

Embedded finance could capture up to  
26% of the SME banking market by 2025

 accenture

**Embedded finance for SMEs:  
The ultimate collaboration of banks and digital platforms**

# Banks need a decisive strategy as digital platforms woo SMEs with embedded offerings

Embedded finance is about placing banking services in the day-to-day flow of customers' lives and work. This creates contextual opportunities to provide the banking services consumers and businesses need, when they need them.

Some of the world's most powerful digital platforms are using embedded finance to target small and medium enterprise (SME) banking for growth. They are on track to deliver seamless, frictionless banking services and take ownership of the banking relationship because they already play a central role in the lives of SMEs.

For incumbent banks—which to date have largely prevailed against digital entrants targeting the SME segment—this marks the arrival of a considerable new competitive threat, and a major growth opportunity if they adopt a similar strategy. Platform players that start early, meanwhile, can build significant new financial services businesses while generating more value for SMEs.

New Accenture research which included approximately 2,500 SMEs in 10 markets confirms that these platform players have enormous customer reach today and that SMEs are receptive to embedded finance. An associated Accenture model forecasts a revenue uplift of up to \$92 billion from embedded finance by 2025. If banks do nothing, up to \$32 billion is the estimated traditional SME banking revenue at stake that could be shifted to embedded finance.

Banks have an opportunity to play in this emerging sector by reaching SMEs through digital platforms with their existing banking services, or by creating new offerings to leverage the platforms' user bases. Now is the time to decide how to participate or risk missing the opportunity. There is much to gain, and the early movers will have a decisive advantage.

# Embedded finance in action: banking inside the apps SMEs use to run their business



## An illustrative example:

Meet Bob, a restaurant owner and manager. During a COVID-19 lockdown his restaurant joined Deliver, the leading food delivery platform in his country. His food collection and delivery business is thriving and he spends much of his day checking orders in the Deliver mobile app.

One day he notices a new DeliverMoney transactional account feature in the app and signs up with just a few clicks and swipes. The benefits? Money for food orders is deposited in his DeliverMoney account in real-time and he has immediate access to an overdraft of 50% of his average weekly earnings.

A year down the line, Bob is using DeliverMoney for most of his daily banking needs, instead of Incumbento Ltd, his commercial bank of many years.

What's more, DeliverMoney provides a single, intuitive app that covers most of his business needs:

- Real-time notification of incoming and outgoing payments.
- An easy-to-use bill payments service. Bob takes a picture of the bill, the payment is prepared, and all he needs to do is approve it.
- Direct integration with his accountant. Bob no longer has to prepare tedious spreadsheets and send a copy of his bank statements to his accountant.

Bob wonders whether he should use DeliverMoney's Change Bank service to transfer all his financial flows to DeliverMoney and close his account at Incumbento.

**Welcome to the world of embedded finance— a trend that promises to reshape the commercial banking landscape, particularly in the SME market, within the next five years.**

# Digital platforms are targeting the lucrative SME banking market

Embedded finance is already bringing significant disruption to the consumer market. Offerings such as platform-branded cards like Apple Card, and 'buy now, pay later' (BNPL) services from Klarna, Affirm and Afterpay, have changed the way millions of consumers think about payments and credit.

Now, many of the world's leading platforms are turning their attention to SMEs, at a time when the market is ready for change. The relationship between SMEs and commercial banks in most markets satisfies neither side; businesses and incumbent banks alike are eager to find better ways of doing things.

From the perspective of incumbent banks, SMEs are a difficult segment to serve efficiently and profitably. An Accenture analysis shows that only 30% of large banks' commercial units are achieving sustainable positive returns. The SME segment, specifically, underperforms with regard to almost all profitability drivers.<sup>1</sup>

For the customer perspective, many SME's are dissatisfied with or disengaged in their relationship with their bank. SMEs across the world consistently give their banks low ratings for quality, speed and fee transparency.

