

The Embedded Finance Report

How platforms are revolutionizing SMB banking



adyen

engineered
for ambition

Table of content

Executive summary	3
Unlocking the potential of platforms	4
1.1 A universally high demand for additional platform services	6
The rise of embedded payments: A chronology	6
1.2 Why platforms can do SMB banking better	7
1.3 An addressable market worth \$110bn in revenue	8
1.4 Why platforms should move fast	9
Embedded finance in practice	11
How platforms can seize the opportunity	12
2.1 The strengths to build on for a superior service	13
2.2 The three products that will drive immediate adoption	14
Cash advance: solving the needs of fast-moving SMBs	15
Bank accounts: accelerated settlement and simplified cash flows	17
Card issuing: completing the payments offering	19
2.3 Choosing the right partnership model	21
Choosing a partner: A 5-point checklist for platforms	22
An industry at an inflection point	23
Appendix– Scope and Methodology	26

Executive summary

Welcome to the new era of **platform potential**

Platforms and marketplaces are at the center of a revolution changing the financial service industry as we know it. Emerging technology and growing user demand have opened a window of opportunity for platforms to provide the financial services their SMB users have been missing – but that window will only be open for so long.

The opportunity, in short

- There is universal demand from SMBs for embedded finance: 64% of SMBs are interested in financial services embedded within a platform.
- Payments is the foundation on which platforms will grow embedded financial services: 30% of the platforms offer embedded payments services already and 74% of SMBs are interested in it.
- Platforms are uniquely positioned to address the finance needs of SMBs. Having built a central and trusted role in their user's daily operations, platforms are well-placed to deliver financial services directly into SMBs' workflows at the exact moment of need.
- There are three key financial services categories – cash advances, bank accounts, and card issuing – that offer platforms the quickest path to market and a potential revenue uplift of up to 70%.
- We estimate that together, cash advances, bank accounts, and card issuing represent an addressable market of ~\$110bn of revenue in the US, Europe and the UK, which represents ~45% of the total SMB banking revenue pool.

The SMB embedded finance market is still nascent, with less than 5% of SMBs sourcing financial services through platforms. But things are moving fast. Everything points to rapid adoption, with accelerated industry consolidation within verticals and the geographic expansion of leaders. Now is the time to adjust to this new reality.

Platforms with the right timing, technology, and partnerships will thrive, while those without will risk falling behind the speed of market ambition.

To evaluate the potential of embedded finance for platforms, we conducted global quantitative and qualitative research with over 50 leading platforms and marketplaces and over 2,000 SMB users. Our research focused specifically on SMBs, given their pressing financial needs and challenges.

