

How embedding payments can transform payments from a utility to growth driver

October 2024

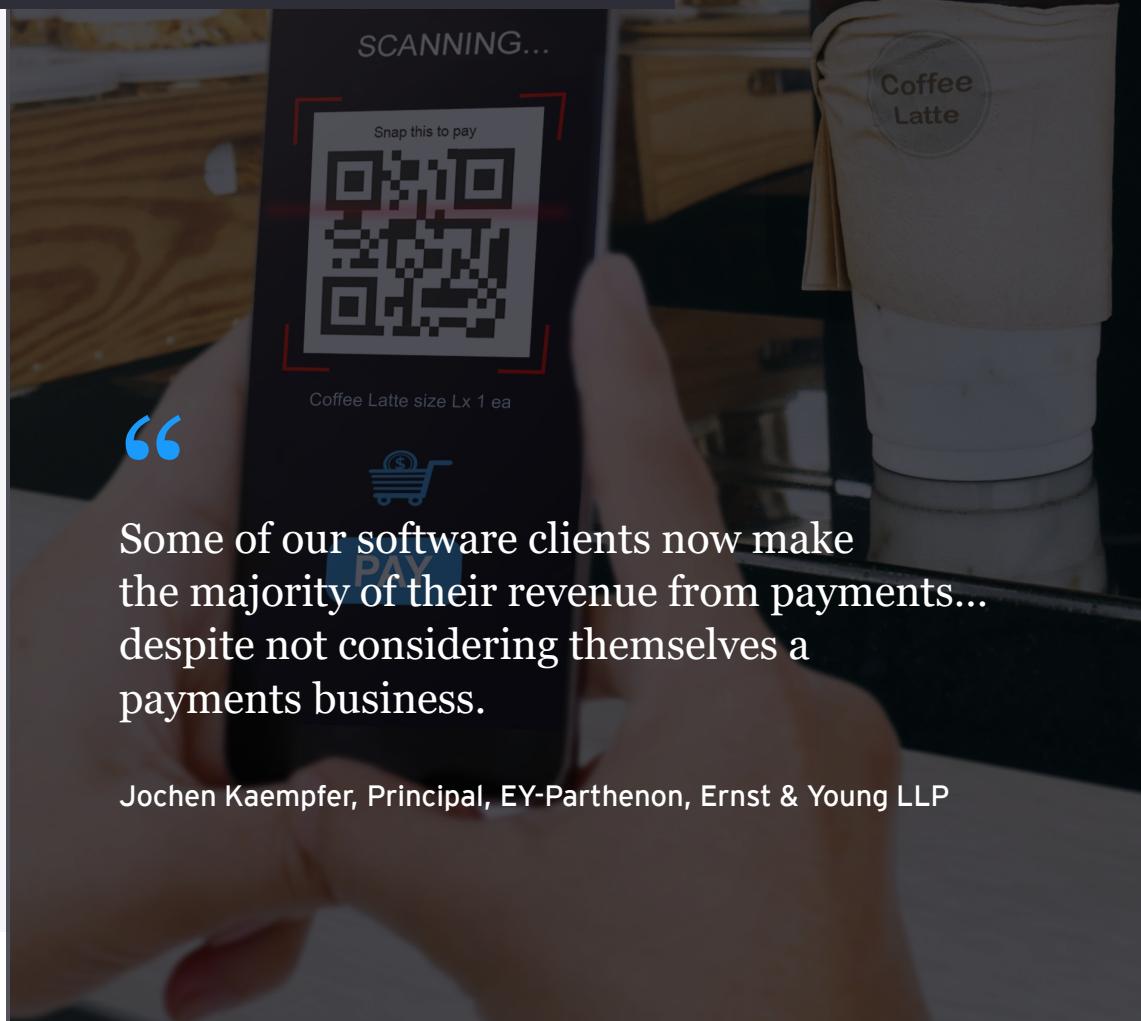


Embedded payments are reshaping the way small and medium-sized businesses transact, allowing nonfinancial services platforms to offer payments within their solution.

In June 2024, the EY-Parthenon team, in collaboration with Finix, a leader in payments technology with a full-stack processing solution enabling businesses to accept and send payments, conducted a survey targeting platforms and merchants to examine the evolving adoption, demand and trends associated with embedded payments. Embedded payments enable companies outside of traditional financial services (FS) organizations to offer payments solutions within their digital platforms. Embedded payments benefit both the merchant customer (e.g., user experience, efficiency) and the non-FS platform enabling the solution (e.g., new revenues, better customer retention).

Non-FS platforms offering solutions to consumer-facing businesses (e.g., field services, childcare providers, health care providers), must evaluate whether embedding payments can help them realize their strategic goals (e.g., unlocking new revenue streams, increasing customer engagement and retention).

Embedded payments are the integration of payments products within a non-FS company's customer value chain and offers brands the ability to shape a seamless customer experience.



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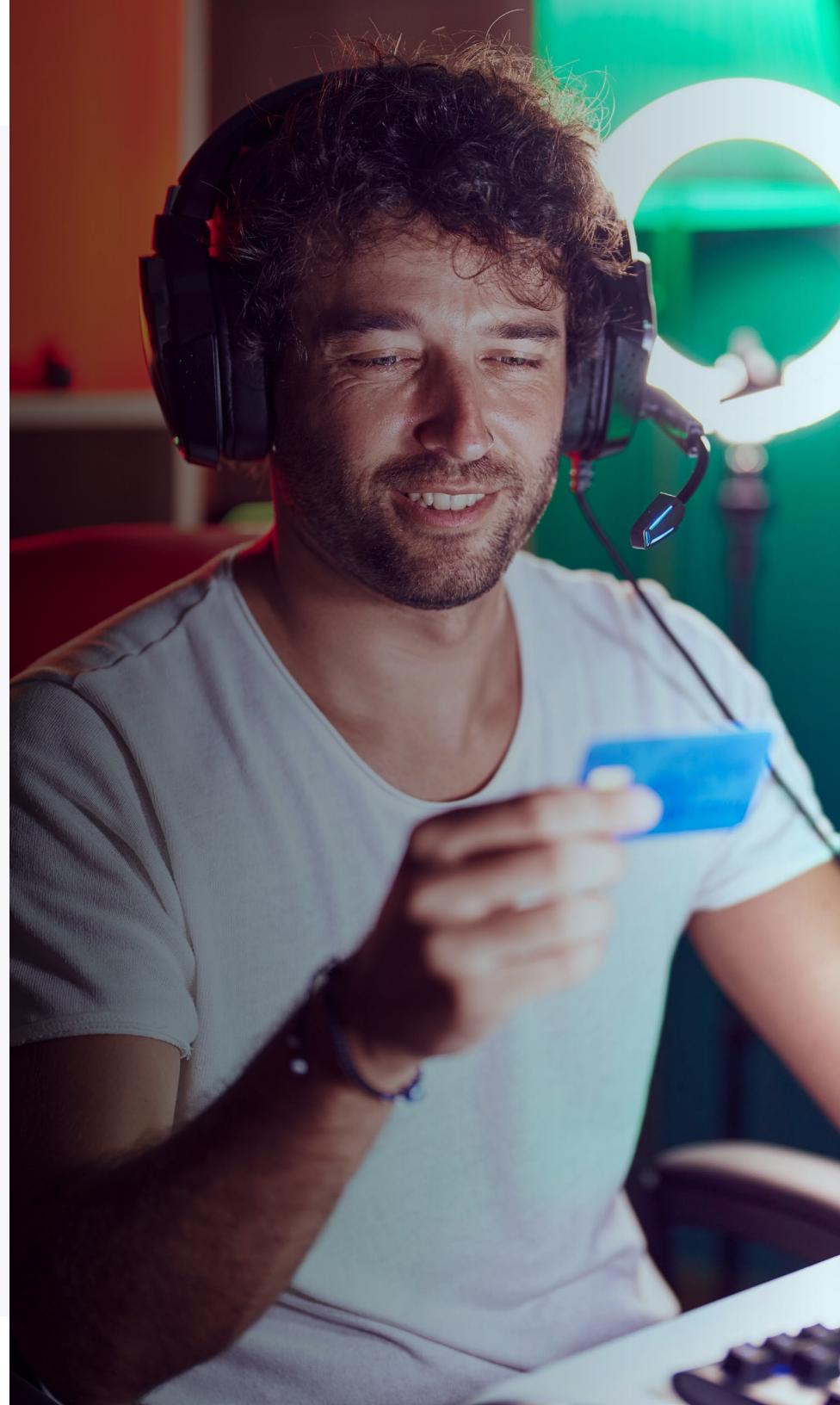


Some of our software clients now make the majority of their revenue from payments... despite not considering themselves a payments business.

Jochen Kaempfer, Principal, EY-Parthenon, Ernst & Young LLP

Survey highlights

- ▶ Although embedded finance has quickly expanded into lending, insurance and a range of other financial services, our research reveals significant opportunity in embedded payments for non-FS platforms (and their payments providers).
- ▶ A striking 40% of non-FS platforms (including business-to-business software platforms, independent software vendors, and software-as-a-service providers) serving merchant businesses have never integrated payments capabilities into their offerings. In addition, among those that have embedded payments into their offerings, customer adoption lags, with only 58% of these brands achieving +50% utilization of their solution.
- ▶ Seventy percent (70%) of non-FS brands still view payments as a mere utility, not recognizing its full potential as a driver of innovation and growth. This perception is likely a key factor in the partial adoption of embedded payments noted above.
- ▶ Non-FS platforms noted that scarcity of resources stand as the primary barrier preventing them from transforming their payments strategy (41%).
- ▶ Thirty percent (30%) of non-FS platforms that recognize payments as a catalyst for growth cite enhancing the customer experience and increasing retention as top strategic objectives.
- ▶ Non-FS platforms offering embedded payments indicate that greater pricing transparency/value (42%) and improving their customers' experiences (36%) would most motivate them to consider changing their payments provider.



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At Finix, we're seeing more forward-thinking companies embedding payments directly into their platforms and unlocking new levels of customization, efficiency, and revenue growth. This shift is fundamentally transforming how platforms operate, creating exciting opportunities for businesses and their users alike.

Richie Serna, CEO and co-founder of Finix

The advantages of embedded payments for non-FS platforms

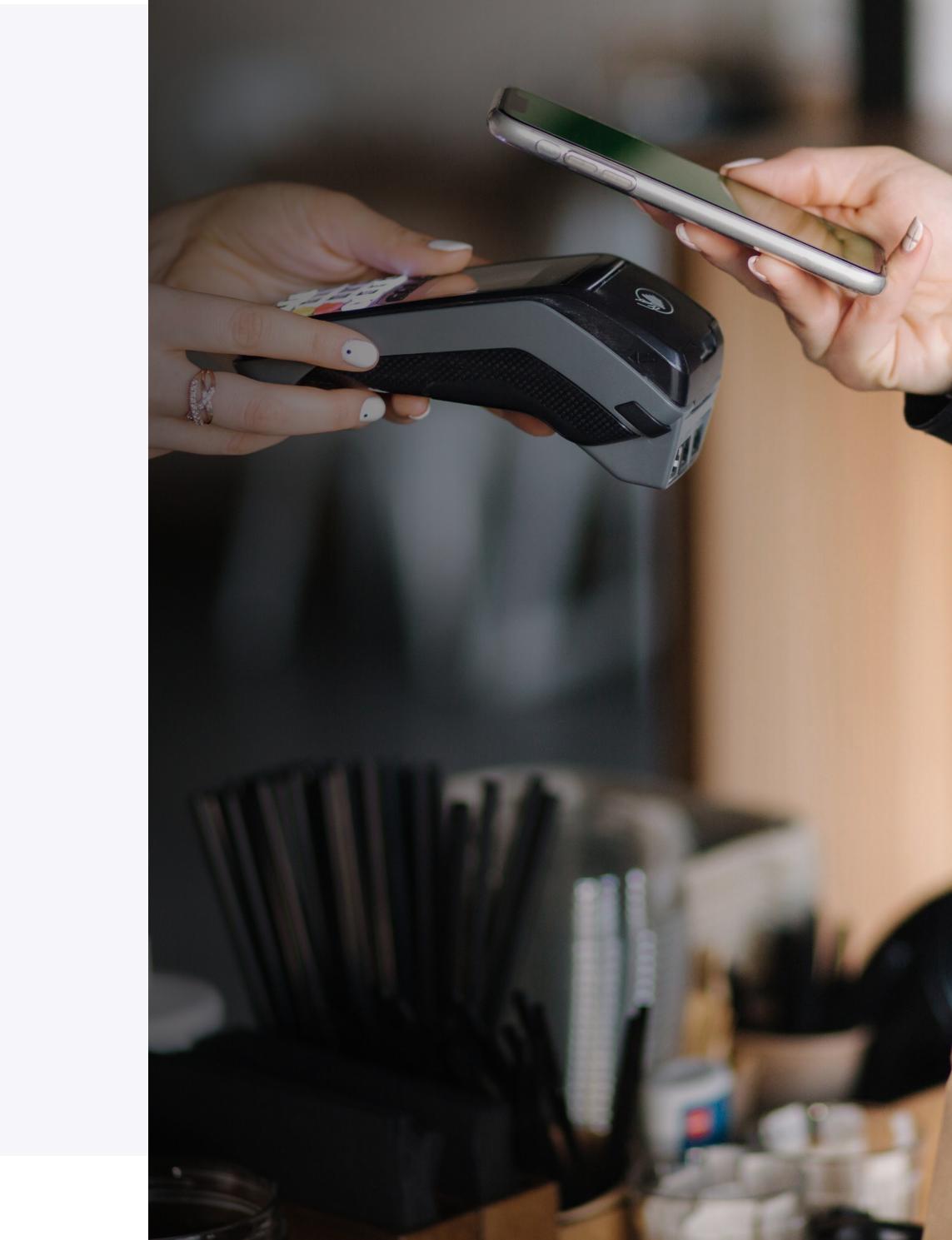
The continued integration of financial solutions into non-FS platforms is redefining the role software solutions and providers play in the payments landscape. By offering payments as part of their overall business management solution, non-FS brands are picking up where “traditional” payments propositions often fall short by only offering a one-size-fits-all