Yet despite the influx of neobanks into most markets worldwide—more than 25 challenger banks focused on SMEs have launched in the US alone over the past five years—these digital-first or digital-only players have struggled to gain traction. For example, none has yet managed to seize as much as 1% market share in the US SME market.<sup>2</sup>

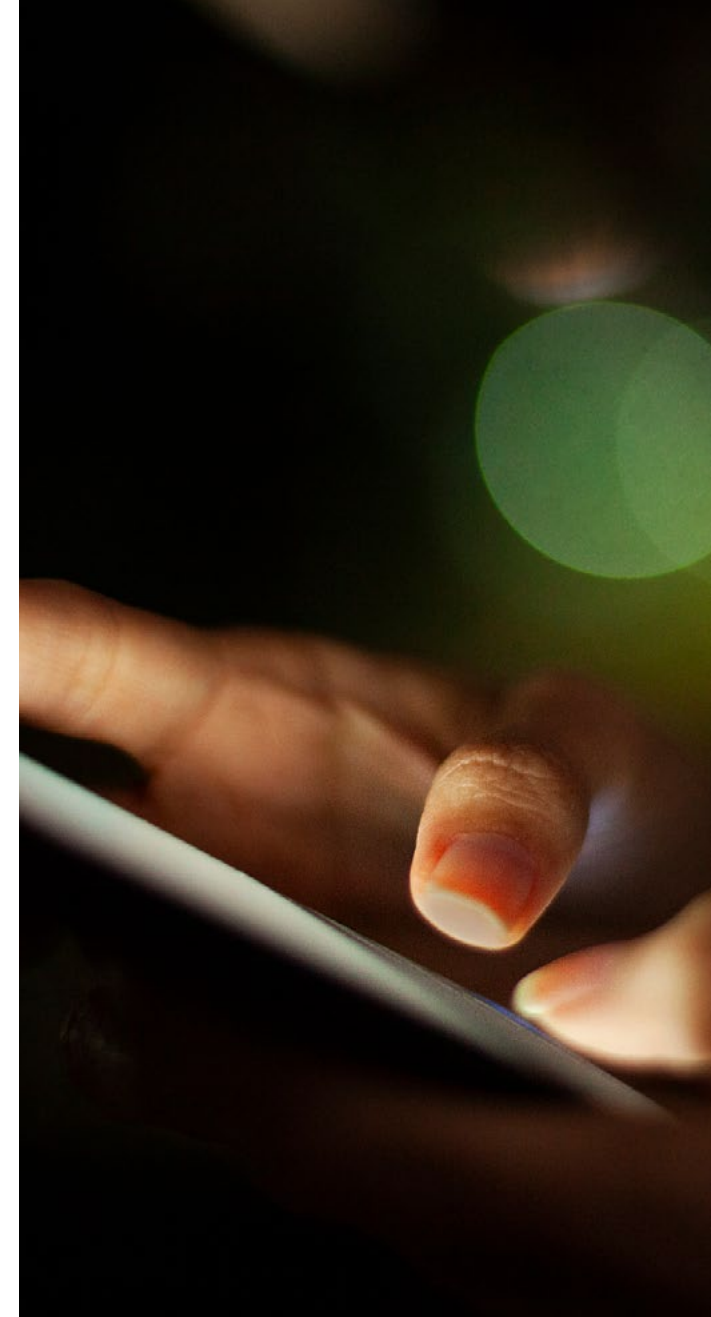
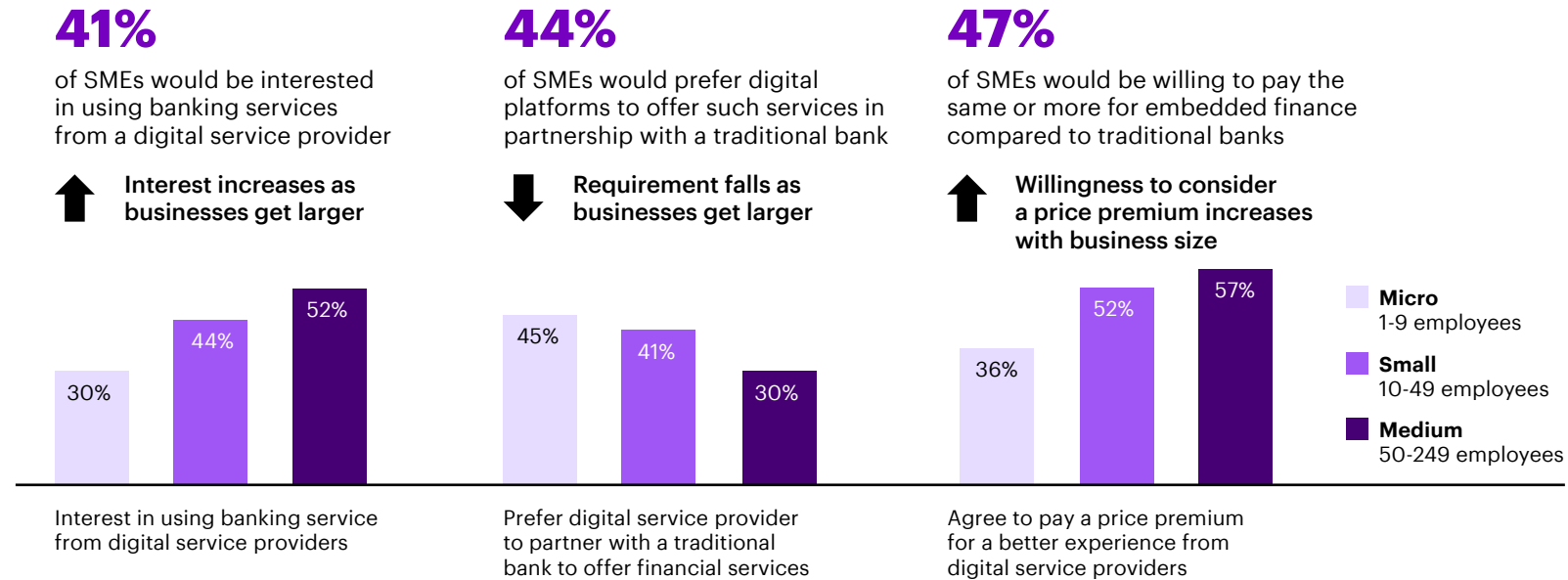
So far, inertia has won out—few challenger banks have come to market with truly differentiated propositions that incentivize customers to switch. What's more, incumbents have managed to enhance their offerings and digital experiences to compete effectively with the innovations introduced by their digital rivals.



