



stripe

The Rise of Embedded Finance

A Report on the Evolution and the Future of Embedded Finance

Over the last decade we have shifted from disrupting financial institutions to embedding the world of finance behind apps and websites to enable a better and smoother user experience and allow high digital traffic and user players to further monetise and increase stickiness.

This trend is widely referred to as “embedded finance,” and it is fast becoming one of the most disruptive trends across payments, banking, lending, insurance, and payroll. Embedded finance uses connective technologies to integrate payments and other financial products directly into non-financial platforms, such as company websites or mobile apps, enabling any merchant or brand to offer innovative financial services to customers rapidly and at a relatively low cost.

The proliferation of cloud computing and the growing use of open application programming interfaces (APIs) has been a major catalyst, accelerating and reducing the barriers to entry, to make embedded finance possible and accessible.

We predict that the embedded finance industry will become one of the most value creative sectors in fintech, reaching a value of \$7 trillion globally over the next ten years. While some of the early embedded finance models (e.g., payments and lending) are starting to mature, we still see significant growth potential across industries like health, real estate, and employment where plenty of white space remains.



Radboud Vlaar
Managing Partner, Finch Capital

In some ways it's easier to run a small business today than it has been for a long time. The proliferation of software services designed to take the pain out of undifferentiated operations means businesses can focus on what makes them special. This is best encapsulated in the rise of vertical specific software platforms. If you want to run a local gym, there's a software platform to help you keep track of memberships, class bookings, and more. If you want to open a restaurant, there's a software platform to help manage table reservations, ordering, and takeaway deliveries.

Financial services have been notably absent from this trend. If the gym or restaurant owner wants a loan, all of a sudden they have to close the laptop and re-enter a world of pen-and-paper forms, faxes, and in-person appointments. By reengineering the distribution paths for financial services through these software platforms, we can make it far easier for businesses to access funding and manage their money, and so provide a vital boost to the small business economy.

It's clear this is already happening, but it's equally clear there's a long way to go. At Stripe we've spent 10 years embedding payments services into software platforms, and we are now doing the same with lending, account provision, card issuing, and more. Embedded finance is a positive sum trend we're excited to catalyse; banks can serve small businesses at scale, software platforms can diversify their revenue, and small businesses can grow more easily.



Edward Moore
Head of EMEA SaaS Platforms
Revenue & Growth, Stripe

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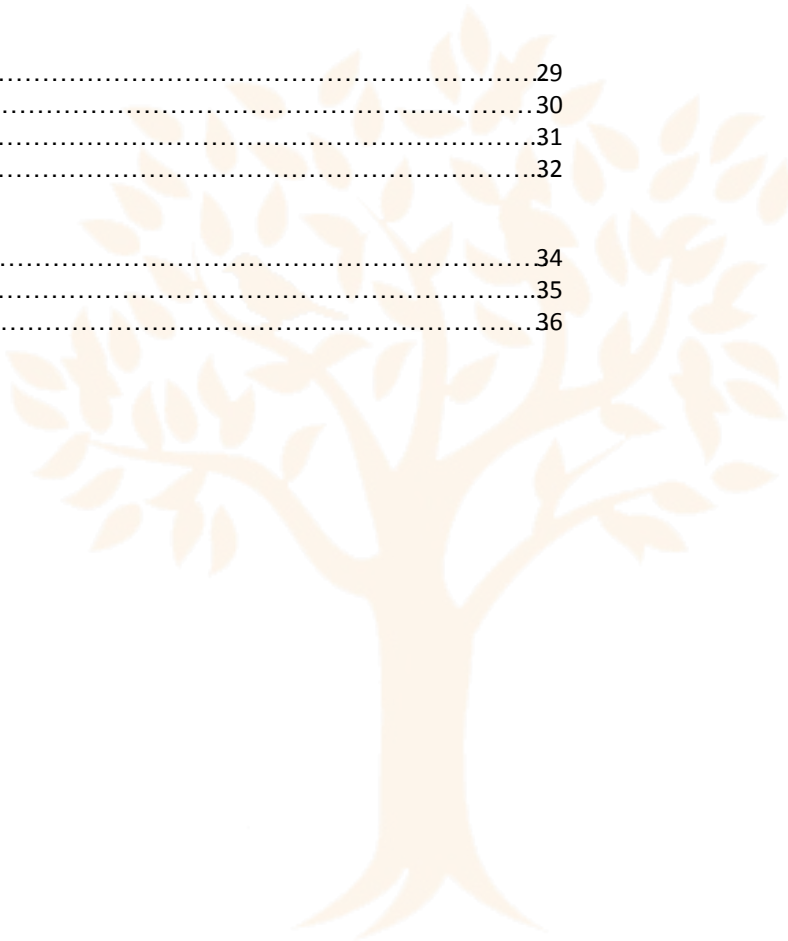
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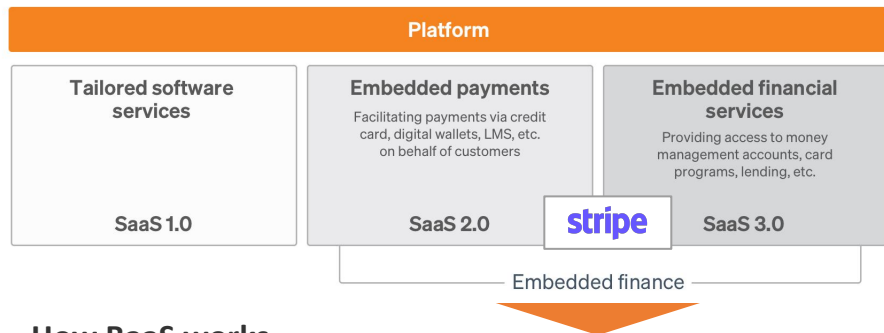
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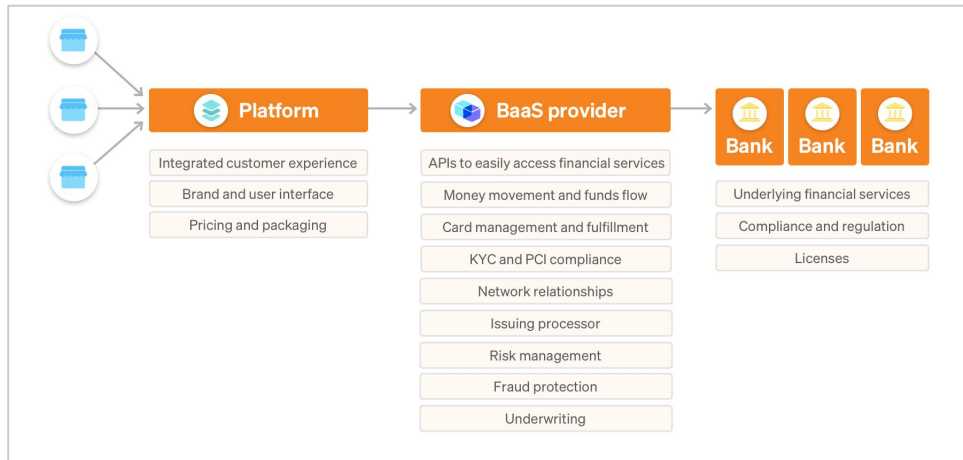
Introduction



