The definitive guide to embedded finance providers

→ A first step towards financial inclusion for SMEs

YOULEND

Embedded finance: why it matters

If you're new to the world of embedded finance, it may seem daunting; adopting any new fintech solution can be complex and expensive, let alone one as specific as embedded finance. But these solutions offer opportunities that cannot be ignored, and that many of your competitors might already be exploring.

→ Data compiled in a recent report by Lightyear Capital shows embedded finance is expected to grow to £164bn in revenue by 2025, a dramatic **>10x rise** from £16bn in 2020.

When it comes to financing, both individuals and small businesses want the same thing: fast and flexible financing that is offered to them at the moment that they need it. Modern embedded finance products meet people where they are and enable them to access and manage financing on their own terms, and at speed.

That's why businesses from all sectors are expanding their traditional models with financial products and services designed to support their SME customers in their growth journey.

They're e-commerce platforms, payment service providers, shipments and logistics companies, marketplaces or freelance platforms, or even tech giants and retail household names, and they all want their merchants, sellers, or freelancers to grow.

They're cutting out traditional banks and financial services middlemen, and making it possible for their customers to cover advertising spending, renovations, stock purchases and salaries, or simply to even out their cash flow when business is rocky. They're seeing an opportunity for shared growth and seizing it.

Here's how you can do the same.

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What is embedded finance?

Put simply, embedded finance lets businesses ‘embed’ financial services into their core product through API integrations or a simple white labelled solution at their customers’ point of need.

Embedded finance is often a quick, simple, and easy to 'embed' within your platform, which explains the ease of the solution as a whole.

One of the most popular uses of embedded finance solutions is to streamline and open up access to funding - making it a much smoother, quicker, and easier process. Whereas before, a consumer or business would need to go through a financial institution to apply for credit, with embedded finance, credit can be accessed in the same place they manage their payments, their digital storefront, or their customer orders.

Embedded finance is probably most well known for its consumer-focused offerings such as buy-now-pay-later solutions, like PayPal’s ‘pay in three’. But embedded finance isn’t just for consumers. In fact, B2B embedded finance has made remarkable steps over the last few years.

The strength of this type of embedded finance solution is that it allows companies to leverage the data that they have on their merchants or sellers, in order to make competitive and highly flexible financing offers.

Because of its flexibility, affordability, and ability to completely integrate into the user experience, embedded finance can powerfully extend the core offering of many types of businesses - including companies that are already in the financial space, such as retail banks, or brokers.

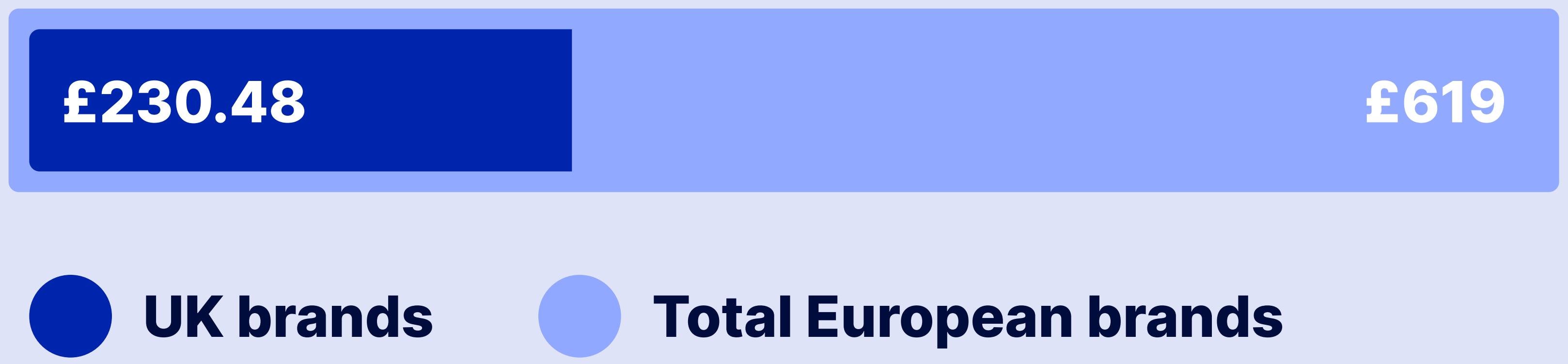
→ With embedded finance, businesses can access the financial services they need, when they need them, within the platforms and interfaces they use in the day-to-day flow of life and work.