Milk tea

Classic Black Milk Tea \$4.7

Black tea blend with milk

Fruits Milk Tea \$4.5

Fruit tea blend with milk

Jasmine Green Milk Tea \$4.7

Jasmine green tea with milk

Matcha

Matcha Latte \$4.8

Matcha layered over milk

Coconut Milk Matcha \$5.5

Matcha layered over fresh coconut

Jasmine Green Matcha \$4.8

Matcha layered over jasmine

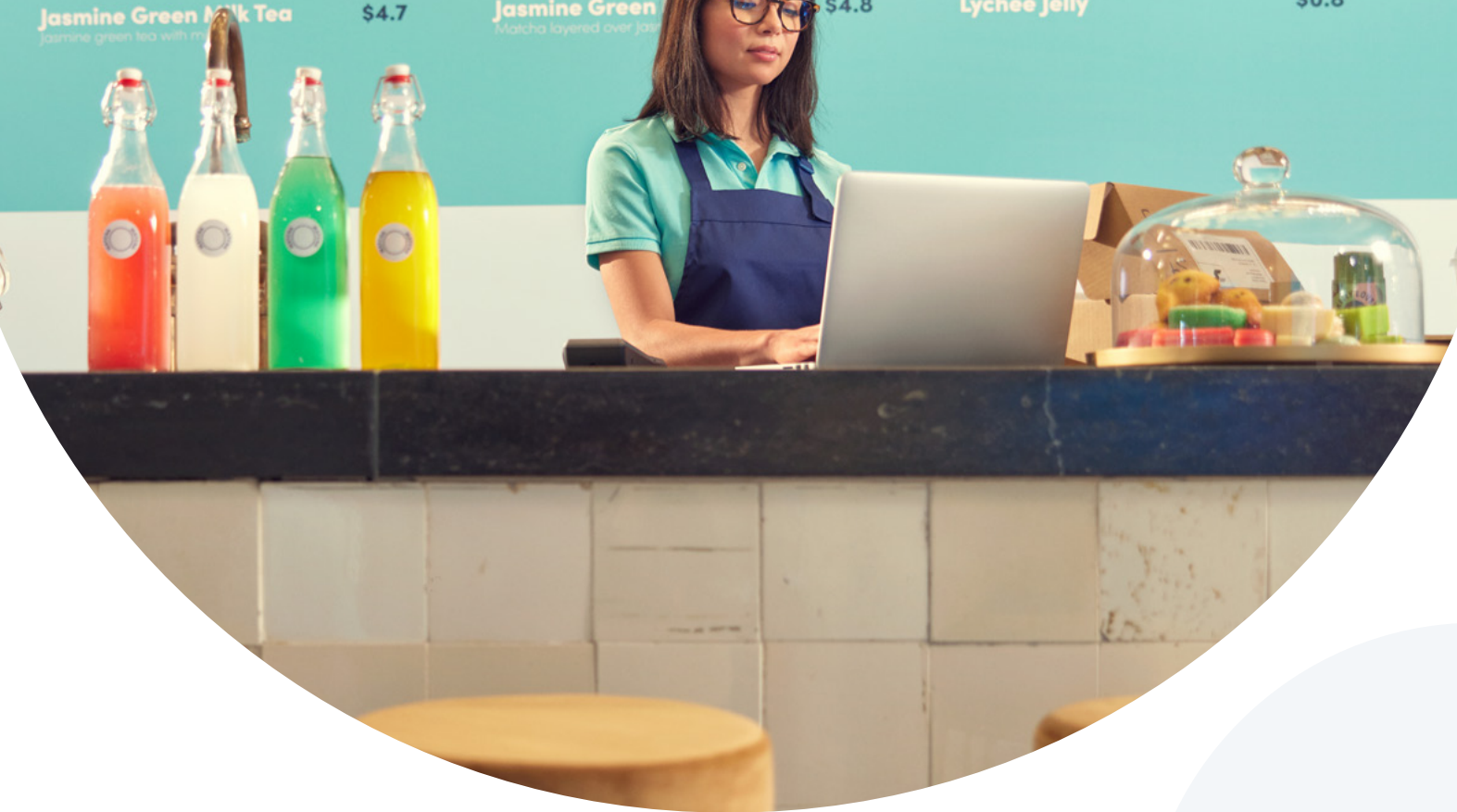
Toppings

Tapioca Boba \$0.5

4

Aloe Vera \$0.8

Lychee Jelly \$0.8



Chapter one

Unlocking the potential of platforms

SMBs have historically been underserved. Now, platforms and marketplaces have the technology to meet a growing demand.

SMBs present a puzzle that banking incumbents have long struggled to solve. Too small to warrant the tailored service afforded to corporates, yet too diverse to be addressed in a scalable way like retail banking clients, the needs of these digital-savvy and ambitious businesses have been traditionally underserved. And what SMBs need are fast, flexible, digital-first solutions that help rather than hinder growth.

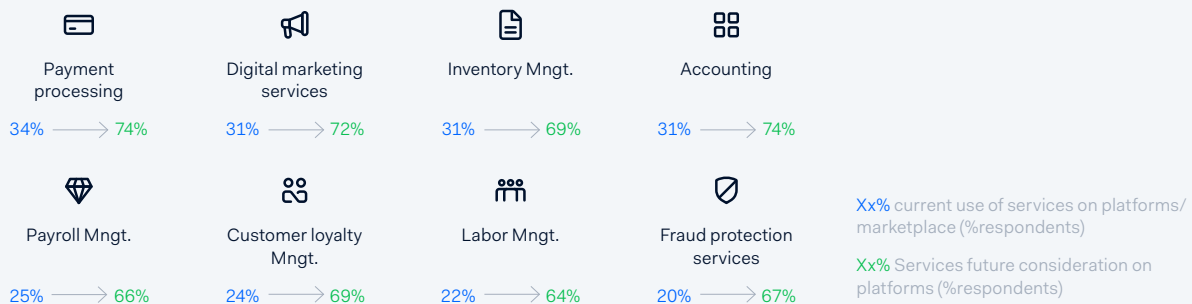
Enter embedded finance: a solution wherein platforms and marketplaces integrate an array of financial services into their offering and deliver them directly to their SMB users via their everyday workflow. It's a logical progression for the platform-user relationship.

From Shopify in ecommerce to Lightspeed in retail and food and beverage (F&B), vertical-specific platforms have become a central and indispensable part of their users' day-to-day operations. For many SMBs, their platform of choice is the digital foundation of their business; it's their flagship store, inventory, back office, mission control – and now it can be their bank, too.

1.1 A universally high demand for additional platform services

The increasingly pivotal role of platforms in their users' operations is fueling SMB interest in leveraging platforms for a wider range of use cases. SMBs don't have time to split their focus across multiple tools, platforms, and partners: they want a centralized solution that streamlines and optimizes day-to-day processes.

Current use and future consideration of SMBs for value-added services provided by a platform (% of respondents)



The logo for Fresha, consisting of the word "fresha" in a bold, lowercase, sans-serif font.

“Small business owners want to focus on their actual business and are tired of the many fragmented solutions out there. It makes a lot of sense that everything they need to run their business, including finance, is on one platform.”

Pawel Iwanow, Chief Payments Officer at Fresha

As our research shows, 74% of SMBs are interested in payment processing services embedded within a platform. As a foundational product of embedded finance, payments also provide an avenue for platforms to expand into additional financial services. For example, if a platform is interested in providing lending to their users, having visibility over their users' payments processing will be essential to offering pre-approved funds or making informed risk decisions.

The rise of embedded payments: **A chronology**

Historically, accepting payments in store was a costly and tedious affair, especially for smaller businesses. Online acceptance solutions were virtually non-existent until early web-based payments players started catering to this segment in the mid-2000s.

Until as recently as a few years ago, SMBs would still have to assemble solutions from multiple players or rely on third-party system integrators which was a costly and time-consuming process. On top of this, the user experience would typically encompass multiple referrals and user actions with a high degree of payment failures.

Now, by removing much of the complexity from payment acceptance, platforms and marketplaces that provide integrated payment solutions are revolutionizing the space through embedding payments into their offering. Online integrations came first, followed by omnichannel, evolving into the unified commerce journeys now offered by the leaders in this space that enable cross-channel services like click and collect and buy online, return in-store.

Embedded payments, for frontrunners now already accounting to up to 80% of total revenues, has successfully augmented the platform business model.

1.2 Why platforms can do SMB banking better

Having successfully met a previously nascent demand with embedded payments, platforms and marketplaces have become ubiquitous. History is now set to repeat itself at scale with embedded finance beyond payments – a further shift that represents a departure from the original platform business model, and a challenge to the incumbent banking sector’s revenue pool.