The Evolution of SaaS platforms



How BaaS works



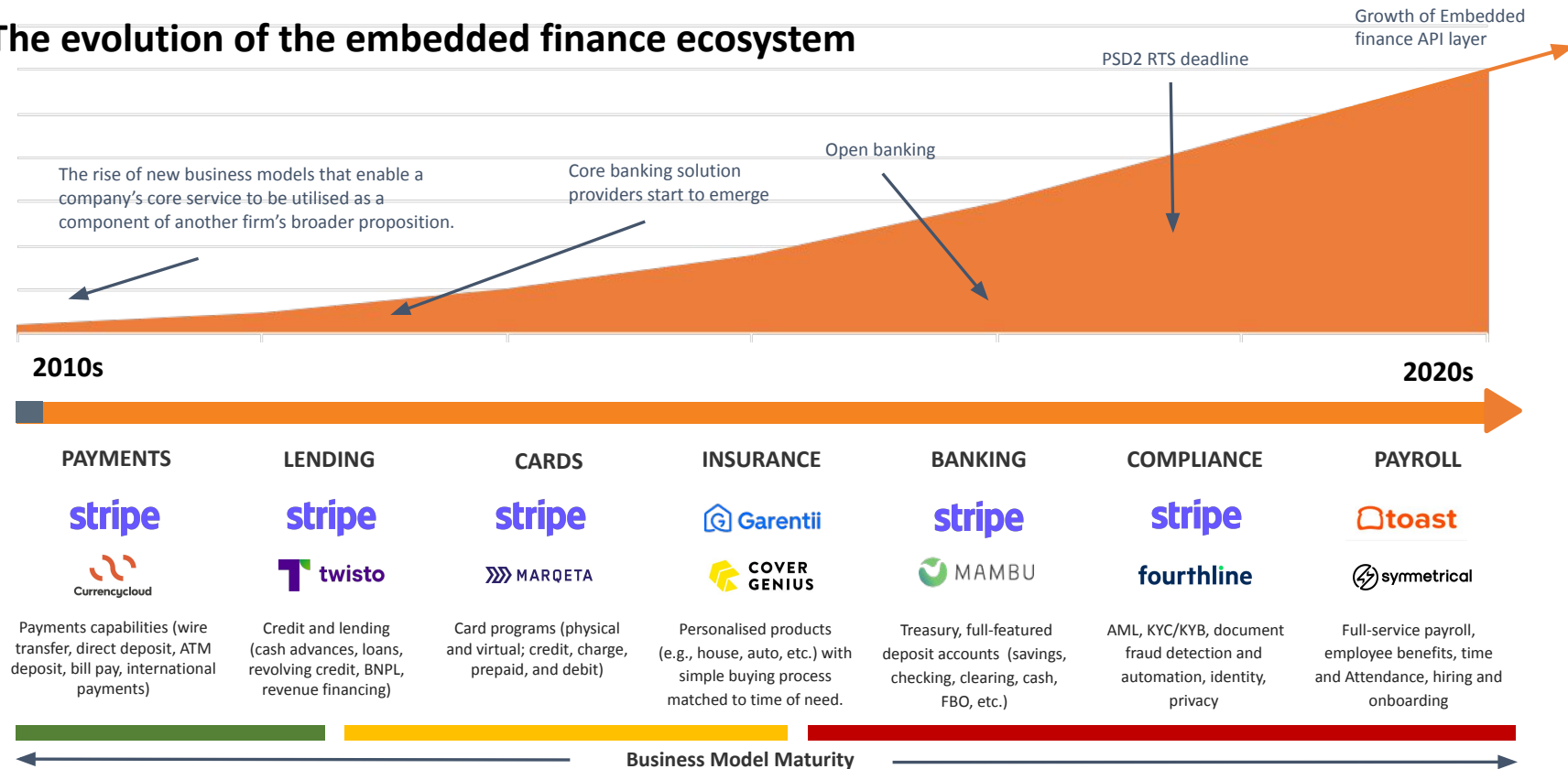
A decade ago, almost every platform could be considered “SaaS 1.0,” where they simply offered tailored software services (e.g., appointment scheduling for salons) and generated monthly recurring revenue from customer subscriptions. Today, most platforms are considered part of the “SaaS 2.0” generation, where they also facilitate payments on behalf of customers.

Now, with the rise of banking-as-a-service solutions, platforms are beginning to evolve yet again to “SaaS 3.0”—offering additional embedded finance features (such as loans, accounts, and cards) to customers beyond payments.

SaaS platforms notably use BaaS providers to embed financial services into their platforms through simple APIs and open banking.

Other embedded financial services are also emerging beyond banking such as insurance and payroll.

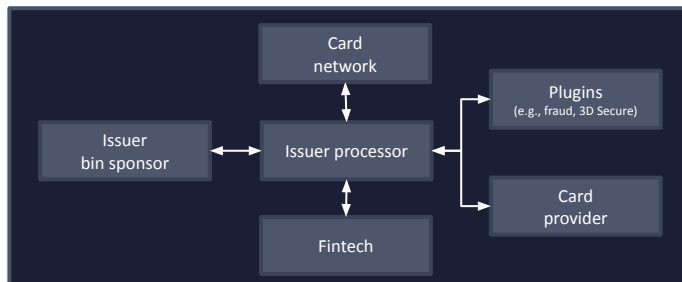
The evolution of the embedded finance ecosystem



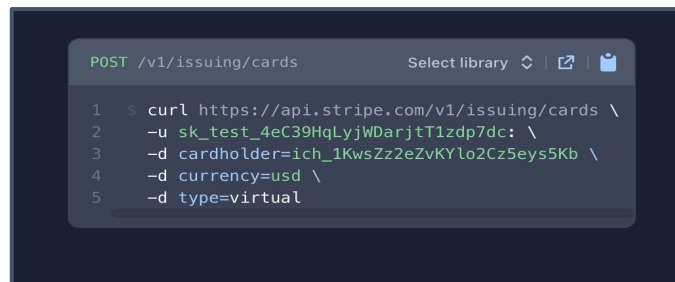
The barriers to entry are coming down — card issuing example

Open API card issuing and payment processing platforms have lowered the barriers to entry, and provide developers with the tools required to build, test, launch, and iterate single integration card programmes across national boundaries. They also allow for programmable controls so businesses can set dynamic controls down to the card level. They can set spending limits, block or approve certain merchant categories, or create an advanced combination of rules for their needs.

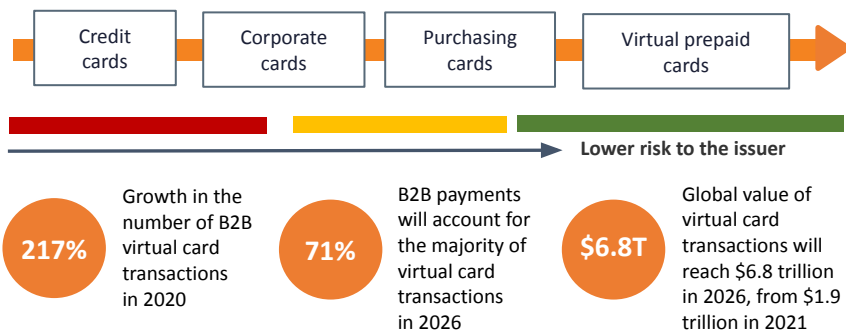
How it started



How it's going



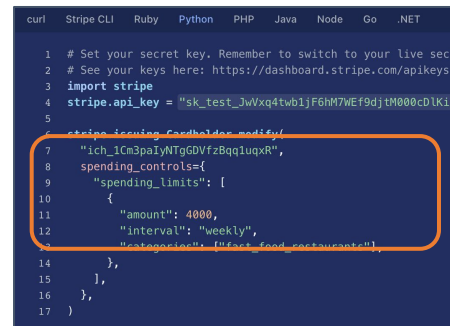
Market evolution



Flexible card programmes with enhanced developer experience

Highly customised card programmes with a few API calls:

- Custom brand
- Spending limits
- Single load/reloadable
- Multi/single currency
- Merchant (MCC/MID) restricted



What problems is embedded finance solving?

Embedded Finance is ...

- 1 SMEs are struggling to obtain financial services via traditional means.**
Fixed costs of providing SMEs with financial services via traditional means are high. For instance, it costs the same to credit review a £100k turnover business as it does a £1M turnover business.

Serving underserved markets

- 2 Old lending models don't work for new digital companies.**
As the economy moves online, old financial models and long-winded loan application processes are inefficient and becoming less tolerated by users. For instance, the typical digital platform or marketplace has all the financial data required to make instant lending decisions which can be leveraged by new embedded financial solutions.

Disrupting financial services

Providing “one-stop” shop solutions

- 3 Data is siloed which leads to poor personalisation of products.**
Traditional financial institutions are not leveraging data to personalise the user experience and recommend relevant financial products to users at the right time in their journey.

