



# Embracing the Future of Financial Services

Embedded Finance is  
leading the way. Discover  
how merchants could  
stand to gain the most.

August 2024



# Contents

Introduction	3
A changing dynamic in financial services	4
The Embedded Finance Opportunity	5
The implications for merchants	6
Embedded Finance in action	6
Unlocking the door	7
Understanding the customer	8
Merchant capabilities	8
The commercial business case	9
The choice for merchants	10
The future of Embedded Finance	11
What Visa can offer	11







# Introduction

The financial services market is transforming due to rising consumer expectations, and technological and digital advancements that ease market entry and boost innovation. Looking ahead, we believe that the market will continue to evolve, with no end in sight.



Consequently, we anticipate three key outcomes...



The way financial services are delivered will continue evolving, with channels expanding beyond traditional 'bank-owned' models to include the merchant point of sale (e.g., new lending solutions incorporated into the checkout).



This 'Embedded Finance' will empower merchants to become gatekeepers of who, what and how financial services are presented to consumers.



It will give merchants the opportunity to strategically capitalise on the role they play in the world of Embedded Finance.

In short, we see Embedded Finance as a critical lever for growth in financial services, and a central part of the future customer experience.

This whitepaper details these outcomes, their impact, and how merchants can develop an effective Embedded Finance strategy. We set out why we believe they are best positioned to leverage this technology and meet the expectations of today's digital consumers.



**Mandy Lamb**  
Managing Director,  
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# A changing dynamic in financial services

In today's increasingly digital world, new technologies are shaping and changing our expectations like never before.

There's no better example of this than the mobile devices we carry in our pockets. They're usually with us wherever we go—easy, convenient, and secure.

The result—we expect instant and seamless experiences. Overlay new innovations and advancements, like biometrics and AI, and our expectations rise even further.

Every industry is affected and must adapt—financial services and the payments industry are no exception. Indeed, there's an argument to suggest it's impacted more than most.

Not only this, but open banking and similar initiatives have also made it easier for fintechs to leverage these new technologies and participate in the ecosystem. These new entrants are actively challenging traditional distribution models, with new propositions designed to better serve the modern consumer.



## And it's working.

There's been a considerable shift in the way financial services are being provisioned and distributed.



Instalment credit is a standout example of this, with around half of UK consumers having used digital instalment solutions as of 2024.<sup>1</sup>



And this is not just one-time usage, consumers are actively engaging with them. In just 3 years, usage has grown considerably—from 3% of consumers in 2020, to 40% in 2023.<sup>2</sup>

This particular market dynamic is an example of Embedded Finance, and it's clear that with this enriched consumer experience at the point of sale, merchants are the key beneficiaries.

# 40%

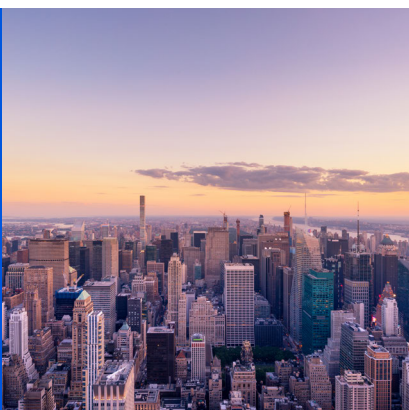
usage of digital instalment solutions in 2024 (up from 3% in 2020).<sup>2</sup>

1. Source: Edwards L & Barber S, 2024, *Buy now, pay later (BNPL) statistics*, Finder, <https://www.finder.com/uk/buy-now-pay-later/buy-now-pay-later-statistics>  
2. RFI, Q1 data

# The Embedded Finance opportunity

Embedded Finance is the integration of financial services into non-financial service environments, such as a merchant's checkout, making these services more accessible and personalised to consumers.

€180bn  
projected EF  
market size in  
Europe by 2028.<sup>3</sup>



Consumers now expect EF at checkout

48%

of UK consumers  
are more likely to buy from  
merchants who offer EF  
options like instalments.<sup>4</sup>

43%

of UK consumers  
would now consider getting  
financial services from  
non-financial providers.<sup>5</sup>



95% of underwriting  
processes for new  
entrants are estimated  
to be automated, using  
machine learning.<sup>6</sup>

This innovation is facilitating an expansion of the way financial services are distributed, traditionally handled through a bank's own sales channels.

While the most obvious and advanced example of Embedded Finance is payment acceptance, other use cases are rapidly gaining traction, such as embedded lending, investment, and insurance services.

Embedded Finance looks set to be a new frontier for growth in financial services. In Europe, it's projected that the market size will reach €180bn by 2028.<sup>3</sup>

We believe this is a consequence of two key drivers:



## Consumer expectations

Consumers now expect EF at checkout, so much so that its availability (or not) is having a significant impact on their purchasing decisions and loyalty.



## Technology advancements

New advancements in machine learning and AI, is making the customisation of user experiences and services provided easier and more cost-effective. This coupled with open access data sharing such as open banking, lowers the barriers to entry for new players and can drive increased innovation. Both will be key elements behind the success of Embedded Finance.

