

Embedded finance

How to drive revenue growth with
embedded finance



Management summary

From improved conversion rates to new revenue streams, embedding financial services directly into customer journeys can benefit businesses in various ways. The concept isn't new – co-branded payment cards have been around for decades. However, rising consumer demand for easily available financial services is now combining with growth in the number of embedded finance solutions available to corporates. Technological innovation is a key enabler, with digital processes, APIs, and more cloud-based solutions, among others, disrupting the traditional value chain. We explore the status quo of embedded finance in chapter one of this report.

But despite growing popularity, the embedded finance market is yet to fully take off. To learn more, Roland Berger, in collaboration with Solaris, recently surveyed consumers across Europe. The results are revealed in chapter two, including a significant – and rising – demand for embedded finance services, particularly payment cards, digital wallets, savings accounts, and insurance products.

So, what's holding things back? A lack of digital innovation and lack of collaboration within the financial services sector are two key reasons. When asked why they hadn't used embedded finance services, a large proportion of consumers said they either weren't aware of them, didn't need them, or didn't trust them.

In chapter three, we explore the corporate perspective. Our interviews with executives from a range of industries showed that adoption of embedded finance is growing, although many initiatives are still in a preliminary phase. Most start by offering payment solutions but many see potential in providing more products, from lending to insurance.

Based on our findings, we believe now is a good time to evaluate how embedded finance could play a part in your business. This report explains why and outlines how you can explore its significant potential with our proven seven-step approach.

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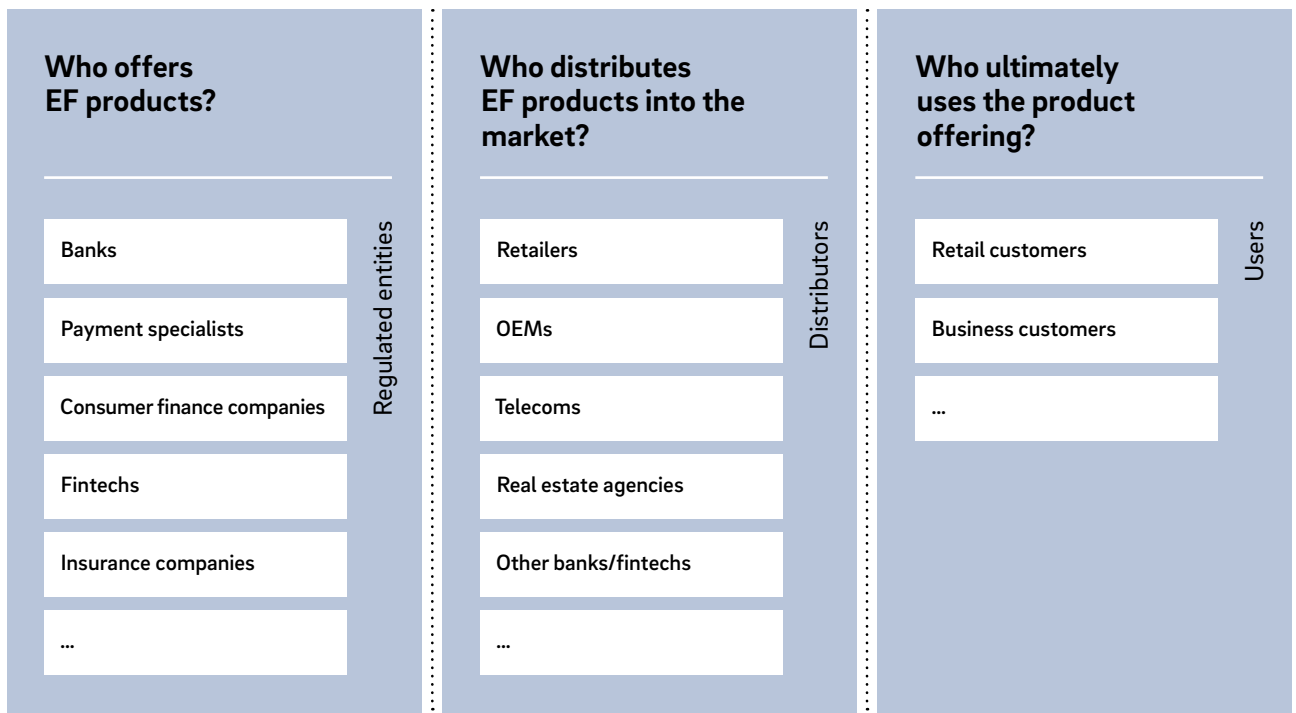
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1. Disrupting the value chain of financial services

Embedded finance has the potential to revolutionize the way we interact with and use financial services. It is designed to make financial services more accessible and convenient for consumers and businesses by integrating them into non-financial products and services. Examples include the full integration of payment options fully embedded into the journey of e-commerce platforms, or lending and insurance capabilities within digital offerings and services.

Embedded finance can benefit numerous parties: it can help financial institutions by expanding their customer base and revenue streams; consumers and businesses can benefit from more efficient, personalized solutions where they need them most; and it can enable corporations to enhance their competitive advantage by offering greater value to customers.

A The three roles of embedded finance



A closer look at the embedded finance market shows it can be broken down into three main roles. → **A**

1. Regulated entities that create the products, such as banks, payment specialists, consumer finance players, fintechs, and insurance companies.

2. Distributors that bring the product to market, including retailers, OEMs, telecommunications firms, real estate companies, and other banks/fintechs.

3. Users that use the product, such as retail or business users. → **B**

B Embedded finance products: A variety of choice



ACCOUNTS

Deposit or savings accounts directly embedded into the ecosystem of a non-financial provider – enabling the customer to bring together their finance accounts directly with an e-commerce company, travel provider, etc.



PAYMENTS

Ability to directly pay through the ecosystem/customer interface of a non-financial provider – avoiding long payment processes and media breaks



CARDS

Credit or debit cards directly embedded into the product offering of other non-financial players – ability to include virtual cards into digital wallet, offering of branded cards to engage in loyalty programs, etc.



LOANS

Financing options directly embedded into the ecosystem of non-financial players – enabling consumers to directly apply for an individual loan when making larger purchases



INSURANCE

Insurance products complementary to a product or service – often related to high-value purchases



OTHER

Additional EF products such as embedded KYC processes, offering of digital assets and brokerage, etc.

