵ APIX acts as a bridge connecting financial institutions and Fintechs, allowing them to collaborate using an open-architecture technical platform featuring sandbox and API marketplace capabilities. While APIX primarily focuses on the discoverability and integration of Fintech services into established bank and insurance offerings, the concept could be imagined in "reverse order" as well.

Examples like LUXHUB and APIX financial institutions could serve as a blueprint for financial institutions to jointly create an embedded finance enabling / BaaS service. Naturally, this type of collective entity would need to be carefully scoped and designed, considering both potential benefits and challenges.

²⁴ <https://luxhub.com/>

²⁵ <https://apixplatform.com/>

6.2 POTENTIAL DESIGN OF A COLLABORATIVE ENABLING SERVICE

The joint enabling service would constitute the link between multiple participating financial institutions²⁶ and distributing platforms, aiming to ensure plug-and-play connectivity for any given bank-platform constellation. The service could either be positioned as a technical outsourcing service for the financial institutions, largely invisible to the distributor, or as an entity, which acts (more or less) independently. In the first case, partnership management and commercial dealings with the platform would be undertaken by the financial institution itself, the shared service primarily providing a common technical infrastructure for easier integration. In the second

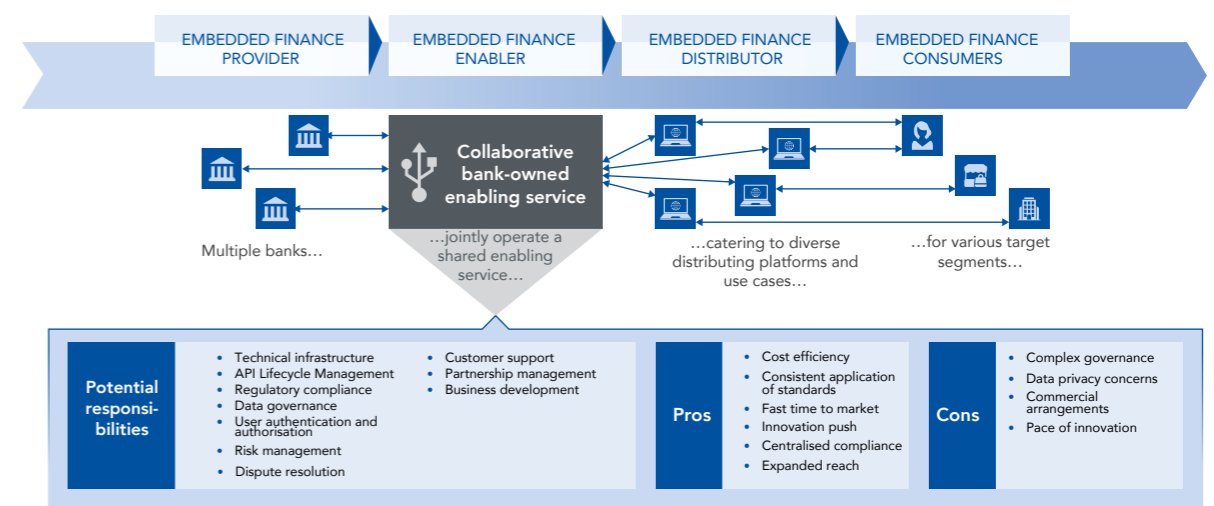
²⁶ The concept could likewise be applied to other types of financial service providers, such as insurance companies.

case, the activities of the enabling service could include developing propositions under its own brand, which would imply a direct contractual relationship between the enabling service and distributing platforms.

At the level of the technical infrastructure, the enabling service could constitute a multi-tenant environment providing a single point of access to the financial products of multiple financial institutions via APIs. By that it would provide a consistent developer experience, including sandbox environment, paired with centralised developer onboarding. Depending on the overall business model and setup, the service could also provide a single, provider-agnostic API connection.

In any case, the technical connectivity should be complemented with a range of operational capabilities. Next to partner onboarding, this

Figure 7 A CASE FOR INDUSTRY COLLABORATION? IDEA OF A JOINT ENABLING SERVICE BY BANKS



Source: Be analysis

could include integration support services to facilitate the technical integration process as well as specific UX/UI capabilities to optimise customer journey design. It should also include a customer support structure and could encompass contracting support services, depending on the overall setup.

