

Embedded Banking: a new frontier?

An introduction for Bankers and non-financial businesses

Business 3.0

What's Embedded Finance?

Embedded Finance in Action

Why Now? + Real Examples

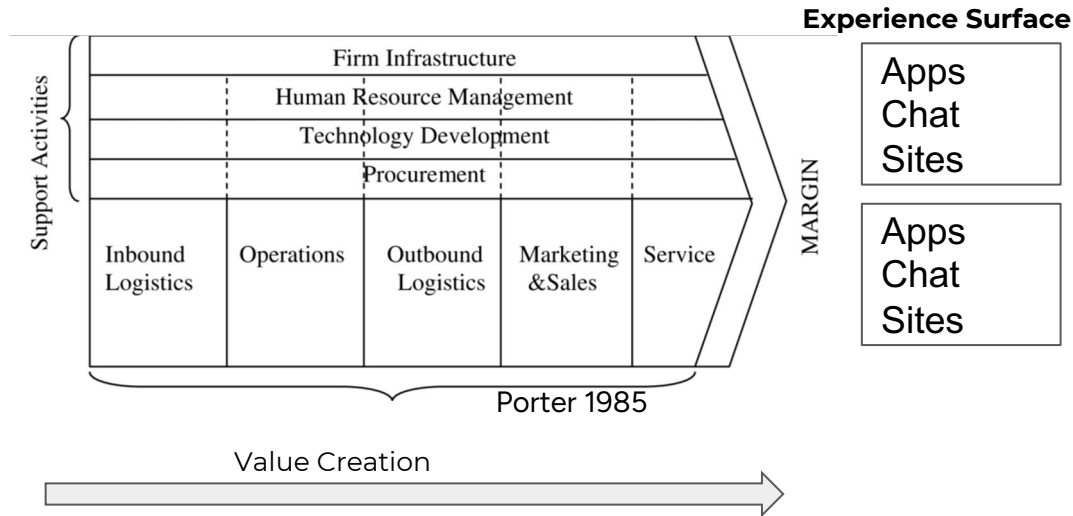
Getting Started

Not So New After All

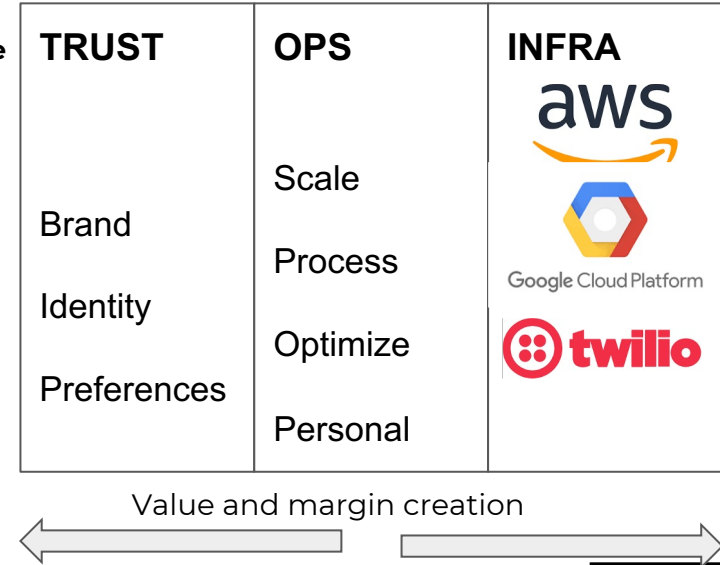


How has business changed in the past 30 years?

Traditional Value Model



Digital Value Model



Everything as a Service Model



What has caused this change?

Internet

Cloud Computing

Mobile

Is this the next driver for change?



Embedded Finance



What is happening in the world today with new finance?