How embedded finance can disrupt the value chain

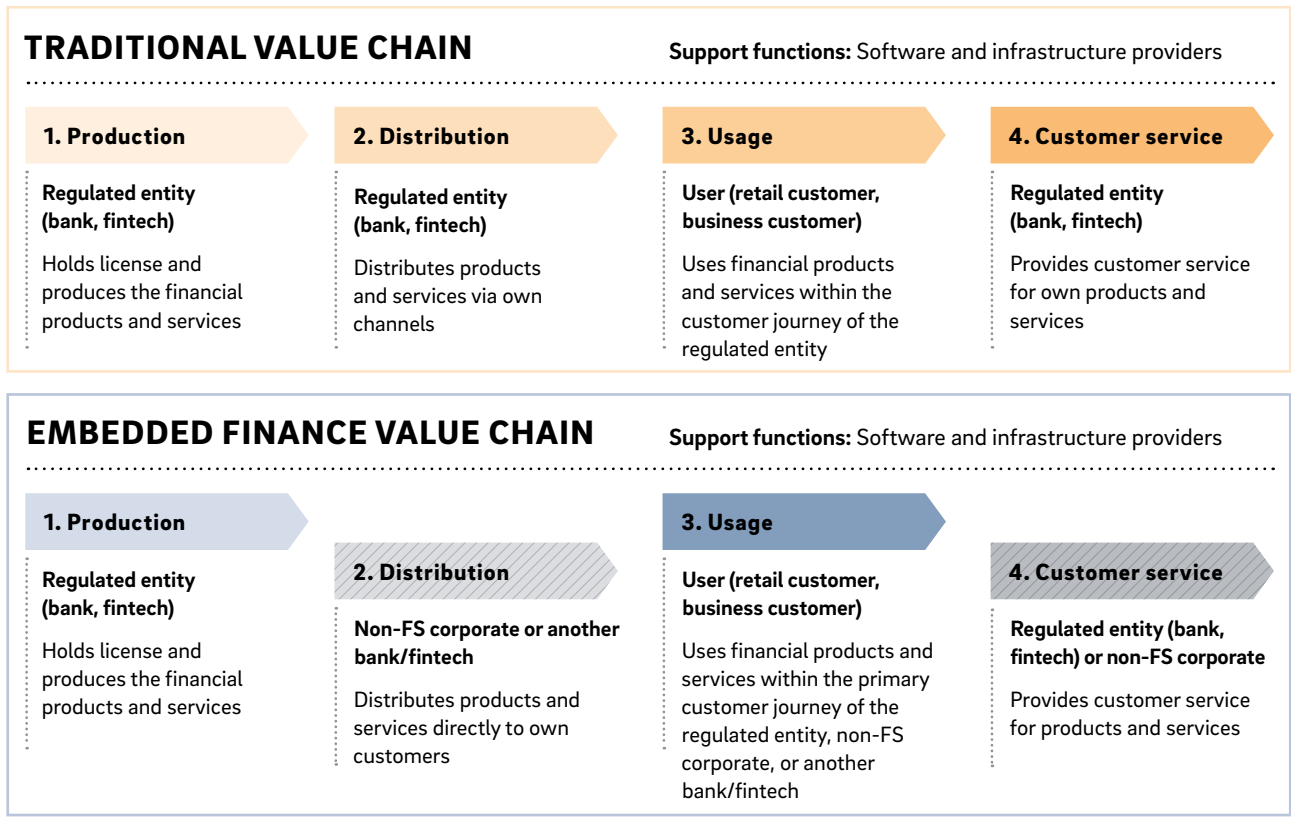
In the traditional financial services value chain, regulated entities generally cover the entire chain: they produce and then distribute their own products and services as well as providing customer support for their users.

But embedded finance modularizes the value chain: once a regulated entity has created a product or service, distribution can also be handled by a financial or non-financial services company, which often markets the product or service to its own customers and under its own brand. These customers then use the financial product or service within the primary customer journey of the distributing company. Customer service is provided either by the distributor or the regulated entity. → **C**

"Embedded finance breaks up the traditional banking value chain and enables non-financial services companies to participate and offer financial services to their customers right where they need them."

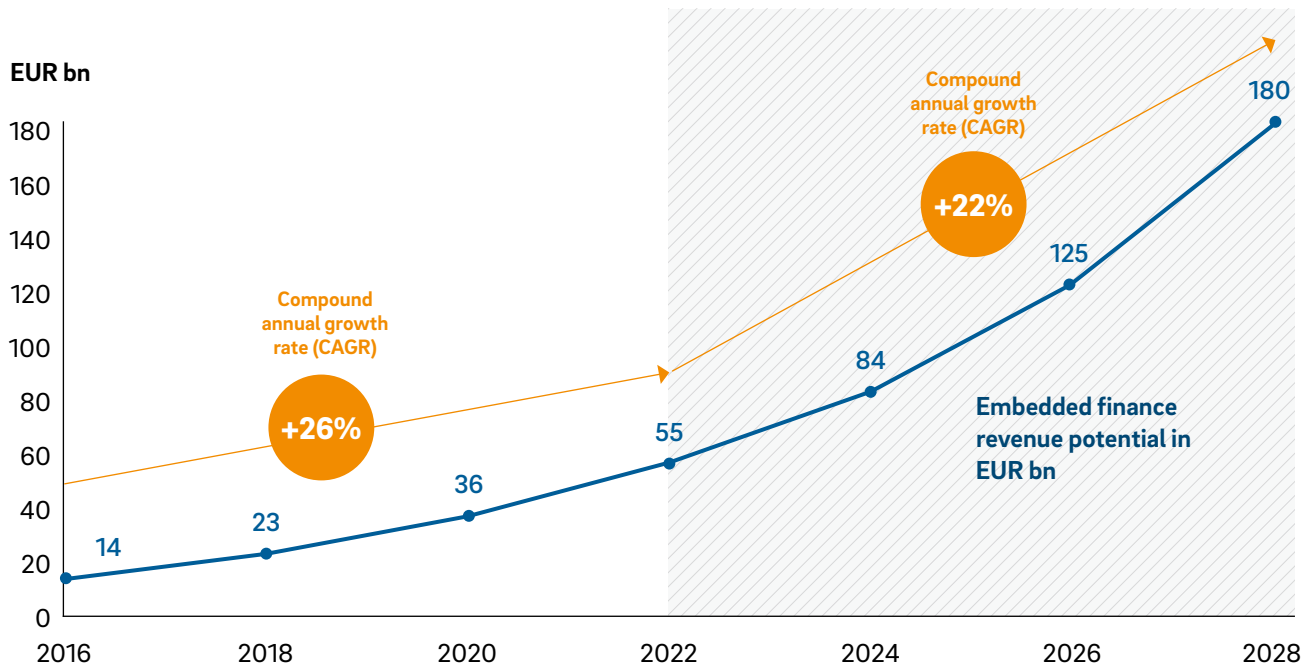
Sebastian Maus, Partner, Global Head of Payments, Roland Berger

C Breaking up the traditional value chain



Source: Roland Berger and Solaris (April 2023)

D Significant potential for embedded finance



Source: Roland Berger, Juniper Research, and Future Market Insights

Huge potential but yet to fully take off

Embedded finance can be applied in many contexts: from e-commerce to real estate or insurance. Today, the market is estimated at just over EUR 55 billion, but by 2028 it could grow to EUR 180 billion due to a variety of factors, including revenue developments, increased digitalization and growth in consumer and SME lending. The market has huge potential for all relevant stakeholders. → **D**

Embedded finance offers several benefits for non-financial services companies. It can increase conversion rates by delivering the right financial service at exactly the right time during the customer journey. It can also increase average basket value, generate additional revenue streams, and improve retention rates by offering a smoother purchasing process, without switching channels, and enhancing customer satisfaction. An increase in customer data

can also deliver valuable insights for personalized offerings.

But while more and more businesses are starting to tap into these advantages, the embedded finance market is yet to fully take off.

There are several potential reasons for this. Chief among them is digitalization within the finance sector. Many banks and financial institutions are still relying on legacy infrastructure, which prevents them from quickly and successfully offering embedded finance solutions.

Regulation also often tends to prevent banks from offering a simple "one-click" purchase of financial products. Open banking and banking-as-a-service (BaaS) solutions have yet to be fully developed; once they are, they will further increase the growth of embedded finance.

A lack of standard application programming interfaces (APIs) is a further factor. APIs enable different software systems to communicate with each other by processing data transfers. This lets companies open up their application data and functionality to third parties like developers and business partners. The EU's revised Payment Services Directive (PSD2) aims to increase competition and innovation in the payment sector by opening up the market to third-party payment service providers, while enhancing consumer protection and security requirements for electronic payments. However, while it defines rules for account information and payment initiation services, there are still no uniform APIs for embedded finance solutions.

Some banks are also struggling to find their role in the new open banking and embedded finance environment. Worried about losing the initial point of contact in the value chain, they are choosing to focus on their own solutions rather than embracing collaboration with non-financial players – despite the potential benefits for both sides. At the same time, many non-financial services companies remain skeptical of embedded finance and are hesitant to be among the early movers.

Embedded finance success stories

Embedded finance may not yet have found widespread adoption, but there are companies in a variety of markets that have successfully demonstrated its huge potential. Co-branded credit cards, such as ALL Accor's Live Limitless program or Lufthansa's Miles & More, enable users to collect loyalty bonuses when spending money.

BNPL (buy now, pay later) solutions from the likes of Shopify or Mercado Libre have become increasingly popular, especially for retail fashion and large purchases such as electronic goods and furniture.

Innovation is also producing further, less well-known solutions that could alter the future of the customer journey and the embedded finance value chain.

"Embedded financial services are becoming increasingly important as more companies look for ways to integrate customer-centric financial solutions into their services. By embedding financial services, companies can provide a seamless experience for their customers, rather than forcing them to go to another provider or redirect."

**Dr. Jens Luetcke, General Manager Germany,
Solaris**



EMBEDDED FINANCE SUCCESS STORIES



APPLE

Apple has recently introduced a high-yield savings account from Goldman Sachs for Apple Card users. Cardholders can grow their daily rewards by automatically depositing into a zero-fee account that offers 4.15% APY.



LYFT

Drivers for ride-sharing company Lyft can use the company's debit card to instantly receive payments and set up an associated savings account.



TESLA

Tesla offers an insurance program that lets customers purchase the appropriate coverage almost instantly. The program offers comprehensive coverage and claim management for Tesla owners.



SHOPIFY

Shopify offers a banking feature to encourage small-business owners to set up a separate bank account for their company rather than use their personal checking and savings account.

2. Understanding the consumer perspective

To obtain a more complete picture of the embedded finance market, it is vital to understand the consumer perspective.

In April 2023, Roland Berger, in partnership with Solaris, surveyed 1,600 consumers across four major European markets: Germany, France, Italy, and Spain. The aim: to learn more about consumer motivations, satisfaction levels and expectations around embedded finance, as well as gauging consumers' adoption and use of existing products and services.

Generally, there are numerous benefits for consumers. Integrating financial offerings into non-

financial products or services that customers already use can deliver faster and more personalized solutions. It can also provide greater financial literacy and control, giving real-time visibility and consolidated financial management options within the context of their day-to-day activities. → **E**

However, as our research shows, the embedded finance sector still has work to do to raise both trust and awareness levels among consumers. The remainder of this chapter details the most important results of our survey.

E Embedded finance: How consumers can benefit

CONVENIENCE

Embedded finance brings financial services directly to consumers within the products or platforms they already use, eliminating the need to separately access multiple apps or services. This can save consumers time and effort in managing their financial needs.

ACCESS TO NEW OFFERINGS

Embedded finance can democratize access to financial products and services, especially for underserved or financially excluded populations. It could allow consumers in emerging markets to use digital wallets, insurance products, or micro-loans via their cell phone, even without a traditional bank account.



