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How embedded finance benefits all players

By Vincent Mouret, SVP product and marketing, IDEMIA

Using embedded finance is a 'win-win' for traditional banks as well as non-financial companies. The former can access new markets while the latter are able to offer a seamless payment experience. This collaboration is underpinned by Banking-as-a-Service (BaaS) and Card-as-a-Service (CaaS) models.

The value of embedded finance

Embedded finance may be one of the top three buzzwords currently doing the rounds of the financial ecosystem. In simple terms, it is the selling of a financial product by a non-financial company, weaving seamlessly into its digital end-to-end customer journey. This idea is not really new – think about a retailer offering to finance appliances, or an airline offering credit cards. The novelty that embedded finance offers is a seamless, digital, fully-integrated experience in phase with today's customer expectations. Consequently, the embedded finance market is forecast to be worth over $7 trillion by 2030[1], twice the combined value of the world's 30 biggest banks!

BaaS extends companies' reach and access

Banks possess charters which allow them to do business in the financial services industry. They also have expertise in navigating the sector's regulatory and compliance complexities. Both are tricky for emerging financial services providers to acquire – let alone having to build IT infrastructure from scratch or to buy a bank. Non-financial companies can access and offer financial services through BaaS models where banks provide them with access to regulated infrastructure.

In an embedded finance model, the non-traditional financial service provider acts as the 'customer front' and financial product/service distributor. Banks are the financial engine and use this additional channel to provide services at scale and at the lowest possible cost. This arrangement leverages their existing back end without the need to market products through their own distribution networks. Hence, the potential for a win-win situation.

CaaS offers bright days ahead for cards

The traditional private label credit card model has been and remains an important part of card issuing. The question is how this new wave of embedded finance will impact the future of cards. There are many reasons to believe that it has the potential to unleash huge untapped potential for card issuance.

Cards can benefit embedded finance providers in many ways. Use cases include instant payouts, loyalty points redemption or scaling merchant acceptance. A perfect example is the Uber Pro Card which gives Uber drivers cash back on gas or electric vehicle charging (when drivers use the card to pay) and provides drivers with free automatic cash outs.

However, issuing a card is not as easy as it appears, especially from a compliance and regulatory perspective, and this is where Card-as-a-Service comes in. In the same way that BaaS takes a lot of the complexity out of banking, CaaS takes the complexity out of card issuance, making it easier for non-financial players – particularly startups – to issue cards and bring a significant untapped card market into play.

During the past couple years, some of the world's most iconic digital companies have launched groundbreaking physical payment cards and allowed for new card design possibilities. For example, customers can design their own doodle that will then appear on their card. Banks offering CaaS can leverage this hyper-personalisation trend to climb up the value chain. These issuers may also tap into new revenue streams with the adoption of multi-application cards and move to a position of even greater value.

Last but not least, the next big step for BaaS and CaaS players might very well be to seamlessly weave adjacent services such as card activation and digital PIN management into the overall card issuance experience, hence creating and monetising value-added services for embedded finance providers. ■

[1] *Embedded Finance: a game-changing opportunity for incumbents, Simon Torrance, 2020*

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