Platforms have all the ingredients to do SMB banking better. In addition to the increased maturity of their offering and the development of financial service technology, our research shows that 64% of SMBs are interested in financial services embedded within a platform.

This demand is driven by two key factors:

1. SMB banking has long been underserved

Being difficult to profitably address, the needs of SMBs are generally underserved by the traditional banking players: about a quarter of SMBs have insufficient access to tailored financial solutions. As a result they are often forced to turn to informal sources – such as short-term loans from friends and family.

2. SMBs want financial services available directly in their workflow

Traditional banking services – encumbered with legacy technology, slow approvals, and a lack of vertical-specific knowledge – often hinder the agility of fast-growing SMBs. The alternative – engaging an array of different providers – is just as problematic. Now, the ability to have a fully integrated solution changes everything.

SMB propensity towards embedded finance solutions is high across verticals. There are also notable spikes of interest in specific geographies and verticals which are currently further along in maturity.

SMBs' interest in business accounts, cash advances, and issued cards on platforms, by country and vertical (% of respondents)

	Canada	Poland	US	France	Germany	Spain	UK	Australia	Average
Transport & logistics	80%	68%	80%	77%	69%	58%	76%	78%	73%
Restaurants	78%	73%	57%	84%	87%	75%	56%	61%	72%
Hospitality	72%	90%	62%	76%	75%	55%	53%	48%	68%
Retail	60%	54%	75%	38%	58%	55%	68%	63%	62%
Professional services	75%	77%	72%	56%	49%	63%	38%	58%	62%
Others	70%	71%	50%	45%	30%	45%	50%	46%	50%
Average	72%	72%	66%	64%	62%	58%	57%	57%	64%

 <50% SMBs consider using embedded finance on their platforms of choice in the future

 50%-74% SMBs consider using embedded finance on their platforms of choice in the future

 ≥ 75% SMBs consider using embedded finance on their platforms of choice in the future

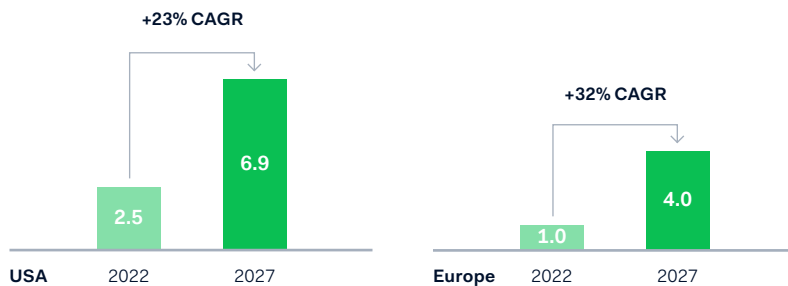
1.3 An addressable market worth \$110bn in revenue

Our research has identified three key financial service categories as the most natural next step for platforms: cash advances, business accounts, and card issuing. We estimate that these products represent an addressable market of \$60bn in revenue for platforms in the US and \$50bn in Europe and the UK, totaling \$110bn combined.

By any standards this number is high: it represents ~45% of the total SMB banking revenue pool. Capturing this opportunity can increase platform revenues by up to 70%.

Currently only a small portion of this total \$110bn opportunity has been unlocked, by a handful of platforms. However, as the below graphs illustrate - not only is the presently available market already significant (e.g. \$2.5bn in the US), the pace of unlocking is swift - with projected compound annual growth rates of mid-twenties to low-thirties for the US, Europe, and the UK respectively.

Estimated embedded finance revenue potential for 2022 to 2027

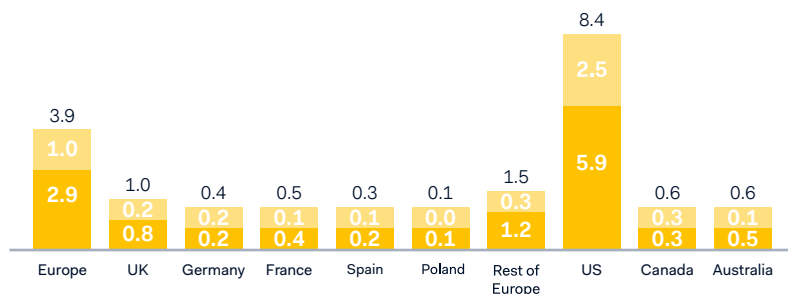


Embedded finance revenue (\$bn) includes cash advances, bank accounts and card issuing.

Revenue potential as the share of the addressable market that (1) leverages platforms and (2) would be interested to leverage embedded finance services.

As we've seen with embedded payments, platforms are likely to penetrate this addressable market fast and across regions thanks to the latent demand from SMBs and the increased maturity and sophistication of the platform business model to deliver value-added services.

Current revenue potential for embedded payments vs. finance across regions



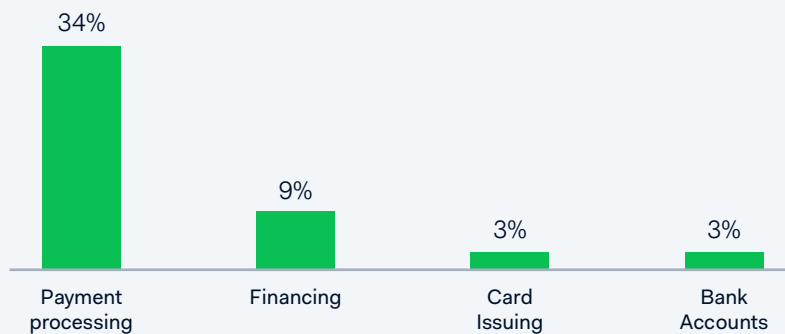
Light yellow: Current revenue (\$bn) potential for embedded cash advances, bank accounts and card issuing

Dark yellow: Current revenue (\$bn) potential for embedded payments

1.4 Why platforms should move fast

While latent demand by SMBs for embedded finance is high, the market is still nascent. Fewer than 10% of platforms actively market embedded finance, and less than 5% of SMBs source financial services through platforms and marketplaces. The financial product offering of most platforms is still immature – but not for long. Strong tailwinds will advance the market and accelerate adoption swiftly:

Current product penetration (% respondents)



Increasingly, SMBs are adopting platforms at an impressive pace.