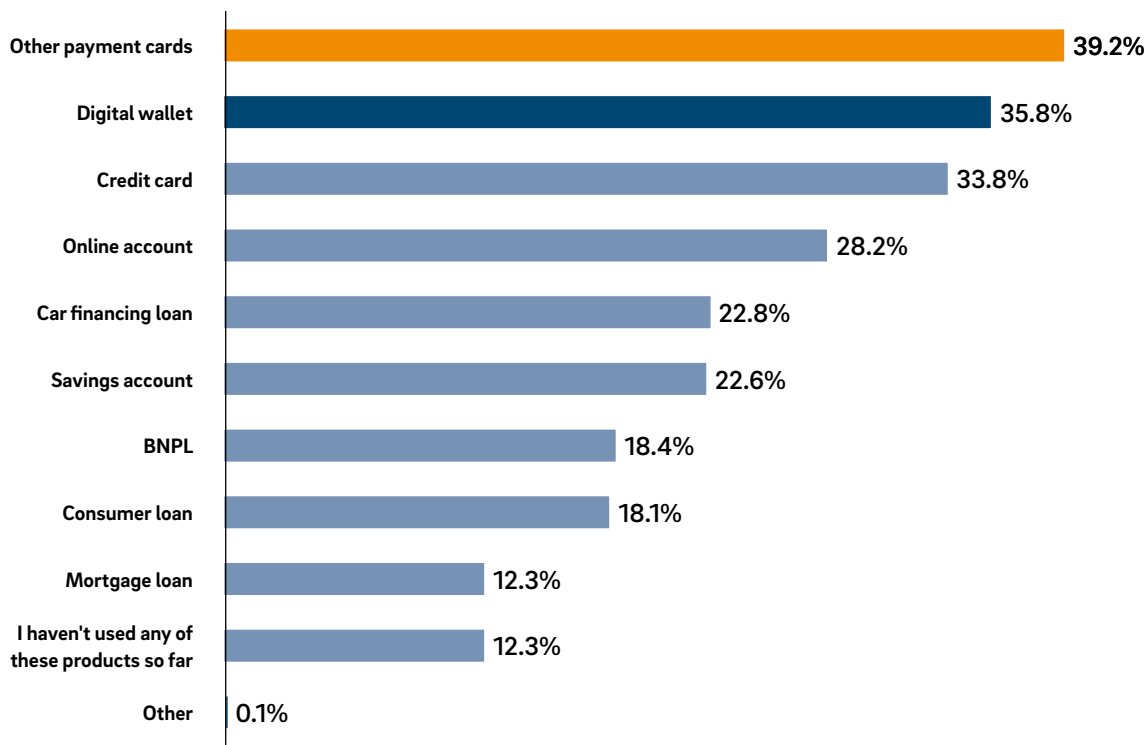
USER EXPERIENCE

Financial services are directly integrated into the existing user interface of a non-financial product or platform. This can provide a more intuitive and familiar experience for consumers, reducing the learning curve associated with using new financial apps or services.

PERSONALIZED OFFERS

Embedded finance can leverage data from non-financial products or platforms to offer tailored and contextually relevant financial products or services to consumers. A ride-hailing app can offer personalized car loans, for example, or insurance options based on a user's driving behavior.

F Which embedded financial product have you used/purchased before? [N=1600]



Source: Roland Berger and Solaris (April 2023)

IN-DEPTH CONSUMER ANALYSIS



Most frequently used products

Payment cards are the most commonly used embedded finance product, with 39% of respondents having used debit or prepaid cards. They are most popular among Italian and Spanish consumers.

This is closely followed by widespread use of digital wallet payments (35.8%), which will likely soon become the most popular point-of-sale method.

Meanwhile, almost one in five consumers (18.4%) has used BNPL, which is now firmly established. In Germany, the figure is as high as one in two consumers. Rising interest rates make savings accounts key to long-term customer loyalty and offer strong growth potential in all markets. → **F**

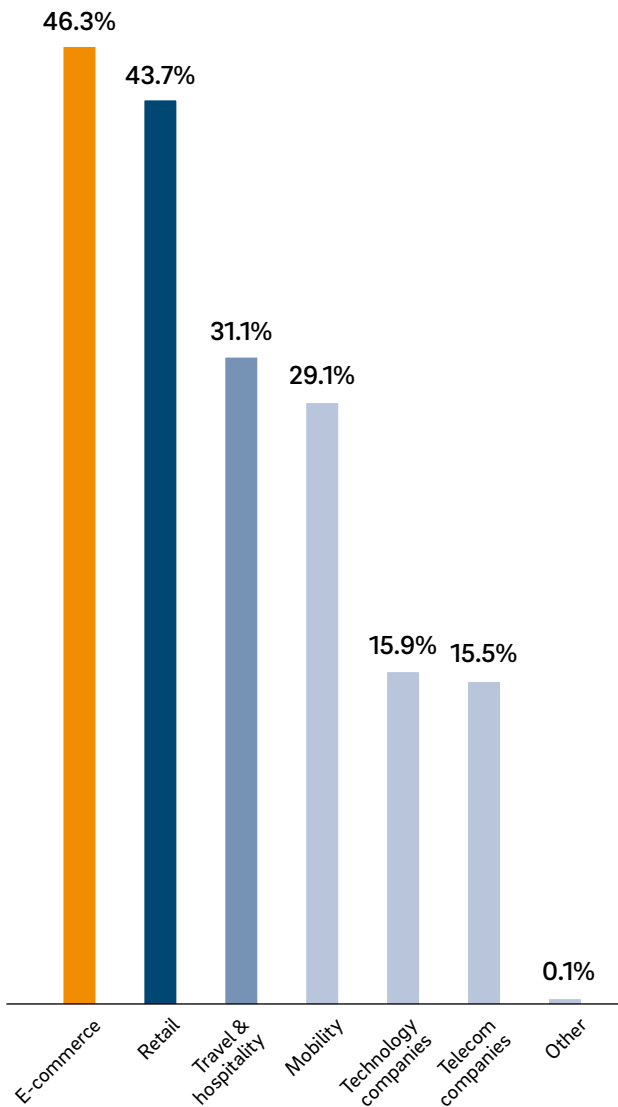
Most popular industries for embedded finance

Unsurprisingly, e-commerce (46.3%) is the most popular sector for embedded finance, with a growing number of businesses turning to its products and services to complement their online offering.

