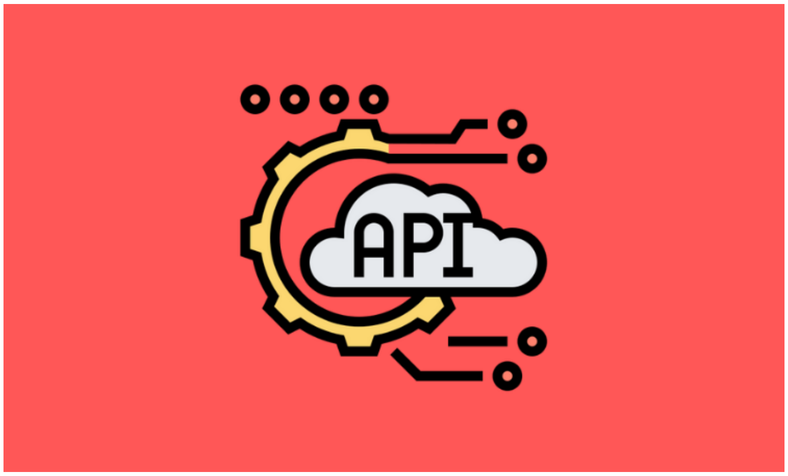
4 CHARTS, MEMBER EXCLUSIVE

Explaining Embedded Fintech in 4 Charts

Embedded finance in fintech has taken center stage for a few years.

Financial institutions need to integrate fintech into their digital banking platforms to compete.

SHEHZIL ZAHID | **APRIL 29, 2021**



Embedded finance has become fairly popular in banking and fintech circles over the past few years. It's a fairly simple concept that refers to 'the integration of financial services into non-financial websites, mobile applications, and business processes,' according to Cornerstone Advisors.

Shopify's partnership with Buy Now, Pay Later company Affirm is a good example of embedded finance. The partnership allowed the e-commerce platform to enable merchants to accept and manage card payments directly through its platform instead of having to go through a third-party payment gateway.

Private-equity firm Lightyear Capital anticipates embedded finance to generate $230 billion in revenue by 2025, up from $22.5 billion in 2020.

embedded finance market size

The increasing integration of financial services into non-financial services poses an existential threat to incumbent financial institutions, but FIs can combat this threat by making two key moves of their own:

1. Capitalize on embedded finance by partnering with non-financial services and creating new distribution channels for banks' products and services.
2. Embed fintech products into their digital banking platforms.

Mid-sized banks may find it difficult to create new distribution channels for their products considering that they sometimes unsuccessfully compete with larger banks to partner with retail platforms. However, these banks can create new revenue streams by embedding and integrating fintech products and services into their operations and systems.

As opposed to embedded finance, embedded fintech refers to the integration of fintech products and services into financial institutions' product sets, websites, mobile applications, and business processes.

Cornerstone Advisors published a report identifying embedded fintech opportunities for banks. These opportunities included bill negotiation services, subscription management, data breach and identity protection, wealth transfer management, and cryptocurrency investing.

The report also shows the dissonance between what services customers want from banks and how interested they think banks are in providing those services — the findings suggest customers want some degree of fintech capability from their banks.

institutional interest in new services

70% of Americans surveyed believe that financial institutions are somewhat or very interested in providing data breach protections and two-thirds are themselves similarly somewhat or very interested in getting the service from their FIs.

However, more than half of respondents believe that their banks are not interested in providing bill negotiation and

However, more than half of respondents believe that their banks are not interested in providing bill negotiation and subscription management services — and yet more than half expressed interest in obtaining these services from their banks or credit unions.

customer interest in new products

Cornerstone Advisors says that one in 10 American adults owns some form of cryptocurrency — and half of them say they've used cryptocurrencies to make purchases.

Similarly, their report shows that 50% of all consumers surveyed demonstrate some degree of interest in using their banks to purchase or invest in cryptocurrencies.

consumer interest in cryptocurrency

Some banks have already begun to capitalize on the potential of cryptocurrency. Quontic Bank, a New York-based community development financial institution, launched a Bitcoin Rewards checking account that pays accountholders 1.5% cashback in Bitcoin on purchases made with the account's debit card.

To stay competitive with consumer behaviors and product innovations, banks need a digital product development and deployment capability that surpasses their current capacity. Instead of single product launches that span years, banks can focus on a series of smaller products and services targeted at specific segments of the market, creating 'an embedded fintech factory,' according to Cornerstone Advisors.

This factory relies on organizational integrity, with a chief revenue officer and supporting staff to create new products as well as oversee their development; identify new opportunities; and take accountability for its revenue and profitability. FIs can also modernize the technology they work with to improve their embedded fintech capabilities.

In short, as the line between finance and fintech continues to blur, financial institutions can stay competitive with fintechs by broadening and modernizing the range of products and services they offer and the market segments they choose to serve.

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