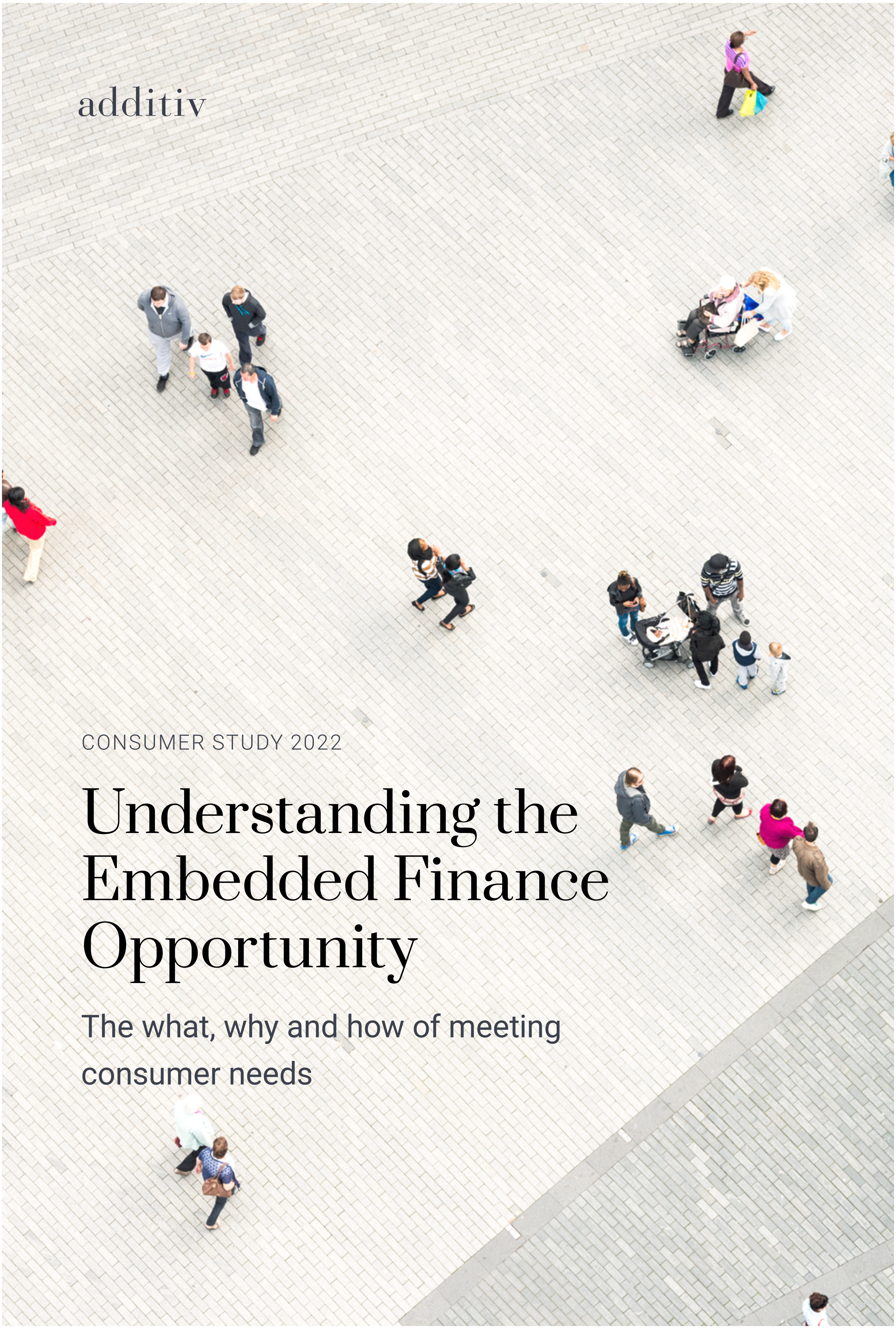

additiv

CONSUMER STUDY 2022

Understanding the Embedded Finance Opportunity

The what, why and how of meeting consumer needs

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Preface

Welcome to our 2022 study of consumers' financial services expectations. It is a summary of a recent survey commissioned in response to significant market disruption.

Following a period in which financial services were unbundled – decomposed into discrete, narrow propositions, such as savings round-ups and automated investing – we are now entering a phase where financial services are going to be rebundled, contextually relevant, into new distribution channels.

However, compared to historical universal banking, this new phase will be very different. Financial services will not be distributed solely or indeed predominantly by financial institutions, but by existing consumer-facing channels. Moreover, since financial services have been digitized and because the new distributors are removed from the manufacturing process, established forms of financial services will change. In short, financial services will be moulded to consumer needs or, in our parlance, financial services will be "orchestrated around consumers at their point of need".

Considering this fundamental shift, our motivation for commissioning and writing this report was manifold. Firstly, we wanted to gauge how consumers perceive existing financial services providers and their offerings. Secondly, we wanted to give you a sense of the "white space", the currently unmet consumer needs, and the forms or bundles of financial services that could satisfy these. And lastly, we wanted to test the hypothesis that, just because financial services can be integrated into existing user and buying journeys, consumers would be willing to consume a growing number of financial services propositions through non-financial channels.

Our thanks go to those who took part in the survey: the 3,512 consumers from the UK, Germany, Sweden, UAE, Indonesia and the Philippines.

We'd love to get your feedback on this report and have you join the discussion around the future of **#OrchestratedFinance**.

Yours,

Michael Stemmle

CEO & Founder, additiv

Christine Schmid

Head of Strategy, additiv

Executive summary

Embedded finance is more than a buzzword. Our 2022 consumer survey shows that its popularity and importance is set to accelerate mainly due to people's desire to consume financial services at their point of need; easily and quickly. Leveraging APIs to deliver financial services via an embedded finance model, any brand can now serve its customers in the dynamic ways our survey reveals they want to be served, while creating new sources of revenue and consumer relevance.

Consumers are seeking change

According to our survey, and contrary to general belief, financial firms do not have a satisfaction issue. In fact, a high number of consumers believe them to be innovative. However, consumers feel little loyalty, telling us they would have a high propensity to switch providers for a better and more convenient service. Moreover, engagement is lower for most financial service channels compared to other digital channels or platforms. This creates a relative disadvantage when it comes to gathering data on, and upselling and cross-selling to, time-poor consumers.