solution that fails to meet the specialized needs of niche markets (e.g., field services-specific invoicing solutions). Non-FS platforms are able to leverage what they know about a merchant's business and industry, as well as incorporate this knowledge into a more tailored payments solution.



The advantages of embedded payments for merchants

Merchant demand for embedded payments solutions is only increasing, with the volume of payments through embedded channels expected to reach [\\$6.5 trillion by 2025](#). Payments offered in the context of a business management solution provide merchants with a solution tailored to their business with more relevant capabilities, critical integrations and operational efficiencies. Merchants are increasingly able (and using) non-FS platforms as “one-stop-shop” providers, enjoying the same frictionless experience they get from their app when using payments solutions.



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Since launching our embedded payments program with Finix, we have increased our payments-related revenue by over 100% in less than three months without even scratching the surface of the available opportunity in our portfolio. Embedded payments have opened up an entirely new revenue stream for our SaaS company, allowing us to offer more robust software solutions at a lower price for customers who participate in our payments program.

Current Finix Customer CEO

The current landscape

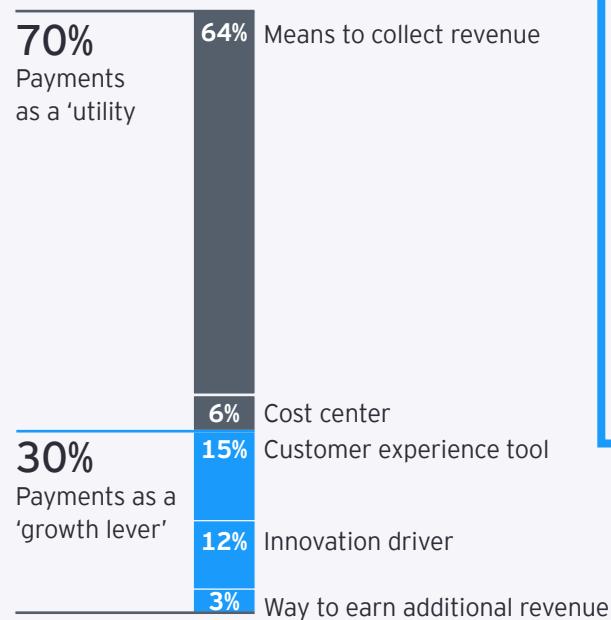
According to [our research](#), embedded payments is on track to grow at a 23% compound annual growth rate between 2021 and 2026. With this trajectory, the growth opportunity for non-FS platforms is steep and lucrative. Overall, we estimate that non-FS platforms with moderate portfolios of merchant customers transacting through their platform can meaningfully shift their revenue mix, diversifying their revenues by earning a material percentage through payments monetization.

