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SaaS Firms Step Up Embedded Payments Offerings

The growing adoption of new applications in open banking, digital wallets and mobile commerce is building momentum for embedded payments — the integration of payment processing capabilities directly into non-payment apps.

Providing application programming interfaces (APIs) to deliver payment processing directly to merchants opens up opportunities for new revenue streams and seamless customer experiences.

Customers can click a single payment link on an app or website and select from various payment options without having to transfer to a different app or platform.

Embedded payments can also help non-payments businesses comply with industry regulations and standards as they move into the space by providing secure and compliant payment processing.

The market for embedded finance is expected to grow to $7.2trn by 2030, with retail and e-commerce accounting for 49 percent of that amount, according to an ABN-AMRO Ventures and dealroom.co study from March 2022.

Embedded payments are viewed as the key to embedded fintech. Recent announcements from several finance and software companies underscore this trend, as industry players form strategic partnerships and launch new offerings to position themselves at the forefront of this transformation in financial services.

For instance, UK-based global payments and banking-as-a-service (BaaS) platform OpenPayd has formed a partnership with European open banking payment network TrueLayer, to offer clients pay-by-bank functionality that is fully embedded into their payment infrastructure and delivered through their OpenPayd API integration.

European brands expect to generate €626bn over the next five years by implementing embedded payments and embedded banking solutions, according to OpenPayd data.

The UK could account for around 49 percent of this market share. Almost 10 percent of European businesses already offer embedded payments, while 30 percent plan to add embedded payments in the next two years.

Only 7 percent offer embedded banking to customers, but 31 percent plan to launch an embedded banking solution within two years.

“B2B and B2C companies have high expectations from embedding financial services,” said Iana Dimitrova, CEO at OpenPayd.

“We are already seeing a set of behaviours that are setting the leaders in embedded finance apart from the rest: They are partnering with infrastructure providers, being pragmatic about the scope of a project and staying laser-focused on the customer.”

Open API platforms and tailored front-end designs are making it easier for fintech companies to partner with brands.

BaaS providers use API platforms to offer non-financial services companies modular finance solutions, using a licensed bank’s regulated infrastructure.

The adoption of cloud computing, digital architecture, and the proliferation of mobile devices, all enable real-time data exchange and payments on a large scale.

The development of new web-based technologies that enable easier embeddability of payment widgets in various contexts, the widespread adoption of secure internet protocols, and the overall shift of commerce into apps and away from cards are driving software developers and merchants to introduce embedded payments.

“The main draw of embedded payments — for buyers and sellers alike — is that they reduce both complexity and the time it takes to pay for something, making it easier and faster to start using whatever it is you’re paying for,” Trevor Filter, co-founder, president and chief product officer of digital payments network Flexa, told Vixio.

“This leads to higher conversion rates for merchants and increased customer satisfaction for consumers.

“Embedded payments also enable sensitive payment data to be processed more securely, because they often reduce the number of intermediaries who are directly handling payment details.”

For consumers, social media platforms such as TikTok, Instagram, X/Twitter and Threads have made content consumption instantaneous, and payments are now following suit.

“When you check out in a store or restaurant, you’re not thinking about switching apps or websites to complete your payment — that complexity is completely abstracted away.

“What we’re seeing now is that e-commerce as a share of overall retail payments has shifted back to the highs we saw at the beginning of the COVID-19 pandemic.

“This is a sign that the market is finally prepared to take advantage of mobile and e-commerce payment platforms — and that embedded payment solutions are only going to become more commonplace,” Filter said.

Embedded payments extend to B2B sector

The growth of embedded payments presents opportunities for traditional banks and payment networks to embrace the embedded finance transformation and provide their risk and regulatory expertise to fintechs.

The trend is also moving beyond consumer apps to business-to-business (B2B) transactions.

Mangopay, a French modular and flexible payment infrastructure provider for marketplaces and platforms, has recently formed partnerships with B2B payments and marketplace platforms to provide merchants and marketplaces with customisable infrastructure with popular B2B payment methods and flexible payment terms, such as buy now, pay later (BNPL).

“The demand for embedded finance is driven by the fact traditional banking models often fall short in offering built-in financial solutions like BNPL for B2B e-commerce and comprehensive merchant services,” James Butland, Mangopay’s VP of payment network and UK managing director, told Vixio.

“In an effort to provide more efficient, customer-centric experiences, we’re seeing a shift towards the use of flexible payments infrastructure through APIs to strike the balance between delivering best-in-class experiences, scalability and speed of development.

“APIs make it easier for non-financial companies to embed financial solutions into their products and platforms. We now see insurance, investment and financing experiences embedded within e-commerce experiences,” Butland said.

“The growth is even more apparent on B2B e-commerce platforms offering trade credits and other payment terms, all while offering operational efficiency in managing payments within the same ecosystem.”

By embedding APIs into B2B platforms, software providers can create solutions that automate administration and accounting tasks, including invoicing, payables and payments for their clients all in one place.

“This seamless integration enables marketplaces and platforms to become all-in-one operational ecosystems,” said Butland.

“Here, businesses not only make transactions but also access a range of financial services, including instant payments, BNPL options, real-time invoicing, and quick credit access.

“For end-users this greatly streamlines their shopping experience.”

Jurisdictions

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