Improving CX

- 4 Financial services are limited for thin file workers.**
Today more than ever, consumers with low or no credit scores are in need of financial services such as lending, payments, and banking. The old financial system is typically not inclusive to thin file workers who suffer from high APR.

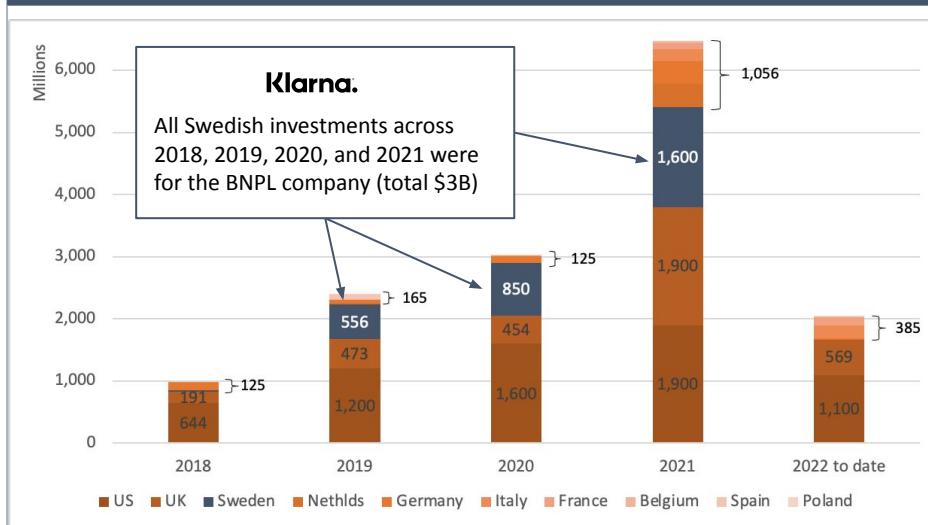
Increasing financial inclusion

Investor Perspective

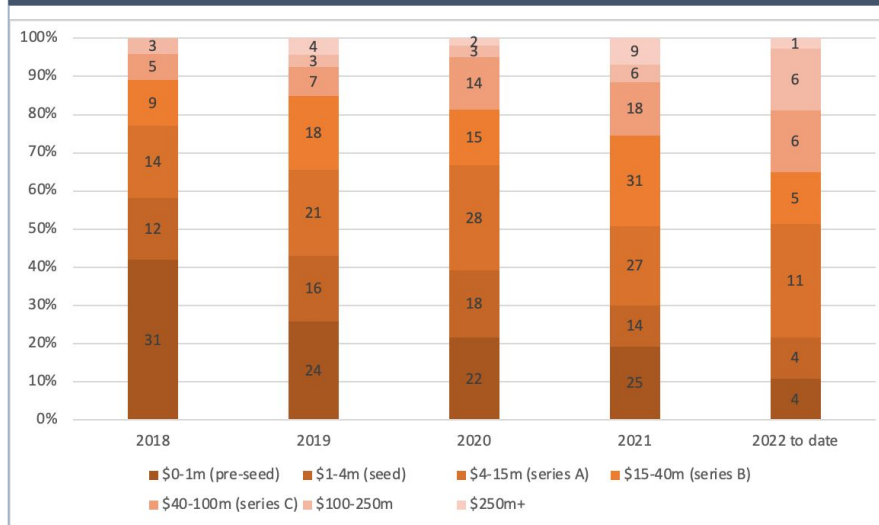


The market is maturing with an increasing amount of growth rounds

VC investments in embedded finance companies (in USD)

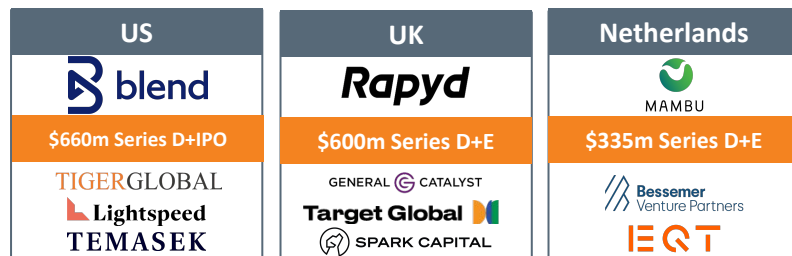


VC deals in embedded finance companies by growth stage



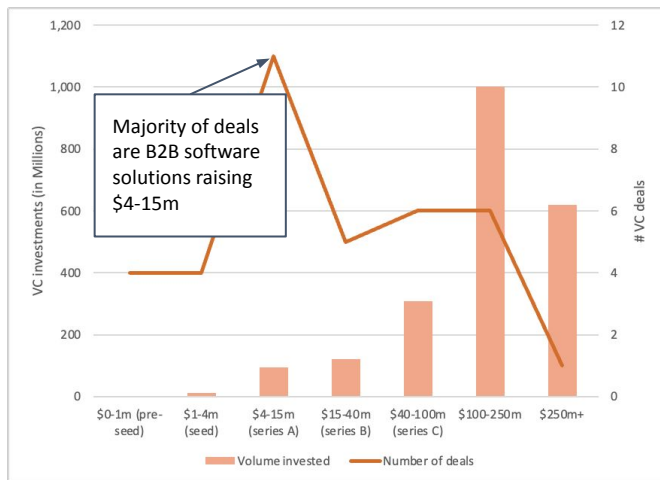
- VC investments in the embedded finance companies have more than doubled from 2020 to 2021 in Europe and North America to reach a total of \$6.7B.
- The continental European market is finally picking up the pace with \$1B+ of VC investments in 2021 (excluding investments in Klarna).
- The market is maturing with the increasing share of larger rounds (Series A+) over the years while the amount pre-seed and seed rounds have remain constant.

Notable 2021 growth deals across North America and Europe



The majority of EF deals in 2022 are B2B software solutions raising \$4-15m

VC investments in embedded finance in 2022 - US & Europe (in USD)



Notable 2022 growth deals



US \$620M Growth 	UK \$400M Growth 	UK \$229M Growth 	Italy \$213M Series B 	US \$180 Series C 	UK \$131M Growth 	France \$115M Series C
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 Warsaw-based raised \$18.5M series A in Q2 2022 Payroll	 Berlin-based raised \$5M seed in Q1 2022 Accounting and Admin	 Berlin-based raised \$10.5M seed in Q1 2022 Lending
LOADSURE London-based raised \$11M series A in Q1 2022 Insurance	 Barcelona-based raised \$10M seed in Q1 2022 Banking, Payroll	 San Francisco-based raised \$7M seed in Q1 2022 BNPL

- The market is diversifying as more and more large seed and series A deals are being made across European countries and verticals.
- The share of series B and C rounds is healthy and reflects the growing maturity of the embedded finance industry.

The biggest exits are happening in the US

VC exits by acquisitions

	Date	Location	Acquirers	Backers	Valuation (EV/Rev)
	Q3 2022	Atlanta, US	Goldman Sachs	DST GLOBAL TPG ICONIQ	\$2.2B (4x)
	Q4 2020	Draper, US		n/a	\$1.7B (1.4x)
	Q2 2020	Salt Lake City, US	SoFi	Accel MERCATO PARTNERS	\$1.2B (12x)
	Q4 2020	NYC, US	ALLIANCE DATA SYSTEMS	Bessemer Venture Partners GREYCROFT RRE VENTURES	\$450M (1.9x)
	Q4 2021	NYC, US	MoneyLion	Bluebird citi VENTURES Canaan	\$440M (23.5x)
	Q4 2020	Toronto, Canada	affirm	CBCG goeasy	\$262M (6-9x)
	Q2 2021	Prague, Czech Republic	ZIP	miton KAYA FINCH CAPITAL	\$140M (12x)

VC exits by IPO

	Date	Location	Backers	Amount	Valuation (EV/Rev)
	Q1 2021	SF, US	khosla ventures Lightspeed nyca	\$1.2B	\$15B (32x)
	Q2 2021	Oakland, US	andreesen.horowitz Lightspeed SVAngel	\$360M	\$4B (19x)
	Q2 2021	SF, US	83NORTH Commerce Ventures GraniteVentures	\$1.2B	\$15B (29x)
	Q2 2018	Atlanta, US	DST GLOBAL TPG ICONIQ	\$874M	\$4.4B (11x)

- We might wait a while before we see a European IPO,* as many fintech players ruled out their plan to go public in 2022 amid the public market slowdown (e.g., Revolut). This can be explained by the rising inflation, the global instability stemming from the Ukraine/Russia conflict, and the current pullback in valuations in the tech market.
- Embedded financial services seem to increase valuation—according to Dealroom, marketplaces that embed financial services have a median EV/Sales of 6.7x, compared to 5.3x for the ones that do not.