All of which translates into a situation in which consumers prefer to buy financial services through brands such as consumer platforms, utility providers, retailers, and comparison sites.

Consumers want help with budgeting and saving

Most consumers feel underserved when it comes to budgeting and financial saving services. In the last 12 months, the majority have not received any assistance to help them economize and start to build savings. Goal-based savings for example, are much less prevalent, and more requested, than we would have expected.

Consumers would use non-financial brands for planning help

We know the scale of the pension challenges that our society faces. What our survey shows is that people are not getting the advice and the assistance they need, likely owing to the cost of distributing these services today. This hampers efforts to address the pension asset shortfall.

Most people who need to address this topic early are those that are most interested in receiving these services from non-financial platforms. Today this audience is either not served at all, because the cost of service from traditional providers prohibits, or are not served well because services are not tailored to their needs.

Impact investing relevant for all

The continued wish to invest with impact comes as no surprise, given the obvious need to fight climate change and its detrimental effects. Surprisingly though, those with children and Millennials/Generation Zs were only marginally more interested in ESG investing than those without children and older investors. This demonstrates that acknowledgement of both the importance of ESG investing, as well as the opportunity, is felt by the majority.

Digital assets remain in focus, especially with young people

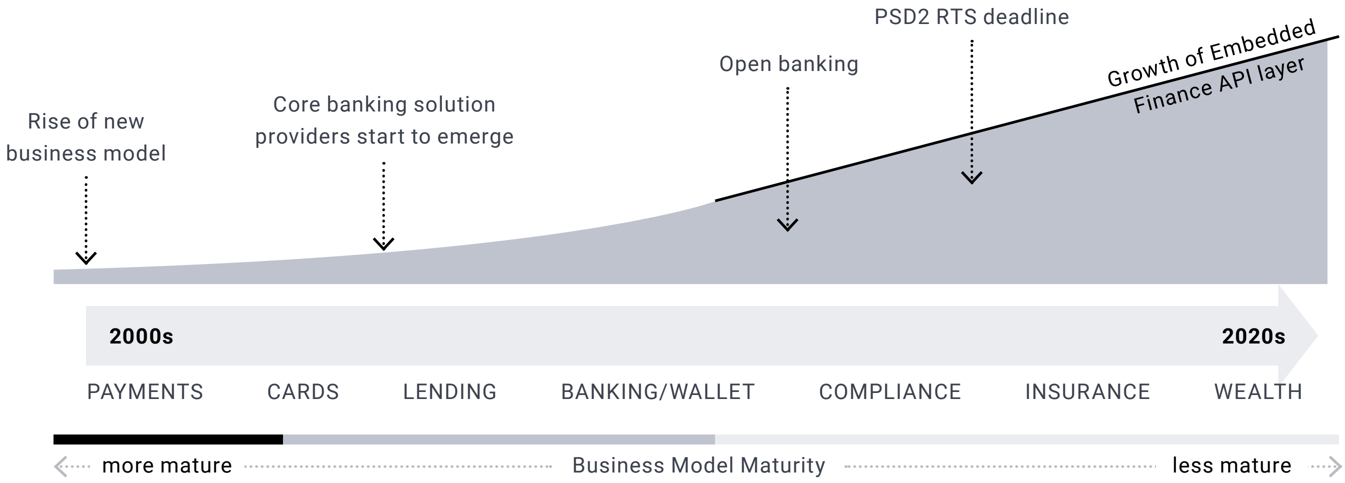
Despite recent declines in digital assets, our survey shows that interest in digital assets remains high, particularly amongst younger consumers. This generation wishes to invest outside of today's stressed and leveraged financial system, and to use new services such as cryptocurrencies and tokenized assets to store wealth in a secure and cheaper manner.

Embedded finance is moving from transactional to relational

As expected, a high proportion of consumers interviewed within our survey already use services such as Buy Now Pay Later (BNPL) and seamless payments. Transactional embedded finance services are becoming commonplace in our daily lives.

Embedded finance is moving into more relational businesses with longer time horizons and thus extended to financial segments such as life insurance, wealth or non-consumer lending. As stated, consumers are ready to use new services for long term financial planning. And on top, would like to see more choices with respect to how cashback and loyalty rewards can be redeemed, also giving retailers a clear route into the provision of wealth and saving services.

The evolution of the embedded finance ecosystem



Source: Finch capital/additiv

Key Findings

56% of survey participants would **consider switching to an alternative bank** or non-financial services company if they provided more innovative services.

56% of consumers would **take investment services through non financial-services channel** (across all the investment services reviewed)

70% of survey respondents **would use cashback and loyalty points to invest**. Using these to invest was almost as popular as when using points for more general spending (73% interest).

73% of consumers would be **prepared to switch payment methods in return for rewards**

58% of survey participants are interested in **bundling services, such as converting multiple digital subscriptions into a monthly payment**

67% of consumers are interested in **saving money into online investment pots for different goals** (e.g., summer holiday, home deposit, college fund etc.) provided through a channel other than a bank (e.g., retailer, utility company, insurer)

