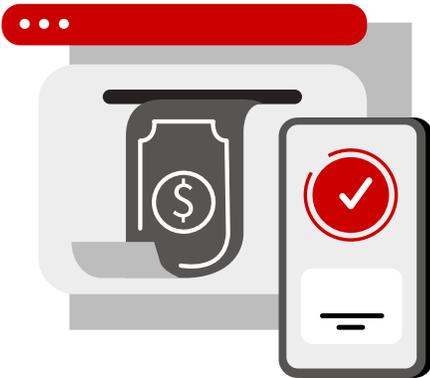

The Power of Embedded Banking

With some estimates projecting generated revenue from the embedded financial services market to reach \$230 Billion by 2025, the changes represented by the shifting expectations of consumers and merchants – as well as the opportunity represented by embedded banking – are substantial.



The Embedded Banking Opportunity



What is Embedded Banking?

Embedded Banking refers specifically to the integration of traditional banking services into the offerings of non-financial companies. As merchant acquirers, this can include embedded payments, commonly referred to as 'integrated payments'. Embedded Banking also includes:

- Business Loans and Working Capital
- Business Checking Accounts
- Business Savings Accounts
- Cash Flow Management Options for Bill and Invoice Reconciliation
- Payout Management Solutions
- Digital Ledgering and Virtual Accounts

In contrast, embedded finance describes the process by which non-financial services companies create, offer, or distribute financial services products for their users by 'embedding them' into their existing solutions. Embedded finance is sometimes used interchangeably with embedded banking, but at its core refers to a broader umbrella term which includes the provision of embedded banking, but also includes other types of embedded solutions.





Within this broader sphere of embedded finance, a number of more specific financial services offerings have emerged across industries. For example, embedded insurance plans, embedded point-of-sale loans, and embedded lending have gained traction as well.

When it comes to embedded banking, software vendors play a central role in the growing popularity of a shifting financial service sector. Innovative technologies have heightened the potential to further integrate traditional banking products and services into the customer journey and generate new revenue for the platforms that offer them. Further, businesses typically have great interest in being able to offer financial products to their clients.

However, despite evidence in the industry of a growing need, many software platforms have not capitalized on this demand. To better understand how platforms view and understand embedded banking, KeyBank and TSG collaborated to conduct an industry study of over 200 software vendors. Feedback from various platforms demonstrated room for improvement in terms of understanding embedded banking, as well how banking solutions could be leveraged. However, software vendors who were using embedded banking solutions reported that those solutions were of key importance to their platform. Additional findings are discussed.

The Changing Role of Software Vendors

The COVID-19 pandemic accelerated the transition of many services online and many software vendors have benefitted from this increased interest in and usage of business solutions from businesses. Beyond the software proposition, many businesses are also interested in the benefits that embedded banking solutions can bring them from a client experience and checkout perspective. Some software vendors are capitalizing on this need while others have yet to respond.

Software Vendors may not be getting the support they need to embed financial solutions into their platforms from their existing providers:

28%

of Software Vendors reported they were *not very familiar* with Embedded Banking.

Most Software Vendors report there is a lot of room to grow in terms of their satisfaction with their current embedded payments providers.

% satisfaction with current embedded payments provider's:

APIs - 55%



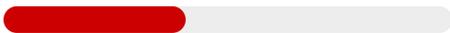
Embedded Banking Offerings - 50%



Price and/or Residual Commission - 49%



Customer Service - 41%



Meeting the Expectations of Businesses

Feedback received from over 200 software vendors serving a variety of industry verticals (e.g., retail, quick service restaurants, full service restaurants, grocery and convenience stores, healthcare, etc.) collected in the fall of 2022 yielded insights into the needs of both software platforms and the businesses who utilize them.

Some key themes identified underscored the importance of strong relationships as software vendors reported looking for dependable providers, offered embedded payments capabilities, and provided valuable, comprehensive product sets.

Twenty-eight percent of software vendors in the study reported they were not familiar with embedded banking. This means they may be missing out an opportunity to enhance the stickiness of their relationship with their business clients.