A look at today’s landscape

For centuries, financial services were the exclusive domain of banks and financial institutions. Given the high number of restrictions regulating the space, it was challenging for others to explore the possibility of offering these services.

Today, entry barriers for non-financial players are much looser. Open Banking and the increasing popularity of robust APIs fueled innovation in the space, getting us to the current state of the industry. Non-banking institutions are able to function in tandem with banks, and either collaborate or compete, depending on the case.

Embedded financial services by 2026 (in £Billion)
UK brands represent **37%** of the total of Europe



→ 73% of European brands
plan on launching embedded financial services within the next two years.

It’s expected that this trend will continue as more companies, marketplaces, e-commerce platforms, and Payment Service Providers (PSPs) look to embed financial services in their offerings.

Types of embedded finance

→ There are multiple forms of embedded finance. Here are some of the most popular use cases:

BNPL

Buy-now-pay-later offerings are a new line of credit for consumers. Its popularity has taken over credit card usage and is often seen on retail sites.

Insurtech

When purchasing a new product, customers can opt to insure their goods at the same time through the automated processing power of this tech.

Cash advance/ Advances on receivables

This is when a business receives a lump sum of credit in advance based on a sale that was executed but not yet paid, and the repayment fee is established upfront - rather than having running interest.

Revenue-based financing

Here, the sum is paid back as multiple instalments calculated as a percentage of revenue, instead of fixed instalments. The amount therefore fluctuates with income.

Embedded card payment

Like with Paypal, users can link their Paypal accounts to their business bank accounts to streamline transactions.

Embedded investments

Embedded banking programs aim to simplify investing by automatically adjusting stock portfolios based on what the market does.

What to look for in a provider

Businesses want to borrow from trustworthy credit providers that meet their needs. That is the chief concern to keep in mind when deploying an embedded finance solution for your merchants, sellers, or customers. Whether you decide to build these financing products yourself or to partner with a provider who can white-label them for you, the reliability of your solution must be above reproach, as any failure of this ancillary product will immediately reflect on your core products.

If you are interested in comparing 'Buy' vs 'Build' options, take a look at this resource: Embedded finance: Buy or build.
If you are primarily interested in working with an external provider, here are the key aspects to consider.

Qualitative measures

→ **Strong brand reputation:** Ask for references from existing partners in order to check that the provider is trustworthy or reliable, especially if you will be using their services under your own brand.

→ **Certifications:** There are many security and data privacy certifications that providers can pass to showcase their ability to handle even the most sensitive data securely, starting with the ISO27000 series.

→ **Quality of integrations:** not all integrations are created equal. How many fields are circulated between the two systems for each data point? How frequently are they refreshed? Are they easy to implement and audit?

→ **Sustainability:** Is the potential embedded finance solution backed by solid capital providers? Does their team have a sensible product roadmap? Is there a risk that this provider will go bankrupt, lose funding, or otherwise be unable to provide its services to you at short notice?

↳ What to look for in a provider

Quantitative measures

→ **Application acceptance:** if a high number of applicants are usually rejected by the provider, they might not be making the best use of the data that you share with them, or their risk assessment models might be too restrictive.

→ **Revenue:** generated for the enterprise: you might not decide to use this channel as a stream of revenue and decide instead to pass on a lower fee to your merchants, but you might not need to if the provider offers competitive funding products. Ask for forecasts and estimates as early as you can in the process.