# More and more SMEs are warming to embedded finance

Accenture's SME survey suggests that this situation may change fast due to digital platforms' access to SME customers with the convenience and seamless experience they offer.

Figure 1: SMEs are interested and willing to consider paying for platform-provided solutions

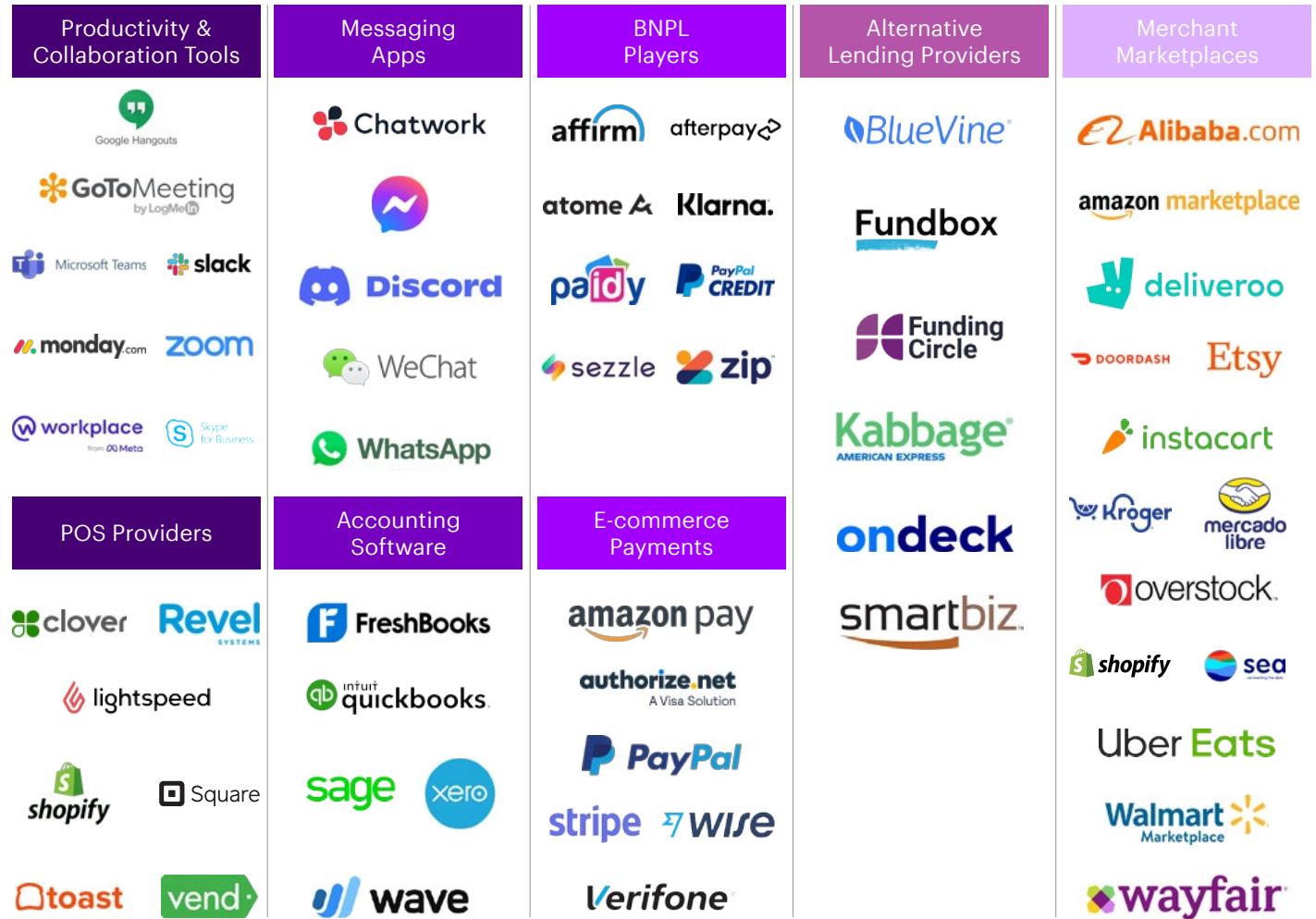


# Embedded finance: integrating banking services into day-to-day workflow

With embedded finance, banking services are starting to disappear into the digital apps, services, and interfaces which SMEs use to run their day-to-day business. Approximately 85% of SMEs in our survey said they use digital services in their day-to-day operations. These are provided by a range of e-commerce, gig economy, marketplace, payment and social media platforms and include cloud-based accounting, financial management, productivity, and collaboration solutions. Platforms are thus well positioned to embed seamless banking services into SMEs' daily business processes and activities.



**Figure 2: Some of the digital platforms that have gained traction in the world of SMEs (not exhaustive)**



With embedded finance, SMEs receive financial services when they're wanted, without needing to initiate a separate process in a new interface, such as logging into another website to make a bank transfer or fill in a loan application.

Not only is this easier and more efficient for the SME, but a platform's embedded finance offering may also come with value-added services such as financial management and analytics tools. For example, non-bank payment processors already offer merchants analytics tools they can use to drive customer insights out of their transactional data.

# Non-bank pioneers in embedded finance

A recent Accenture and Plaid survey found 47% of non-bank platforms are planning to offer embedded finance in the future to retain customers and increase their “lifetime value”.<sup>3</sup> Indeed, many of these digital platforms have already started their embedded finance journey. For example, in the US:

