The rise of embedded finance
ABN AMRO Ventures is the corporate venture fund of ABN AMRO Bank, a leading bank in the Netherlands.

The €150m balance sheet fund invests in the most relevant up-and-coming technology companies to boost and accelerate innovation for the bank and its clients.

The collaboration between the fund and the portfolio companies goes far beyond capital: ABN AMRO Ventures actively provides knowledge and expertise, access to the bank and its systems, support from relevant specialists inside and outside ABN AMRO, as well as an extensive external network.

Examples of portfolio companies

Dealroom.co is the foremost data provider on startup, early-stage and growth company ecosystems in Europe and around the globe.

Founded in Amsterdam in 2013, we now work with many of the world’s most prominent investors, entrepreneurs and government organizations to provide transparency, analysis and insights on venture capital activity.
Why embedding now?

Pandemic accelerated **online transition** of many services. Embedding online is much easier.

**Acquiring a customer** for a bank or insurance costs 4x than an e-commerce and 30x a retailer.*

Fintech **infrastructure** has matured massively, BaaS to open banking.

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* Source: Dealroom.co.  * Solarisbank: Embedded finance study
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2. Fintech-enabled marketplaces and vertical SaaS
3. Embedded insurance and lending
Why embedded finance matters now
Embedded finance is a multi-trillion dollar opportunity.

Embedded finance can unlock an opportunity bigger than the current value of all fintech startups and the top global banks and insurers, combined.

**Market value**

Today

- $3.4 Trillion
  - Combined value of all fintech startups

- $3.6 Trillion
  - Top 30 Global Banks & Insurers

2030

- $7.2 Trillion
  - Insurance
  - Lending
  - Payments

Source: Adapted from Simon Torrance Embedded finance, Dealroom.co
The embedded finance customer journey: bringing finance when and where the customer needs it.

- **Standalone product**
  - User
  - Financial company platform
  - Financial service

- **Integrated product**
  - User
  - 3rd party company platform
  - Financial company platform
  - Financial service

- **Embedded product**
  - User
  - 3rd party company platform
  - Financial service

Embedded finance refers to the trend of bringing financial services whenever and wherever customers need them.

Financial services not offered as standalone product, but instead more personalized solutions are being offered to customers by non-financial 3rd party partners in context — where and when they need them.

For the financial sector is an opportunity to have a better distribution of the products, leveraging the network, customer relationship and data of the partner.

For non-financial companies it helps attract and keep users and open new revenues stream.
We believe financial services are the lifeblood of the economy, moving beyond old fashion products and moving towards customized products. It's a coming-of-age for embedded financing.

Matthew Jones
Managing Director
anthemis
Every company will be a fintech → will act as a fintech

Source: Dealroom.co.

Embedded finance is more a means than a goal. The important thing is what can be done for the end client. Only some of the biggest non-financial companies can build in-house financial services. The complexity of the required infrastructure and regulatory requirements are beyond reach for all the others. For this, several financial infrastructure companies have emerged that are abstracting away the complexities on the back end to power financial experiences.

- Fintech service offerings
  - User interface and customer operations
  - Products (payments, lending, insurance)
  - Compliance, AML, KYC, fraud, financial crime
  - Regulatory licenses

Source: Dealroom.co.
The Architecture of Embedded Finance

Embedded Finance

- Non-finance User Experience
- Banking-as-a-Service (BaaS)
  - Full stack Technology & Capability Stack
  - Regulatory License
- Other approaches
- Other enablers
  - Open banking
  - Core banking

Insourcing

- Fintechs, other Banks

Source: Adapted from Celent, Dealroom.co.
“It's important to build a product that serves as a common denominator for all platforms. The platform is only happy when the customer is happy.”

Jens Roehrborn
Co-founder and CEO
Embedded finance maturity and potential by use case.

- Embedded insurance and lending: huge potential and still early in the journey.

- Embedded payments are already de facto, but BNPL, one-click checkout.
Embedded finance and BaaS have attracted billions of dollars in funding and grew 3x last year.