Despite this lack of familiarity, those familiar with the term reported substantial demand – overall, 33% of software vendors reported they had experienced high demand from their merchant clients for embedded banking services, and 54% reported they had received at least some demand. Based on this data, it is clear that businesses are looking for software companies able to help them serve the needs of their clients so they can focus on their business.

Indeed, 24% of software vendors in the study who did not have embedded banking capabilities reported that it was on their roadmap, and 91% of software vendors who offered them felt embedded banking solutions were very important or extremely important to their company today.

As a software vendor, offering businesses a one-stop-shop for these types of embedded solutions saves businesses time and money. Further, when implemented well with the help of a trusted provider, access to these services can be offered seamlessly, integrated into the software vendor's existing business solutions platform to fit with their current products.

Why Does Embedded Banking Matter for Your Platform?

91%

of Software Vendors with some type of Embedded Banking Solution agreed it was *important* or *extremely important* to their company today.

Through the integration of embedded solutions for their merchants, it is possible for software vendors to offer payments, cash flow management, payouts, and other options to their clients with minimal friction to adopt. If done correctly, embedded banking can be highly lucrative to a software vendor's core offering for several reasons:



Building New Revenue Opportunities

The monetization of payments and software – as well as financial services – provides additional income to software vendors beyond their core business solutions. Further, these types of value-added services can generate monthly recurring revenue for software companies.



Responding to Merchant Needs and Expectations

Consumers are getting more comfortable paying for their food within delivery apps or enrolling in installment plans from the retailer through which they buy a product – the convenience afforded through these options provides a better value proposition. In response to changing consumer expectations, businesses are increasingly looking for providers of software who can also help them adapt to their clients' needs, many of which are growing increasingly complex.



Increasing Customer Loyalty

By layering financial service products into their wider ecosystem of offerings, software vendors can capitalize on the desire of businesses to use these types of services without having to identify new companies to work with. By being the provider and relationship owner of their merchant clients, software vendors can also create 'stickier' relationships where businesses are less likely to attrit. This also broadens the company's value.

What Can KeyBank Offer You?



Historically, the needs of businesses looking for complimentary embedded products to offer their clients has been under-addressed, though this is changing with the popularity of consumers looking for easy access to financing and payment options. For software companies with a desire to capitalize upon the opportunity of embedded banking, now is the time to develop their platform to its full potential.

However, developing in-house embedded finance offerings is complex. Considering regulatory and technology requirements, it can take many years for a company to build their own financial products. Working with a trusted bank that takes on much of the risk and complexity in this area can save software vendors substantial time and money. Furthermore, working with KeyBank affords software vendors a wealth of expertise in the banking industry, helping them navigate the intricacies of the financial sphere.

For software vendors looking to explore embedded options for their platforms, it is important to form relationships with providers of embedded solutions carefully to identify those who care about meeting their individualized needs. For example:

- Do they have accessible, useful APIs to facilitate embedded banking options?
- Will their offerings provide a good user experience for your business clients?
- Do they offer quality customer support?
- How experienced are they in the banking space?

KeyBank offers a unique combination of financial technology, mature banking capabilities, modern risk management and servicing, and expert guidance, all through a single provider. These capabilities provide software vendors with significant flexibility and seamlessness in building out their embedded offerings for their business clients.

To learn more about KeyBank's Embedded Banking solutions, visit

key.com/embeddedbanking

About



Embedding banking products, like payments into software, is at the forefront of the financial services industry. KeyBank offers a unique combination of financial technology, mature banking capabilities, modern risk management, and servicing, all through a single provider. Our full suite of embedded banking tools and services, built on flexible APIs, empowers platform growth through Treasury, Risk Management, and Payments.

TSG is a globally recognized analytics and consulting firm that supports the entire payments ecosystem, serving over 1,000 clients from Fortune 500 leaders to more than a dozen of the world's most valuable brands. Trusted by industry leaders, TSG's strategic services, market intelligence, and analytics merge to empower clients with actionable and accessible information.

Survey Methodology*

This survey was conducted online within a sample of Software Vendors by TSG from October 2nd to October 18th, 2022 among those operating primarily in the U.S. Software Vendors reported serving a variety of industry verticals, with an average tenure of 3 – 5 years working with a payment processing provider.

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