Embedded Finance

Case Study

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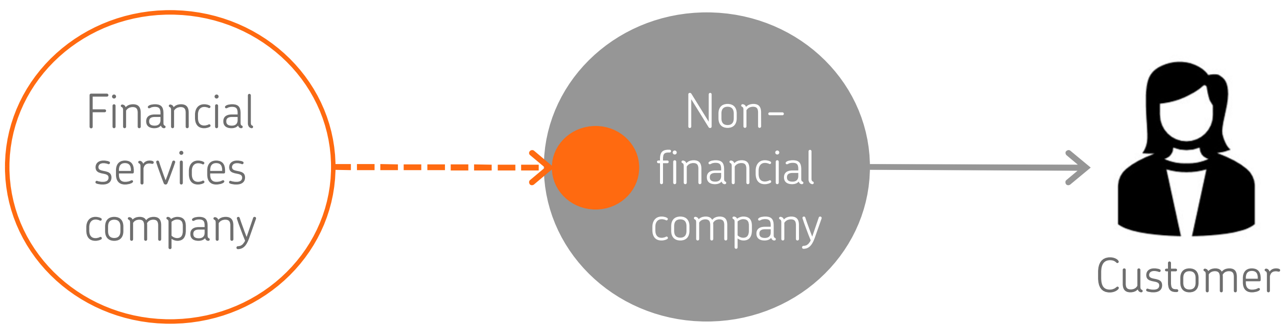
Embedded finance – a definition

Embedded finance refers to seamless integration of financial services into the offerings of non-financial companies



Terms used in conjunction with embedded finance

Contextual banking

Distribution through
partner channels

Direct-to-consumer financing

In-app finance

In-product finance

On-demand finance

Invisible finance

Embedded financial services

Platform-based banking

API-banking

Embedded banking

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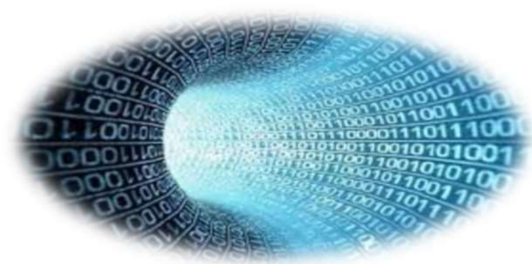
Benefits to the financial services provider

- Widened distribution capable of hitting target audiences that might not be easily reached through own channels
- New growth and additional revenues

- Lower customer acquisition cost as the distribution partner has a clientele pipeline already



- Possibility to enhance data assets and improve customer insights

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Benefits to the customers

- Convenience and time savings when everything happens as part of one seamless customer journey
- No need to contact financial services provider separately, avoiding cognitive stress with e.g. forms and applications
- Potentially cost savings with attractive bundles that package things together

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An increasing number of consumers are open to getting financial products from non-traditional providers

Which of the following providers could you purchase a banking or insurance product from?

47 %
Another domestic bank

32 %
From a traditional domestic provider outside the financial sector e.g. Neste, Finnair, Kesko

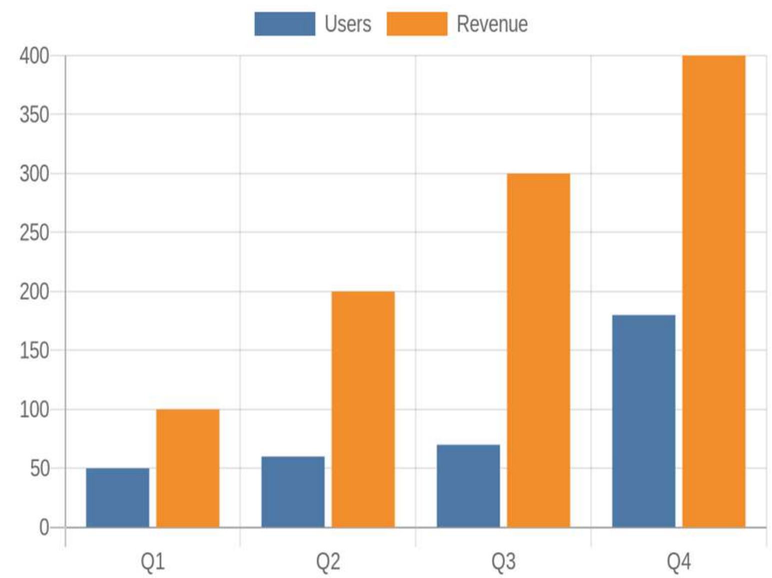
11 %
From a global big tech company, e.g. Google