**stripe**

---

**lyft**

---

 **shopify**

 **Square**

**Uber**

 **intuit quickbooks.**

Stripe Capital has created end-to-end lending application programming interfaces (APIs) for platforms like Shopify to offer financing options to SME customers. Shopify, which is used by 30% of all US e-commerce websites, has announced its plans to embed the Stripe Capital API, launching embedded lending products to its 800,000 merchants.<sup>4</sup>

Square, meanwhile, is evolving into an SME solutions and services ecosystem from its beginnings as a point of sale (POS) company that resolved card payments acceptance pains for SMEs. Today, it offers business banking for SMEs, alongside services such as payments, payroll, e-commerce hosting, and customer relationship management.

Lyft offers drivers a Lyft Direct debit card and bank account, powered by Payfare and issued by Stride Bank. Drivers can get their fees paid instantly into their Lyft Direct Account after every ride, with no low-balance charges or maintenance fees.<sup>5</sup> Uber is also resuming investment in financial services after pausing projects earlier this year.<sup>6</sup>

Intuit’s QuickBooks Cash is a business account that earns high-yield interest and adds banking capabilities to QuickBooks’ financial management tools. It offers cash flow management in one place, along with a debit card, free instant deposits, and bill payments. QuickBooks Cash deposits surpassed \$100 million less than a year after launch.<sup>7</sup>



# Embedded finance could capture a quarter of the SME banking market by 2025

Based on the results of the survey, Accenture estimates that embedded finance could capture up to 26% of the global SME banking market by 2025, representing nearly \$124 billion in value (Figure 3).