3. yStats, 2024, *Global Embedded Finance Market*, [https://kcenter.visa.com/Documents/Subscriptions/yStats/yStats\\_Global\\_Embedded\\_Finance\\_Market\\_2024.pdf](https://kcenter.visa.com/Documents/Subscriptions/yStats/yStats_Global_Embedded_Finance_Market_2024.pdf)

4. RFI Global, 2023, *RFI Global Consumer Research 23H2 BNPL Council Report*

5. Marqeta, 2023, *Marqeta Study: UK Consumers Embracing Embedded Finance As New Payment Solutions Reach Mainstream Adoption*, <https://investors.marqeta.com/news-releases/news-release-details/marqeta-study-uk-consumers-embracing-embedded-finance-new#:~:text=The%20Marqeta%20study%20reveals%20that,with%20new%20payment%20services>

6. McKinsey, 2021, *The coming opportunity in consumer lending*, <https://www.mckinsey.com/capabilities/risk-and-resilience/our-insights/the-coming-opportunity-in-consumer-lending#>





## The implications of these changes could be significant for merchants



We expect consumers will increasingly focus their attention on these integrated solutions and how they help them fulfil their purchasing needs in a fast, seamless way.



This empowers merchants, who oversee customer experiences throughout the shopping journey, to have greater control.



Consequently, non-financial services businesses will gain leverage to claim a larger share of the value generated by B2C financial services.

## Embedded Finance in action: Retailer loyalty programmes

Loyalty programmes have been a key part of retailers' broader value proposition for several years. They have allowed them to amass a pool of loyal shoppers, and ultimately, a target audience for future offerings. Some retailers have fully leveraged this opportunity and launched their own credit propositions, seamlessly incorporated into their pre-existing loyalty programmes. These propositions allow customers to delay payments interest-free, both online and in-store.

Partnerships with banking institutions, enable retailers to broaden the scope beyond closed-loop use cases, deepening the connection between credit, payments, and loyalty. The result can be a further enhancement to a retailer's ecosystem—enabling them to retain customer ownership, expand their touchpoints and data, and control payment acceptance.

Merchants in particular now have a real opportunity to enrich their user experience, add value at the point of sale, drive customer loyalty and generate new revenues.

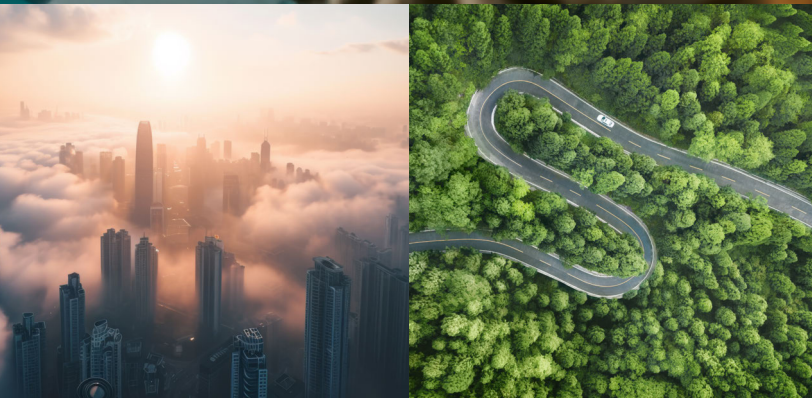


# Unlocking the door

When done well, Embedded finance strategies can unlock significant value for a merchant. So, what does it take to be successful?

We believe there are three key elements:

- 01 Understanding the customer
- 02 Merchant capabilities
- 03 The commercial business case





# 01

## Understanding the customer

Merchants have a wealth of data about their customers—be those demographics, transaction information, or browsing and purchasing habits. These can be used to help shape the way in which financial services are embedded at checkout.

It's widely assumed that for consumers, the more choice the better. However, this isn't always the case. With traditional players, fintechs, and other service providers all offering financial services options, there is a considerable risk that the checkout becomes overly complex.

Too many options can overwhelm customers and be hard for merchants to manage. Therefore, we believe merchants should use customer data to optimise the journey and present only the most relevant payment options, that are:



### Customised

Founded on knowledge about customers, their user preferences, circumstances, and demographics.



### Contextual

Products and characteristics relevant to the customer and/or transaction that is taking place.



### Configurable

Options which can be rapidly adapted to changes in either of the above.



# 02

## Merchant capabilities

In constructing a proposition, merchants need to understand the competitive differentiators they have at their disposal—both in-house and from partners or third-parties.



### Scale

This is a key determinant of profitability, and merchants that embed financial services stand to benefit from economies of scale as these services are used. The other benefit of scale is that with a proven customer base, merchants may have the potential to carry more leverage in negotiations with financial institutions.