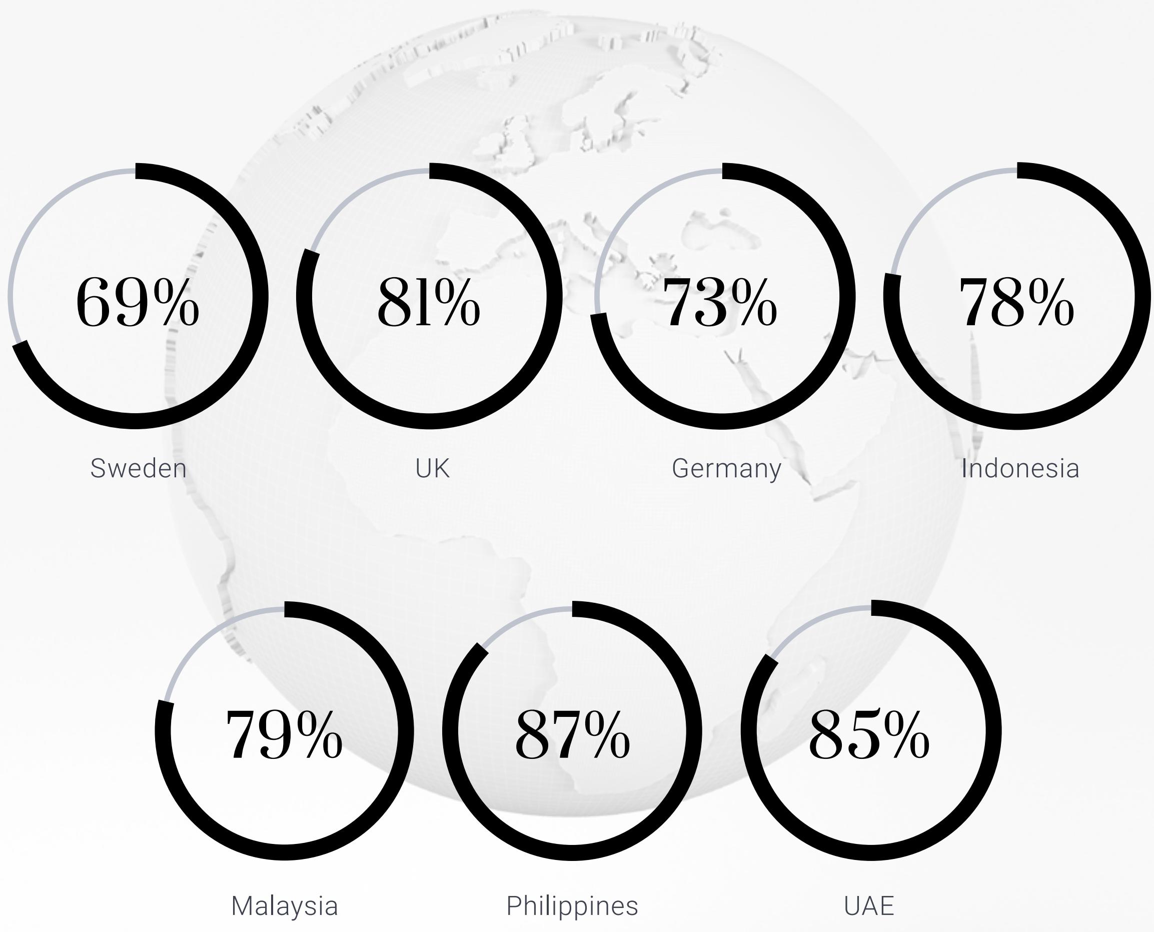
34% of respondents aged 25-34 and 35-44 already have **access to online trading and investment platforms** and 63% **of respondents overall were satisfied with these services.**

Financial services - where are we today?

Consumers are broadly satisfied with their existing financial services. Contrary to what we might believe, financial services providers are not facing a high level of customer dissatisfaction or negative sentiment. Most bank customers (81% in the case of traditional banks and 84% for digital banks) are satisfied (or very satisfied) with the service they receive (Fig 1).

Figure 1

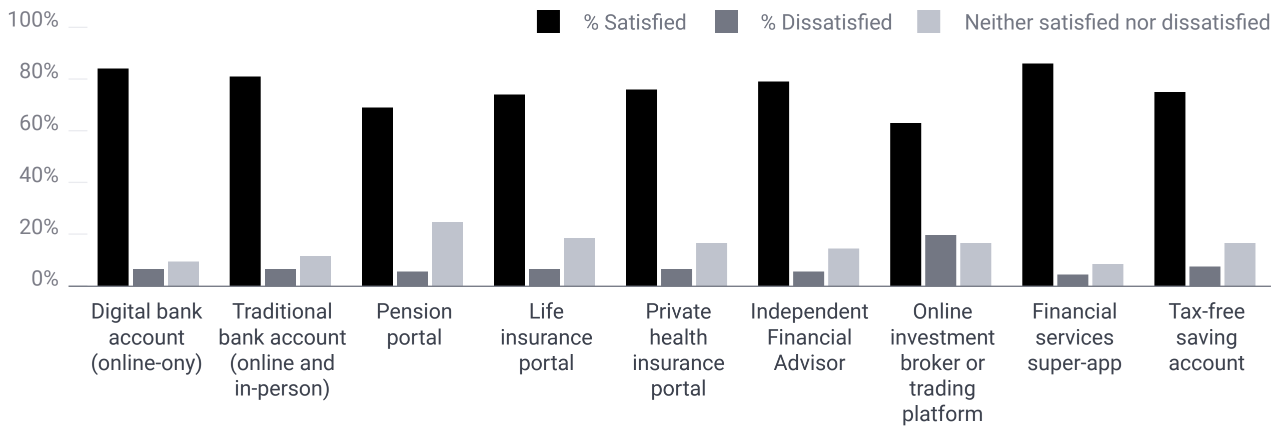
% who feel the online financial services their bank or financial service provider offers meets their personal needs



The level of satisfaction is broadly the same across all financial services providers, including pension and insurance providers (Fig 2). While there are some discrepancies from country to country (the British and Indonesians being most satisfied, the Germans and Swedish least satisfied), these are not especially marked or significant.

Figure 2

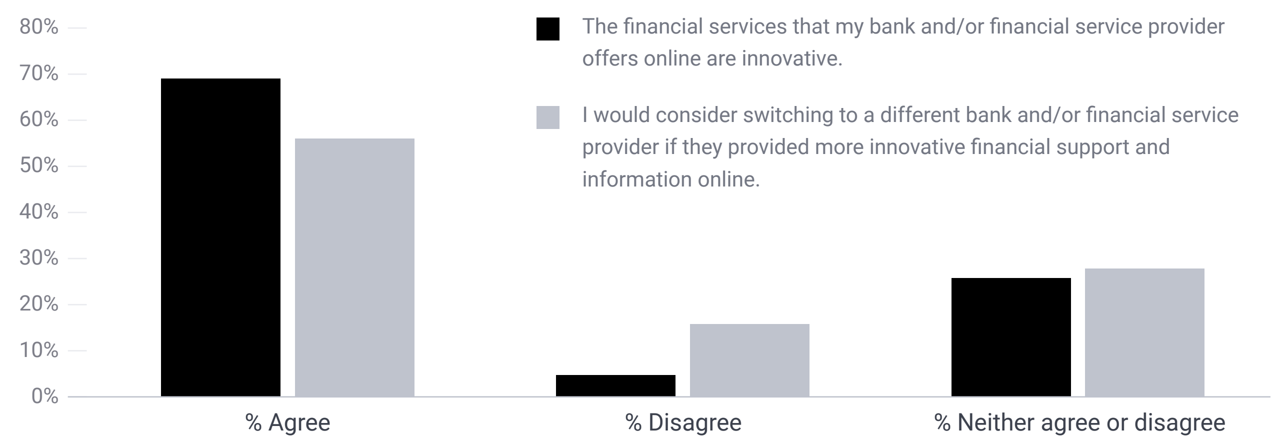
% satisfied with accessing certain online financial services