Yet, despite the promise of growth, many companies still view payments as a token utility – a necessary function rather than a strategic asset. This oversight is costly. Our research indicates that brands embracing embedded payments as a growth driver see marked increases in customer lifetime value, with ancillary benefits that include heightened loyalty and a richer data pool for personalized offerings.

The potential of payments

For non-FS platforms, a strategic shift in mindset is necessary to unlock the full potential of payments as a growth driver. With 70% of survey respondents viewing payments as a utility, payments are often relegated to the back office, seen as a necessary but an unremarkable part of doing business. However, the landscape is changing. Innovative brands are now recognizing that payments can be much more than a transactional tool – they can be a cornerstone of customer engagement and a significant source of revenue. By integrating payment solutions into their core offerings, these brands can drive innovation, enhance customer experiences and tap into new markets.

Most non-FS brands still view payments as a 'utility' vs. a way to drive incremental growth



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Payments is an incredibly complex function and simplifying these processes has been a big priority for our business. Not only are our developers able to quickly and easily set up new functions, they also improve the customer experience too and give us more flexibility with how we manage payments for different situations.

Current Finix Customer CEO

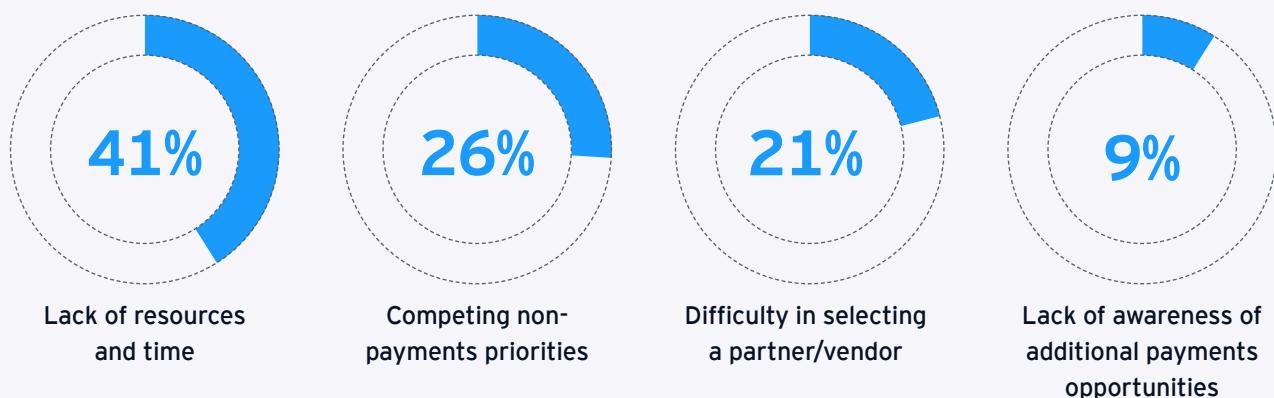




Enter payment service providers

Payment service providers (PSPs) are in a strategic position to help non-FS platforms embed and offer payments capabilities. Non-FS platforms cite that resource limitations (41%) and conflicting business priorities (26%) are the main challenges they face when looking to embed payments. PSPs can capitalize on the fact that 40% of non-FS platforms have never integrated payments into their offerings by making it easier for them to do so through managed services offerings, for instance.

What are the biggest barriers your company faces when implementing payments priorities?



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Consumers want to ‘consume’ financial products differently than they did in the past. Embedded payments provide banks and other FIs a way to maintain their relevance in light of this shift.

Sara Elinson, Principal, EY-Parthenon, Ernst & Young LLP

Strategic choices and considerations

When opting to strategically leverage payments as an offering, non-FS platforms have paths they can take to offer and monetize payments. Generally, the greater the revenue opportunity, the greater the risk exposure and degree of ownership and responsibility the non-FS platform must be ready to take on. Given this, it is critical for non-FS organizations to evaluate their goals and align on the amount of the payments value proposition, the economics of which it controls, owns (vs. outsources) and retains.

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About Finix

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