In both Germany and Italy, almost 60% of respondents have used embedded finance in e-commerce. The sector is set for continued growth, with embedded finance being one of its drivers.

Not far behind is retail, with card payments and digital wallets now increasingly widespread. In France and Spain, retail even tops e-commerce, and both markets also show slight growth in retail sales volume, versus a decrease in Germany and Italy.

G Where have you used embedded financial products? [N=1600]



Source: Roland Berger and Solaris (April 2023)

Almost a third of consumers (31.1%) have used embedded finance in travel. Travel in general offers many options for digital payment, of course, while travel providers can become a one-stop shop by integrating embedded finance, especially feature-rich credit cards or BNPL. → **G**

In mobility (29.1%), ride-sharing payments, ticket bookings and lending offers for OEMs are all a key part of embedded finance.

Motivations for using embedded finance products

The most common reason for using embedded finance is that it offers easier access compared to a traditional bank (41% of respondents). French consumers rated this most highly (46.2%).

Almost as many consumers (38.9%) cited availability of embedded finance during the check-out process, highlighting the importance of offering the right product for spontaneous use. This is particularly important for Spanish users (43.5%).

Also important are attached benefits such as cashback and bonus points (31.6%). These also rank highly for Spanish respondents (37.1%). Benefits can be developed as a unique selling point and tailored to specific target groups to boost conversion rates. → **H**

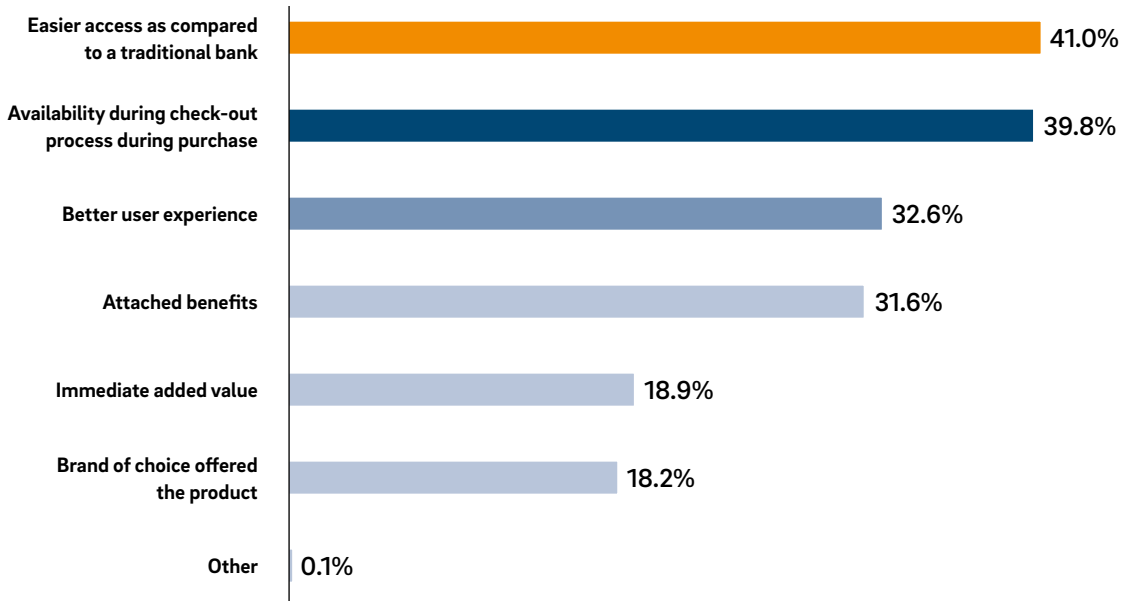
Which products are used in which sectors?

Within retail, credit cards are the most common payment method, closely followed by debit cards. More than a quarter of respondents already pay with their mobile device for retail purchases.

This suggests that branded payment cards (both physical and digital) can really help to enhance a retailer's brand reputation, especially with features like cashback rewards.

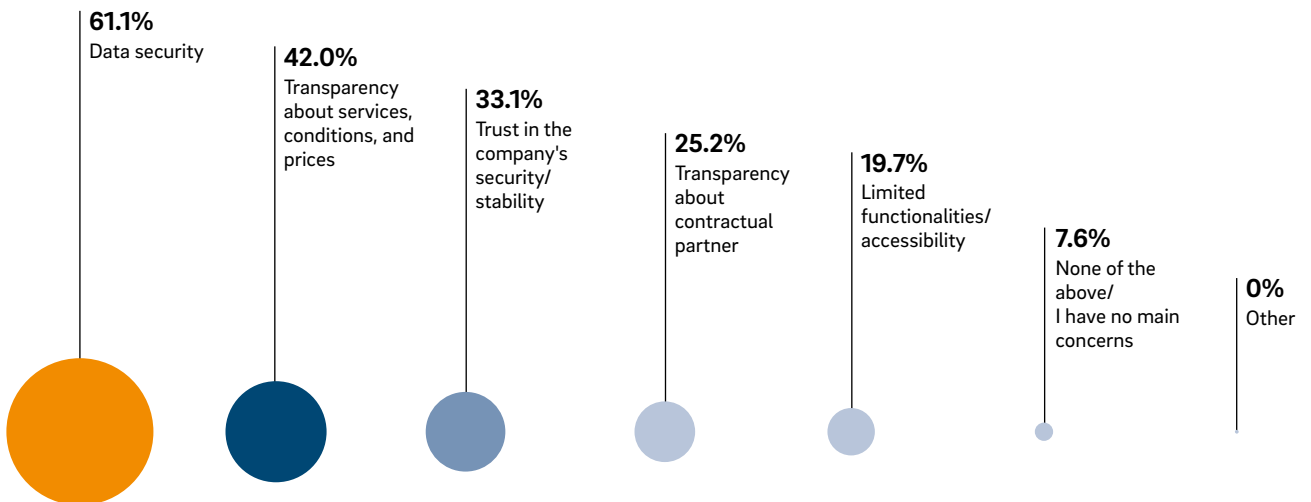
Consumers use digital wallets more than physical payment cards to pay for services with tech providers and platforms. Quick and easy payment authorization via fingerprint or facial recognition as well as the option to integrate BNPL providers are the key factors. Use of embedded finance in this sector will likely continue to