United States

- Fintech leader with platforms like Apple Card, Uber, Shopify
- Infrastructure: Stripe, Marqeta, Plaid, Galileo

United Kingdom

- Open banking pioneer, strong fintech regulation (FCA)
- Key players: Revolut Business, Railsr, Starling BaaS

Germany & France

- Europe's embedded finance growth hubs
- Notables: Solaris, Mambu (DE), Qonto, Lydia (FR)

Nordics

- Digital-first consumers, advanced bank APIs
- Klarna & Tink as infrastructure pioneers

Singapore

- Asia's fintech hub; government-led innovation (MAS)
- Super apps: Grab, Sea Group driving embedded finance

India (*Fast-growing*)

- UPI-led digital ecosystem, large market potential
- Razorpay, Paytm embedding services into core

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Not a fintech or bank

New products, not just
open banking

When **technology or brands**

Not co-brand or affiliate

seamlessly integrate **financial products**

to **increase customer value**

No customer value then no
gain from Embedded Finance

stapes X

The Bank of Coffee (the first real example)

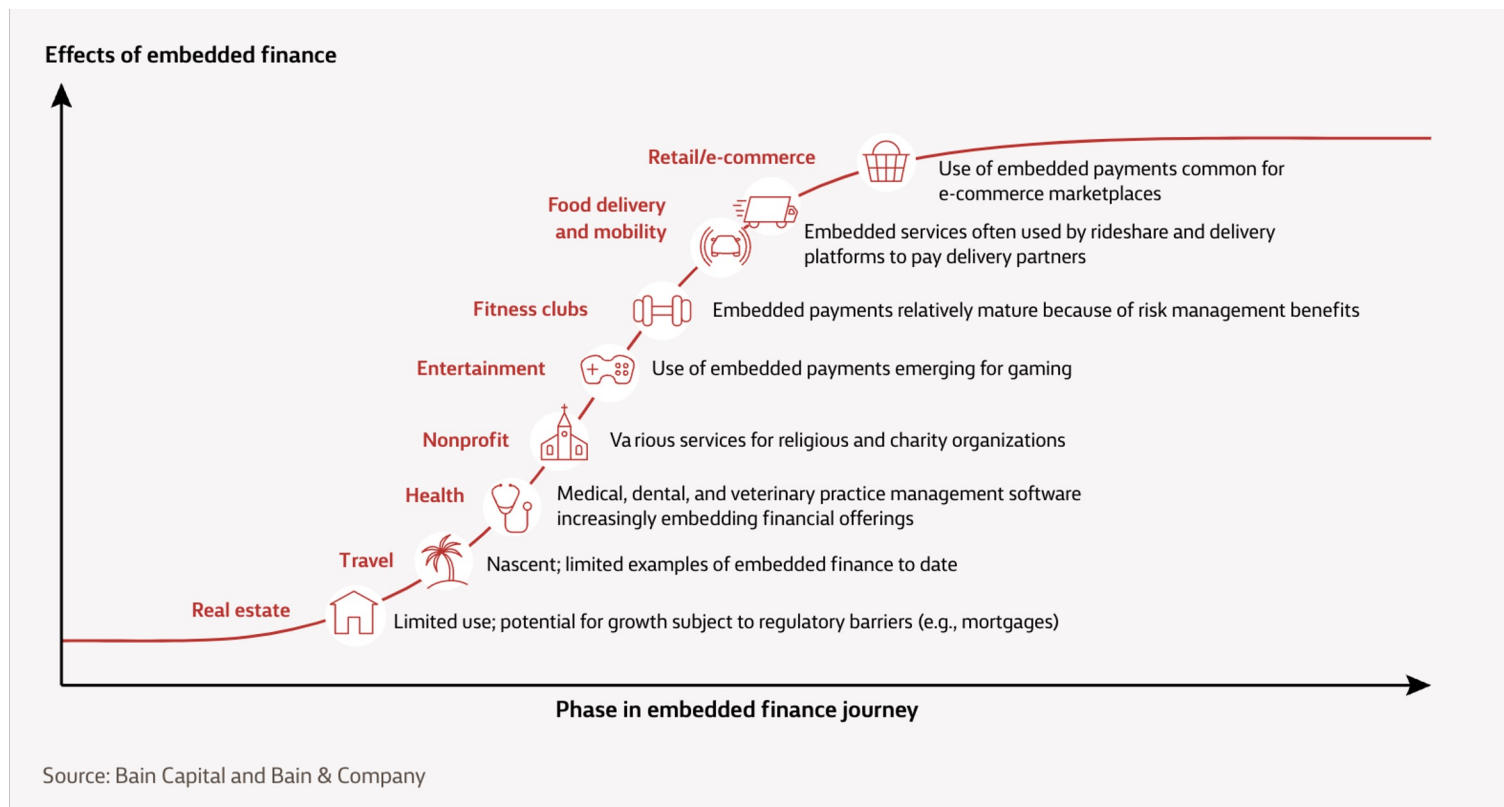
Starbucks launched a payment card in 2001 and mobile app in 2009.