Platform penetration currently ranges between ~75% and ~85% in the markets assessed, up from ~30% in 2018¹. This presents more opportunities for platforms to upsell than before – and as they reach maximum penetration, the need to differentiate and diversify with different products will only grow.

High adoption of embedded payments by platform users: Embedded payments have largely led the transformation of the platform business model and opened up a wealth of new revenue opportunities for the industry. This product already has a penetration of ~35% amongst the SMBs that use a platform, up from ~30% in 2021. As such, payments are a strong initial product to trial and build user relationships upon,

and leverage for embedded finance cross-selling opportunities at a later stage.

Rapid incorporation of embedded finance solutions in the offering of leading platforms: SMBs show an increasing openness to sourcing financial services from non-traditional bank entities. Leading platforms that pioneered embedded payments are already capturing over 80% of their revenue from these transactions. These players are now actively seeking to diversify their product offering as the next growth driver.

Given these tailwinds, the embedded finance market is expected to move swiftly. The large \$110bn addressable market cited above, will only further fast-track this development.

Key figures

80%

Platform penetration with SMBs

35%

SMBs with payment processing on platform

>80%

Embedded payments share of revenue for leading platforms



Embedded finance in practice

Here's how a SaaS platform can solve common financial pain points for their users

Betty's financial pain points:

1. Betty struggles to reconcile her daily sales with her bank account and has a hard time foreseeing cash flow due to unpredictable and slow payment schedules.
2. Like many SMBs, Betty faces obstacles accessing financing from her bank due to the size of her business and her limited time in operation.
3. Betty needs to access multiple tools and portals in order to keep track of incoming and outgoing funds; she lacks a centralized view of all things finance.

Betty's Bagels

Betty owns a small bagel shop on Lox Lane. She's a first-time restaurant owner who has decided to follow her passion: delicious bagels and locally-sourced coffee. She's already up and running with a SaaS platform to simplify her business operations, but is still encountering pain points on the banking side.

With embedded finance



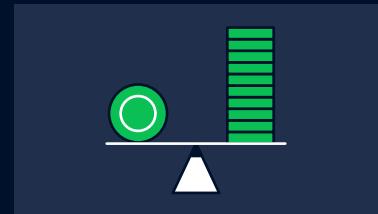
All in one place

Betty logs in to her platform where she can immediately see an overview of her daily store operations. Now she can access all of her financial reporting from the same place.



Actionable financial insights

Betty can now combine operational and financial data in order to receive timely prompts about low stock items, so she can better forecast her spend and properly stock up to keep serving customers.



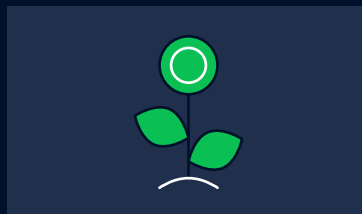
Accelerated access to funds

In case Betty has no cash at hand to buy missing ingredients, she can instantly request accelerated access to pending funds, so she doesn't miss a sale.



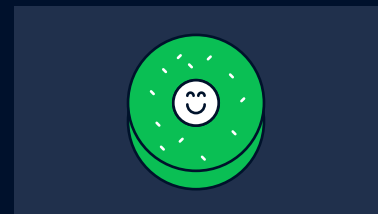
Streamlined cash flow and spend management

Now with funds in hand, Betty can choose to spend directly from her platform's bank account and pay suppliers via a transfer or use a platform-branded card.



Cash advances

Betty can also make use of a pre-qualified cash advance, since her platform already knows her risk profile. She'll use it to promote a new bagel flavor and will have repayments dynamically collected from her daily sales.



With all that taken care of, Betty can now focus on what she really cares about: beans, bagels, and growing her business.



Chapter two

How platforms can seize the opportunity

A roadmap to creating new revenue streams and a stickier service.

The development of embedded finance technology and SMB demand has opened up a compelling opportunity for platforms and marketplaces to better serve their users, grow loyalty, and drive revenue. But how can platforms maximize this advantage before the window closes?

Our research has identified three strengths and three products that platforms should build upon for a higher share of SMB banking and payment revenue pools, as well as the importance of leveraging the right partnership model to ensure effective go-to-market and long-term success.

2.1 The strengths to build on for a superior service

As our research shows, the penetration of SMBs by platforms has grown rapidly and now exceeds 80% in key verticals. For platforms to most effectively leverage this advantage through embedded finance, they should ensure these three ingredients are in place:

- 1. Integrated services capabilities:** The key differentiator of embedded finance will be that it is a natural part of SMBs' usual workflow, allowing – amongst others – pre-approval, one-click provisioning, and dynamic repayments at the point of need. The central premise of embedded finance – a single interface without referrals to other pages, fast resolution, and a simple user journey – will be crucial to realizing its full potential.

In payments, 69% of SMBs state that they'd change their payment processor if the solution were more integrated into their business process. The same interest exists for embedded finance products: ~65% of SMBs would be happy to switch their existing provider for an improved integration.



“Initial adoption of Embedded Finance is 100% product-driven. It shouldn't look like a product that needs to be bought separately – it's about boosting customer awareness by embedding the product in the core of the platform and making it a highly visible additional feature.”