“The retail and ecommerce market has the advantage for embedded finance due to its size, brand, and traffic power, making it easier to convert at moments that are relevant for people.”

“The bigger opportunity is in B2B versus B2B2C, as this allows the client to keep the relationship which is very important in general, but with more challenging markets even more so.”



Radboud Vlaar
Managing Partner, Finch Capital

“Embedded finance is the infrastructure that is unlocking a new generation of companies that are using financial services natively to create new solutions and better experiences for their users. It is fascinating to see what the next generation of founders is building leveraging embedded finance in markets as diverse as transportation, health tech, SaaS, climate tech, and many more.”



Yann Ranchere
Partner, Anthemis

“The European tech ecosystem is younger than in the US, though it is rapidly maturing across multiple centres of innovation—London, Paris, Stockholm, and Berlin to name a few.”

“In fintech we’re seeing the strong, positive flywheel of repeat founders and experienced operators starting new companies. Much of this activity is focussed on the embedded finance space, given the favourable European regulatory landscape and scale and breadth of the opportunity set in embedded finance.”



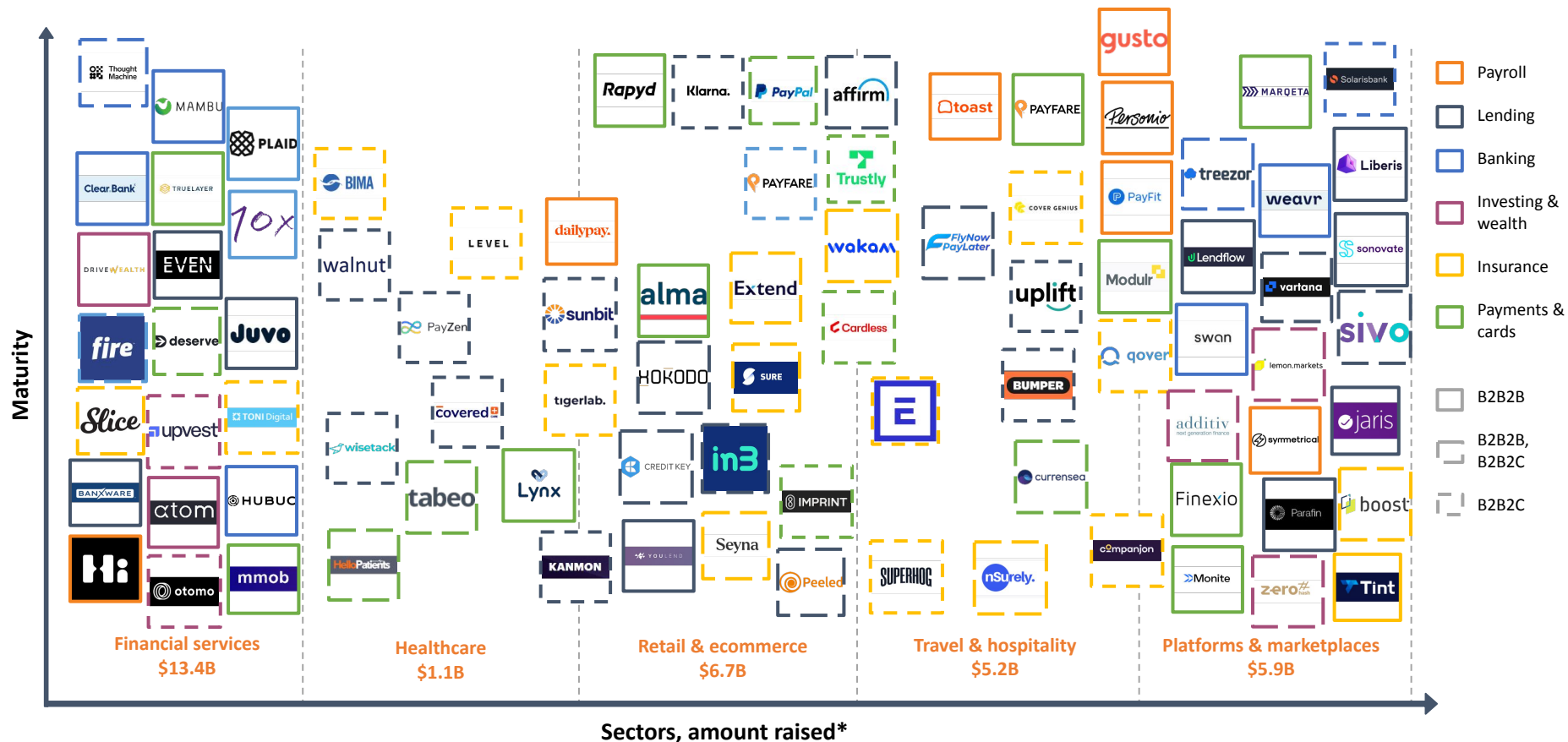
Ellen Logan
Investor, Augmentum Fintech

“Embedded finance is all about bringing two large industries—financial services and digital applications—together to make the world work better. While delivering digital applications is permissionless, financial services is a highly regulated space, which makes this combination, despite its value-creation potential, very hard in practice. This barrier is now being removed.”



Alex Mifsud
Co-founder and CEO, Weavr.io

What industries are buying embedded finance products?



Disclaimer: This graphic provides a high-level view of companies which have made strong inroads into certain industries. It's not an exhaustive representation, and many of the companies represented work across multiple industries.

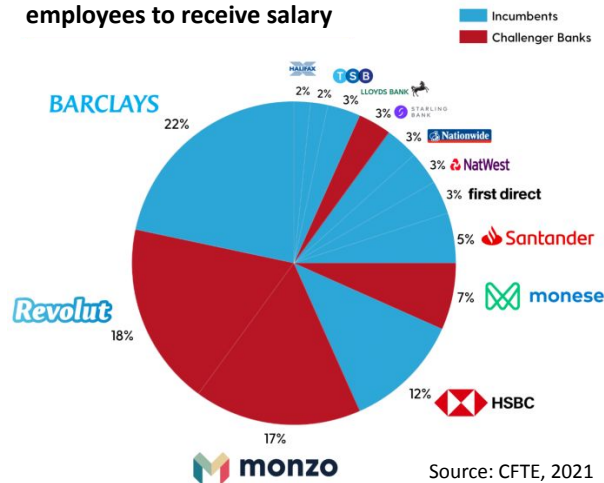
*Estimated total amount raised per sector from the above logos and more

Industry Deep Dives



Traditional banks are competing with challenger banks for market shares

Primary bank account used by UK employees to receive salary



Challenge

Rise of digital-only and mobile-first approach to consumer banking

Restrictive legacy systems for SME lending

BaaS solution

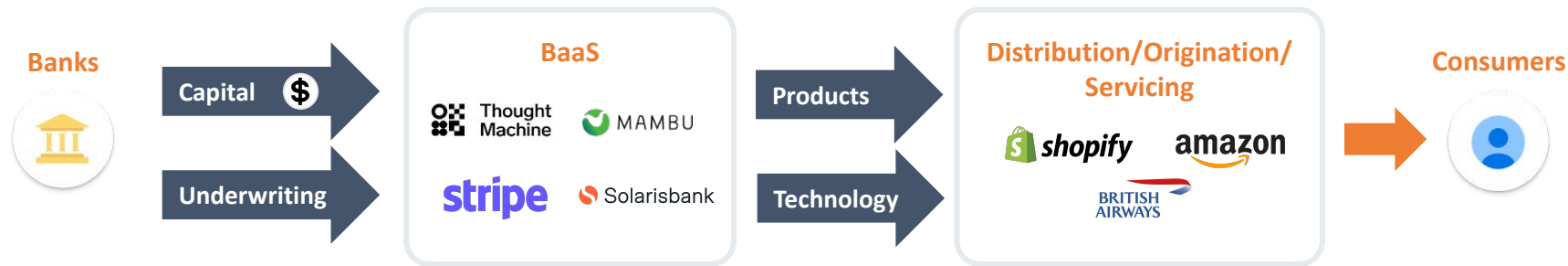
Cloud-native BaaS solutions enable traditional banks to bring digital products to market quickly

Cloud-based BaaS platforms power loans and enable traditional banks to become pure capital providers

Adopting BaaS is a way for traditional banks to stay relevant and increase market share notably in the consumer account and the business lending space.