Around these two products, Starbucks built a loyalty and reward super machine.

Today, customers store more than \$1.6 billion on their Starbucks wallet.



Where is it being applied



What can be embedded?



Embedded Payments

Move money when you need to



Embedded Banking

Hold money and bank as you need to



Embedded Insurance

Protection when you need it



Embedded FX

Conversion you control



Embedded Lending

Financing when needed



Embedded Investments

Invest when convenient

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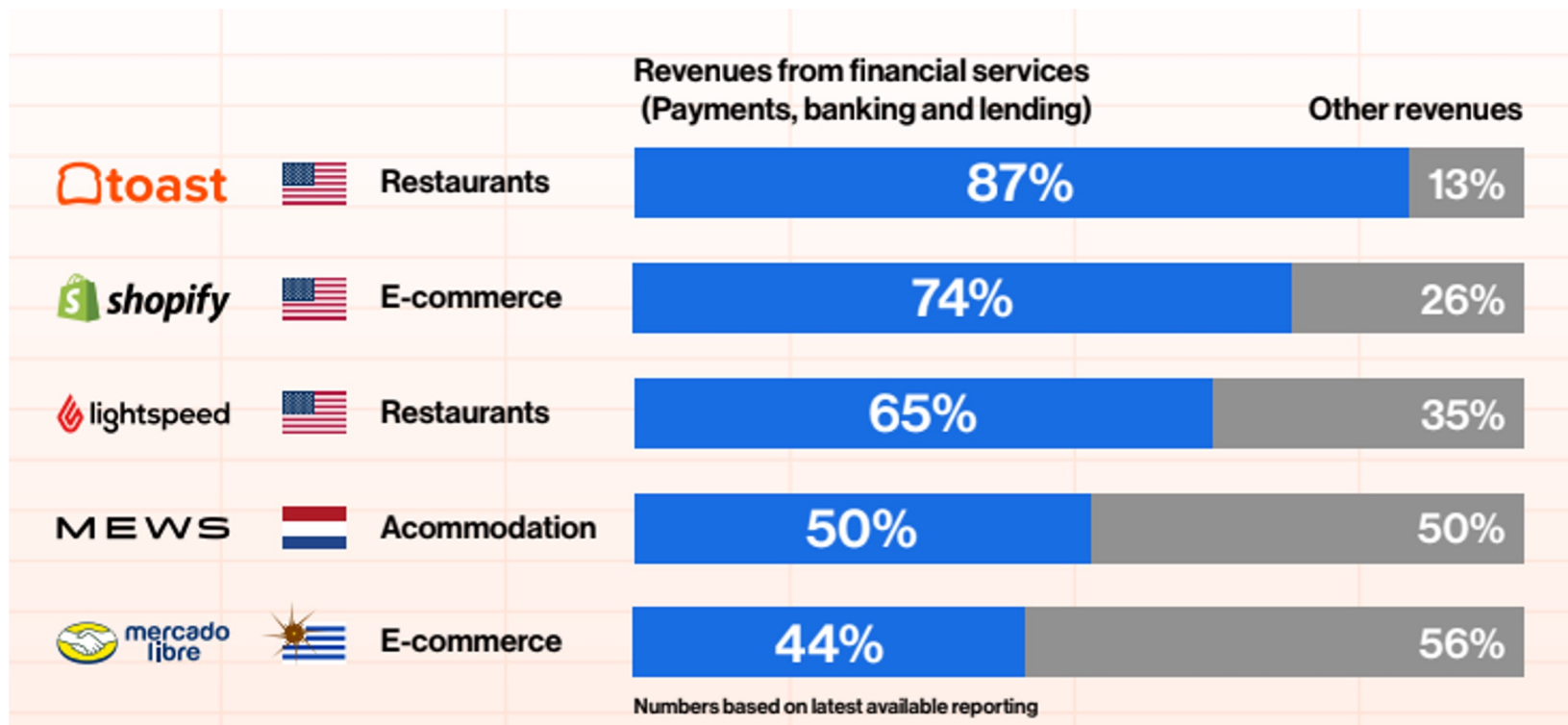
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Who's gaining from Embedded Finance