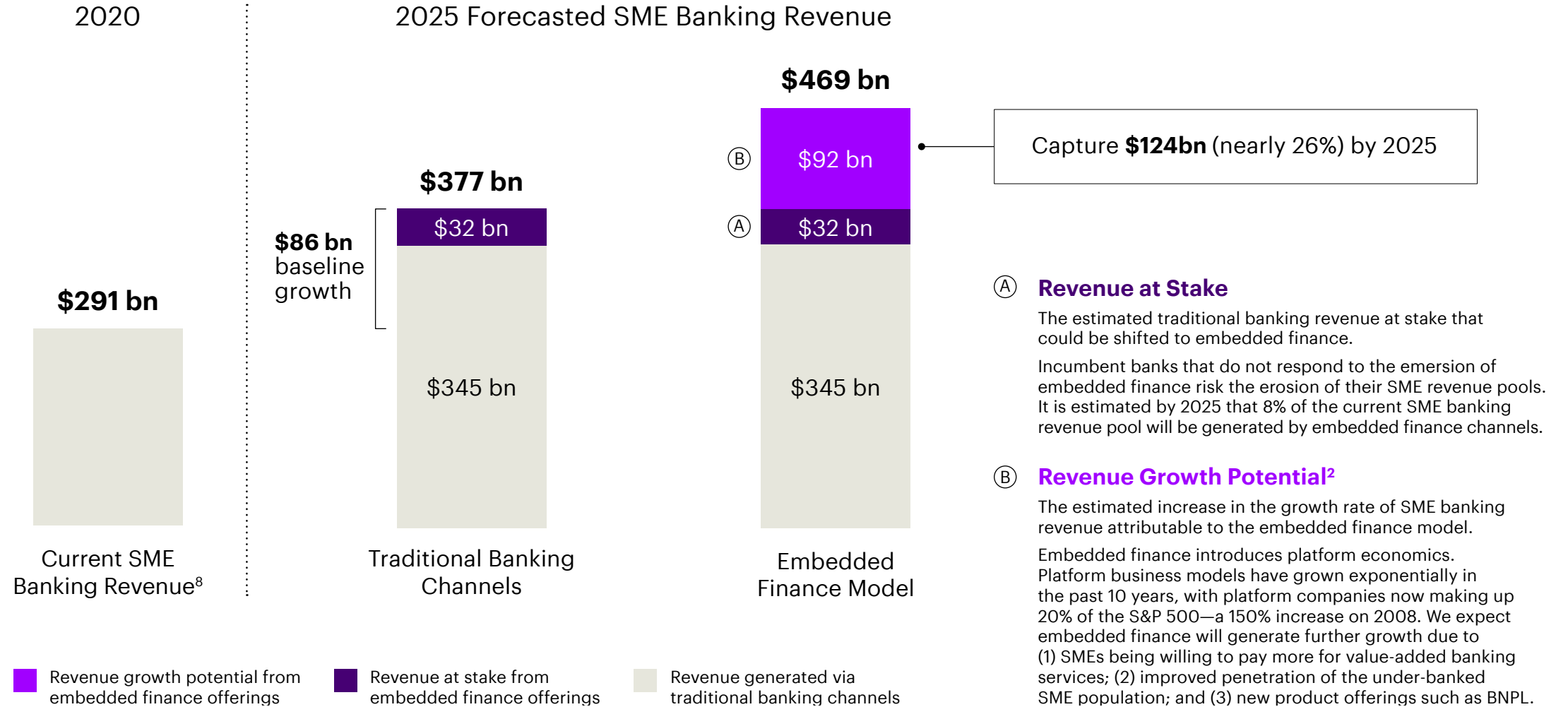
This is made up of two components:

On the one hand, banks may leak significant SME revenue to embedded finance players. If incumbent banks do nothing, new embedded finance offerings could take around \$32 billion of the 2025 SME banking market.

The second component reflects the potential for embedded finance to expand the SME banking market through platforms. Accenture estimates this will generate growth of up to \$92 billion. This expansion will be due to SMEs' willingness to pay more for value-added banking services, greater inclusion of the underbanked SME population, and the delivery of new product offerings.



**Figure 3: The global market for embedded financial services is projected to be worth \$124 billion by 2025.**

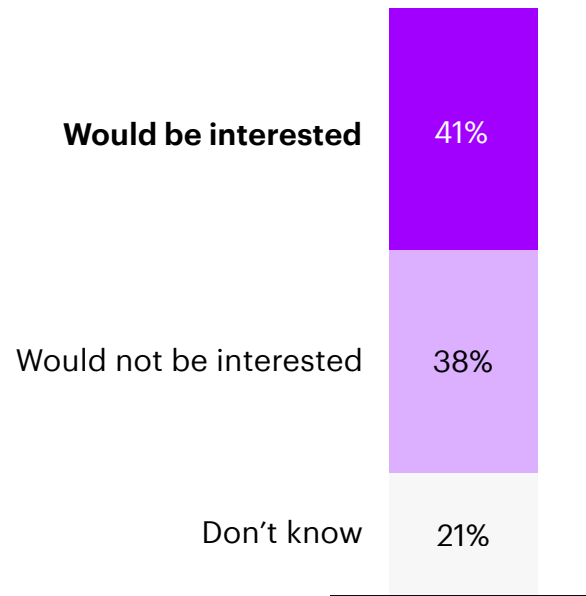


Our survey indicates that transactional banking product revenues are most at risk from embedded finance players. SMEs are, for now, more interested in embedded finance products (accounts, cards) that lubricate the wheels of day-to-day commerce than those which affect the longer-term future of the business, such as loans. They do value advice and choice when making material financial decisions, such as taking out a large loan for capital expenditure or seeking reliable lines of credit for operating expenses.

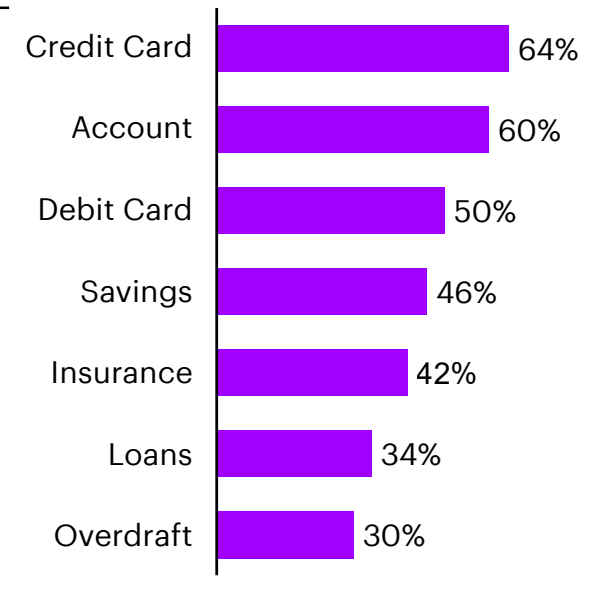
The threat facing incumbents is not necessarily the loss of the primary account, but that they will leak share of wallet as their customers use embedded finance offerings for more of their day-to-day banking needs. Accenture's 2020 Global Banking Consumer Study demonstrates how consumers build custom product bundles by mixing and matching the best from multiple providers. The same pattern is likely to emerge in SME banking.

**Figure 4: A breakdown of the banking services, offered by digital providers, which SMEs may be interested in utilizing.**

Percentage of SMEs interested in banking services offered by one of the digital service providers



Breakdown by product preferences of SMEs interested in banking services offered by one of the digital service providers



# Two platform plays for banks... and the implications

Accenture estimates that as the digital platforms start to offer embedded banking services, two major models will emerge:

## Pass-through Services

Platform serves as a gateway to existing, third party everyday banking services.

## Platform-branded Services

Everyday banking services offered by the platform under its own name.

The plays are not mutually exclusive. Some platforms may use different models for different financial products and services. Others may adopt a hybrid model, such as co-branding embedded services or forming exclusive distribution partnerships with selected incumbent banks or fintech providers.



## Pass-through services

In this model, the digital platform sees its value proposition as giving customers easy access to bank-branded financial services where they need them most in the flow of business activities. Several banks, fintechs, and other parties will be able to connect to the platform and offer their services via APIs. For example, users of the Xero cloud accounting software can access financial services, including business loans and finance, to help run their business on the Xero app store. We anticipate that bigtech platforms like Google and Microsoft may opt for the pass-through model or a middle-ground approach.

### Implications for banks

On the face of it, this model is less disruptive to banks because they do not threaten the primary account relationship. The bank retains its brand presence, can influence the user experience and the embedded product is not as deeply implanted in the SME's workflow. Provided some strong architectural foundations are in place, the investment required to be on the platform is relatively small.

However, there is no doubt that the bank is somewhat disintermediated in this model. This may impact customer engagement, which could erode customer relationships over time.

It is similar to the impact of digital wallets on everyday banking consumer engagement. Furthermore, digital platforms may be in a position to charge for access to their platforms, which would impact revenues or costs for the customer. The reality is that participation in this model may become 'table stakes'—and not an option—if the majority of competitors choose to participate.

## Platform-branded services

In this model, the digital platform offers an embedded finance service as part of its own offering. The service will be seamlessly integrated into the platform's user experience and its other services. The platform is in control of the user experience and the pricing of the product or service. In practice, the digital platform will partner with a bank or fintech to deliver the financial offering, often co-creating new solutions that solve SME pain points. The expectation is that this model delivers 'value add' which can be monetized.