BaaS = Banking as a Service

How we see banking evolving in the future



BaaS enables traditional banks to outsource tech and product capabilities.

Banks will remain guardians of capital and deploy their balance sheet and data advantage by leveraging historical data to underwrite.

Third-party distribution and onboarding will become the dominant acquisition channel for banks.



Shopify is a leading global commerce company, providing trusted tools to start, grow, market, and manage a retail business of any size. With Shopify Balance, merchants can manage their funds, pay bills, and track expenses. This gives them easier access to financial products and greater control over their business.

Problem

Financial services are an essential part of running a business, but most banking services aren't designed for the needs of independent business owners.

Impact

Shopify Balance offers Shopify merchants a fast, simple, and integrated way to manage their funds. Built on Stripe Issuing and Treasury, Shopify Balance gives users access to critical products—all within Shopify.

Stripe Products



Payments



Connect



Issuing



Terminal



Treasury

“By building across Stripe’s payments and banking-as-a-service infrastructure, we’ve been able to give Shopify merchants access to critical financial products that meet their needs, such as faster access to funds and rewards, helping them further grow their businesses.”

Tui Allen

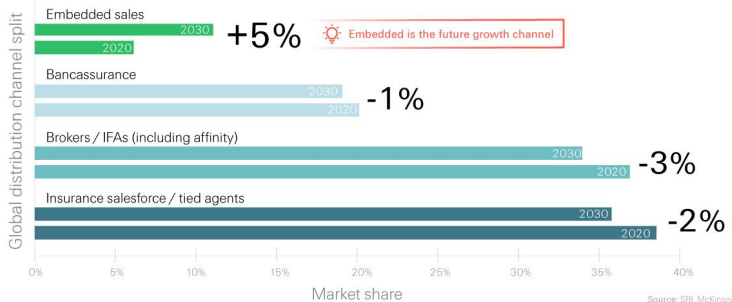
Senior Product Lead for Banking at Shopify

Reducing the protection gap—financial services (embedded insurance)

Embedded insurance is the future growth channel

Embedded insurance on the rise

Expected development 2020 to 2030



Challenge

Lack of efficient distribution channels

Operational bottleneck impacting margins and CX

Solution

Embed insurance product into fintech (neobank) at the point of sale via PSP or directly via merchant or through platforms.

TONI Digital

Claims handling software and technologies like AI can decrease operational pressure and improve CX.

TRACTABLE

The gig worker insurance example

A simple typology of gig worker protection gap

Income	Health	Retirement	Assets
<ul style="list-style-type: none"> Sickness Disability Work accident Premature death Underemployment 	<ul style="list-style-type: none"> Medical expenses 	<ul style="list-style-type: none"> Accumulation of savings (investment risk) Decumulation of savings (longevity risks) 	<ul style="list-style-type: none"> 'Means of production' (home, car, equipment) General liability Professional liability

Problem: Insurers' appetite for individual gig worker risks tends to be limited. Carriers prefer to provide group coverage to platforms and workers' associations.

Solution: Embed insurance product directly via platform. Through APIs, insurance products can be integrated at point of demand.

INSHUR



Uber

ZEGO



deliveroo

Financial services as a bundle

From platform to ecosystem

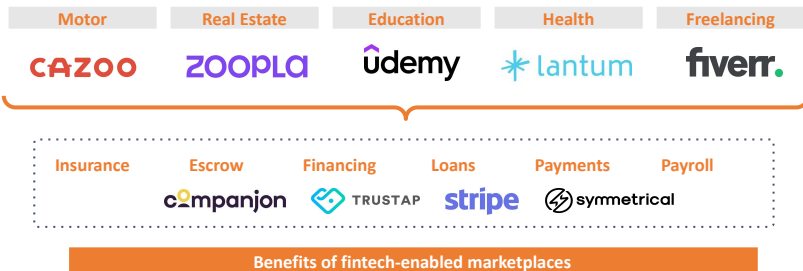
The wave of fintech across Europe over the past decade has seen the unbundling of financial services. A new ecosystem opportunity for platforms is emerging, Financial Services as a Bundle, with neobanks in pole position to capitalise on this trend.



E.g., Revolut is creating an ecosystem for its consumers where they can trade stocks, book a holiday, earn rewards/cashback, purchase insurance, and send gifts.

From marketplace to fintech

Embedding financial services into marketplaces makes financial services accessible at the point of need in an innovative way for both buyers and sellers. This is creating significantly more value for the marketplace by making the user journey smoother and unlocking new revenue streams.



- ✓ New recurring and ancillary revenue streams
- ✓ Improved unit economics and lower CAC journeys
- ✓ Expanded market opportunity
- ✓ Enhanced CX with seamless user

Stride Bank <=> Lyft example

Fintech-enabled marketplaces



Lyft offers debit cards to its drivers powered by Stride Bank to give drivers instant access to their earnings. Stride Bank handles the regulatory compliance requirements for providing the product.



Source: Lyft

Product features:

Branded debit card

Compelling rewards program

Faster payments

Regulatory compliance

Customer experience improvements like seamless account opening and integration into Lyft's driver app provide a compelling product offering to Lyft's drivers.



Wayflyer is a great example of a platform using embedded finance. Wayflyer partners with ecommerce brands around the world to give them the funding they need to grow. As its client base grew, Wayflyer was looking for a way to lower the cost of providing funding to its customers so it could continue helping thousands of ecommerce startups scale.

Solution

Wayflyer chose to implement Stripe Issuing, which enables Wayflyer to issue virtual cards and gives its customers a convenient way to access their new funding. This enables them to share in interchange revenue from card spend, which it gives back to its customers as a discount on their loan terms. In turn, customers can leverage the additional capital they saved from reduced loan fees to reinvest in and grow their businesses. Wayflyer also utilises Stripe Identity to verify user identities and prevent fraud before offering and dispersing funds via their virtual cards.

Impact

Today, Wayflyer has been able to provide \$700 million in total lending through over 2,100 merchant cash advances. Using Stripe Issuing's virtual cards, Wayflyer's customers are now able to get immediate access to the funding they need. Wayflyer wanted a partner that served multiple international regions in order to have the ability to scale in the future. Wayflyer is confident that Stripe's extensive international presence will help it expand quickly and easily as the company scales to new markets.

Stripe Products



Identity



Issuing



Payments

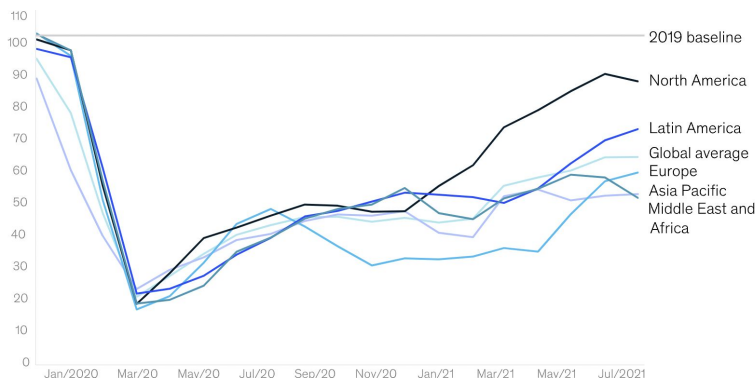


The travel and hospitality sectors are recovering

Customers are twice as likely to try new brands and experiences as a result of COVID-19, and 75% of US consumers tried a different store, website, or brand during the pandemic. This is particularly important in the travel sector with its strong reliance on loyalty programs.