### Brand recognition

This can drive adoption of financial services among consumers, who may be cautious about non-banks offering financial services. However, when this is associated with a brand that they know and trust, they are more likely to consider the product. For the merchant, this builds even greater loyalty.



### Data

In today's market, successful propositions rely on personalisation, requiring data to be analysed in real-time. Merchants who invest in data and analysis can gain a competitive edge. Combining proprietary data with banking data from open banking can enhance value propositions, such as streamlined identity or affordability checks.



### Modular tech stack

The break-up of the financial services value chain lets merchants integrate services from various suppliers, creating a modular tech stack. For example, a large merchant could leverage the Visa-owned open banking provider Tink for lending risk assessments, a Banking-as-a-Service provider (e.g., PISMO) for balance sheet lending, and a third-party for loan servicing—all at the same time.



# 47%

of merchants

have trouble with the complexity of managing multiple payout methods and currencies<sup>7</sup>

7. Airwallex, 2023, *Demand for embedded finance soars among SMBs as traditional banks fall short*, <https://www.airwallex.com/newsroom/demand-for-embedded-finance-soars-among-smb-as-traditional-banks-fall-short>



# 03

## The commercial business case

Merchants have started to spot the value in actively managing payment acceptance.



With the control they now have over the user experience and which payment options are presented, acceptance can be a value-driving process that supports their bottom line, helping them capture new revenues.

In doing this, merchants can share the opportunity with the consumer in the form of better experiences, pricing, and personalised solutions. But beyond this, merchants can retain the remaining commercial benefit, whether from direct or indirect revenues.



### Direct revenue opportunities

These are tied to the merchant's control over the user experience and offers presented to customers. As mentioned, they have significant leverage to negotiate with the financial services partner.



Referral and/or transaction fees



A potential share of interchange and future interest revenues



Availability of Embedded finance options can enhance conversion rates.

### Indirect revenue opportunities

These are tied to the Embedded Finance proposition's success in attracting and retaining customers, and driving additional purchases.



Availability of Embedded Finance itself can drive repeat purchases and increased spending



Personalised offers at checkout encourage consumers to add extra items to their basket



The ecosystem Embedded Finance establishes around a merchant's brand can support customer loyalty.

# The choice for merchants

There isn't a one-size-fits-all approach to delivering Embedded Finance

Once the merchant has made the decision to enter the arena, the choice of how to implement it will be determined by internal factors, such as how close they are to the customer, their technical and operational capabilities, and their commercial outlook.



There are three strategies that can be pursued:

Buy, partner, or own.



## Buy

This is where the merchant takes a solution that has already been built by a specialist financial services provider. They will likely be well known and have a proven track record, ensuring a high degree of consumer trust and credibility. Also, the implementation and ongoing maintenance effort will likely be minimal. However, the merchant will lose some control over the customer relationship and experience, as this will be shaped by the financial services provider.

## Partner

Here, the merchant will partner with the financial services provider(s) to deliver the Embedded Finance solution and experience. This approach means that they can leverage their own data and brand assets to expect a greater share of value, while still outsourcing the core activities to their financial services partner(s). They also maintain a focus on the user experience, and position themselves as an acquisition channel for the financial services specialists.

## Own

With this strategic approach, the merchant will invest to develop the solution themselves, and fully control the technology underpinning the checkout experience. They will need to take on other core lender responsibilities, such as affordability and risk assessments. From a cost perspective, it's the most expensive option, and should the solution involve lending, it will also require a capital investment.

However, the benefits can also be greater. The merchant now controls the entire solution and customer experience, as well as the pricing and all other commercial aspects. They maximise the revenue potential and retain ownership of the customer relationship, creating opportunities for future sales.



# The future of Embedded Finance

When Embedded Finance is discussed, it's often in the context of the digital economy, primarily due to greater innovation and easier implementation.



While early adoption has focused on digital channels, it's the offline environment where the bigger opportunity lies, accounting for more than 70% of retail sales.<sup>8</sup>

Unsurprisingly, therefore, these channels are the focus of much innovation, led by developments surrounding the Internet of Things (IoT).

When you think about the world we live in, and our homes, we're increasingly surrounded by connected devices. These devices are revolutionising the checkout process, decentralising it from traditional stores and websites. Instead of being a visible transaction point, checkout is now seamlessly integrated into physical IoT devices, making it almost invisible. The result is a 'hybrid' environment, with an automatic, instant checkout.



## What Visa can offer

With our wealth of expertise, our long-standing relationships in the field, and our suite of innovative technologies and services, Visa can help you deliver and implement an Embedded Finance solution that can satisfy the expectations of today's consumers.

Whether you need help in the early strategy development phase, or are more advanced in your thinking and just require support in getting to market, we can work flexibly around your needs.

For merchants, this means rethinking their checkout strategy. There will be more customer touchpoints and data available, which can be used to shape the solutions offered with personalisation options.



Reach out to your Payment Service Provider to find out more.

8. Office for National Statistics, 2024, *Internet sales as a percentage of total retail sales (ratio) (%)*, <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi>