

Embedded Finance: the next big opportunity

— An Elsewhen Report

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Embedded Finance

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Introduction:

The current state of play

Paying for your food directly in a food delivery app, or purchasing insurance from within a car rental app (where your phone is also the key to the car) is now a normal everyday occurrence. Embedded finance—the technology enabling any business from any sector to integrate and sell financial services—is no longer a point on the horizon, but a reality.

While this phenomenon has evolved within the relatively narrow segment of payments, helped along by the likes of Stripe and Square et al providing an API to allow ride hailing companies to embed payments, it has now become possible for companies outside the financial services sector to embed every financial service product currently imaginable. This report features examples with lines of credit, insurance and even investment opportunities being embedded into the featured players' offerings to their customers.

It has now become possible for companies outside the financial services sector to embed every financial service product currently imaginable.

Within payments and credit, payment facilitators like Stripe and Square are valued in the mid tens of billions, Paypal can be safely defined as a payments 'giant' with a \$50 billion valuation at the time of writing, and BNPL (Buy Now Pay Later) pioneer Klarna was recently crowned as Europe's biggest fintech unicorn, with a valuation north of \$10 billion. All of the above are aggressively expanding; snatching up vendors and their customers, and expanding their offerings horizontally and vertically through M&A, new products and whole new ventures.

If we expand this facilitation to include the full suite of banking products and

services, BaaS, or Banking as a Service, providers (and their tech startup backers) also have a huge role to play. On the one hand, they have been leading the charge in helping FS institutions, both neo or incumbent, to more quickly and easily bring new banking propositions to market. In other words, building propositions that tend to look and sound like banks, and might offer the same products we have come to expect from banks.

The opportunity is clearest for companies that have already reached maturity, i.e. they have a large customer base, strong brand recognition and trust.

These BaaS are also allowing players who have no interest in building or becoming 'banks' to embed finance/fintech, but the separation between what does and doesn't constitute a bank may no longer be so clear. The development of Open Banking, and the growth and proliferation of fintechs, has accelerated a shift. This shift is towards a componentised structure which allows what was once almost literally locked up in the bank vault to be unbundled, reintegrated and shaped in the ways that best serve the customer.

Clearly then, this is a growing market for the new facilitators of financial services, and a potential detriment to the incumbent financial services institutions not able to respond to this growing phenomenon. There are also players on the other side of the coin who stand to benefit if they can successfully embed the right fintech solutions to delight their customers and win new ones.

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It may become an increasingly necessary customer retention strategy in a time where the big tech companies already regularly replicate competitors' new products in the battle for market share.

There is also the question of technological capability. Embedding fintech can become a whole new engine of revenue growth for companies that can successfully integrate fintech into their existing product suite. At the very least, it may become an increasingly necessary customer retention strategy in a time where big techs already regularly cannibalise their product suite and replicate that of their competitors in the battle for market share.

So who are the players already putting this tactic into effect? And what trends can be observed from them? In this report we will answer both.

Insights at a glance

The background features a large, light pink circle with a darker pink outline. In the center, there is a solid red square containing a white circle with a pink outline. The overall design is minimalist and modern, using a monochromatic red and pink color palette.

Trends in embedded fintech, much like wider financial services trends, tend to mirror local culture. As such, the types of approaches found vary depending on the market.

It can be broadly concluded however, that some of the brightest innovation and exciting new ventures are definitely emerging from Southeast Asia, as we will expand on when we drill down into the different players.

The role of customer data

The role of customer data in envisaging the future of finance is worthy of a report, if not a whole series of reports, as a topic on its own. However it is also worth mentioning in brief in this context.

Not only is customer data the potential endgame of the embedded fintech strategy for some – Apple Card and Google Pay spring to mind, but the different ways data is approached makes a very real difference to what is possible for the end user. In Asia, apps like Ping An can run a check on customers by combing through emails and SMS (as opposed to a credit check). This more liberal approach to customer data, made possible by the same cultural environment that makes Super Apps possible, also opens the door for greater innovation.

It is not yet entirely clear how, outside of the aforementioned Asian Super Apps the different players are treating customer data, but we can reasonably hypothesise that those providers providing food ordering, ride hailing and other services all under one roof, are extracting and sharing data across the different services to support the financial services aspects of their offering.

Sectors also vary by geography

If we take first the lens of sector or industry, the types of industries that are embedding financial services through fintech depends largely on geography. Within South and Central Asia, social media and ride hailing companies are dominating in this space. In Southeast Asia and China we of course tend to see Super Apps, which include a wide range of financial services products.

How people already interact with financial services, and how friendly the regulatory environment is to innovation, is key and this comes down to geography i.e. Super Apps are only really possible in China and Southeast Asia, or not possible in the same way in Europe or the US. The ship has largely already sailed for developed markets, without a single player emerging to command such a large set of customer needs.

There is a lot more fragmentation in the West; an organic symptom of the much longer histories of

computer, web and mobile companies. There is a lot more competition, in part supported by the regulator's attempts to avoid monopolies. The private sector is more autonomous with less intervention from the state compared to China and Southeast Asia where some form of state capitalism is prevalent.

Local regulation prevents strategy from crossing borders

For companies that have a presence in multiple markets, they tend to have a fragmented approach to regulation. For example in some markets companies will acquire the relevant license (mostly an e-license), but in others will partner with a fintech or bank. Grab in Singapore is a notable unusual case, where both the ride hailing app and a telco are jointly applying for a digital banking license.

There is evidence of companies moving from one geography to another, and conversely offering very different offerings in the different markets. For example Gojek, which operates in a number of South East Asian markets. As there is no EU-esque passporting in this region, they have to go about regulation in each country differently, generally via e-money licenses. In some markets Gojek offers no financial service products (for example in Thailand), whereas in other countries like Singapore and Indonesia, it offers wallets, payments and other services.

Companies with a presence
in multiple markets tend
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approach to regulation




The US is still dormant (outside of Big Tech)

Across North America there is still a paucity of companies entering the financial services space from outside, with the notable exception of the big tech giants—Google, Apple and Amazon have all emerged with multiple plays—who are likely the financial services uber players in waiting.

In the US at least, incumbent financial services players still have something to say on the future of this new phenomenon.

At the time of writing, in the US at least, incumbent financial services players still have something to say on the future of this new phenomenon. Goldman Sachs is notable as a multinational incumbent that has managed to build the advanced infrastructure and APIs, demonstrated by their ability to support the new Apple card.

There are also notable examples from sectors and companies that already happily coexist with technology like payments, for example eCommerce technology providers. Shopify for example is now looking to build on its relationship with merchants by offering them a wider suite of financial services such as cards and lending, as well as payments technology.



Some of the
brightest
innovation and
exciting new
ventures are
emerging from
Southeast Asia

A side-by-side comparison of the different players

Name	Continent	Industry	Country HQ	Countries it operates in	Banking license?	E-money license?	Have they partnered with banks?
Gojek	Asia	Super App	Indonesia	Indonesia, Vietnam, Singapore, Thailand and the Philippines	No	Yes	Yes
Line Pay	Asia	Messaging	Japan	Japan, Taiwan, Thailand and Indonesia	Regulated by the PSA (Payment Services Act)	No	No
Grab	Asia	Transport, Food delivery, Telecoms	Singapore	Singapore, Cambodia, Indonesia, Malaysia, Myanmar, Thailand, Vietnam, the Philippines, Japan, Middle East (pending)	Applying with MAS	Yes	No
SeaMoney	Asia	Internet, Gaming, e-commerce	Singapore	Indonesia, Malaysia, Philippines, Singapore, Vietnam, Thailand and Taiwan	No	No	No
KakaoBank	Asia	Messaging	South Korea	South Korea	Yes, full banking license	No	Yes
Proximus	Europe	Telecoms	Belgium	Belgium	No	No	Yes - pending
Telefonía	Europe	Telecoms	Germany	Germany	No	No	Yes
HSV (Hamburg Football Club) BVB (Borussia Dortmund Football Club)	Europe	Sports clubs	Germany	Germany	No	No	Yes
OPay	Europe	Transport, e-Commerce, Food Delivery	Norway	Nigeria, Kenya	No	Yes - payments	No
Bank Norwegian	Europe	Aviation	Norway	Norway, Sweden, Finland and Denmark	Commercial bank operating license	No	No
Royale Oceanic	Europe	Super Yacht	UK	Global	No	No	Yes
Walmart	US	Retail	US	US	No	No	Yes
Whatsapp	US	Messaging	US	India	Regulated by the Reserve Bank of India (RBI)	No	No

Asian players



Gojek

PT Aplikasi Karya Anak Bangsa, trading as 'gojek' (formerly GO-JEK), is the first Indonesian unicorn and 'decacorn'. The Super App offers more than 20 services today, covering everything from transport to news, food delivery, wallets, insurance and lending, and does some very clever data mining across the whole suite.

Country of origin: Indonesia

Countries it operates in: Indonesia, Vietnam, Singapore, Thailand and Philippines

- As of June 2020, Gojek has about 170 million users throughout Southeast Asia.
- GoPay is Gojek's mobile wallet app, while GoTagihan allows users to pay bills, GoInvestasi allows investment (and the purchase of gold), PayLater is a buy now pay later (BNPL) product and GoSure is their insurance offering
- In a sort of role reversal, Gojek also helps a state-backed lender, BNI, find potential borrowers - and provides data on which might be the most creditworthy
- Gojek mines the transaction data of the 125,000 restaurants that partner with its food delivery service, GoFood, to determine which may be eligible for government-subsidised microloans called 'KUR'
- From Gojak's marketing: 'Achmad Darmawan was a street food seller before he joined Gojek as a driver four years ago. He had never been considered creditworthy before, but just a few months ago his mortgage loan application was approved via Gojek, which partners with state-owned mortgage lender Bank Tabungan Negara. Darmawan hopes to buy a house outside Jakarta.'
- As of December 2020, Grab is reportedly in talks with GoJek to combine their businesses in what would be the biggest Internet merger in South-east Asia.

Grab

From global finance hub Singapore comes Grab—originally operating across transport, food delivery and telecoms outside of finance—now offers its customers multiple saving, borrowing and investing options. Grab has partnered its massive expansion across Asia with a move into more and more ambitious financial services products.

Country of origin: Singapore

Countries it operates in: Singapore, Cambodia, Indonesia, Malaysia, Myanmar, Thailand,

- Grab was Southeast Asia's first "decacorn" (a startup with a valuation of over US\$10 billion)
- It currently offers a mobile wallet for all customers
- They offer loans for SMEs
- They have partnered with Citi to offer a co-branded credit card
- They have a distinct brand, GrabPay, which includes autoinvest options, as well as rewards (both points and merchant offers)
- In December 2020, Grab is reportedly in talks with GoJek to combine their businesses in what would be the biggest Internet merger in South-east Asia.

KakaoBank

Emerging from a popular South Korean messaging app, KakaoBank (or kakaobank) is a partnership between KakaoTalk and Korea Investment Holdings financial group. They have a full banking license and have very popular lending, saving and digital wallet products.

Country of origin: South Korea

Countries it operates in: South Korea

- The bank attracted more than 240,000 customers within the first 24 hours of operating
- The lending aspect had more than 10 million customers as of July 11 2019, which is the largest in terms of customer volume for a lending app across the world, outside of China
- The digital wallet has 28 million registered users and was used for more than \$17.5 billion of payments in 2018
- Kakao Bank also offers a 26-week installment savings product as well as a current account

LINE Pay

Regulated by the PSA (Payment Services Act), Japanese player LINE Pay emerged from messaging app LINE. It originally grew to allow users to send money to each other. Since then it has become a payment option at registered merchants, and most recently offers what is in effect a credit card.

Country of origin: Japan

Countries it operates in: Japan, Taiwan, Thailand and Indonesia

- The LINE app has 165 million monthly active users, of which, 40 million use LINE Pay
- They have launched a 'LINE Pay Global Alliance' to enable LINE Pay merchants in Japan to tap into inbound tourist demands, via partnerships with overseas players like WeChat and South Korea's Naver Pay
- At its core, as the name implies, it is a payments service that allows customers to make purchases from Line Pay merchants
- Customers can also send money and split bills with their LINE friends
- Customers can link a range of different credit cards for the payments they make in the app
- Customers can sign up for a Line Pay Card, which functions as a regular JCB debit card
- Customers can also register their bank account information and deposit money into the account, this is known as 'charging'
- 'Charging' can be done through a customer's bank, at 7/11 ATMs or in-store at various merchants

SeaMoney

The Singaporean internet, gaming and e-commerce company now operates across Asia, offering slightly different products and services in the different countries, often trading under different brand names. It was Asia's best performing internet stock of 2019.

Country of origin: Singapore

Countries it operates in: Indonesia, Malaysia, Philippines, Singapore, Vietnam, Thailand and Taiwan

- SeaMoney operates under multiple different brand names depending on the market—
ShopeePay covers Indonesia, Malaysia, Philippines and Singapore, while it's called AirPay in Thailand and Vietnam
- The main product offering includes mobile wallet services, payment processing, and different lines of credit
- Its payment offering is variously known as ShopeePay, Mitra Shopee, AirPay and AirPay Counter
- The SeaMoney umbrella also has Shopee PayLater, a BNPL (buy now, pay later) solution for Thailand and Indonesia (which has multiple BNPL players)

European players

Bank Norwegian

A venture from Norwegian Airlines, Bank Norwegian has a commercial bank operating license and operates as a full neobank across northern Europe.

Country of origin: Norway

Countries it operates in: Norway, Sweden, Finland and Denmark

- Operates as a full-service retail bank, with unsecured loans, refinancing, credit cards, insurance, and savings products available to customers
- No branches, strictly an internet/neo bank

HSV (Hamburg Football Club) & BVB (Borussia Dortmund Football Club)

Not one but two distinct German football teams—one a perennial contender for domestic and European honours, the other facing more difficult fortunes in the Bundesliga's second tier—have partnered with ComDirect Bank. Both offer their fans a suite of financial services products and perks, as well as benefits when used for club purchases.

Country of origin: Germany

Countries they operate in: Germany

- Both clubs offer a free current account including both a debit and credit card
- HSV offers a 'payment bracelet', free use of the HSV fan account app, and free withdrawals abroad
- Fan benefits include: €1 victory bonus (i.e. when the team wins), access to the Fast Lane at events, free entry to club museum, free entry to youth games, and various promotions and discounts around experiences, such as TV subscriptions to watch games

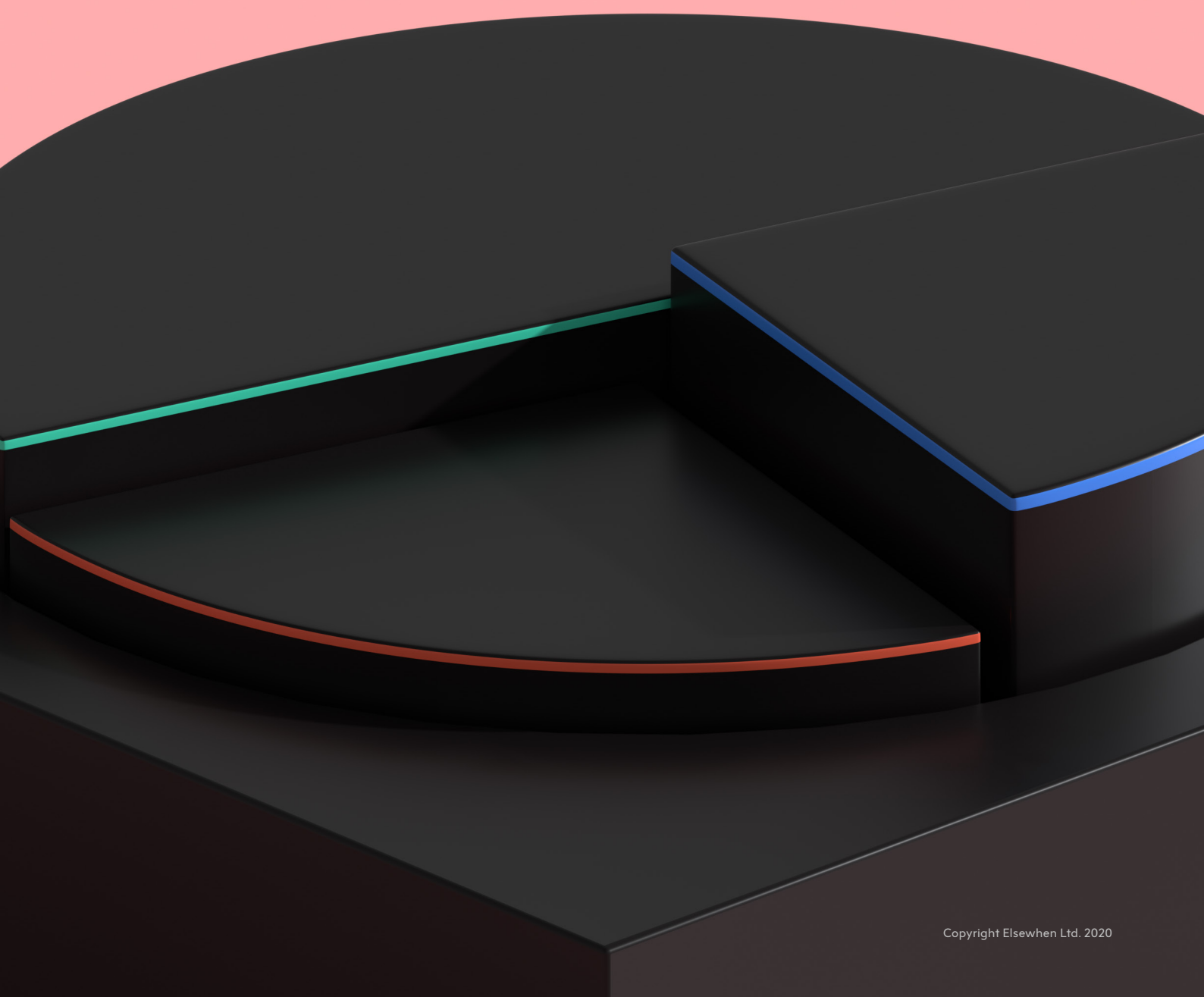
OPay

From Opera Norway AS, the software designers behind the Opera web browser, comes OPay: a payments solution for transport, e-Commerce, food delivery operating solely in Nigeria and Kenya.

Country of origin: Norway

Countries it operates in: Nigeria, Kenya

- The technology is provided by Opera Software, which also develops web browsers, mobile payment services and artificial intelligence solutions
- It offers agency banking as a means for financial inclusion in rural parts of Nigeria
- Features include: money transfer, pay bills, recharge cards
- Offers bank accounts with the ability to receive money using 'Paycome' as the name of the bank, and the customer's phone number as the account number
- Paid an undisclosed sum to acquire a controlling stake in PayCom, a fintech company
- In Nigeria OPay has a licence to operate a payments service, while in Kenya it is unregulated



Proximus

Belgian telecommunications player Proximus is (at the time of writing, Q4 2020) seeking regulatory approval for a partnership with Belfius Bank NV/SA to share customers between themselves, offering a suite of new products and services.

Country of origin: Belgium

Countries it operates in: Belgium

- From their marketing material: 'Belfius and Proximus will market an exclusive and digitally integrated offer for their respective customers from next year onwards via a disruptive ecosystem'
- 'Thanks to this partnership, Proximus customers will have access to an exclusive, innovative and attractive digital banking offer developed by Belfius through a specially designed digital platform. Belfius customers, for their part, will have access to a specific offer developed by Proximus to which they can subscribe through the different Belfius sales channels.'

Royale Oceanic

Royale Oceanic is a UK-based Super Yacht company that has partnered with Bankable to offer staff on its yachts the ability to use and manage cards

Country of origin: UK

Countries it operates in: Global

- Royale Oceanic provides staff on yachts with prepaid cards and an accompanying card management platform
- The solution allows Royale Oceanic to use Bankable's 'Entities' functionality to segregate accounts and cards for each yacht while still being able to manage all their cards centrally

Telefonica

The German telecoms giant Telefonica originally launched a partnership with Fidor Bank under the name O2 Banking, but this was terminated after four years. It has now relaunched in partnership with comdirect bank AG, retaining the original name.

Country of origin: Germany

Countries it operates in: Germany

- Core services include: free Visa debit card and credit card, free worldwide withdrawals
- Works with Apple Pay and Google Pay
- Customers have access to digital asset management via the robo-advisor Cominvest
- Existing O2 Banking customers will receive a couple of one-off perks on moving to the new service

US players



Walmart

The blue chip retailer now offers a Mastercard-backed Walmart Money Card and a supporting financial services products, made possible through partnerships with Affirm and Green Dot.

Country of origin: USA

Countries it operates in: USA

- Consumer financing (BNPL/Buy Now, Pay later) is provided via Affirm
- The Walmart MoneyCard is provided via Greendot
- The Walmart Moneycard offers cash back, early payday features (via ASAP Direct Deposit), 2% APY savings accounts and free cash reloads
- Customers can get four additional debit cards for family, with no monthly fee
- Affirm BNPL is offered as a payment option at Supercenters and on Walmart.com on purchases between \$150-\$2,000. Customers can select instalment terms of 3, 6 or 12 months. Interestingly, interest is displayed in dollars rather than as a percentage

WhatsApp

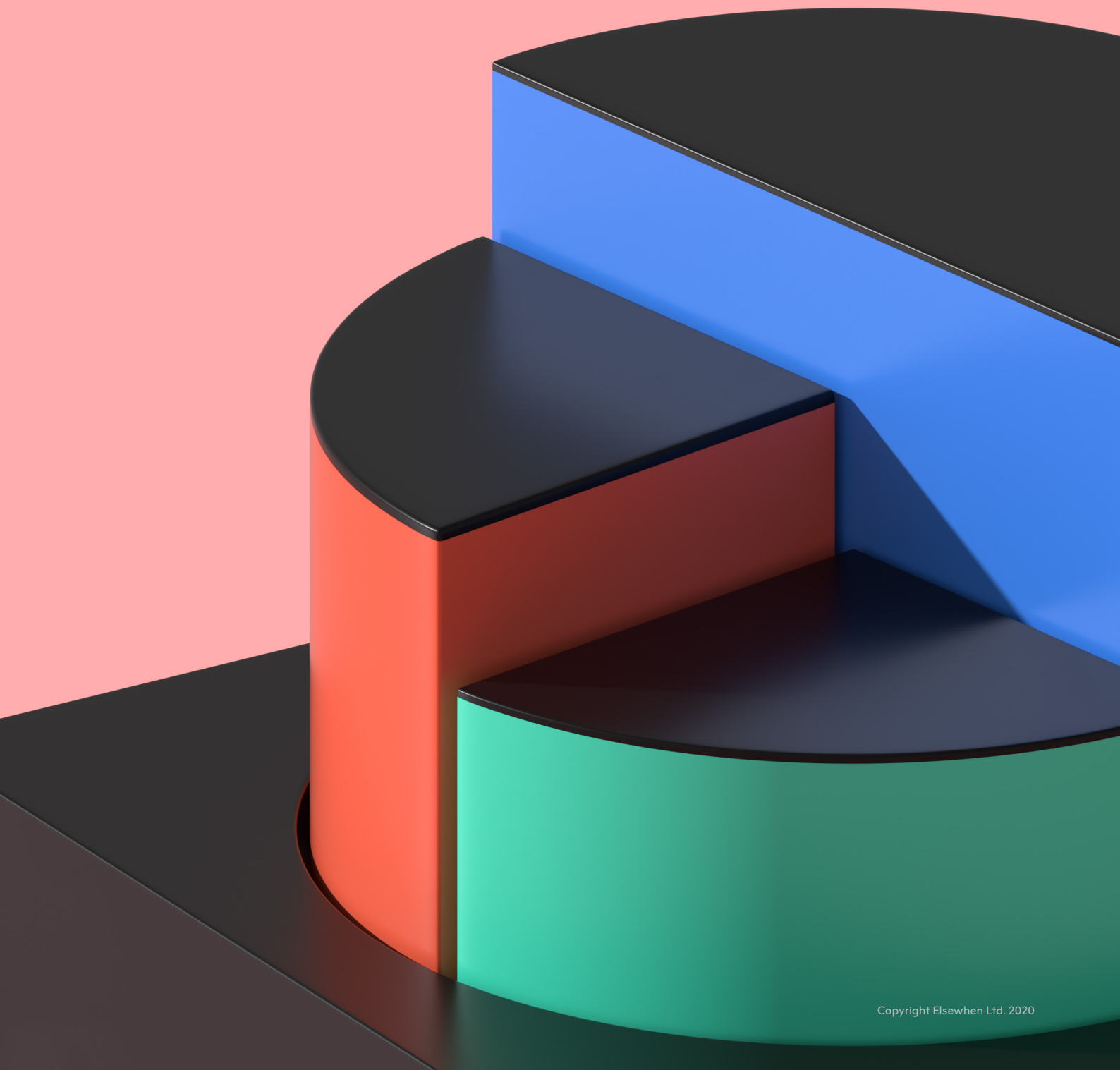
At the time of writing Facebook's fintech ambitions, or at least its' digital currency ambitions, have so far been blunted by the US regulator. This hasn't stopped it securing regulatory backing from the Reserve Bank of India (RBI) to offer financial services to Indian customers.

Country of origin: USA

Countries it operates in: India

- WhatsApp has 400 million customers eligible for this payments service
- WhatsApp is using India's Unified Payments Interface (UPI) framework to enable real-time money transfer
- Customers need to verify card information and then set up a UPI PIN. They can then enter the amount and send money to their contacts
- To send a payment they select it within the Attach icon in the message field
- The customer's WhatsApp number has to be registered to their bank account
- To add a new payment method, customers select their bank and tap 'Verify via SMS' to authenticate

How can your organisation take advantage?



As we move more and more rapidly towards a hyper-connected world, with better use of data and technology, a new level of convenience is enabled, with more relevant and timely digital experiences in every domain.

Customers will be able to access the right service, at the right time, and through the right channel. Customers demand this convenience and seek it out. Those players and platforms that can provide this convenience stand the best chance of winning.

So if you're thinking of embedding fintech to earn more from your customers and add new ones, what are the considerations that it's crucial you navigate?

01 How will you be regulated?

There is a tradeoff between applying for the license on your own, which in some markets can take years, versus using a BaaS provider versus partnering with a bank. We have seen each of these models play out, with the latter tending to be the case in Europe and the US. Using a BaaS or a Bank in a way limits your product offering and innovation, but provides credibility and enables you to get to market quicker.

02 How can you seamlessly integrate your core offerings with your FS offerings?

Don't become a bank just for the sake of becoming a bank. Think deeply about your existing services, and which financial services products and services could enhance the experience for your customers. Test early and test often with customers to understand how they perceive your brand as a provider of financial service products, and uncover needs across your core services and their existing banking products.



Who are Elsewhen?

We empower leaders to harness a cutting edge approach to design and tech to deliver positive impact for their organisations.

We have spent the past decade reimagining consulting for the digital age. We are a 40-person digital product consultancy established in 2011 and based in London.

We combine strategy, design and engineering into one unified process.

We are independent and have none of the legacy technology, outdated culture, or procedural complexity that comes with being a thousand-person consultancy founded in the previous century.

We help companies tackle new market realities, pinpoint new business possibilities and surpass new customer expectations, and we lead the conversation—whether on technology, design, product or business—sharing our insights and best practices.