Moreover, an overwhelming majority of consumers feel that their banks provide services that meet their personal needs (79%) and a still considerable majority (69%) feel that these services are innovative, especially across Asian countries (Fig 3).

Figure 3

% consumers who agree that their financial services are innovative



Consumers feel little loyalty and are prone to switch offers

56% of survey participants agreed that they would consider switching to an alternative bank or non-financial services company if they provided more innovative solutions. The propensity to switch providers was much higher in Asian countries – 64% (Fig 4), among younger demographics, with those under 55 years of age (61%) more likely to switch providers than the overall average (56%) (Fig 5).

Figure 4

% consumers in Asia who would consider switching to a different bank if it provided more innovative services

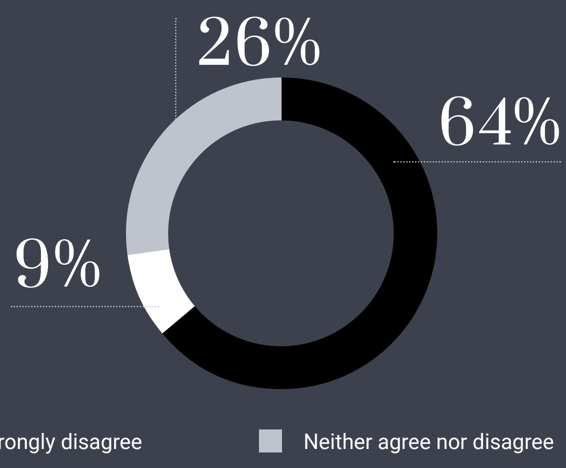
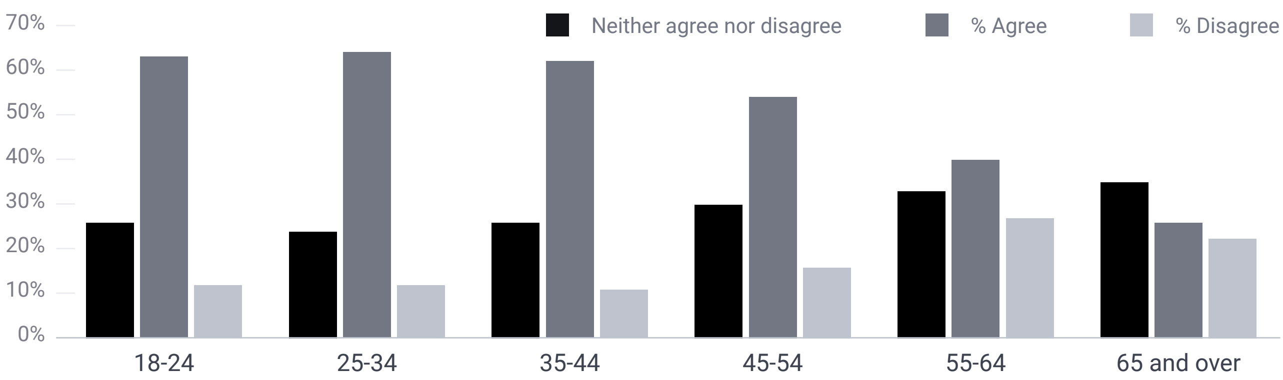


Figure 5

% consumers who would consider switching to a different bank if they provided more innovative services (by age group)



Financial service providers face an engagement gap

Engagement with financial services apps is not high. For example, if we look at the percentage of daily active users over monthly active users, we can see that customers do not visit these sites particularly frequently (Fig 6).

The platforms that perform better on engagement are digital banks which tend to provide more analytics, such as around spending behaviour, that customers find useful, and which leads them to visit the content more often. Also, investment management platforms perform better where constant fluctuations in asset prices induce high numbers of people to check their holdings regularly. Furthermore, many investment management channels, such as eToro and Robinhood, have introduced live chat, gamification and other features that make the experience more socially interactive and which help build engagement.

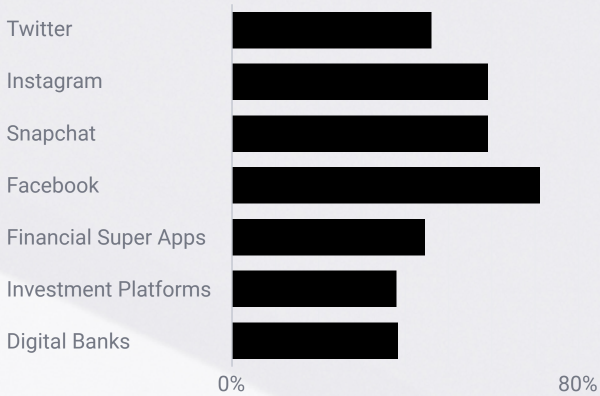
Figure 6

% daily active online financial service users of monthly active users

But even digital banks and investment platforms have an engagement deficit compared to social media and work platforms. Compared to the 38% daily active user count for digital banks, Facebook for instance has a daily active user count of 70% (Fig 7).