Jacob Olins, VP of Financial Services at EposNow

- 2. Detailed, timely data:** From real-time payment flows and cash positions to inventory levels and point of sales activity, platforms have access to a broad range of relevant user data, at a higher level of granularity than traditional financial institutions. Having centralized, accessible data sets will ensure platforms can deliver a superior financial service offering – such as greater accuracy of underwriting and risk models to make financing available to SMBs that would be ineligible to traditional financial institutions.
- 3. In-depth user relationships:** Platforms have built trusted relationships through consistently strong performance and a deep understanding of their SMB users' specific industry, challenges, and needs – showcased through high SMB satisfaction levels with their platforms (~85%). These strong relationships can be leveraged as a key differentiator to traditional banking players and help develop highly tailored solutions for users, such as the offering of a timely cash advance just when retailers need to renew their collection.

2.2 The three products that will drive immediate adoption

Platforms looking to cement their leadership will start with the embedded financial products that 1. meet the highest user demand and 2. offer the greatest differentiation from traditional bank products thanks to direct integration into SMB workflows.

Our research indicates that short-term cash advances, business accounts with accelerated settlement, and platform-branded card issuing offer the quickest paths to market for platforms and marketplaces. Combined, these three products cover 45% of the current SMB banking revenue pool as well as most of the daily bank touchpoints.



Cash advance: solving the needs of fast-moving SMBs

One of the biggest challenges for small and midsize businesses is maintaining business momentum through liquidity. In the US the average small company only has reserves for 27 days². Despite the increased focus on SMBs from both traditional financial service providers and neo-banks, some of the historical pain points – time consuming processes, cumbersome paperwork, multiple in-person meetings – remain prevalent, leaving a significant proportion of SMB's financing needs unsolved. For example, the small business loan approval percentage at large banks is less than 20% in the US³ and ~70% in Europe³.

Unsurprisingly, SMB interest in cash advance solutions through platforms is high, with limited variation across verticals.

SMBs interest for cash advance provided by a platform by industry (% respondents)



"Others" includes Entertainment & Recreation, Construction, Education, Healthcare, Manufacturing, Social assistance, Utilities and Wholesale.

There is especially high SMB demand for pre-approvals and dynamic repayments based on the received proceeds: 94% of SMBs state that pre-approved cash advances are a product they would benefit from. Players already in the payment flow are well-placed to offer richer solutions with dynamic repayment functionalities.



“There is great potential in embedded merchant finance, which offers an additional revenue potential, but also helps enhance our value proposition and reduce churn. Our merchants see the simplicity and value of the capital product, and many are using it repeatedly. With rapid and widespread adoption, we’ve started rolling out the product across multiple regions.”

Jona Georgiou, GM Payments and Financial Services, Lightspeed HQ

Bank accounts: accelerated settlement and simplified cash flows

SMBs already have easy and affordable access to current accounts through banks and our research shows that they are generally highly satisfied with account services. But platforms have the opportunity to provide accounts with unique features such as accelerated settlement, a single and integrated interface and ultra-fast opening. Moreover, SMBs show interest in adjacent value-added services such as treasury management or cross-border payments with FX, providing a basis for further cross-sell.

Importance of account features for SMBs (% respondents agreeing)

79%

End of day settlement

75%

Fast opening

72%

Integrated experience



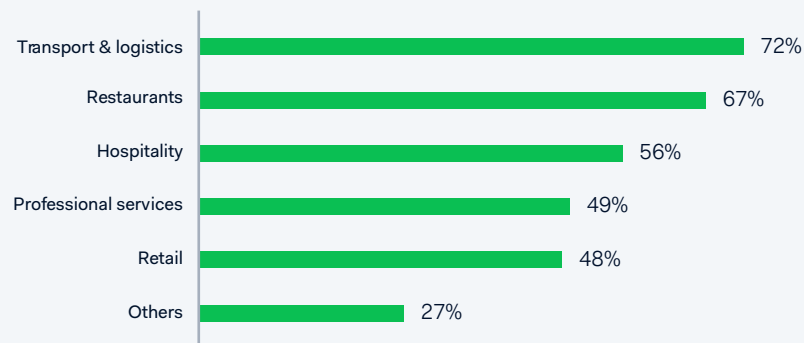
“To drive adoption and differentiate our offering with SMBs, we need to offer multiple fit-for-purpose accounts that are superior to what's out there – from accelerated settlement, VAT payments, and profit-first accounting to account entries linked directly to our accounting system”

Edwin Vlieg, CEO Moneybird

Accelerated settlement will be highly valuable for SMBs even though many currently feel like they have fast access to their money. A third of the SMBs believe their settlement times to be shorter than 24h from their current payment service provider, which is in fact rarely the case given current payment cycles (e.g., in the US, the earliest is 24 hours after the transaction takes place, and often longer).

Noticeably, SMBs express readiness to pay for accelerated settlement if it were offered to them. 52% of SMBs would consider using a paid (1% premium) accelerated settlement solution (i.e. near real-time) in the future, and this interest is consistent across countries with some variation across verticals.

SMBs' interest in an accelerated settlement feature provided by platforms, by industry (% of respondents)



Another feature with strong interest for SMBs is the integration of their bank account with key finance operations, such as payroll and accounts payables. A platform account with integrated payroll can use platform-driven events such as employee working hours to create payroll files automatically. Integrated pay-outs could further reduce the time-consuming process of cash flow management, for example by automatically raising orders when stock is low or scheduling supplier payments automatically when orders are received⁴. Such integrated superior offerings have the potential to cement platform bank accounts as one of the primary accounts used by businesses.

Card issuing: completing the payments offering

Card issuing represents an opportunity for platforms to complete their payments offering by enabling their SMB users to spend their funds on platform-issued debit or credit cards. This creates a compelling revenue opportunity for platforms to not only monetize incoming payments via embedded payments but also on outgoing payments by receiving a share of the interchange revenue from each transaction completed on a platform-issued card.