<table>
<thead>
<tr>
<th>Financial Area</th>
<th>2020 Funding</th>
<th>2021 Funding</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Embedded finance</td>
<td>$1.5B</td>
<td>$3.1B</td>
<td>3.1x</td>
</tr>
<tr>
<td>BaaS</td>
<td>$1.5B</td>
<td>$3.0B</td>
<td>3.8x</td>
</tr>
<tr>
<td>Open banking</td>
<td>$1.2B</td>
<td>$1.5B</td>
<td>4.6x</td>
</tr>
<tr>
<td>Embedded payments*</td>
<td>$1.5B</td>
<td>$1.5B</td>
<td>5.0x</td>
</tr>
<tr>
<td>Core banking</td>
<td>$0.8B</td>
<td>$1.2B</td>
<td>8.9x</td>
</tr>
<tr>
<td>Embedded insurance</td>
<td>$0.3B</td>
<td>$0.8B</td>
<td>2.5x</td>
</tr>
<tr>
<td>Embedded lending*</td>
<td>$0.3B</td>
<td>$0.8B</td>
<td>2.1x</td>
</tr>
</tbody>
</table>

VC funding growth by embedded finance trends (2021 vs 2020)

*Excluding not white-label BNPL providers such as Klarna.
Banks can play a key role in embedded finance. If they want to.

Commitment, resources, risk appetite

Selected Bank Examples

Emphasis on . . .
Technology
License

Technology AND License
(Full BaaS)

Collaboration and Cocreation
B2B2C
B2B2BC

Business model impact

Source: Adapted from Celent, Dealroom.co
For banks, it can be challenging to have a long-term commitment, even if they have a specific niche. It’s a big fight to take on, and one that’s better to fight together.
## Embedded finance opportunities by sector.

### Embedded Finance Opportunity by 2030*

<table>
<thead>
<tr>
<th>Sector</th>
<th>Opportunity</th>
<th>Market Size (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail &amp; E-commerce</td>
<td>49%</td>
<td>$3500B</td>
</tr>
<tr>
<td></td>
<td>21%</td>
<td>$1500B</td>
</tr>
<tr>
<td>Healthcare</td>
<td>17%</td>
<td>$1200B</td>
</tr>
<tr>
<td>Education</td>
<td>7%</td>
<td>$500B</td>
</tr>
<tr>
<td>Telecom</td>
<td>6%</td>
<td>$400B</td>
</tr>
<tr>
<td>Real Estate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Media &amp; Entertainment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td></td>
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<tr>
<td>Pharmaceuticals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working capital for merchants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer financing at point of sale/checkout (BNPL)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply chain and trade financing and insurance for business trade platforms</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Dealroom.co. *Mambu: embedded finance report*
Fintech-enabled marketplaces and vertical SaaS
Marketplaces are increasingly embedding financial services: “fintech-enabled marketplaces”.

Fintech-enabled marketplaces

- Expanding total addressable market
- New and recurring revenue streams
- Lower Customer Acquisition Costs
- Sustainable unit economics
- Reduce friction at order

Online marketplaces

- Create demand
- Listing & curation
- Transaction
- Logistics
- Inventory risk
- Product-market risk

Financial services

- Insurance
- Escrow
- Financing
- Loans
- Payments
- Payroll

Source: “Fintech-enabled marketplaces” report by Dealroom, Adevinta Ventures and Speedinvest

See the report
Marketplaces that embed financial services command higher valuation than their peers.

Online marketplaces
Median EV/Sales 5.3x

Fintech-enabled marketplaces
Median EV/Sales 6.7x

Financial services
Median EV/Sales 4.6x

Source: "Fintech-enabled marketplaces" report by Dealroom, Adevinta Ventures and Speedinvest

See the report
Some marketplaces have invested in building their own fintech products in-house.

<table>
<thead>
<tr>
<th>Investments, strategic acquisitions and in-house products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payments</strong></td>
</tr>
<tr>
<td>Amazon</td>
</tr>
<tr>
<td>Shopify</td>
</tr>
<tr>
<td>Jumia</td>
</tr>
<tr>
<td>MercadoLibre</td>
</tr>
<tr>
<td><strong>Lending</strong></td>
</tr>
<tr>
<td>Amazon</td>
</tr>
<tr>
<td>Shopify</td>
</tr>
<tr>
<td>Jumia</td>
</tr>
<tr>
<td>MercadoLibre</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
</tr>
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<td>Amazon</td>
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<tr>
<td>Shopify</td>
</tr>
<tr>
<td>Jumia</td>
</tr>
<tr>
<td>MercadoLibre</td>
</tr>
<tr>
<td><strong>Cash</strong></td>
</tr>
<tr>
<td>Amazon</td>
</tr>
<tr>
<td>Shopify</td>
</tr>
<tr>
<td>Jumia</td>
</tr>
<tr>
<td>MercadoLibre</td>
</tr>
</tbody>
</table>

Marketplace operators develop financial services products in-house to strengthen its core ecosystem (e.g. Amazon, Shopify), increase financial inclusion and extend payment infrastructure to third parties to collect consumer data (e.g. Jumia, MercadoLibre).

