INNOVATION
TRENDS
OBSERVATORY

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EMBEDDED FINANCE

SOCIETE
GENERALE

EMBEDDED FINANCE

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Launched in March 2020 by the Group Innovation Division, the Trends Observatory offers analysis and case studies of the transformations underway within the financial sector, deciphering the major transformations of usage and market behaviour, all impacted by the Covid crisis. Over the course of eight editions, the Observatory has given Societe Generale's experts the opportunity to share their understanding of trends and developments in the financial sector through the lens of digital technology.

Three years later, some trends have strengthened to full maturity, while others have lost momentum or even disappeared. Others have emerged to give rise to new uses. It's this constant transformation that the new editions of the Observatory will address, sharing the views of the Group's experts, but also those of our partners.

SUMMARY

 

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EMBEDDED FINANCE, A FAST-GROWING MARKET

Embedded Finance enables any non-financial company to integrate financial services into its user journeys to create new value propositions.

For several decades, non-bank players have been providing financial services to their users, such as credit cards co-labeled with large retail companies or airlines. Other older forms of Embedded Finance also exist, such as consumer credit offers at points of sale or car loan offers at car dealerships. These examples illustrate the ability of banking players to develop new acquisition channels to reach their end customers.

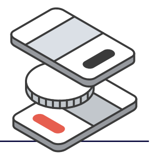
The innovation introduced by the new generation of Embedded Finance lies in the provision of financial products in the digital interfaces used daily by end customers, such as consumer loyalty applications, e-money wallets, or accounting software. For the end customers of these interfaces, the discovery and acquisition of a financial service becomes a natural extension of their experiences, which are themselves non-financial, such as online purchases for an individual or inventory management for a company.

From the non-financial business point of view, i.e. the brand in contact with the end customer, **the benefits of embedded finance are twofold:**

- **increasing customer engagement** by keeping the user on their customer journey, and
- **increasing their revenues.** As such, venture capital management firm Andreessen Horowitz estimates[1] that a Software-as-a-Service (SaaS) company can multiply its revenues between 2 and 5 times by integrating financial services. In the e-commerce segment, RBC Capital estimates[2] that a merchant integrating financing offers at checkout - in the form of deferred payment (Buy Now, Pay Later - BNPL) - increases its conversion rate between 20% and 30% and increases the average sales ticket between 30% and 50%.

In terms of company valuations in 2021, it appears[3] that non-financial companies integrating financial services are valued at higher levels than their peers, at 6.7x sales on average for marketplaces (marketplaces) equipped with financial services (e.g. Uber, Airbnb, Shopify, Jumia), compared to 5.3x for other marketplaces and 4.6x for financial players (e.g. Goldman Sachs, KKR, Mastercard). Despite the decline in valuations in 2022 and 2023, the comparison remains valid.

Non-financial companies integrating financial services are valued at higher levels than their peers



Modern Embedded Finance is therefore the ability for any company to manage and sell financial products. These financial products are largely in FOUR MAIN AREAS:

EMBEDDED PAYMENTS through payment services directly integrated into platforms such as e-wallets, cross-border payment, “B2B” payment.

EMBEDDED LENDING aimed at individuals such as deferred payment (BNPL) and Revenue-Based Financing (“RBF”).

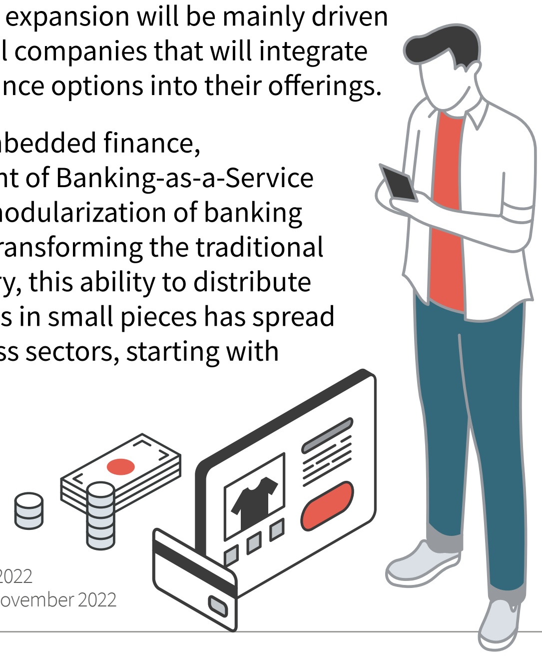
EMBEDDED INSURANCE providing personalised insurance offers integrated into the purchasing process.