Source: Lars Markell

Common traits of the current embedding leaders



Typically B2B

Large
Existing user
base - strong
existing
product

Product is
transactional

Data
availability

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1. SaaS business model:
user adoption saturation

2 .Platformification,
Commoditization and
"Copertition"

**Why
now?**

3.Changing expectations
and value perception from
customers/consumers

4. Regulatory Change -
Durbin Act (USA) limited
fees on cards creating a
more level playing field for
smaller banks

SaaS revenues are declining

ProfitWell B2B SaaS Index CAGR

Here we're looking at the aggregate MRR CAGR of all B2B SaaS companies on ProfitWell Metrics, with their MRR tracked since January 1, 2022. Each data point is the growth rate of the MRR index in each month, annualized (not adjusted for inflation).



SOURCE: PROFITWELL BY PADDLE, SUBSCRIPTION INDEX AS OF 07/01/2024

paddle

stapes X

Bank Decomposition

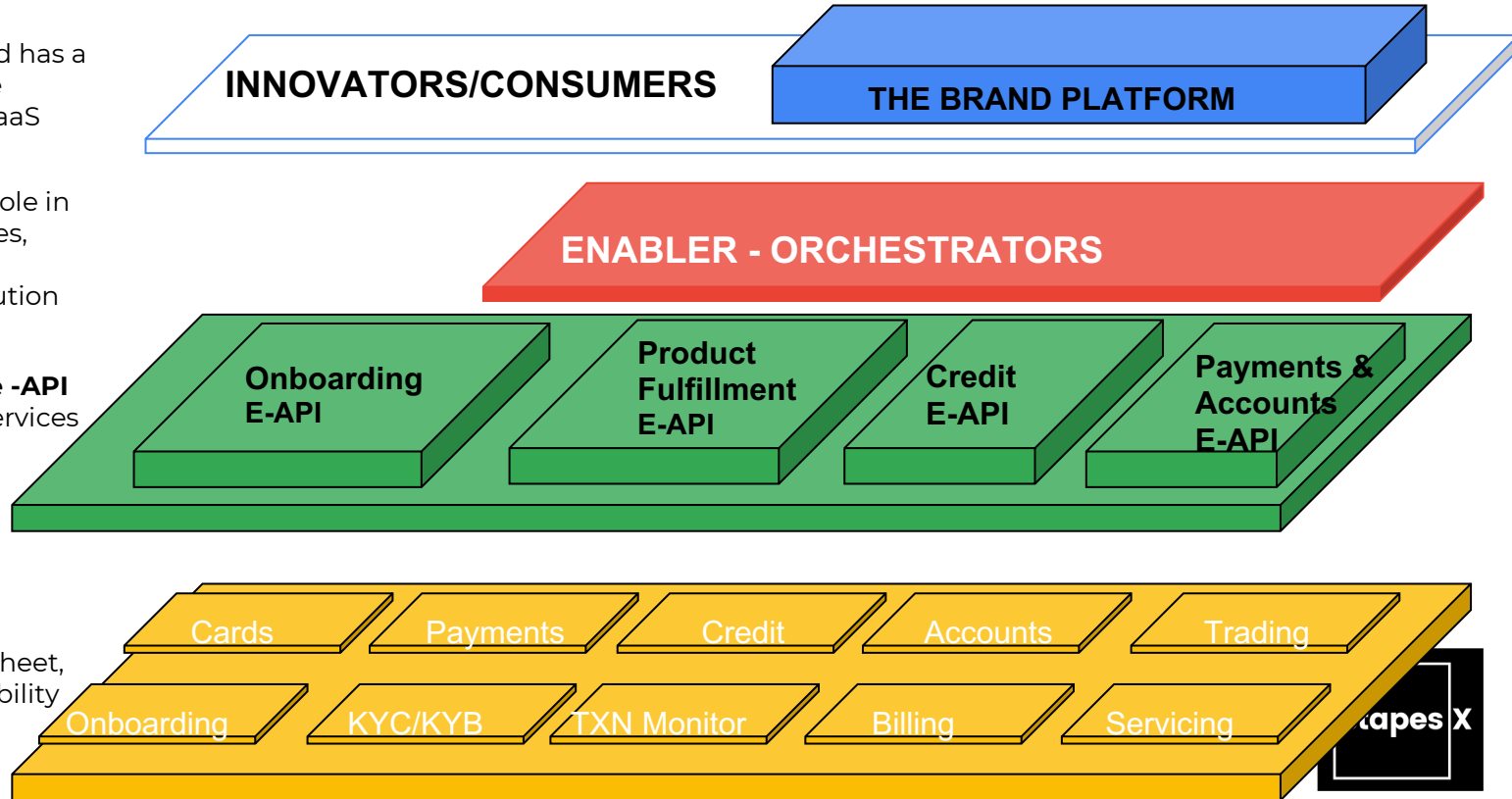
SaaS Market place

Ecosystem: the brand has a client base to provide banking to using a BaaS Platform

Enablers: play a key role in orchestrating services, user journey and placement of the solution

Universal BaaS Edge -API Platform: library of services that can be called to create new offering

The Bank: License, Regulated, Balance Sheet, Experience and capability to fulfill.



From BaaS we are back to the new Value Chain

Participants focus on what they are good at