H What motivated you to use an embedded finance product? [N=1600]



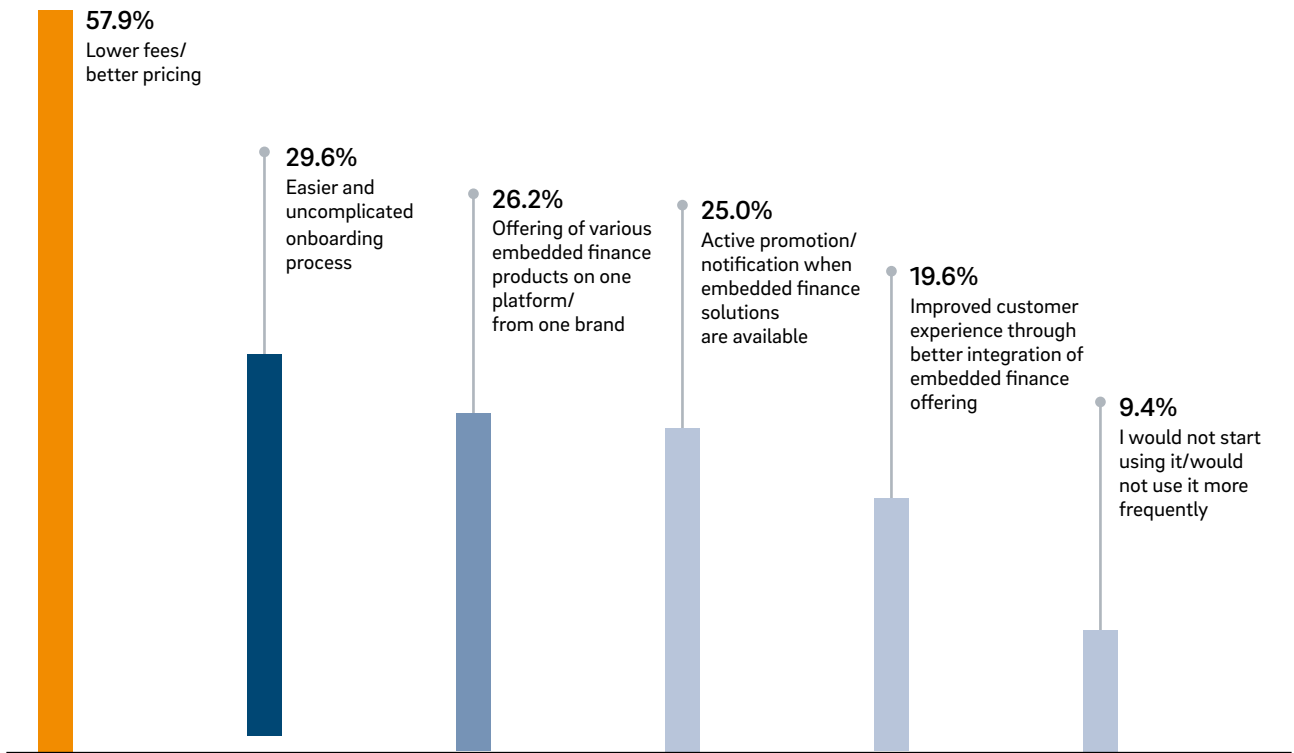
Source: Roland Berger and Solaris (April 2023)

I What are your main concerns when it comes to embedded financial services and products? [N=1600]



Source: Roland Berger and Solaris (April 2023)

J Which developments in embedded finance would lead you to start using it/using it more frequently? [N=1600]



Source: Roland Berger and Solaris (April 2023)

grow as companies look to increase monetization or, in the case of Apple, for instance, look to expand their financial ecosystem.

According to our survey, telecommunications products and services are also mostly paid for digitally. All three market leaders for cell phones (Apple, Samsung, and Google) are also the market leaders for providing digital wallets.

Main consumer concerns

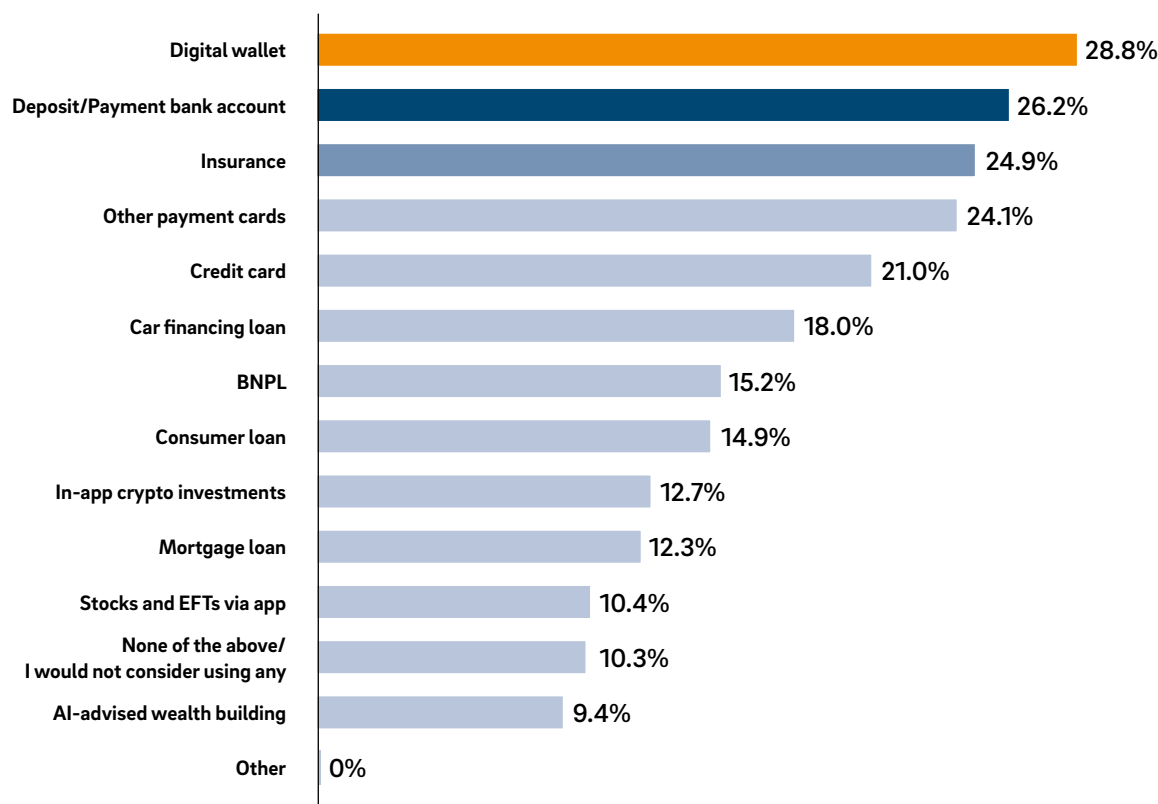
When it comes to consumer concerns about embedded finance, data security comfortably tops the list (61.1%) – a worry shared equally across all four markets. Financial services are heavily trust-based – working with

