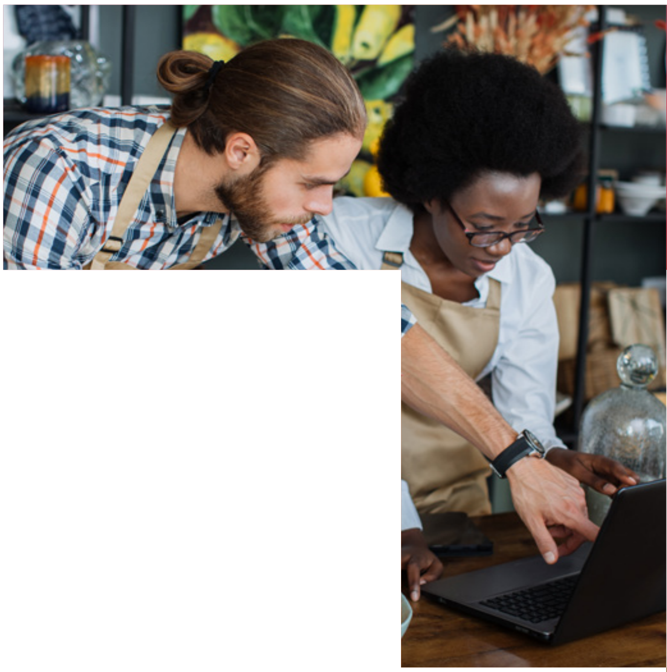


Embedded finance

The move towards invisible banking

CGI

“Banking is necessary; banks are not,” said Bill Gates in 1994. As financial services become increasingly embedded into everyday life, the truth of this statement has never been clearer. Customers are increasingly accessing financial services through channels other than the bank. **Embedded finance is changing the banking landscape and is expected to have an estimated market value $138 billion by 2026, according to Juniper Research**.

What exactly is embedded finance? Why is it important? How can you leverage it for your organization? As embedded finance transforms the banking landscape, we at CGI share our insights on its current and potential impact on your organization, as well as our thoughts on how you can navigate—and benefit—from the change.

What is embedded finance?

Customers use financial services provided by banks to achieve their financial goals, such as securing a loan to purchase a new car. In accessing these services, customers want to complete the required journey as quickly and painlessly as possible. While digitalization enables banks to provide an intuitive, fast, and easy-to-complete customer journey via their websites or apps, customers can still experience friction along their digital journey (e.g., providing physical documents when applying for a loan).

Embedded finance not only reduces friction, it goes a step further. It enables a seismic shift in the customer experience by extending banking services beyond the bank and embedding them into every non-financial journey of the customer.

At CGI, we define embedded finance as the integration of financial services along any type of digital customer journey for the purpose of meeting a customer's financial needs and providing a seamless customer experience.

With embedded finance—or "invisible banking" as we like to call it—financial services become part of any customer journey without customers even realizing the presence or activity of banks. The idea is for banks to become invisible and yet more powerful by integrating their services throughout all digital purchasing journeys.

Today, embedded finance supports a wide range of financial services, including payments, lending, wealth management, and insurance. It enables these services to be integrated and accessed across a variety of non-financial platforms and customer journeys, regardless of industry.

Through embedded finance, financial services are delivered via platforms used to support non-financial customer journeys. A customer doesn't have to switch platforms or screens to access financial services nor does the customer need to use multiple log-ins. Instead, financial services are made available at the appropriate points in the customer's digital purchasing journey.

With the emergence of buy-now-pay-later (BNPL), embedded finance has become even more prominent. BNPL enables customers to apply for a loan at the point of purchase via an e-commerce site and split the cost into a set number of installment payments. There is no need for the customer to seek a loan from another source (e.g., a bank) or platform. Other examples can be found in the car purchasing process where firms like Tesla enable buyers to obtain insurance as part of their car buying experience.

Structurally, the embedded finance value chain consists of three layers: 1) the platform from which a customer pursues a non-financial customer journey; 2) an enabler for providing embedded financial services (e.g., use of Adyen or Stripe for merchant acquiring); and 3) a financial services firm that can provide deposits, lending capabilities, and insurance.

Why is embedded finance important?

As noted above, Juniper Research predicts that the embedded finance market will reach $138 billion by 2026, more than triple the revenue generated in 2021. This shows that embedded finance is growing, and will only continue to grow as use cases and implementations proliferate, and as banks and fintechs compete for market share.

Embedded finance represents a shift from bank-owned financial services distribution to a model in which a bank is embedded within a non-financial servicing platform. As customer demand continues to increase, this shift will become significantly stronger over time.