Regulated Entity

Can provide many financial services, balance sheet, risk management, compliance and support

Enablers

Technology that provides the delivery of the services to platforms for distribution

Platforms

Hosts of the financial services in their customer journeys and owns the distribution.

Customer

Visits the platform to do their work. Transacts on their preferred platform.

End Customer expectations & needs/demands are changing...



Regulatory Trigger in the USA

The **Durbin Amendment**, part of the Dodd-Frank Act, triggers regulatory differences in interchange fees for debit card transactions. **It limits interchange fees for banks with \$10 billion** or more in assets, while smaller banks (under \$10 billion) are exempt. This creates an **incentive for smaller banks to partner with fintech** companies in embedded finance, as they can charge higher interchange fees and potentially offer more competitive deals

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It's a long road...

Founded

Simple PoS solution for restaurants and cafes.

Integrates **Card payments**



2019



Toast Invoicing and Insurance

Supports cashflow and protection



2024



2012



Toast Capital

\$5K-\$350K loans to pay for inventory only

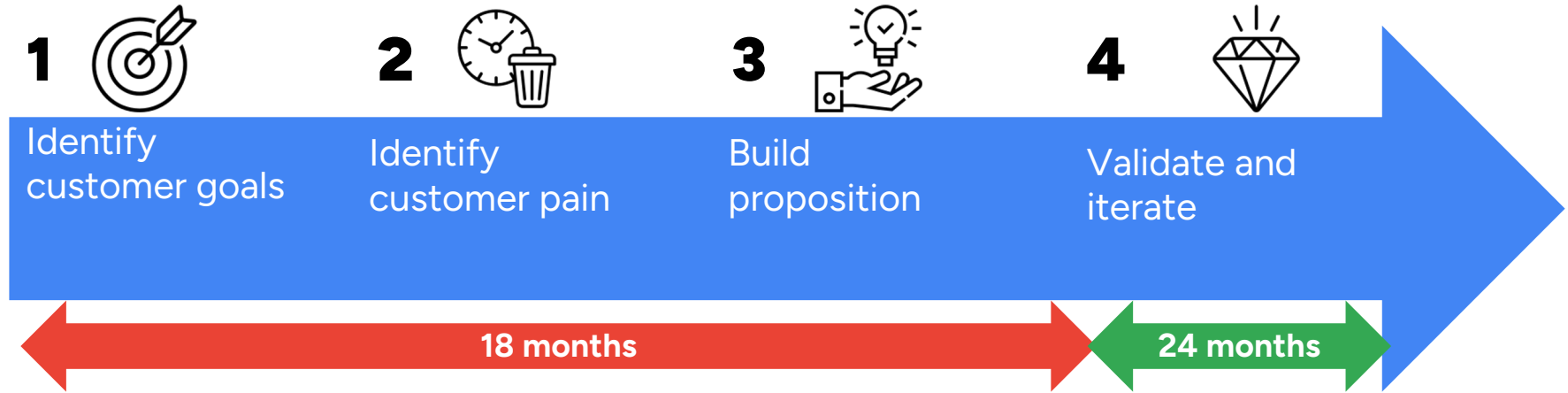
2022

Toast Banking

Full range of bank accounts to support daily banking and transaction management



The banker needs new skills...