an embedded finance product provider that has a track record of established trust in the market is valued by consumers.

A simple, transparent set of terms and conditions that use standardized language is also important: 42% of respondents cite it as a concern, although this is lower in Germany (30.3%).

For a third of respondents, trust in the security and stability of the embedded finance provider is a key concern. Stable, trusted brands can benefit by partnering with the trusted fintech to offer smooth, safe digital solutions that enhance their trusted core product(s). → I

K Which new embedded finance products would you consider using in the future? [N=1600]



Source: Roland Berger and Solaris (April 2023)

The keys to more frequent use

Lower fees and better pricing are by far the most important factors behind more regular use of embedded finance (57.9%). German respondents placed less emphasis on this (47.5%) than other markets. Pricing is crucial for consumers, of course, and digital solutions are enabling companies to offer lower prices than before. A company may choose to offer its customers a product without account management fees.

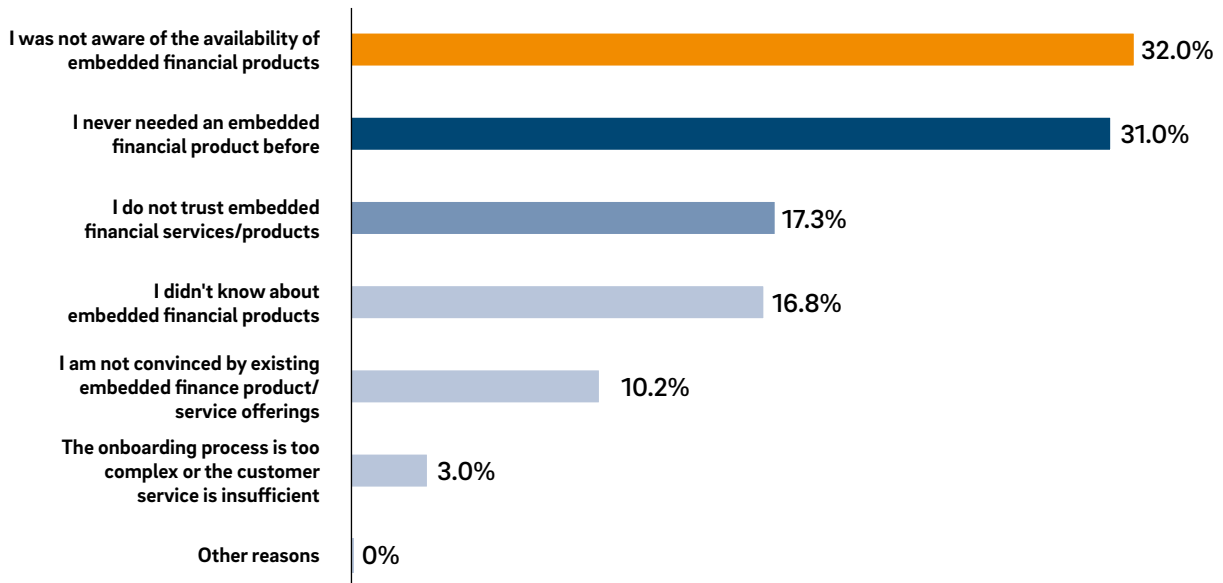
Just over a quarter of respondents (26.1%) would like to see multiple embedded finance products offered by individual brands. The figure is particularly high in Spain (35%). Savings deposits are becomingly an increasingly attractive option. → J

Plans for the future

Consumers are willing to consider a broad range of embedded finance products and services in the future. Digital wallet was the most popular choice (28.8%), emphasizing again the shift from online to mobile banking. Higher interest rates have quickly brought saving back onto consumers' radars – 26.2% would use a savings account in the future. Some companies are already looking to benefit from this.

The third-most popular choice was insurance. This was particularly popular among Italian (30%) and Spanish consumers (31%). Increased adoption of digital insurance would cover a larger portion of existing risks with products that are easier to customize.

What are the reasons you haven't used any embedded financial product before? [N=1600]



Source: Roland Berger and Solaris (April 2023)

Branded credit cards with customer-centric features look set to continue to be important, despite the current downturn – almost a quarter of respondents (24.1%) would consider using them in the future. → [K](#)

Reasons for not yet using embedded finance

There are two main reasons for consumers not using embedded finance products or services. One is a lack of awareness that they even exist, with 32% saying they were unaware of their availability. This is highest in Italy (45.2%) and Germany (41.4%).

Meanwhile, 31% of respondents said they have never needed an embedded finance product. French consumers rank particularly high here (41.8%). It is worth noting that this could change quickly and likely correlates with awareness.

The third-most important reason is trust: 17.3% of respondents don't trust embedded finance products or services. This rises to 20.7% in Germany and 25% in Spain.

Brand trust is important here: Previous research from Solaris shows that the more a customer trusts a brand, the more likely he or she is to use an embedded finance product from that brand. Education, transparency, and customer service are all crucial to establishing trust. → [L](#)



**KEY
TAKEAWAYS
FROM OUR
CONSUMER
SURVEY**

The results of the survey highlight several key points.

- Many consumers are already regular users of embedded finance in the form of branded credit and debit cards, and digital wallets.
- They require a high level of trust in any non-financial company before using an embedded finance product, and are unwilling to pay a premium for it.
- Already on the rise, demand for savings accounts and insurance products is set to grow further, alongside established products.