Beyond that, the joint entity could play an active role in product innovation. As an embedded finance innovation hub and competence centre it could facilitate, drive, and orchestrate product development in partnership with financial institutions, providing common standards and product blueprints as a framework for financial institutions to develop towards. It could also engage in value-added product development on its own behalf, including the use of platform-originated data, for instance for credit scoring or presenting optimised offers to customers as part of dynamic product matching.

The potential design of a collaborative embedded finance enabling service would require careful further consideration, depending on the positioning and business model chosen. Naturally, any setup, and commercially sensitive aspects in particular, would need to strictly adhere to competition rules and regulations.

6.3 BENEFITS AND CHALLENGES OF A JOINT ENABLER

Further development of a joint enabler concept needs to consider a range of potential benefits as well as possible challenges. One core benefit would be a cost-efficient way to build the required capabilities to enable embedded finance use cases. Pooling resources is a cost-efficient way of developing and maintaining enablement infrastructure.

However, there also is a range of challenges to account for. Financial institutions need to determine where to draw the line between the competitive and the collaborative space. If a bank considers embedded finance enablement as part of its core offering and its own capabilities as competitive advantage, it will unlikely see benefits in a joint enabler service. Also, the definition of the potential service scope needs to be considered in this regard.

Aligning on a common vision for the shared entity will be a first major challenge, given the complexity of the topic and multitude of potential approaches. Complex multi-stakeholder discussions would be likely to continue from strategy to operational setup and governance.

The latter would need to ensure a balancing of efficient decision-making and aligning stakeholder interests as the new entity enters into operation.

Specific challenges also arise around data and security. Ensuring data segregation where applicable, defining the handling of potential customer data collected by the service, ensuring data integrity, managing identity and access controls, as well as harmonised security standards are all critical aspects magnified by the collaborative setup.

Lastly, it would be important to consider how the Financial Data Access (FIDA) framework as well as existing market-driven standardisation initiatives would impact or could be leveraged by a collective approach to embedded finance enabling.

Both the benefits and challenges listed are non-exhaustive and strongly depend on how this high-level concept would be developed further. However, a deeper exploration could well be worth engaging in.

KEY TAKE-AWAYS

Developing capabilities to efficiently cater for embedded finance use cases or providing Banking-as-a-Service (BaaS) at scale individually can be costly and prone to risk of failure. At the same time, there are plenty of examples of successful collaborative undertakings by consortia or communities. A shared embedded finance enabling service could support successful go-to-market and implementation of embedded finance use cases, pooling resources, capabilities, and expertise. At the same time, multiple challenges would need to be tackled to realise such a venture. The concept of a collaborative enabling services could be a beneficial alternative to individual embedded finance approaches. Further exploration and analysis should be conducted in a multi-stakeholder setting to more deeply understand the concept's implications and validate its viability.

7. CONCLUSION AND OUTLOOK

It is to be expected that distribution of financial services will become more and more integrated in customer journeys given the overall transformation towards an increasingly digital economy and society. An evolving ecosystem facilitates this transition by reducing friction and developing tailored, highly contextual propositions. A broadening regulatory scope of access to financial data based on customer consent as well as a more level playing field between credit and payment institutions via the (upcoming) third Payment Services Directive (PSD3) provides a fertile ground for this dynamic to further evolve.

What may, for now, seem like a nice-to-have add-on will likely turn into a strategic necessity as the shift from traditional to embedded finance channels continues to unfold. Retaining customers and revenue through the creation of value-added embedded finance services is key for financial institutions.

Because “embeddedness” can take place anywhere, the paths to success are manifold and strongly dependent on a financial institution’s starting point and aspiration in terms of services offered, clients served, role in the value chain and capabilities available or required. This report does not aim to provide a solution but to spark, structure and inform a discussion about how financial institutions will likely be affected by the embedded finance trend and what a strategic response could look like.

In the same spirit, the thoughts on a collaborative approach to embedded finance do not claim to provide a feasible solution for a joint enabling service but are meant as an impulse for discussions on where collaboration in the realm of embedded finance could make sense. Whether navigating the path individually or collaboratively, the future of financial service delivery will be – to a growing degree – “embedded”.

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