The most prevalent use case for embedded finance today is payments. Sixty percent of the world's payments will be embedded in the near future, according to Bain & Company.

A recent example is Netsuite, one of the world's leading resource planning (ERP) solution providers. Netsuite has teamed up with HSBC Bank to integrate banking services within its platform, enabling customers to automate accounts payable processes by paying bills directly from the ERP system.

Lending is a close second behind payments, with many lenders embedding loan services at the point of need on a customer journey. As mentioned above, the rise of buy-now-pay-later also is a classic use case for embedding lending and is paving the way for more embedded finance use cases in the future.

How can you leverage embedded finance for your organization?

For banks and other financial institutions starting their embedded finance journey or expanding their embedded finance reach, we recommend a four-step approach for success.

1

Understand the "as is" end-to-end customer journey

As easy as it sounds, this is the most critical step in the process. Many banks have never focused fully on the entire customer journey where the customer—not the bank—is at the center. Instead, they have invested exclusively on their specific part of the journey. With embedded finance, banks need to look at the entire customer journey, which varies based on the type of industry and platform involved.

2

Identify financial points along the customer journey

Once step one is completed, we recommend identifying all of the financial touchpoints along the customer journey. This should be an iterative process. In the first iteration, identify each step that involves any money movement. It's that easy. For the second iteration, closely examine the financial need (e.g., loan, insurance, payment, etc.). Conduct at least three to four iterations before concluding this step to ensure every financial point is identified.

3

Integrate and connect financial services capabilities at the point of need

This is the critical step where we look to embed financial services capabilities. Analyze all of the financial touchpoints and look at the bank's inventory of software platforms, APIs, and/or digital financial products. The goal is to determine whether the bank's existing capabilities can meet a customer's need at a specific financial touchpoint. Apart from assessing the coverage of the financial services capabilities, the revised customer journey also needs to be assessed based on risk (e.g., fraud, security) and compliance perspective as well. This is a very detailed exercise done in close collaboration with banking subject matter experts.

4

Extend financial services based on a better understanding of the client

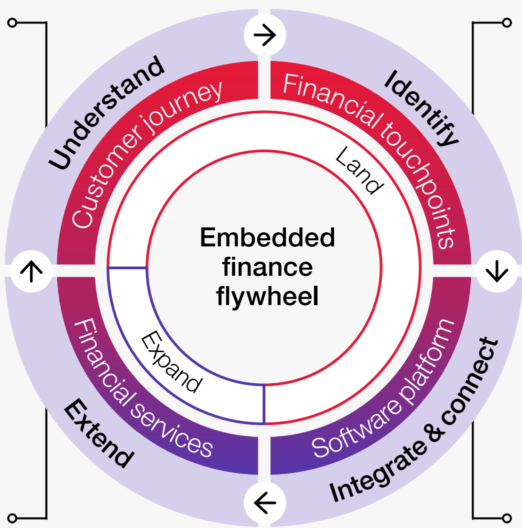
Steps 1 through 3 enable you to implement embedded finance, while Step 4 involves the power of expanding embedded financial services. While the first use case for embedded finance is typically embedded payments, this opens the door to offering other financial services in an embedded fashion.

For example, embedded payments give a bank access to a range of data via a servicing platform, such as transaction volumes, cash flows, etc. It can use this data in making decisions, such as pricing and underwriting (e.g., deciding whether to approve an e-commerce site's loan based on the site's transaction volumes over the past few months). The ability to incorporate new data feeds and use them as input for risk models is a big differentiator within banking.

Four-step approach to embedded finance

1. Understand the as-is end to end customer journey for their customer

2. Identify the financial touchpoints in the customer journey



3. Integrate and connect financial services to the point of need

4. Extend financial services based on a better understanding of the business of the client

Moving forward with embedded finance

As embedded finance makes banking increasingly invisible to the customer, leading banks are re-evaluating their business models and strategies to consider the entire customer journey and capitalize on the competitive advantages of this new approach to banking. CGI, with more than four decades of experience in driving transformational banking initiatives worldwide, is working with banks to prepare for this next great wave of change. Our deep understanding of the complex business and technology challenges posed by embedded finance combined with our end-to-end banking services and strong local relationships deliver the capabilities banks need to succeed with embedded finance.

To learn more, contact us at adaptivebanking@cgi.com for a discussion.

About CGI

Insights you can act on

Founded in 1976, CGI is among the largest IT and business consulting services firms in the world.

We are insights-driven and outcomes-based to help accelerate returns on your investments. Across hundreds of locations worldwide, we provide comprehensive, scalable and sustainable IT and business consulting services that are informed globally and delivered locally.

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