As travel volumes are starting to return in many parts of the world, now is the time for companies to re-prioritize customer experience and personalisation to gain a strong competitive advantage. There is a huge potential for a wave of dissatisfied customers at a time when loyalty is up for grabs.

Travel recovery by region, performance relative to pre-pandemic levels



Source: Skift Research – Skift Recovery Index

Source: McKinsey, 2021

The travel and hospitality sector has already started to see some disruption with BNPL, embedded insurance, payments, and card services tailored for the industry to improve customer experience through affordability, rewards, and flexibility.

Payment & cards



Banking

stripe

BNPL

uplift

FlyNow
PayLater

affirm

Insurance



Inc. car finance



BUMPER

TripActions

TripActions is a platform that helps businesses build, manage, and scale their corporate travel and expense programmes. The company partnered with Stripe to launch TripActions Liquid, its virtual and physical card programme that helps manage travel payments and expenses.

Solution

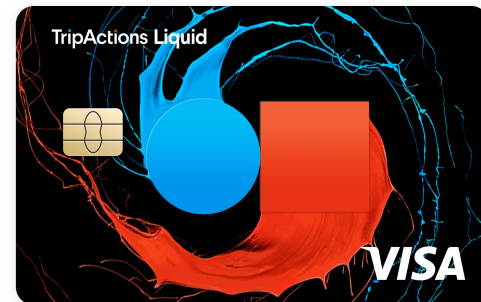
After launching a successful corporate travel management platform in 2015, TripActions looked to expand offerings for its existing customers and new users. The company decided to create a modern alternative to manage employee spend across travel and non-travel categories and eliminate the concept of traditional expense reports. TripActions Liquid is a travel payments and spend management solution with real-time visibility; automated expense reconciliation and reporting; and smart physical and virtual cards with built-in controls. To power TripActions Liquid, they chose Stripe Issuing, which allows companies to create, manage, and distribute virtual and physical cards.

Stripe Products



Impact

By partnering with Stripe, TripActions was able to move quickly: The company turned their idea into an entirely new product line in just six months. Another benefit of using Stripe Issuing is having access to dynamic spending control and being able to have real-time authorisation over every charge, which has saved the company valuable time and resources. Through Stripe Issuing, TripActions' customers are able to experience the same functionality and user experience in 20 countries across Europe, including France, Germany, Spain, and the UK. They saw a 50% MoM adoption rate growth in the first three months and 599X growth in monthly expense volume in the first year.



“Employees are no longer filing expense reports, managers aren’t looking at every transaction, and finance doesn’t have to figure out the context of every transaction and whether it’s in policy.”

Robin Gandhi

SVP for Product and Payments at TripActions

Payment infrastructures are broken

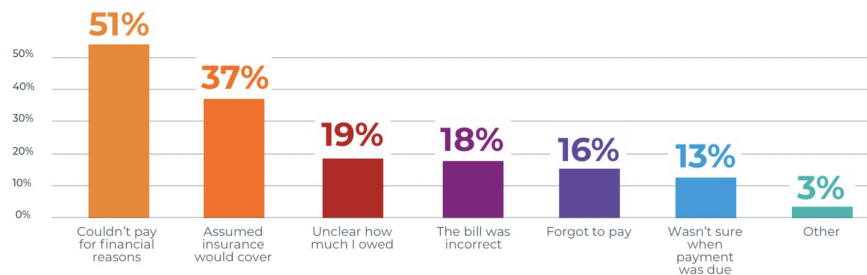
Table 1. An overview of traditional payment methods in health care systems

Payment method	Description	Setting	Degree of bundling
Fee-for-service (FFS)	Retrospective activity-based payment: billing of individual services and patient contacts	Predominant mode of payment for GPs and for outpatient specialist services	<div>unbundled</div> <div>↑</div> <div>↓</div> <div>bundled</div>
Payment per case (diagnosis-related groups)	Prospective activity-based payment per patient, patient classified into groups based on diagnoses and resource use	Payment for hospital inpatient cases in many countries	
Capitation	Prospective lump-sum payment per enrolled patient covering a range of services	Mode of payment for GPs in a number of countries	
Global budget	Prospective lump-sum payment covering a range of services independent of actual volume provided	Payment for public hospitals in a number of countries	

Source: OECD, 2016

Today, it takes more than 30 days on average for a provider to receive payment for their services due to complexities inherent in today's reimbursement models.

HALF OF CONSUMERS HAVE BEEN LATE ON A MEDICAL BILL. HERE'S WHY:



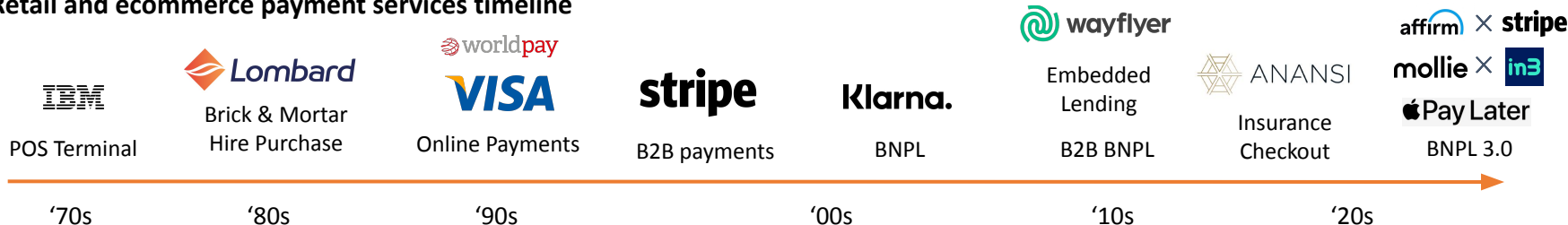
Source: Waystar, survey US 2021

Market challengers examples

	Product	Market
tabeo	All-in-one platform from processing payments, subscriptions to improved CX	Dental UK, Netherlands, France, Italy, Spain, Germany
HelloPatients	Practice management platform, including payments and insurance for patients	General Practice, Clinic US
Lynx	Embedded payment, banking, and ecommerce services for better virtual care	Employers US

Transforming consumer behaviours — retail and ecommerce

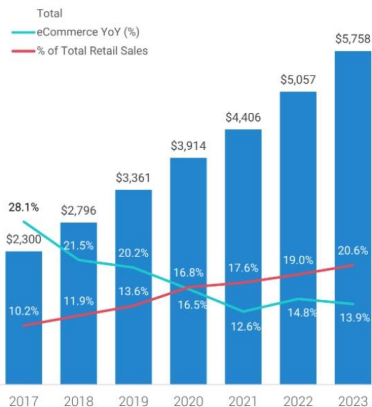
Retail and ecommerce payment services timeline



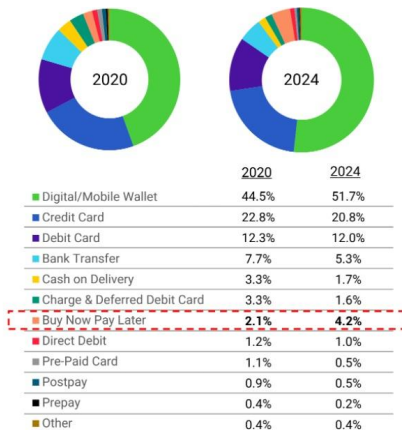
COVID-19 marked a lasting change in consumer behavior

Strong growth in ecommerce led to the rise of BNPL and other payment methods

1) Ecommerce market size (in \$T)



2) Global Ecommerce payment methods

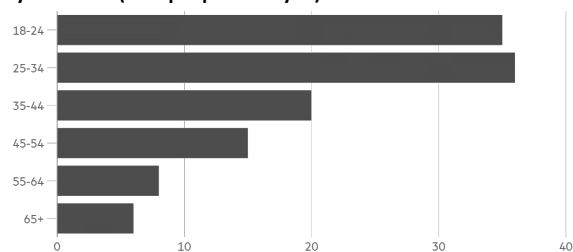


What's next for embedded finance solutions?

With the rise of inflation, default rates and bad debt are expected to increase further for BNPL providers globally. This new challenge for loan providers could prove to be an opportunity for embedded solutions focussed on debt management, collection, and recovery (see logos below).



A third of 18–24 year olds who have used BNPL have been charged late payment fees (% of people surveyed)



Source: FT, 2022

WooCommerce

WooCommerce is one of the most popular ecommerce platforms in the world, enabling WordPress businesses to sell and manage orders directly from their websites. In 2021, WooCommerce expanded its partnership with Stripe to give businesses more features—like subscriptions, in-person payments, and local payment methods—to help them grow.

Solution

WooCommerce set out to expand its platform offering to match the rapidly evolving needs of its merchants. To do this, it decided to launch a brand-new platform, WooCommerce Payments, by integrating several different Stripe products—including Connect, Instant Payouts, Terminal, and Billing.

Products



Impact

In just three months and with a team of fewer than 20 people, the company partnered with Stripe to launch WooCommerce Payments in 17 countries—from Canada to New Zealand and across Europe. Using a wide range of Stripe products, WooCommerce was able to quickly build and launch an integrated payments solution. This expanded financial platform helps WooCommerce capture a greater share of wallet for increased customer retention and allows its merchants to adapt to evolving customer expectations and habits.



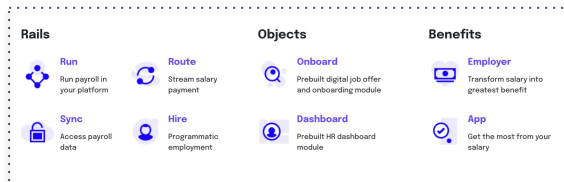


Payroll

Symmetrical is building global payroll API rails, allowing companies to scale payroll internally

Symmetrical helps companies onboard and pay workers at scale. The solution is used by mid- to large-sized flexible workforce companies with high levels of complexity in the way they handle payroll.

Facilitating payroll processes is a key goal for companies that hire internationally, grow internationally, and encounter the problem of paying employees abroad. Symmetrical.ai solves this issue, supporting a fast and uninterrupted pace of growth. The company's vision is to make payroll invisible and enable everyone to hire and pay anyone in the world through just a few API calls.



Lending

In3-embedded interest-free loans, powered by payment service providers (PSPs)

In3 has developed a product that seamlessly integrates with the tech stack of payment service providers (PSPs). Through these integrations, In3 allows PSPs to push a buy now, pay later module to their merchant base. Merchants can in their turn add In3 to their checkout page in a matter of seconds.

This close collaboration with In3 allows PSPs to expand their product portfolio and increase their revenues per transaction significantly. The merchants see a steep increase in conversion rates and basket sizes, while returns are reduced.

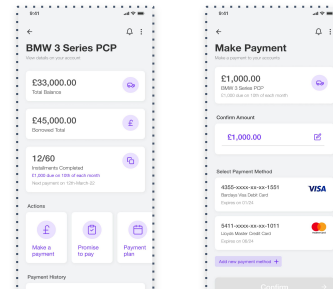


Collections

Webio powering embedded conversational self-service in credit and collections

Webio has developed embedded conversational self-service for debt management and collections, helping to manage debt, payments, and repayment schedules right through the debt cycle from early- to late-stage debt.

Through omnichannel conversational AI a customer in arrears is directed to a branded digital debtor portal to set up payment schedules, make payments and notify the company (e.g., lender, utility, telco, etc.) of their personal circumstances and promise to pay.



Trends and the Future of Embedded Finance

B2B2C



Changing consumer behaviours

As consumer habits are shifting from traditional purchasing methods at brick-and-mortar stores to shopping through social media and online platforms, the financial product becomes ancillary to the underlying sale and no longer the main thing that buyers were looking for in the first place.

For example, a consumer visits the British Airways website to buy a flight ticket and they end up buying travel insurance alongside the flight ticket. Banks and insurance companies traditionally have distribution networks that **push** products, while embedded finance relies on a **pull** logic where the consumer purchases the financial product at the point of need.



Quest toward full financial inclusion

Deeply embedded banking and other financial products usher in new levels of democratized access to financial services, help close the protection gap, and further the quest toward full financial inclusion.



For example, Grab widens access to financial services such as wealth management, digital payments, and lending throughout Southeast Asia for the most underserved.

B2B2B



Verticalization of financial services

Software providers are consolidating their product offering to one-stop shops that are tailored by vertical industries. In doing so, software platforms add financial services to their solutions so they can accompany their clients during more and more steps while they run their businesses and get to maintain a close relationship with them.



For example, Stripe serves clients across use cases from platform and marketplaces, ecommerce, travel and hospitality, and crypto industries and helps them better serve their customers with tailored embedded financial services.

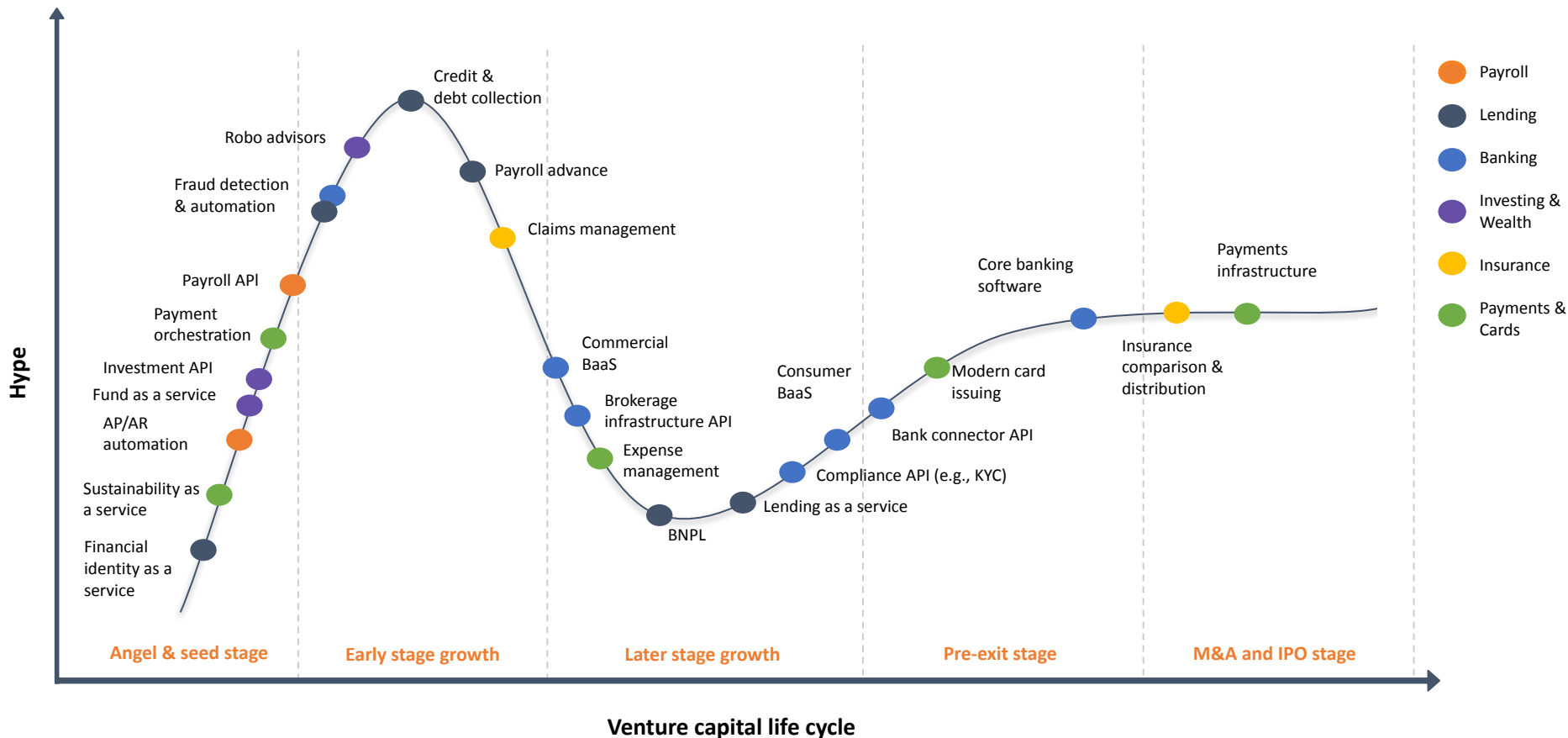


Virtuous product development cycle

Software companies also use their clients' data to build better products overall and anticipate what the businesses need.