Starting with MercadoLibre (marketplace) the team has built an ecosystem, adding payment solutions (MercadoPago), logistics (MercadoEnvíos), financing (MercadoCredito), advertising for sellers and publishers (MercadoAds) and software to help offline businesses digitize and have an online shop (MercadoShops). Also, Mercado Pago already represents 50% of the company value in terms of revenue generated and transactions.

Shopify uses its merchant solutions (mainly payments) to drive higher retention for its core subscription product.

Developing financial services product in-house is expensive and time-consuming (e.g. build compliance, credit risk, anti-money laundering teams from scratch).

Source: "Fintech-enabled marketplaces" report by Dealroom, Adevinta Ventures and Speedinvest
While other marketplaces partner with third-party fintech startups, to control and improve the user experience at lower initial costs.
It’s great to put our brand out there [via embedded partnerships] because it gives credibility, and it maintains engagement from the client. The cross-selling is quite significant; we onboard more clients in the end.

João Cardoso
CEO and Founder
Financial solutions massively extend the value added in the process of matching supply and demand.
Fintech is the latest evolution for Vertical SaaS.

- It increases revenue per user by 2-5x.
- It unlocks new verticals where market was too small or cost to acquire customers too high.

Unlocks:
- Large Enterprises
- SBM + MM Businesses
- Individual Users
- New Verticals
- Additional Revenue/Consumer

Pre-2000s 2000s 2010s 2020s

On-premise + Licensing
Subscription SaaS
Bottom-Up (metered, trials, Premium)
Fintech

Source: Adapted from a16z, Dealroom.co.
Opportunities to embed finance in **Marketplaces** and **SaaS**.

» Global B2B marketplaces

» Health platforms

» Foodtech + fintech

» Insurance ecosystems
Embedded insurance and embedded lending
Embedded insurance can benefit all the actors involved, from 3rd party distributors and insurers to end users.

3rd parties distributors (Platforms)

- significant revenue stream (average 18% of total revenues)
- increase loyalty and retention
- improved customer service

Insurers

- Lower cost of customer acquisition (CAC)
- Greater availability of data
- Higher penetration rate

Customers

- More relevant, customized products
- Streamlined customer experience

» Find more on the Blog
Amazon, Shopify, Paypal and Square are leaders in lending for merchants and SMBs.

<table>
<thead>
<tr>
<th></th>
<th>Amazon Lending</th>
<th>Shopify Capital</th>
<th>Paypal Business Loans and Paypal Working Capital</th>
<th>Ebay</th>
<th>Square Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of financing</td>
<td>Business loans</td>
<td>Business loans, cash advances/working capital</td>
<td>Business loans, cash advances/working capital</td>
<td></td>
<td>Business loans. Stopped merchant cash advances.</td>
</tr>
<tr>
<td>Amount</td>
<td>Up to $1M</td>
<td>Up to $2M</td>
<td>Up to $500k</td>
<td></td>
<td>Up to $250k</td>
</tr>
<tr>
<td>Countries</td>
<td>US, UK, Germany, Canada, China, France, India, Italy, and Spain</td>
<td>Loans: US Cash advances: US, Canada, UK.</td>
<td>US, UK, Australia, Germany, and Mexico (available through Konfio)</td>
<td></td>
<td>UK US, Australia</td>
</tr>
<tr>
<td>Total funding provided</td>
<td>Unknown ($1B/year in 2019)</td>
<td>&gt;$3B, $400M in Q3 2021.</td>
<td>$54B in total assets as of February 2021 Largest non-bank lender</td>
<td>£25.7M in the first 3 months, up to Aug.</td>
<td>&gt;$9B</td>
</tr>
<tr>
<td>Partnerships</td>
<td>Goldman Sachs, Bank of America, ING (Germany)</td>
<td>Mostly directly</td>
<td>Mostly directly through partnership with WebBank</td>
<td>YouLend, Funding, Xchange, Wayflyer</td>
<td>Mostly directly</td>
</tr>
</tbody>
</table>
The future of business lending will be platform-embedded lending solutions.

Jens Roehrborn
CEO and founder, Banxware

"Lending is the master discipline of embedded finance. It is yet the most underserved and underdeveloped finance product."

» Find more on the Blog
Explore the key embedded finance trends.

» Embedded finance
» BaaS
» Embedded insurance
» Embedded lending
» Open banking
» Core banking

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