Figure 7

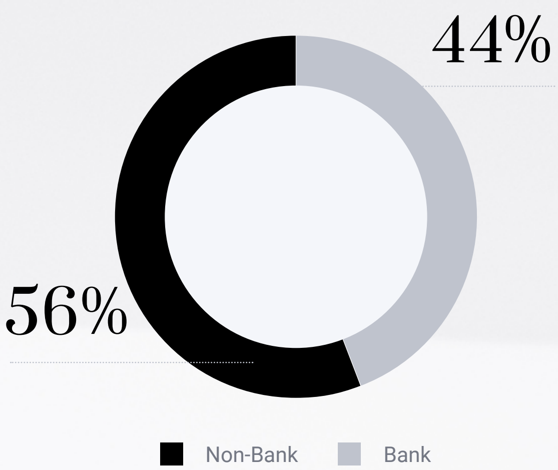
% daily active users of monthly active users by platform



source: additiv - Understanding the Embedded Finance Opportunity: Consumer study 2022 results combined with Pew Research 2021

Figure 8

% consumers inclined to take investment services from financial service providers (i.e., banks) vs. through non-financial brands (i.e., non-banks)



Statistics are not easily found for work platforms, like Uber and Xero, but we assume that they have daily active user counts at levels similar to Facebook. Therefore, to the extent to which high engagement offers a big opportunity for upselling and cross-selling (financial) services, many non-financial services channels have a distinct advantage.

And there is no "trust gap" to protect them

Not only do financial services channels suffer lower engagement than many other digital platforms, neither can they rely any longer on having a trust advantage to counter this.

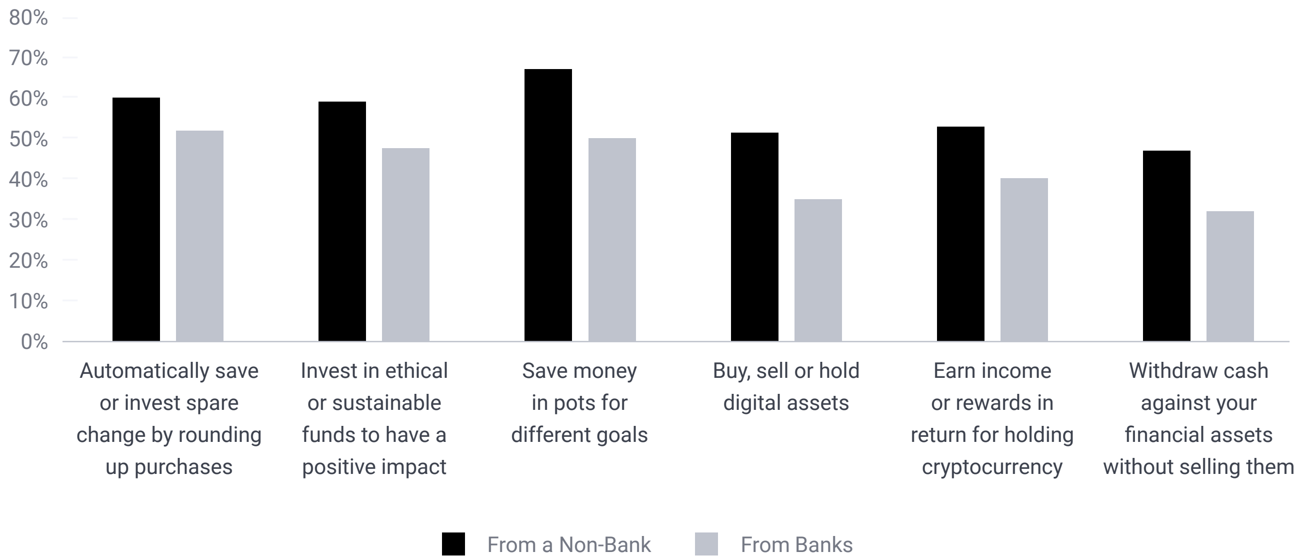
So many of us have had conversations with senior bankers who take solace from the idea that, while we might chat to our friends on social media or make discrete purchases on an e-commerce or retail platform, we would not entrust these providers with our money.

However, there is a proliferating number of non-financial service providers offering financial services as part of their proposition because, via APIs, financial services can now be delivered through an embedded finance model. This model provides services based upon regulated assets, through Banking-as-a-Service (BaaS) or Insurance-as-a-Service (IaaS). And, according to our survey, this model is well received by consumers. As we will demonstrate in the following sections, our survey respondents are actually more inclined to take a number of financial services from non-financial services firms, rather than from traditional finance firms. Where a financial service is novel or is logically offered as part of an existing journey, consumers are much more open to purchasing it through a non-financial service brand, including investment services (Fig 8).

Where services offered are innovative, such as bundling different types of products to satisfy unmet needs, consumers are much more inclined to take these from non-financial channels. This is the case for embedded financial services, such as insurance on purchases, which are logically and easily offered as part of an existing purchase journey. However, even for services with more consequential implications, such as planning for retirement, consumers also show a preference for non-financial services brands, which will probably come as a surprise to many (Fig 9).

Figure 9

% consumers inclined to take certain investment services from financial service providers vs. non-financial brands channels (by activity)



Financial firms' role as distributor is under threat

As a result, financial firms' traditional role as vertically integrated service providers, handling all from manufacturing to distribution and servicing of financial products, is under threat.

63%

of respondents who have access to online trading and investment platforms are satisfied with these services.

While consumers are generally satisfied, they are ready to switch to channels who can deliver more suitable solutions for their specific needs. Those alternative providers are increasingly likely to be non-financial services providers for two reasons. The first is that, in contrast to what was historically the case, consumers trust and are more inclined to take new types of financial services from non-financial brands backed by regulated firms such as Banking-as-a-Service or Insurance-as-a-Service. The second is that, given higher engagement, non-financial services platforms are more likely to have the right opportunity – and understand the context better – to offer relevant services. They have more data on their users (as is the case with social media platforms, for instance) or they are able to offer relevant services as part of an existing user journey, as is the case with work platforms for financial wellbeing or e-commerce platforms for round up savings.

What follows in the remainder of the report is an analysis by types of financial services products to understand what kinds of needs are not being well addressed today, and where we might see the best opportunities for embedded finance going forward.