In addition to the revenue opportunity, the combination of both incoming and outgoing payment functionality will allow platforms to provide a consolidated view of SMBs' spend. Greater visibility and insights on their spend will likely incentivize SMBs to pay for a larger share of their expenses on their platform-issued cards.

In order to grow adoption of a card program our research indicates a clear need for value-added services that empower SMBs to gain better control over their spend (how much, where, and by whom) through features such as spending limits, control over which types of expenses can be paid with the cards, and the ability to easily add additional cards to the account.

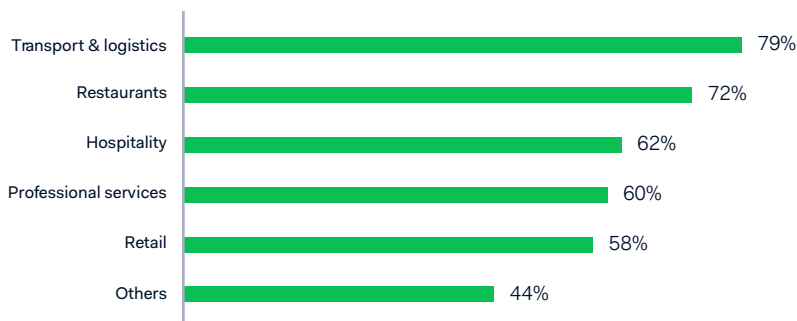
Importance of card features for SMBs (% respondents agreeing)





Another clear advantage of offering debit or credit cards is that they are a natural extension to a platform bank account and cash advances. With a platform-issued card a user could receive a cash advance immediately onto their card and track spending within their business bank account. This type of convenience is already recognized by SMBs with an average of ~60% of SMBs considering using a card issued by their platform across countries and industry verticals.

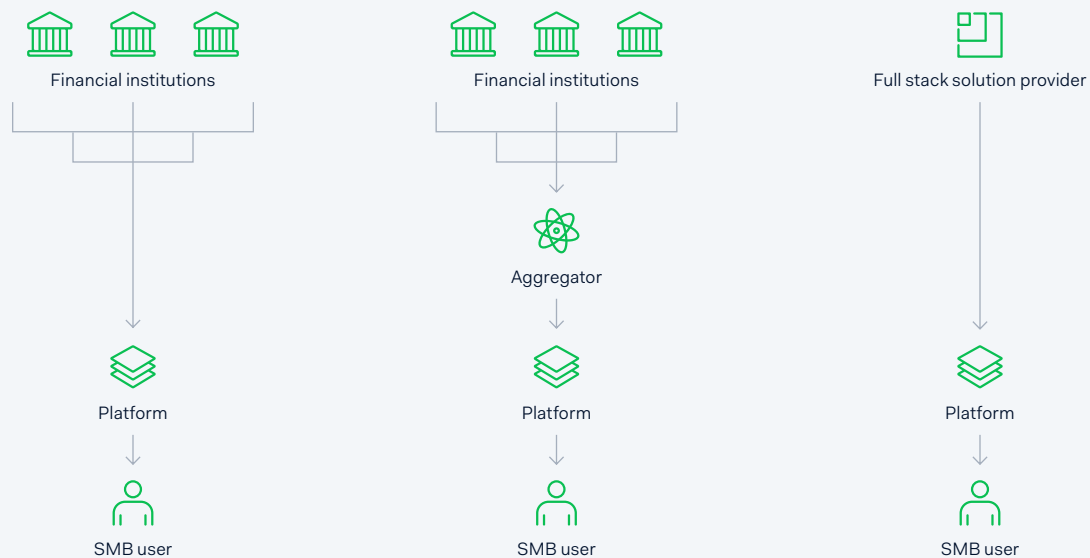
SMBs' interest in a card product provided by platforms, by industry (% of respondents)



2.3 Choosing the right partnership model

From regulatory compliance and risk management to balance sheet optimization, banking is only getting more complex. Platforms will need to forge the right partnerships to provide banking services without taking on this complexity. Moreover, following the rise of embedded payments, and the advance of embedded finance, the demand for new embedded value-added services is likely to accelerate. Therefore, the choice of a partnership model should be future-proof.

Three main strategic partnership options are available to platforms: direct partnership with financial institutions, partnership with aggregators, and partnership with full-stack solution providers. These options come with varying tradeoffs, typically between delegation versus control and simplicity versus sophistication. These have direct implications on the development path of – and the revenue potential from – the platform's embedded finance propositions:



One size will not fit all. Platforms need to evaluate the range of advantages and tradeoffs and select the partnership model that most closely aligns with their specific starting point and strategic goals, the needs of their SMB users, and their overall maturity.

Choosing a partner: A 5-point checklist for platforms

Here are five key considerations platforms can keep in mind when assessing potential partners, plus a few questions to kick things off.

1. Speed to market and geographical coverage

- Does the potential partner have the ability – regulatory and operational – to provide these products in the required jurisdiction(s) in a short timeframe?
- Is the partner able to tackle the different local regulatory requirements (e.g. user ID verification, electronic signatures)?
- To what extent will launching in new markets require additional integration and operational efforts (e.g. would the platform's users need to be re-onboarded and/or would a new market require a new integration)?

4. Third-party dependencies

- Is the potential partner dependent on one or multiple third-party providers for critical functionality (such as know-your-user/business assessments)?
- Are the partners' products themselves dependent on technology from third-party vendors?
- What are the potential risks (operational, counterparty, reputational) associated with those third-party dependencies?

2. Product breadth and depth

- How comprehensive is the embedded finance product (incl. embedded payments) range offered by the provider?
- Are those solutions flexible enough—i.e., can a given product grow side-by-side with SMBs' needs as they scale and evolve?
- How fast can a platform innovate? Are all products mature in terms of features and user experience?