→ **Funding size:** Look at average funding sizes compared to customers' average monthly revenue. The provider should be able to offer funding that will make a substantial difference in the merchant's cash flow.

→ **Default rates:** Any provider should have at least some defaults, otherwise they are probably not covering a wide enough section of the addressable market. However, they should still maintain a low default rate, otherwise this might be an indication that they still need to finetune their risk assessment models.

→ **Time to market:** With so much competition, embedded finance providers cannot afford to be late to market, but they also need to be well-executed and trusted.

Risks and rewards: what to consider

→ The risks of an embedded finance solution

Whilst there's an abundance of opportunity, there are of course risks associated with implementing embedded finance solutions:

→ **Sensitive data requirements** - A significant amount of confidential business data is needed to offer this solution. Whether it's deployed in-house or through a partner, companies need to assess the risk and ensure they comply with the different regulations, depending on the type of business in which they operate.

→ **Reputation sensitivity** - We are all a lot more sensitive to perceived injustice or bad service quality when it comes to money. Offering an embedded finance solution might mean that you need to raise customer service standards quite a lot, or only partner with providers who have spotless reputations with their other partners.

→ **Challenges building embedded finance in-house** - Building this solution takes time and specialist skills. Even for businesses already in the financial industry, bringing an embedded finance solution to market is tricky.

Risks and rewards: what to consider

→ The benefits of a good embedded finance solution

Embedded finance is full of opportunity. Here are some of the key areas of opportunity from embedding finance into your platform:

→ **Affordable, flexible, and niche finance services** - Today's customers are always on the lookout for choices that are affordable yet flexible. Embedded finance offers customers user-friendly, flexible, and cost-effective financial solutions. Moreover, they can be further customised to fit the unique requirements of business customers.

→ **New and more accurate risk assessments** - Because embedded finance providers leverage data beyond what traditional financial institutions look at, they can offer more competitive funding offers. This includes both publicly available data such as social media presence or website traffic, and internal data provided by you, the company that wants to embed financial products.

→ **Additional source of enhanced information** - As well as payment behaviour, you can leverage non-credit payment behaviour insight such as total traffic and engagement which can help better estimate future revenue and default risk.

→ **Improved customer satisfaction** - Instant processing of credit applications is a smooth and satisfying experience for business owners - which can promote higher loyalty with the SMEs.

Identifying and deploying an embedded finance solution

The fundamentals of this process is similar to that of identifying any tech provider: you start with defining your objectives and priorities, then you gather information about the available options, methodically evaluate them, and design an implementation process. We'll take a deeper look at defining objectives, and at evaluation processes.

→ Defining objectives

Embedded finance solutions bring different benefits to different types of companies. Depending on your objectives, you will measure success by looking at different KPIs and metrics.

Create sticky offerings to reduce churn: The more products your merchants use from your platform, the harder it is for them to switch to a different provider. Financing offers can help lock them in longer.

Create a better customer experience: An embedded finance application experience can create delight and satisfaction with your merchants if executed right, and improve how they feel about the rest of your offerings.

Acquire new customers by differentiating in a highly competitive market: This is especially valid for industries where most players compete by reducing their ever-narrower margins.

Create new revenue streams: In some cases, embedded finance solutions can create substantial revenue streams for companies that want to keep their core products extremely affordable, or use them as loss leaders.

Increase penetration and returns in the SME segment: This objective applies especially to banks, as they are the most likely to lack financial products adapted to the highly varied needs of small to medium businesses.

Identifying and deploying an embedded finance solution

→ Evaluating options

The following scorecard can be a starting point for an RFP or a call for applications for embedded finance providers.

Customer experience

How will customers or merchants access the products? What will the journey look like? What documents (if any) do they need to submit?

Pricing and offers

Is pricing on the financing offers competitive and fair?
Can the provider give you preliminary offers based on a sample of data provided by you?