EMBEDDED INVESTING or Wealth Management (Embedded Investing): corresponding, for example, to the cryptocurrency investment offer from e-commerce platform e-wallets.

In a report published in October 2022, McKinsey estimated[4] that Embedded Finance generated nearly $20 billion in revenue in the United States in 2021 alone. It is estimated that this market could double in the next three to five years. Having lent itself to the same exercise in the same year, Bain puts[5] forward the figure of $22bn in revenue in the United States in 2021, and a potential of $51bn in revenue by 2026, i.e. an annual growth rate of nearly 20%.

At the global level, a study by Juniper Research states[6] that Embedded Finance revenues could exceed $183bn in 2027, well above their current levels estimated at just under $65bn in 2022. With growth of 182% in 5 years, Juniper estimates that the market expansion will be mainly driven by non-financial companies that will integrate Embedded Finance options into their offerings.

As a pillar of embedded finance, the development of Banking-as-a-Service has led to the modularization of banking services. After transforming the traditional banking industry, this ability to distribute banking services in small pieces has spread to other business sectors, starting with e-commerce.



(1) Andreessen Horowitz, Fintech Scales Vertical SaaS, 2020.
(2) RBC Capital, 2021 Outlook : Payments, Processing and IT Services
(3) Dealroom, Adevinta Ventures and speedinvest, Fintech-enabled marketplaces
(4) Mckinsey & Company, Embedded Finance : who will lead the next payments revolution, october 2022
(5) Bain Capital et Bain & Company, Embedded Finance : what it takes to prosper in the new value chain, 2022
(6) Juniper Research, Embedded Finance : Key Trends, Segment Analysis & Market Forecasts 2022-2027, November 2022

Alex MAYALL,
Investment Principal,
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THE KEY TRENDS OF EMBEDDED FINANCE

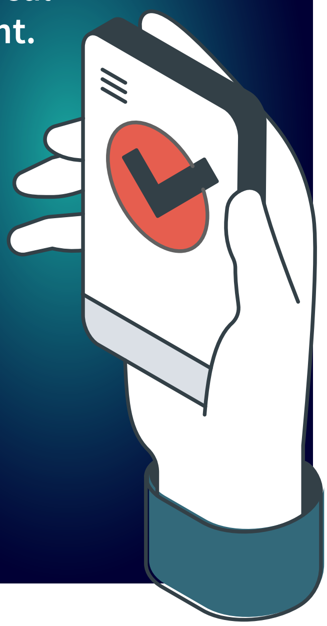
Anthemis, a venture capital firm specialized in financial services, observes three trends in the distribution of financial services outside of the financial services sector itself. Some of this is older trends reaching maturity, some of this is a new phenomenon.

As individuals working in financial services, it is too easy to think about embedded finance from the perspective of the product and infrastructure, and as a result fail to consider which services the finance product will be embedded into. In fact, the entire purpose of embedded finance is to combat the rising expense of direct distribution in an increasingly noisy world by finding either moments of high purchase intent or low-cost ways of reaching the consumer.

Some may like to think of embedded finance as one day becoming universal and ever-present. Instead, different products will suit their own niches of distribution and find their market equilibria regarding customer acquisition through API.

At Anthemis, a specialist financial services venture capital firm, we are seeing three trends in distribution channels for financial services outside of the financial services sector itself. Some of this is older trends reaching maturity, some of this is a new phenomenon. We hope the following examples will prove useful when considering paths to customer acquisition in digital markets.