5. Risk, compliance, and underwriting capabilities

- Does the potential partner have the right capabilities when it comes to risk assessments and mitigation, underwriting of loans, and compliance with local laws and regulations?
- How much autonomy related to user approval will the platform have, relative to the restrictions imposed by the financial partner (e.g. risk decisions)?

3. Integration excellence

- Does the potential partner have the capabilities to fully integrate into the SMB workflow to allow crucial features at the point of need?
- Does the partner allow fully white-labeled solutions to ensure platform ownership of the user experience?
- Is there a need for page referrals or can the entire journey be executed on the platform?



Chapter three

An industry at an inflection point

Embedded finance is set to break long-standing compromises in SMB banking and change the financial services industry as we know it.

The financial needs of SMBs have been underserved for as long as banking has existed, stuck in the middle between retail clients and corporate clients. As our research demonstrates, this is about to change.

With staggering market penetration and an indispensable position in their users' daily operations, platforms and marketplaces are now at an inflection point that will completely revolutionize SMB banking. They will leverage high user trust and high user interest to embed financial services in their platform workflow. They will build on unique capabilities to successfully shift into banking services: digital interfaces that can serve as low-cost sales channels, real-time data that can improve risk processes, and vertical-specific knowledge for more tailored services. And they will source from the right partners the banking licenses, balance sheets, and banking capabilities they lack.

The market for SMB embedded finance is still at an early stage of development, with less than 5% of penetration – but it's poised to develop rapidly. The opportunity is simply too big, and too synergetic with their core business for platforms to ignore. Front runners are already building positions, supported by agile partners bringing together payments, account, lending, and card issuance capabilities.

The implications of this shift will be profound and wide-ranging:

- Those platforms that accelerate adoption of embedded finance will consolidate their leadership, increase relevance, improve margins, and accelerate growth. Second tier players will lose ground.
- The payment service industry will accelerate its consolidation: platforms will become an increasingly important channel for SMBs, who will not only need payments services but a full range of embedded finance solutions that can be marketed to their own users.
- Part of the banking revenue pools will inevitably shift from the banking industry to the software industry. Commercial and business banks will need to reinvent themselves and find new ways to leverage their balance sheets.

The SMB banking revolution has already begun, with platforms leading the charge. For those businesses looking to seize the opportunity of embedded finance, now is the time to take action and realize the full potential of platforms.



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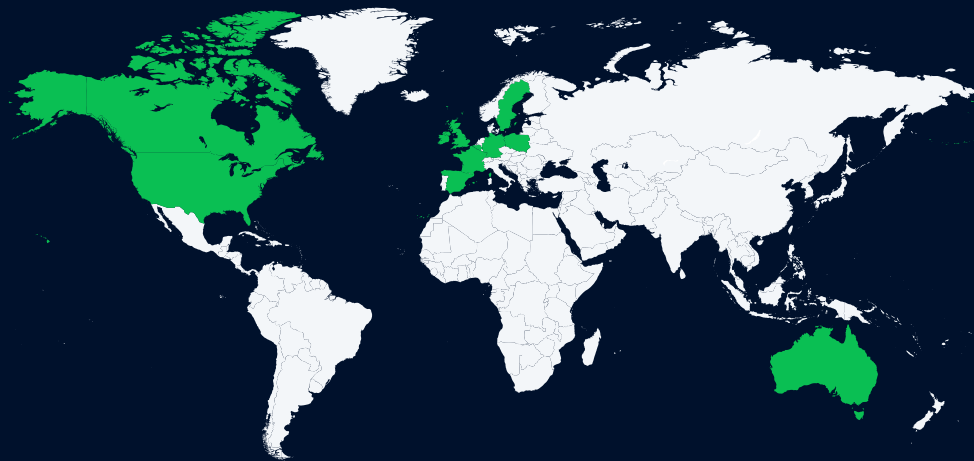
Adyen (AMS: ADYEN) is the financial technology platform of choice for leading companies. By providing end-to-end payments capabilities, data-driven insights, and financial products in a single global solution, Adyen helps businesses achieve their ambitions faster. With offices around the world, Adyen works with the likes of Facebook, Uber, H&M, eBay, and Microsoft.

Appendix– Scope and Methodology

The report is focused on embedded finance offerings to SMBs, considering their specific needs and challenges. The definition of embedded finance is deliberately targeted in this report, as the focus is on those solutions that are most likely to solve SMBs' most pressing needs. Specifically, three potential solutions are investigated in detail; cash advances, bank accounts and card issuing.

- **Short-term unsecured cash advances** (pre-approved or not) that SMBs can use to tackle time-sensitive business liquidity needs (e.g., working capital, small equipment financing, etc.).
- **Platform-embedded bank accounts** with the option to include accelerated settlement features that provide SMBs with faster access to funds (e.g., same-day pay-outs).
- **Platform-issued cards** (both physical and virtual) potentially with certain value-added services (e.g., dynamic spending limit).

This report presents a distinct market assessment of the embedded finance opportunity in terms of its breadth, depth, and distinctiveness. The research provides both a global (US, Europe, and other select markets), as well as an industry-wide view of SMBs' needs and appetite for embedded finance solutions.





The insights reflected in this report were gained through a global SMB survey with over 2,000 respondents. SMBs were asked about their platform preferences, and payments and embedded finance needs. In addition, we investigated both SMBs' current adoption and future interest in these solutions and performed a deep dive on key features for the three products explored in detail.