For example, if clients have a card through the platform, the platform knows their business expenses and can tie that back to reporting. The software provider can also know the seasonality of a business and proactively offer lending when it's needed.

Embedded finance VC hype cycle



The current macroeconomic climate will shape the future of embedded finance ...

1 Payroll API is the next big thing

Payroll APIs will allow financial product providers almost guaranteed payments at lower interest rates on the basis of “writing” their deduction into the payroll. With the recent surge of the consumer price index, the need from employees for payday loans could also increase.

2 The days of the credit card are numbered

BNPL could become even more appealing to customers with their low- to no-interest offering as credit cards increase their interest rates. This will be compounded by lowered barriers to running card issuance programmes as alternative lenders like BNPLs find other ways to extend their reach outside of merchant checkout page integrations.

3 Embedded finance as a way to fight valuation pressure

Recent times have increased the pressure on tech companies’ valuations. Platforms and marketplaces will accelerate the adoption of embedded finance features as a way to monetise and generate more revenue; e.g., Shopify makes significantly more revenue from its fintech services to merchants than from SaaS subscriptions (SaaStr, 2021).

4 Fast invoice platforms could save businesses from insolvency

Rising costs put businesses under pressure which increases the risk of payment delays and defaults. Invoice finance and funding APIs could solve this problem and improve the resilience of businesses struggling to get paid and pay suppliers and workers in time.

5 Neobanks are entering uncharted territory

The neobanking industry was born in a low-interest-rate environment where challengers could compete on customer-journey automation, personalisation, and predictive analytics. With rising interest rates, high-interest savings accounts offered by traditional banks coupled with BaaS features could look more attractive than ever to customers, and only the most feature-rich neobanks will win.

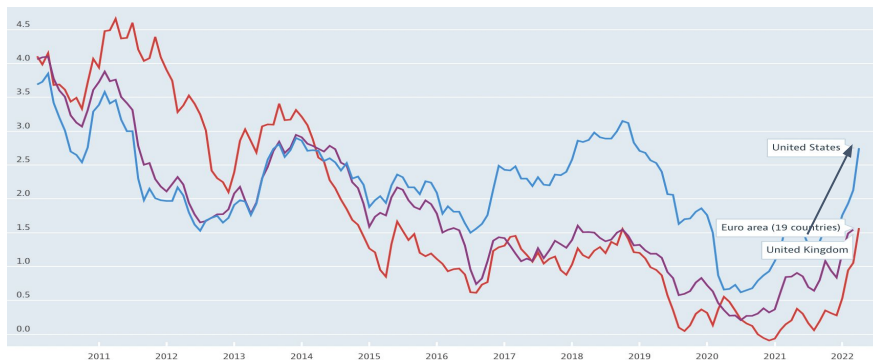
6 Embedded insurance is gaining momentum

P&C insurers are suffering from margin squeeze from inflation, increasing claims costs ahead of premium growth, and this is exacerbated by the loss of revenue from a low-interest-rate environment. The knock-on effect is that this further increases the imperative of growing distribution scale and reducing marginal costs of distribution through less price-sensitive embedded channels (lowering acquisition costs).

7 Wealth tech's resilience will be challenged by the bearish market

With the stock market going down along with the digital asset market, retail investors and high-net-worths might increasingly turn to wealth-technology solutions to customise their investing strategy and help recover their recent losses. Now is the time for investment algorithms APIs and embedded robo advisors to prove their value.

Long-term interest rates are increasing, total % per annum



Source: OECD, 2022

Product development will unearth new opportunities...

8 Differentiation strategy will rely heavily on market segmentation

We expect fintechs and neobanks to double down on specific target verticals and user cohorts, since different markets have different financial needs. Embedded finance solutions will be the backbone to serve customers' needs across segments.

9 Open banking APIs will gain in quality and consistency

Today, open banking APIs vary considerably in quality and consistency. For now, there are discrepancies from bank to bank in the consumer experience of using payment initiation services (PIS) and account initiation services (AIS) which create friction. A world in which they were improved could increase adoption and create new product opportunities.

10 Vertical software platforms could become the OS for SMEs

We're already seeing platforms emerge that are targeting specific verticals (e.g., gyms, beauty salons, takeaways, etc.); these cross-functional systems are providing management tools and capability across: sales, marketing customer experience, and loyalty/retention. Once these platforms firmly become the OS for these businesses, it makes sense for these platforms to also be the place where finances are managed.

glofox



Phorest

flipdish

Conclusion



- ➔ The proliferation of APIs and platformification of businesses is at the heart of the evolution of the financial services industry. Banks are becoming more reliant on technology to stay competitive, and their intrinsic role is refocusing to being underwriters and liquidity providers.
- ➔ While Europe is still early in the exit game compared to the US, the market for embedded financial services is maturing, and we expect growth to accelerate given the progression of the startup ecosystem and investment activity.
- ➔ The ecommerce and retail industry were early adopters of embedding financial services at the POS including lending, insurance, and payment services. Other use cases are now emerging across sectors including travel & hospitality and healthcare. Marketplaces and platforms are 'rebundling' financial services to create frictionless and integrated ecosystems.
- ➔ The B2B2C and B2B2B business models both present significant opportunities across industries. Some of the most promising verticals include credit collection, embedded investing solutions, and Payroll API services.
- ➔ The current macroeconomic situation including increasing interest rates is going to accelerate the use of embedded financial services, and we will see an explosion of use cases across industries.

Stripe's banking-as-a-service APIs, along with our robust payments solution, let businesses—from fintech startups to established platforms—embed financial services directly into their existing software.



Stripe Connect is a payments solution that allows businesses to embed multiparty payments and offer a variety of financial services to their customers, like collecting payments and paying third parties. Businesses earn revenue by collecting fees for the payment services they provide. Stripe Connect is available in Europe, North America, and Asia.



Stripe Treasury's APIs allow businesses to create FDIC insurance—eligible accounts for customers that can earn yield, send ACH or domestic wire transfers, and support check deposits (available soon). Stripe handles upfront negotiations with a network of banks, embeds KYC so businesses don't need to build a costly KYC program, and advises on remaining compliance requirements. Most businesses build Stripe Treasury and Stripe Issuing together to offer their customers a way to store, spend, and manage money. Stripe Treasury is available in the US.



Stripe Issuing allows businesses to instantly build a card program to issue branded virtual and physical cards. Customers use the cards to make purchases while getting faster access to their sales earnings. Businesses get insight into how their customers spend their funds, while Stripe handles card production, fulfillment, and shipping. Businesses earn a share of interchange that's collected every time a card is used. Stripe Issuing is available in the UK, euro area, and the US.



Stripe Capital is a financing solution that enables businesses to offer fast and flexible financing to help their customers grow their business. Many small businesses struggle to get competitive loans, especially if it's difficult to underwrite their business. Stripe removes that barrier by allowing businesses to offer a complete lending program through a single integration. Stripe Capital is available in the US.

The Stripe logo, consisting of the word "stripe" in a bold, blue, sans-serif font.

Scan the QR code to talk to a member of Stripe's team to learn more about our banking-as-a-service products.



Finch Capital is a Thematic Growth Investor in technology companies in finance, real estate, and health run by exceptional entrepreneurs. Our mission is to fund and support the best entrepreneurs creating products that will shape the future of these themes. We leverage our international network and industry expertise to enable our portfolio companies to grow into leaders in their field.

We have a strong preference for teams that have worked together in some form in the past and complement each other on skills and ways of working.

We back companies that are solving a real problem. We want to understand what problem you are fixing, why this is a problem, and why your solution is better, more sustainable, and scalable.

We are actively looking for investment opportunities and welcome suggestions and introductions that fit our strategy and criteria. Please don't hesitate to reach out!



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