Some may like to think of embedded finance as one day becoming universal and ever-present.



ECOMMERCE

eCommerce is the natural first place to start, and in many ways is where embedded finance was seeded. Some of the first embedded finance products were those from companies such as Affirm in the United States, or Klarna from Sweden. We know these today as BNPL products. So-called “cart abandonment” is as high as 82% in some industries, a statistic that eCommerce brands are desperate to reduce. The theory is that the right financial service offered at the right time can either increase conversion rates by aiding consumers in carrying the expense or can capitalise on the high purchase intent that is already in place by the time a consumer actually reaches checkout by offering additional services at a markup.

One example of a startup offering something other than lending at checkout is Qover, one of Europe’s leading embedded insurance companies. Through Qover, eCommerce stores can add value to purchases by offering ancillary insurance services to the purchase at checkout. Such services could include an extension to the original manufacturer’s warranty, protection from issues arising from shipping/delivery partners, or full item insurance in the case of high-cost electronics or appliances.

Another example is a company called Flare, which offers, in effect, savings wallets tied to specific purchases at point of sale. Customers going through a purchase journey on an eCommerce website that uses Flare will see an “order ahead” option at checkout. By selecting a time window for delivery days or weeks later than the immediate delivery we’re used to, customers are offered a discount to their purchase.

Outside of an embedded finance context, the services Qover and Flare offer would be too expensive or impossible to sell to customers directly. This is the power of distribution through partnerships and APIs in eCommerce - to be able to upsell to high-conviction customers (Qover) or to unlock basket abandonment through at-checkout incentivisation (Flare).

VERTICAL SAAS

The tactic of upselling an already-acquired customer is taken a step further through the concept of "Vertical SaaS". Already a buzzword many are familiar with, a Vertical SaaS business is one that provides a B2B service found more in a more generic form elsewhere in the market, but tailors its service to a particular vertical. Such businesses can have low Customer Acquisition Cost (CAC), as the specific problems felt by certain types of businesses may be unaddressed by the generic-form service, and they can create a lot of brand loyalty among clients.

This trend is one that is more prevalent in North America than in Europe, as specialisation of services is typically a sign of a more developed market. Two well-known examples of Vertical SaaS are Squire (a business management platform for barbershop owners) and Toast (a point-of-sale and admin platform for restaurants). Both of these platforms offer some form of resource oversight and administration services to a specific category of business. Then, layered on top of that, are further features that deepen the relationship with the client. Many of these features could be financial services products, such as payment collections, payroll, or even lending based on the specific KPIs of the client (see Toast Capital).

In most cases, accessing the acquired customers of a Vertical SaaS business can require a proprietary relationship with the developer. However, when such platforms reach a certain size, they often create partner platforms or app stores through which to distribute. While the data access can be more restrictive than a direct relationship, these can still be valuable places to start embedding financial services.

EMPLOYEE BENEFITS

In Europe, one trend we are seeing is embedded finance distributed via employee benefits platforms. In France, one example of this is Anthemis portfolio company HappyPal. Started to satisfy the requirements of Comité Social et Économique legislation in France, with a suite of tools to manage that, the company also provides a range of perks and benefits to employees, giving them a budget to purchase from a range of providers. These types of perk platforms often have the reputation of a lacklustre list of services, but not so in HappyPal's case, and one glance at the company's homepage makes that clear. By starting with good perks and benefits that consumers love (e.g. Spotify), the customer is activated and can be upsold higher-CAC items such as financial services through embedded finance partners. The platform itself also embeds a HappyPal spend card, in effect capturing consumer spend that would otherwise be transacted through a different card off-platform.

One success story in employee benefits for financial services distribution is UK Anthemis portfolio company YuLife. YuLife started as a Group Life insurance company with a best-in-class companion app that incentivised physical activity and mindfulness through a lush, gamified interface. By walking and meditating, employees earn points that can be redeemed against a suite of perks and benefits with a health and wellbeing twist. Over time, through engaging the consumer with walking challenges, the company has earned the trust to upsell additional insurance products, such as dental cover, directly to policyholders instead of paid for by the employer. This, as well as financial services perks such as wills and top-ups to pensions, are the start of what's possible when you embed into a platform with high engagement and a captured customer base.