In addition, we conducted more than 50 interviews with leading platforms worldwide to understand their embedded finance product roadmaps and timelines, the needs that they observe from their SMB users, and what those platforms look for in prospective financial services partners. Those qualitative insights are complemented by an embedded finance market estimate and forecast to 2027, built based on a dataset leveraging proprietary BCG SMB banking data in combination with platform and SMB insights from global research.

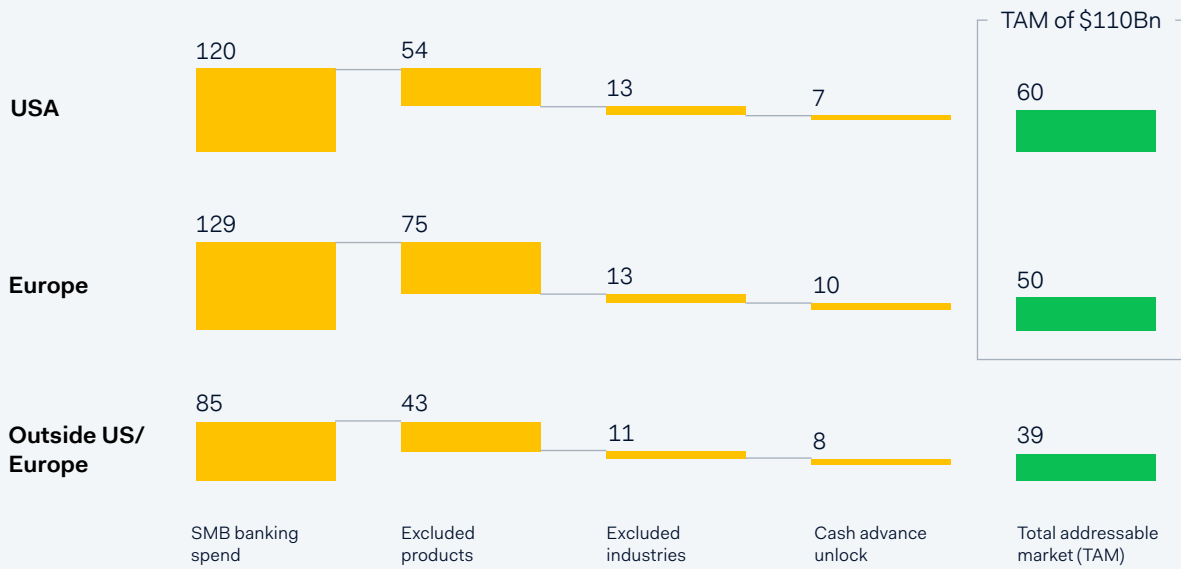
Appendix – Addressable market sizing methodology

Our addressable market sizing methodology consists of a 5-step approach to estimate the embedded finance commercial potential:

1. The starting point is the SMB Banking revenue pools for the respective countries and/or continents based a BCG proprietary tool to provide 'share of wallet' market intelligence (i.e. based on more than 1.2m company wallet records between 2016 and 2021 and client data of banks)
2. A filter is applied for three products that platforms can most easily embed in their workflow in the short-term: cash advances, bank accounts, and card issuing
3. A second filter is applied to remove industries which are less likely to leverage platforms and marketplaces at the core of their business operations (e.g. forestry, fishing, hunting, mining)

To include the upward potential of serving unmet capital needs of SMBs in the traditional financing landscape, we add a cash advance unlock.

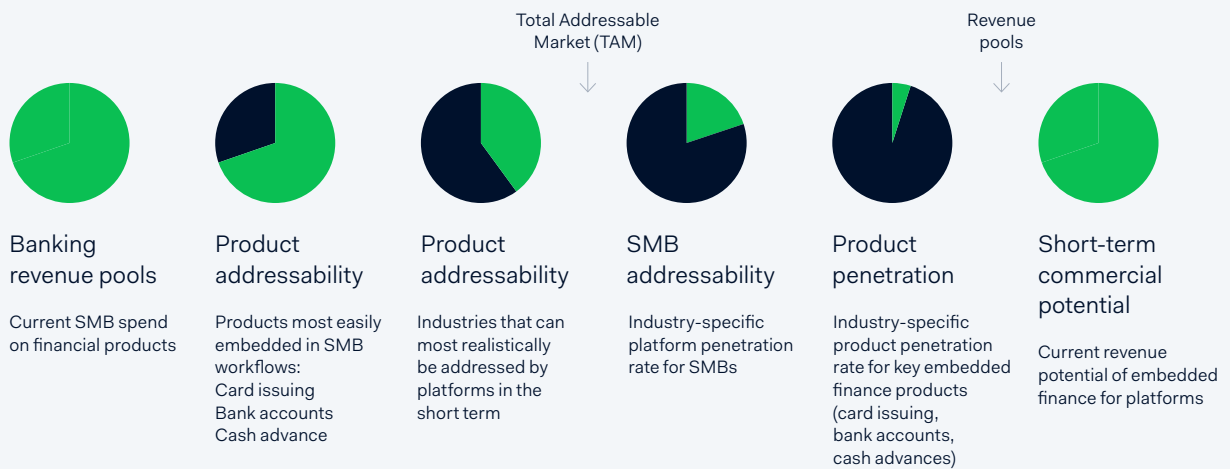
Methodology from SMB banking spend to the total addressable market of embedded finance



To obtain the immediate short-term potential, two additional steps are taken into consideration.

4. Apply an industry-specific platform penetration rate for SMBs
5. Apply an industry-specific penetration rate for each of the embedded finance products, for SMBs

Embedded finance sizing methodology



1. BCG market research
2. JP Morgan Chase - Cash is King: Flows, Balances, and Buffer Days (Sep'16)
3. Credit Small Business Lending Index - Biz2Credit (Dec'21)
4. How Are Small Businesses Using Embedded Finance? - Jacob Olins (PaymentsJournal, May'22)