Consumers seek brands for financial services more than before

Spurred by the pandemic and the emergence of the 'arm-chair investor', the popularity of online trading and investment platforms has highlighted that consumers are comfortable trusting new online platforms to access and trade investments. Our survey showed that 34% of respondents aged 25-34 and a further 34% aged 35-44 already had access to online trading and investment platforms and 63% of respondents overall were satisfied with these services. And this popularly shows no sign of slowing down. What about banks/financial service providers vs. consumer platforms/non-banks channels?

For online savings and investment, our survey shows that there is no loyalty towards financial service providers channels. In fact, the propensity for consumers to invest through non-financial providers channels is higher (Fig 8).

Who is best placed to help consumers to budget better and save?

For this section, we asked consumers about a range of financial services, some of which do not exist and most of which are not generally widely available. We did this to gauge their interest in taking up such services, and whether they would be open to getting these services through non-financial services channels.

Consumers in emerging markets need more help to save

The first takeaway is that, for budgeting and savings products in general, as can be expected, there was a higher usage in lower-income countries, such as the Philippines and Indonesia (Fig 10), and from younger people, especially the under 35s (Fig 11), in taking these services, since they are the demographics likely to struggle to build savings going forward.

Figure 10

% consumers who have received automated information and recommendations to make savings last longer

e.g., through spending round-ups, monthly debits, mortgage offsetting etc.

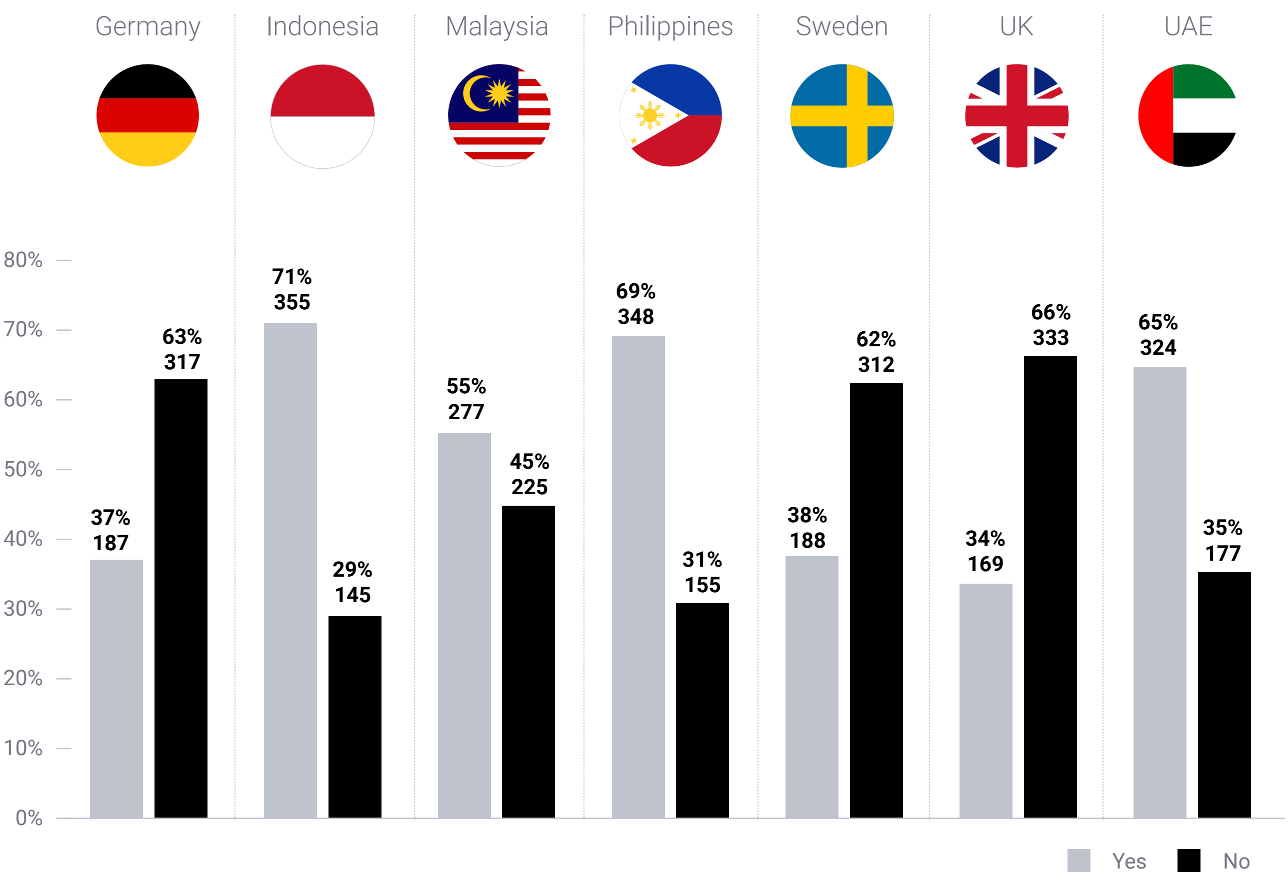
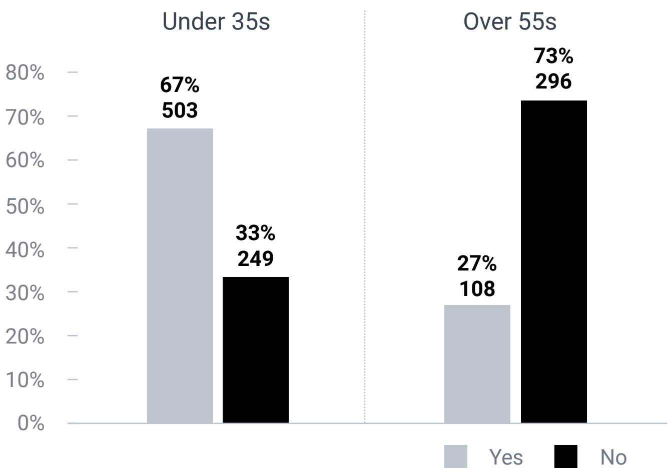


Figure 11

% consumers who have received automated information and recommendations to make savings go further in the last 12 months

e.g., through spending round-ups, monthly debits, mortgage offsetting etc.