These three: eCommerce, vertical SaaS and employee benefits, are just some of the places where financial services can be embedded in the future. Each has its own types of appropriate products to embed, and each comes with its own unique customer base. As long as the basic principle of replacing high CAC with easy access is upheld, such embeddings can be gross-profitable enterprises, and do what's most important: solving customer needs at the point of requirement.

ILLUSTRATIONS OF EMBEDDED FINANCE AT SOCIETE GENERALE

treezor

Bank-as-a-service solutions, the backbone of Embedded Finance

payxpert

scalexpert SOCIETE GENERALE GROUP

E-commerce, a seamless payment journey and financing solutions in the purchasing journey

BANK-AS-A-SERVICE SOLUTIONS, THE BACKBONE OF EMBEDDED FINANCE

André GARDELLA,
CEO,
Treezor

As the backbone of Embedded Finance, Bank-as-a-Service ("BaaS") solutions enable all types of companies, first and foremost corporates, to offer financial services to their customers. BaaS is based on a partnership model in which a regulated player provides financial services such as account management, payment processing and card issuance to third-party companies, which then offer them to their clients under their own brand.
This approach allows companies to offer high value-added financial services without having to invest in costly infrastructure or obtain a regulatory license.

According to McKinsey[1], the total addressable market for BaaS in Europe is expected to continue to grow significantly over the next five to ten years. It could reach between $90 billion and $105 billion by 2030. This growth in the BaaS market is driven to 20% by the continued rise in the power of fintechs, BaaS's historical positioning. However, 80% of the potential for future growth lies in the rapid development of Embedded Finance, outside the financial sector.

Embedded Finance: 5 Reasons to Capture it

Published in March 2023 by Treezor, the White Paper "Embedded Finance: 5 Reasons to Capture it" defines the major trends around embedded finance, which today allows companies to quickly integrate the payment function into their value chain.

FOUNDED IN 2016 AND ACQUIRED IN 2019 BY SOCIETE GENERALE GROUP, TREEZOR IS THE EUROPEAN LEADER IN BANKING-AS-A-SERVICE (BAAS) with a presence in France, Germany, Benelux, Italy and the Iberian Peninsula. Treezor is a fintech regulated in 25 countries as a payment and electronic money institution. The scale-up is also a leading member of international card networks. Its packaged Embedded Finance solution allows companies to integrate white label payment into their offer, without any constraints, by outsourcing the entire technical component in API (from acquisition to issuance), regulatory (KYC, AML-CTF, etc.) and security to an international team of experts..

TO FIND OUT MORE ABOUT TREEZOR :
Your One-stop shop for embedded finance
treezor.com

(1) McKinsey, Banking-as-a-service, the €100 billion opportunity in Europe, September 2022

E-COMMERCE, A SEAMLESS PAYMENT JOURNEY AND FINANCING SOLUTIONS IN THE PURCHASING JOURNEY

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Éric DELARUE,
Head of Retail
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To improve their conversion rate, it is crucial for e-merchants to offer their customers a smooth payment journey and to integrate financing solutions into the purchasing journey. To support their development in Europe, Societe Generale offers a wide range of payment and financing services. The Group works in partnership with Fintechs and relies on embedded finance to enrich its offering of innovative solutions.

This summer, Societe Generale finalised the acquisition of a majority stake in PayXpert. Specialising in payments, this Fintech offers some of the most comprehensive and innovative services on the market: omni-channel, Android payment terminals, alternative payments, multi-currency, international coverage.

In parallel, the Group launched the Scalexpert platform to provide French merchants who wish to develop a range of modular financial services in Europe. This platform now includes three fundamental building blocks: consumer credit, split payment and extended guarantee. It makes it easier for BtoC merchants to integrate and manage their financial solutions through unified APIs and CMS plug-ins. It will be progressively enriched with additional services.

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