3. How embedded finance can benefit your company

Embedded finance offers considerable advantages for companies from a variety of sectors, many of which can boost revenues.

Fewer redirects and interruptions make for a smoother, faster and more error-free customer journey, which can produce higher conversion rates. This same smooth process can benefit customer retention. Higher retention and loyalty from offering embedded finance products, e.g. payments, help to keep a brand top of mind as well as enhance trust.

Embedded finance can yield important data for both producers and distributors of embedded finance products. This can offer more insight into customer

spending habits and lead to tailored marketing and cross-selling opportunities for additional revenue streams.

As part of our survey, we conducted a series of interviews with leading executives from different sectors (outside of the financial services industry) to learn more about their views on and experiences with embedded finance.

Adoption is growing across various industries in Europe. By implementing embedded finance, businesses aim to enhance customer experience, increase conversion, and drive revenue.



Based on our interviews, we identified several consistent themes across the industries covered.



MATURITY

Most interviewed companies have started embedded finance initiatives, but most are still in a preliminary phase. All started with embedded payment solutions.

"Embedded finance is highly relevant for us in driving conversion and customer adoption, with offerings like 'buy now, pay later', and instant payment-based solutions such as request-to-pay."

(German e-commerce company)

PARTNERSHIPS

Collaboration is a popular way to implement embedded finance products. Working with specialized providers or financial institutions can help them reduce their workload, ensure regulatory compliance, and improve customer experience.

"Partnering with a white-label service provider has been key to our approach in implementing embedded finance to reduce complexity and regulatory burden."

(European industrials company)

CHALLENGES

Interviewed companies face similar challenges in implementing embedded finance, including legal issues, regulatory compliance, customer adoption, and trust. Managing and overcoming these challenges is crucial for successfully implementing embedded finance offerings.

"Balancing the role of the client-facing service provider and the actual embedded finance service provider was key when implementing insurance for our premium customers."

(European entertainment company)



4

KEY FACTORS FOR SUCCESS

Based on our interviews with executives, we have identified four important elements for successfully implementing embedded finance products and services.

- 1 Provide a seamless product experience**

Embedded finance products should be seamlessly integrated into the customer journey without any media breaks and with convenience for the user as the main priority. Customer convenience is what ultimately drives conversion.
- 2 Ensure a scalable product offering**

The embedded finance offering should be scalable in terms of product range and number of customers for different regions. Technologically advanced companies may be able to ensure such flexibility to quickly react to changing customer preferences.
- 3 Establish trust**

Customers need to have confidence in the security and reliability of both the embedded finance provider and the bank product provider. Trust can be established by demonstrating financial stability and providing transparency about terms and conditions as well as pricing.
- 4 Price products/services competitively**

Pricing should not create any friction in the customer journey. The embedded finance offering can be priced competitively for consumers, ensuring, however, that the embedded product is not priced higher than a regular, non-embedded product.

4. How to enhance your business with embedded finance

Our survey shows embedded finance has the potential to bring growth to companies in a variety of industries. Based on this, we have devised seven steps outlining how

to successfully implement an embedded finance solution, as shown below.

PROCESS STEPS	TARGETS	ROLAND BERGER RECOMMENDATION
<p>1 Identify customers' needs</p>	<p>Which are the relevant client segments?</p> <p>What adds value for my clients?</p> <p>Understand the status quo, define the baseline of the customer journey and identify current pain points.</p>	<p>Conduct a number of in-depth interviews with customers. A survey is often not enough to uncover pain points.</p>
<p>2 Conduct market assessment</p>	<p>What does the (regulatory) market environment look like?</p> <p>Which products are my competitors offering?</p> <p>Obtain information on the current market environment.</p>	<p>Differentiate the market analysis by customer segment and market, as different regulations could apply (for customer type or geography).</p>
<p>3 Define products</p>	<p>What could the future customer journey look like?</p> <p>Which embedded finance products could resolve customer pain points?</p> <p>Define which embedded finance products make most sense at which stage of the customer journey.</p>	<p>Start with a long list of potential products and define the different stages of your customer journey.</p>

**ROLAND BERGER
RECOMMENDATION**

PROCESS STEPS

TARGETS

<p>4 Conduct an internal analysis</p>	<p>What internal capabilities do I need to implement embedded finance?</p> <p>What is in it for us and what are the potential risks?</p> <p>Identify specific internal capabilities to provide the basis for creating an implementation approach.</p>	<p>Identify not only the upside via a business case calculation but also conduct a thorough risk assessment (e.g. critical adoption rate, customer data protection, system reliability, reputation).</p>
<p>5 Develop an adapted operating model</p>	<p>What does my embedded finance operating model look like and which building blocks does it contain?</p> <p>What is the optimal approach for implementation (e.g. partnership, white label)?</p> <p>Create the target functional and technical architecture.</p>	<p>The adapted operating model should be underpinned by best practice benchmarking and expert input. Additionally, it should allow for scalability and additional product offerings.</p>
<p>6 Create an implementation concept</p>	<p>Do I need to engage an external service partner?</p> <p>What are the required steps for implementation?</p> <p>Develop a detailed implementation plan including individual steps, responsibilities, quantification and implementation costs with the external provider.</p>	<p>In the course of provider selection, include key parameters such as expandability of product offering, scalability, provider trust, technical compatibility.</p>
<p>7 Implement</p>	<p>Take action and implement the concept</p> <p>Smooth implementation including project management office governance and tracking and reporting.</p>	<p>Create ownership for embedded finance topics and remain vigilant of changes in the market.</p>

Let's talk

Our team of experts has extensive experience in implementing embedded finance solutions at companies from a range of industries. Please don't hesitate to contact us for further information and to discuss potential solutions for your organization.

WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

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SOLARIS pioneered the Banking-as-a-Service market with a combination of tech and banking services. Today, Solaris is Europe's leading embedded finance platform. We enable businesses to offer digital bank and e-money accounts, debit and credit cards, identification and credit solutions, and digital asset services in the form of cryptocurrency trading and custody. Our comprehensive product catalog allows the flexible combination of financial services for unlimited use cases based on industry-standard, scalable modules.

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