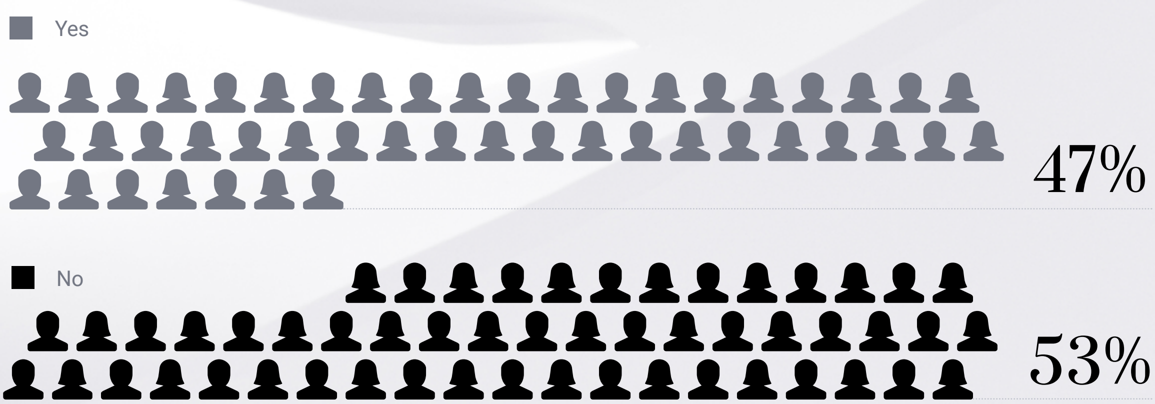


But there is a general low level of services take-up

The second takeaway is around the low level of adoption of existing services. Many of the services, such as “rainy day protection” (defined below), were our inventions to try to tease out unmet needs. However, many of the questions concerned existing services, such as spending round-ups, where we were surprised by the low level of adoption (in this case, 53% of people had never used the service, Fig 12). This hints at a more general level of services under-provision for all brands before new innovation is required.

Figure 12

% consumers who have used services to automatically invest or save spare change in the last 12 months



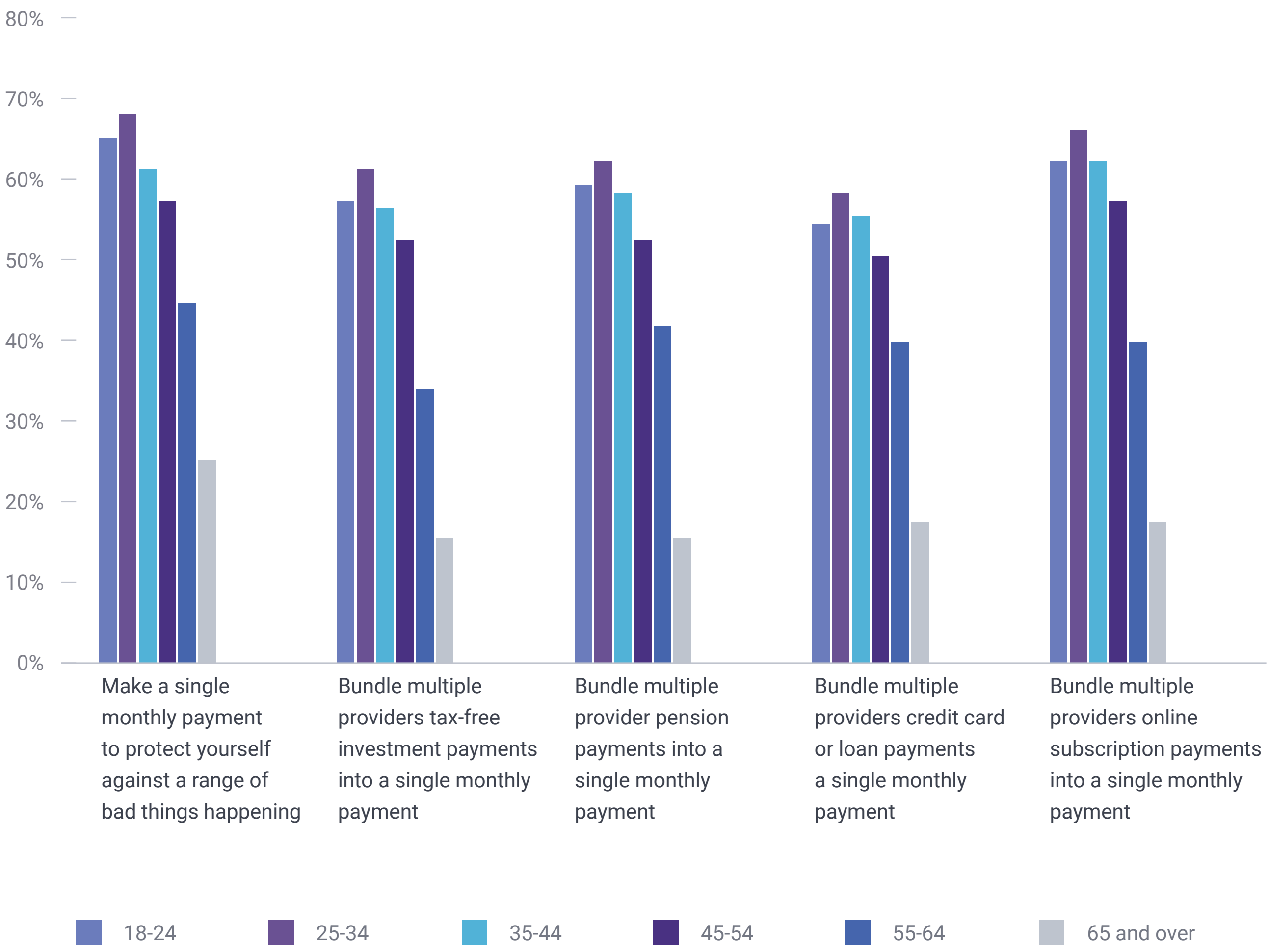
Consumers want their lives to be simpler

The third takeaway is that people want things to be made simpler. The services in which there was the most interest were, in order, goal savings (being able to create different buckets for their savings goals), “rainy day protection” (a single monthly payment protecting individuals from a range of risks, including unemployment, ill health and death, as well as putting money into an automated investment portfolio), and subscription bundles (where individuals’ disparate monthly subscriptions could be brought into a single, transparent monthly payment). This is especially true of 25-34 year olds (Fig 13).