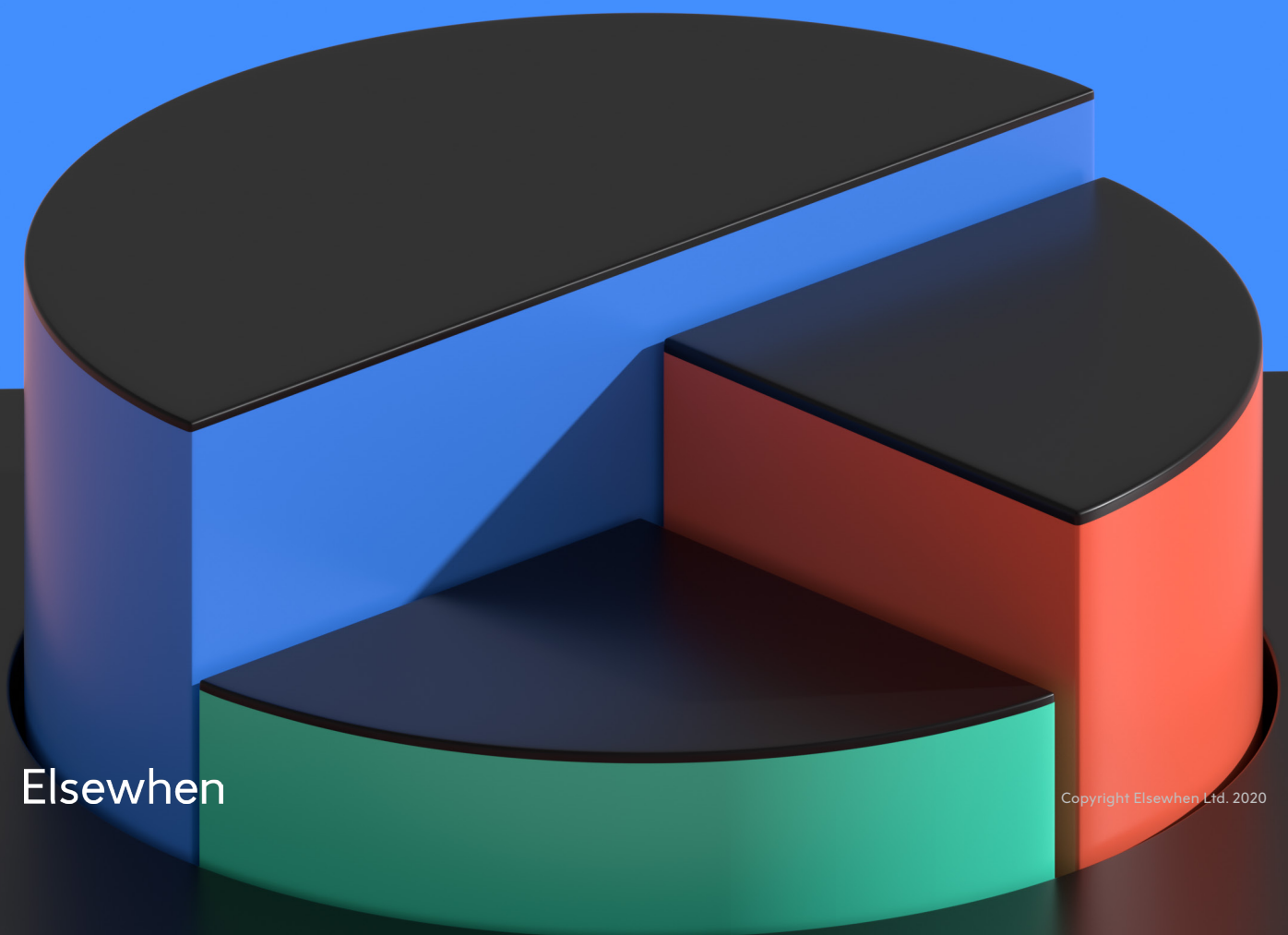
We work seamlessly with cutting edge organisations, or companies that aspire to be, to deliver best-in-class solutions into business-critical functions.

They understand that strategic thinking has to be deeply connected to execution experience; that achieving lasting change cannot come solely from the boardroom, but also from on-the-ground transformation.

Let's talk

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