Security and data privacy

What security and privacy certifications does the provider have in place?

Continuous improvement

Your partner should be able to develop their solution to adapt to changing needs.

Business vision and partnership

What drives the provider? How do they measure success in partnerships? Is the provider backed with capital sources that can accommodate competitive pricing, multiple geographies, differing risk appetites? Is the provider able to weather volatile economic conditions?

Technical capability

Do they have the technological capability to deliver the products you want right now, and to grow with you? What volumes of information can they handle? What are their SLAs in terms of technical support, downtime, etc?

Integrations

The technology should integrate smoothly with your own to allow for an easy customer journey - which is crucial for embedded finance as the focus is on speed and ease of gaining finance. How does the solution pull data from your system?

Creating financial inclusion for SMEs

Embedded finance brings powerful technical innovations to the payments and financing space, and creates opportunities for many enterprises to extend their core offering and create a stickier, more attractive experience for their merchants and sellers.

More importantly, however, embedded finance can take the financial industry one step closer to becoming a truly inclusive space for SMEs, and that is where most of the value creation will come for the stakeholders of this space.

The current system isn't working well for small businesses. There's often too much friction that stands in their way when they need financing, either in the way of outdated risk assessments, cumbersome and leghty processes, or a complete lack of personalization.

Yet, in the age of one-click ordering and invisible payments, a smooth, effortless journey for these business owners is non-negotiable.

→The ultimate embedded finance use case: e-commerce

If you're an e-commerce platform, you might often onboard new sellers who had been selling informally for a little while or might have an established audience through social media.

When they suddenly come on your platform, it is not surprising to see them trade for only a couple of months and then achieve great success. **And yet, if they went to a bank to raise funds, they would most likely be excluded from consideration for a loan.** In the best case scenario, they would receive offers that are either too expensive, or insuficcient for their need. As they do not have a demonstrated history of trading, and few assets to offer as a collateral, they are excluded from the system.

That is why embedded finance products are so powerful in the context of e-commerce.

Embedded finance for SMEs: a new value creator

SMEs are often lumped together in one bucket, but the truth is they come in wildly varying sizes and shapes, and their needs are not all the same. A bar in a tourist hotspot might be severely limited in their ability to make fixed payments on a loan to a bank. A furniture maker might need immediate funds to take advantage of a sudden drop in price by their wholesale supplier.

Neither of these would be served well by traditional financing offers, but for entirely different reasons.

This is where embedded finance simplifies and solves. Through flexible revenue-based financing, these small businesses can invest in growing, and you can reap the benefits of that growth with them.

Platforms with embedded finance offerings can leverage enhanced information that identifies non-credit payment behaviours and metrics – giving more small businesses access to the financing that they deserve – and, in today's economic climate, desperately need.

→ Embedded banking for SMEs could capture up to 26% of global SME banking revenue by 2025

accenture [Embedded finance for SMEs: Banks and digital platforms]

The way forward

Embedded finance is perhaps the ultimate illustration of the customer-centricity that has become such a central tenet of financial services providers today. Simplicity is now the 'new normal', with merchants able to seamlessly complete multi-party transactions in a single environment.

There's no doubt embedded finance for SMEs has its advantages. Legacy brands like eBay, Shopify, Paymentsense, and Allianz have demonstrated that this offering is on its way to becoming firmly mainstream.

They're creating value for their merchants and staying competitive, as can you. You don't need to let your merchants leave your journey to find financial products, and can instead offer them the support they need right in your environment. And as they grow, you grow with them.

YouLend is an embedded finance provider that enables E-commerce platforms, Payment Service Providers, tech companies, banks, and other enterprise organisations to extend their value proposition by offering financing products to their merchants and SME merchants. By partnering with YouLend, companies can truly differentiate from their competition, and offer a fast and flexible financing experience, without needing to build a new product or put their own capital at risk.

→ www.youlend.com