Accenture believes smaller and more focused digital platforms—such as finance management and ride-hailing or gig-economy platforms—are more likely to follow this platform-branded model to increase their customer utility and stickiness. QuickBooks Cash is an example. It is a free-to-open business banking account with high-yield interest on all balances, provided by Intuit in partnership with Green Dot Bank.

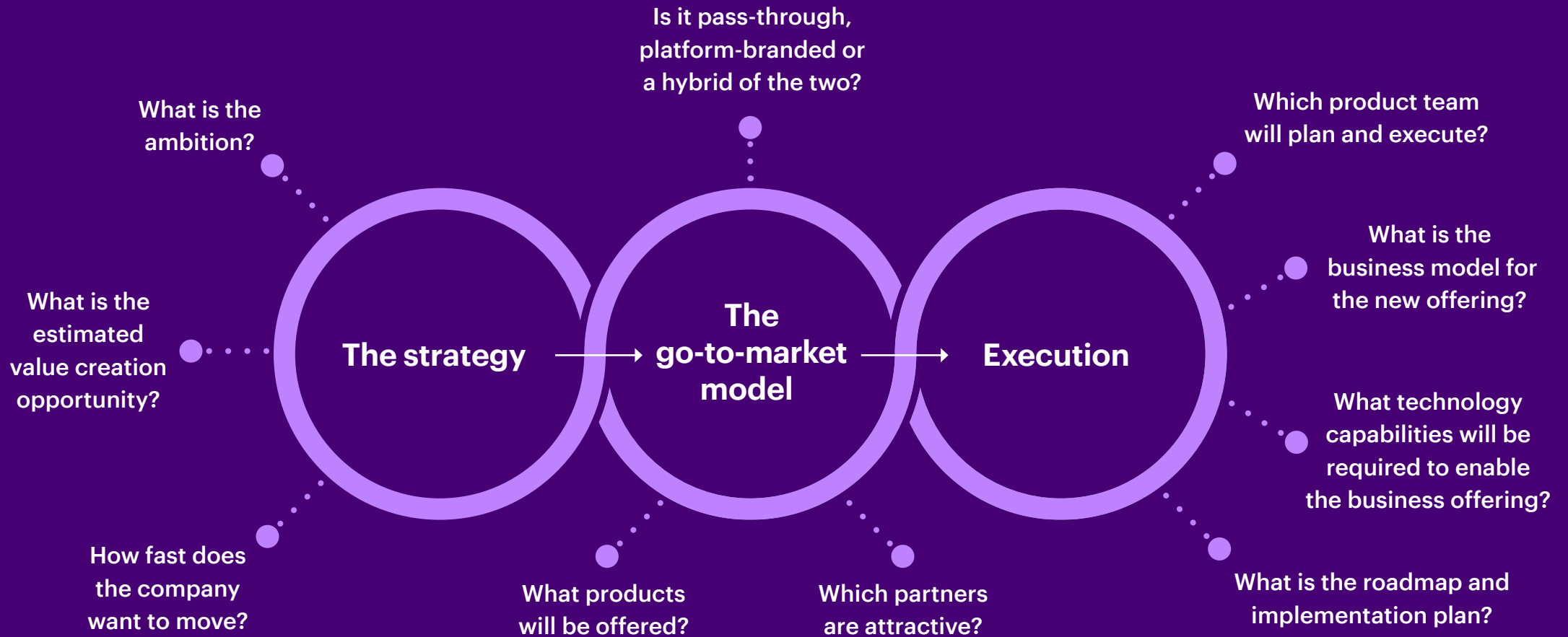
### Implications for banks

There is no doubt that this model presents an opportunity for banks—whilst they may forego some of their ownership of the proposition, they would benefit from the platform's sizeable SME customer base. Looked at a different way, this might be a way of reducing cost of acquisition. Furthermore, given that there is a new proposition developed, this can also create new revenue streams for both the bank and the platform that were previously non-existent. But this model is not without its challenges.

Whilst this model may unlock new customers, there is also a risk of cannibalization as the new proposition may compete directly with their existing proposition. In any case, ceding brand control to the platform will come at a cost—both in terms of customer engagement but also, most likely, in terms of fee and revenue share arrangements.

Banks will need to decide where there is an opportunity to extend their reach in partnership with a platform-branded service and balance this with the need for a competitive proprietary proposition. Unlike the 'pass-through' model, this is not a 'many-to-many' model so a first mover advantage is an important consideration.