Jobs to be done and Design Thinking

Creativity is now the #1 skill

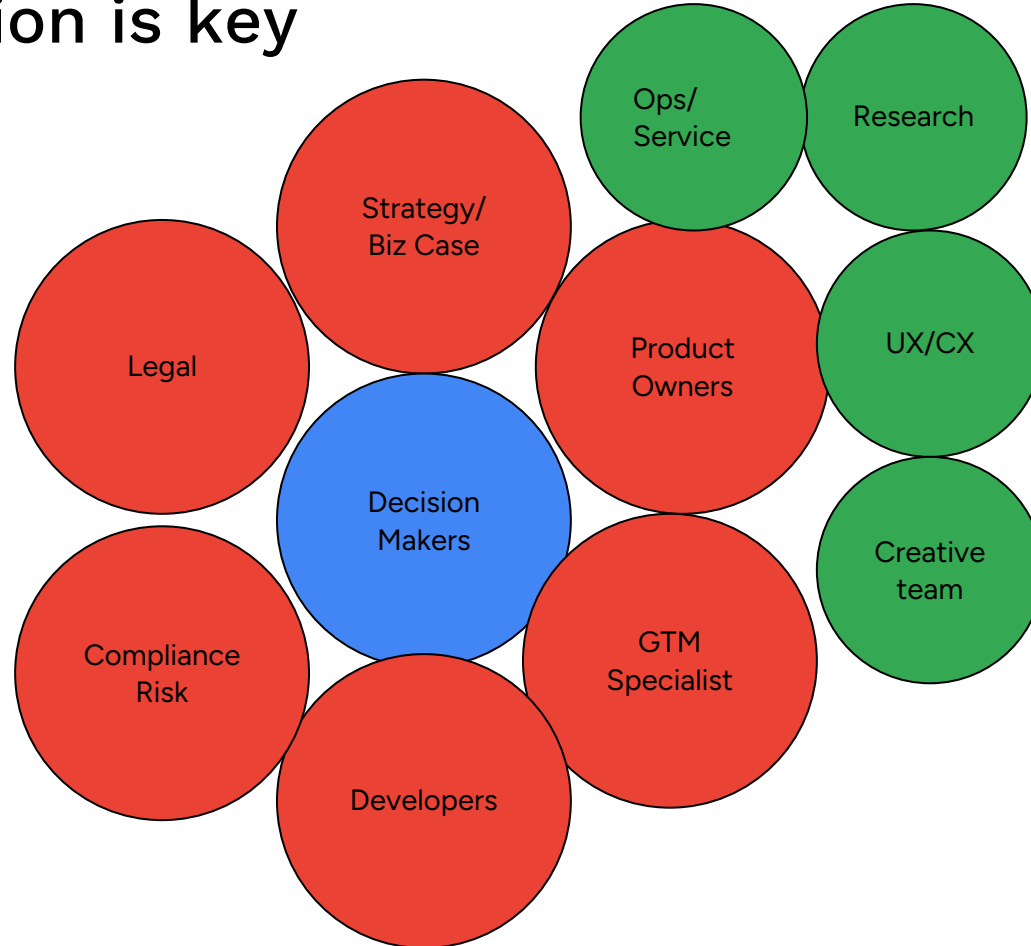


“New products succeed not because of the features and functionality they offer but because of the experiences they enable.”

Clayton ‘Clay’ Christensen - “Competing Against Luck”



Collaboration is key



Banks need to organise themselves differently.

1. Products need to be mission lead
2. Technology and Digital product mindsets (Cultural change)
3. New tech alongside old tech - not replacement
4. Decouple tech change and budget cycles
5. A new finance model - Longer ROI cycles (36months)

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What do all of these have in common....



So do we need Embedded Banking...

Yes... (in my opinion)

as it's fundamental component to the progress of digital businesses and how banks remain relevant



Thank you



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Slide Library



Banks are now lego blocks waiting to be reassembled

**BaaS is the lego block
(cards, accounts, payments, fx)**



**Value is created by
embedding it at the
point of need
(experience)**



Maths Test

**How many combinations
are there of stacking 6 of
these bricks together?**



Maths Answer:

915,103,765