10 %
From a web platform, e.g. Hotels.com

Source: OP study

Benefits to the distribution service partner

- Improved customer satisfaction through holistic one-stop-shop offering
- Increased customer loyalty through financial service elements
- New earnings through commissions from the sales of financial services
- New data points about customers
- Financial service elements without heavy regulatory burden



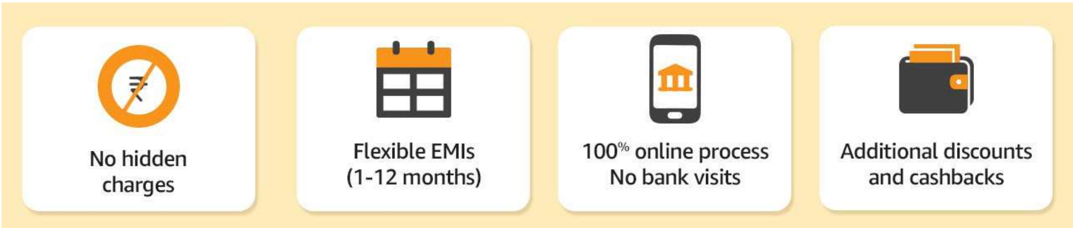
Established “semi-embedded” models

- Embedded finance is a relatively new term but similar approaches have been around for quite some time
- Car financing has been largely distributed through car dealerships, and in many cases done with private label branding: e.g. Laakkonen Fiksudiili, Veho Go, Volvo Paketti
- Also insurances are packaged as part of car financing products
- Quite typically these traditional distribution arrangements have not been seamlessly integrated into the customer journeys

Examples of recent successful scale-ups

- Klarna is one of the biggest embedded finance success stories globally, seamlessly integrating into the customer journeys of other companies
- Company revenues have grown to over 1.5 B€ p.a.

- Amazon EMI (Easy Monthly Installments) is a hugely successful concept in markets where credit card penetration is low
- There are multiple financial service providers behind the concept



Indications of growing segments

- So far most of the embedded finance concepts have been focusing on the consumer market
- New concepts targeted to the enterprise segment are emerging
- The accounting firms are potentially becoming a major channel for banking and insurance services aimed at SMEs
- At the same time large corporations are running their financial processes with ever increasing automation in ERP systems
- Some financial services will be integrated to these processes in highly automated way, machine-to-machine

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An increasing number of SMEs are open to getting financial products from non-traditional providers

Which of the following providers could you purchase a banking or insurance product from?

22 %

Bookkeeping or accounting platform

20 %

From a traditional domestic provider outside the financial sector e.g. Neste, Finnair, Kesko

15 %

From a provider outside financial services, focusing on serving SMEs

11 %

From an international digital bank, focusing on serving SMEs

Source: OP study

Case study: What do we expect?

Develop a new innovative embedded finance concept

- Illustrate the financial services element and the target offering where it would be embedded in a seamless fashion, including description of the involved players in the value chain
- Define the target market and try to quantify it somehow
- Describe the added value to all parties in the chain, including investments (money, resources) and potential revenues (or other non-monetary gains)
- Evaluate the strategic position impact of the concept for the finance company
- Think about financial services widely: payments, loans, investments, insurances

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Case study: Some evaluation criteria

1. Innovativeness
   Is it different from the stuff already on the market?
2. Value to customers
   Does it alleviate a real pain point or add new value otherwise?
3. Value to financial services companies
   Is there a meaningfully sized addressable market?
4. Value to distribution partners
   Would it make the main offering more attractive or profitable?


Thank You !
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