**Figure 5: Decision points in the emerging embedded finance landscape.**



# Embedded finance is too big a trend for banks to ignore

Technology advancements have made it easier than ever for platforms to offer financial services with reduced entry and operating costs. This is creating a potential software-as-a-service (SaaS) moment for SME banking, where old business models will give way to a new order.

A proliferation of specialized offerings from fintech specialists and innovative incumbents—like Goldman Sachs and J.P. Morgan in the US, and Société Générale and Sella in Europe—has lowered barriers to entry for digital platforms' embedded finance. At the same time, SMEs' interest in and acceptance of these services is rising.

Though it may be difficult for incumbent banks to accept, digital platforms may be able to offer SMEs less friction and superior user experiences than traditional players. Whether or not this proves to be true, there is no denying that every bank will soon be forced to decide what its strategy is with regard to embedded finance, and to set about putting this into action.

Those that lead the change will be able to secure partnerships with prime players in each market and co-create propositions that enable them to not only defend existing share, but also to potentially drive significant growth through accessing new customers and creating innovative propositions.



# About the research

Accenture conducted research among senior managers at SMEs in 10 countries to understand their usage of digital services and their willingness to purchase financial services products from digital platform companies. Online interviews were conducted with 2,500+ SME business leaders in the following countries:

- Australia
- Brazil
- Canada
- France
- Germany
- Italy
- Singapore
- Spain
- UK
- US

Among the initial group, 85% stated that they already use digital services in their day-to-day operations. This group was asked more detailed questions about how they use digital platforms in their businesses as well as which financial offerings, if any, they would consider from the platforms they use. The rest were screened out of the survey.

We then used Accenture's proprietary Banking Revenue Model, along with the SME survey data, to model the SME banking revenues that incumbent banks risk losing as a result of embedded platform plays. We also developed a forecast of additional revenues that will be generated from embedded finance by 2025.

## About Accenture Research

Accenture Research creates thought leadership about the most pressing business issues organizations face. Combining innovative research techniques, such as data science led analysis, with a deep understanding of industry and technology, our team of 300 researchers in 20 countries publish hundreds of reports, articles and points of view every year. Our thought-provoking research developed with world leading organizations helps our clients embrace change, create value, and deliver on the power of technology and human ingenuity. For more information, visit [www.accenture.com/research](http://www.accenture.com/research)



## Contacts



**Thomas Merry**  
Managing Director,  
Banking Strategy



**Bina Rajput**  
Managing Director,  
SMB & Commercial Banking



**Matthew Ross**  
Accenture Banking Strategy



**Jared Rorrer**  
Managing Director,  
Global Commercial  
Banking Lead



## Contributors

**Mung Ki Woo**

Embedded Finance Subject Matter Expert

**Ben Brown**

Managing Director, Cross-Industry Financial Services Lead

**Edvina Kapllani**

Accenture Research

**Stefan Bongardt**

Accenture Research

**Daniel Kastenbaum**

Accenture Strategy

## References

- <sup>1</sup> [Bank of the Profitable SME Base, Accenture](#)
- <sup>2</sup> Accenture analysis on interviews and publicly available data
- <sup>3</sup> [Embedded Finance: Financial services whenever and wherever customers need them](#)
- <sup>4</sup> Statista, US e-commerce platforms market share
- <sup>5</sup> <https://www.lyft.com/driver/direct-debit-card>
- <sup>6</sup> [Uber plans return to financial services with hires “across the board”](#)
- <sup>7</sup> [Intuit Inc \(INTU\) Q3 2021 Earnings Call Transcript, The Motley Fool](#)
- <sup>8</sup> Accenture Research Banking Revenue Model

## About Accenture

Accenture is a global professional services company with leading capabilities in digital, cloud and security. Combining unmatched experience and specialized skills across more than 40 industries, we offer Strategy and Consulting, Interactive, Technology and Operations services—all powered by the world’s largest network of Advanced Technology and Intelligent Operations centers. Our 624,000 people deliver on the promise of technology and human ingenuity every day, serving clients in more than 120 countries. We embrace the power of change to create value and shared success for our clients, people, shareholders, partners and communities. Visit us at [www.accenture.com](http://www.accenture.com)

This content is provided for general information purposes and is not intended to be used in place of consultation with our professional advisors. This document refers to marks owned by third parties. All such third-party marks are the property of their respective owners. No sponsorship, endorsement or approval of this content by the owners of such marks is intended, expressed or implied.