Figure 13

% consumers who are interested in using certain financial services through non-financial organizations (by age)

e.g., retailer, utility companies, real-estate agent, insurer



Consumers are open to save via non-financial platforms

The last takeaway, and probably the most significant, is that people are in general more open to take these services via non-financial, as opposed to, financial, services channels. This is not universally the case, for instance, when it comes to borrowing against existing assets (such as taking a loan against a share portfolio), people are less open to take this service through a non-financial channel.

However, for other services, people are more open. In many cases, this is because the service could be logically delivered within an existing journey, such as savings round-ups which a retailer could execute at the point of purchase, or an employer or work platform allowing its employees/users to draw down early against their wages or earnings, or offering financial wellbeing services. For others, it is less obvious why an individual should show a preference for taking the service through a non-financial services channel. Consider, for instance, the case of bundling credit card or loan payments or "rainy day protection". Our interpretation is that people probably perceive these types of bundled services as being more complicated when provided, or even less likely to be provided, by financial services companies.

Spare change investment – the new consumer app opportunity?

Recently, apps like ‘Clink’, and ‘Stash’ have emerged, particularly targeting young investors to encourage them to start investing at a much lower cost. These spare change investment apps reconfirm that large amounts of money are not needed to start buying stocks.

The primary focus of spare change investment apps is to make the initial deposit minimal for new investors who want to start investing on the stock market. Some of these apps even facilitate starting investments with less than a dollar. ‘Clink’ urges consumers to start with just $1 per day. This means that by just cutting down on the morning coffee each day, one can become an investor. These apps are ideal for beginners and amateur investors, like students with limited savings who seek to avoid the complex process of investing. They are a great way to reach the mass affluent and even the mass market of individuals who, in time, will increasingly have more to invest. In particular, our insights show that savings ‘round-ups’ would fit well within consumer platforms who target this audience.

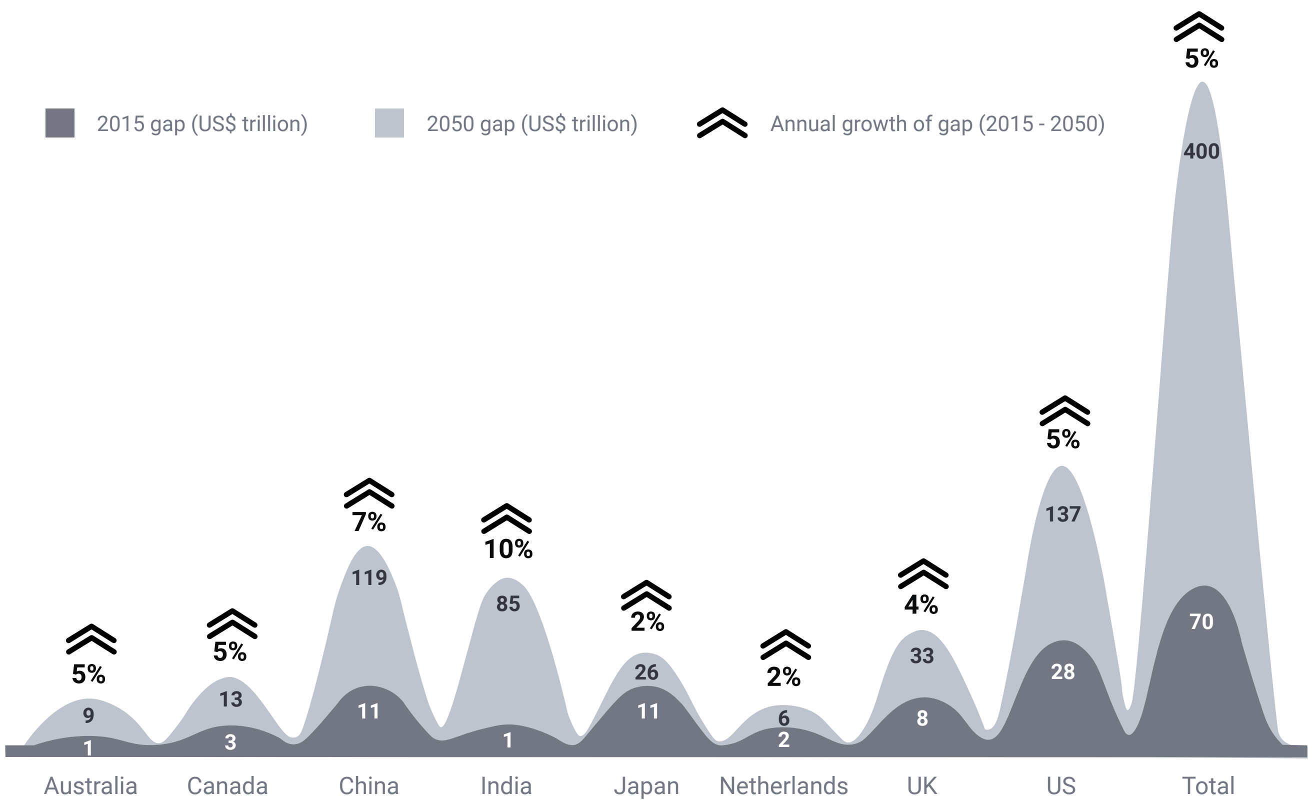
Consumers like the convenience of a single app for their everyday life and consumer platforms can increase profitability and drive customer stickiness by offering embedded financial services. Integrating ready and easy-to-use regulated financial services helps meet consumers’ unmet needs to turn excess cash, helping consumers save, invest and protect their future.

Financial vs. non-financial brands - who can address chronic under provision?

As a society, we are extremely ill-prepared for our retirement. Pension deficit gap huge and ballooning (WEF): Globally, the pension gap, i.e., the difference between income and planned expenses during retirement, is expected to increase to USD 400tn over the next 30 years from USD 70tn in 2015. The pension gap is growing at 5% p.a.: We are not doing enough to overcome this challenge (Fig 14).

Figure 14

Global pension deficit by compound rate



Source: Global Pension Deficit by Compound Rate, Source: World Economic Forum

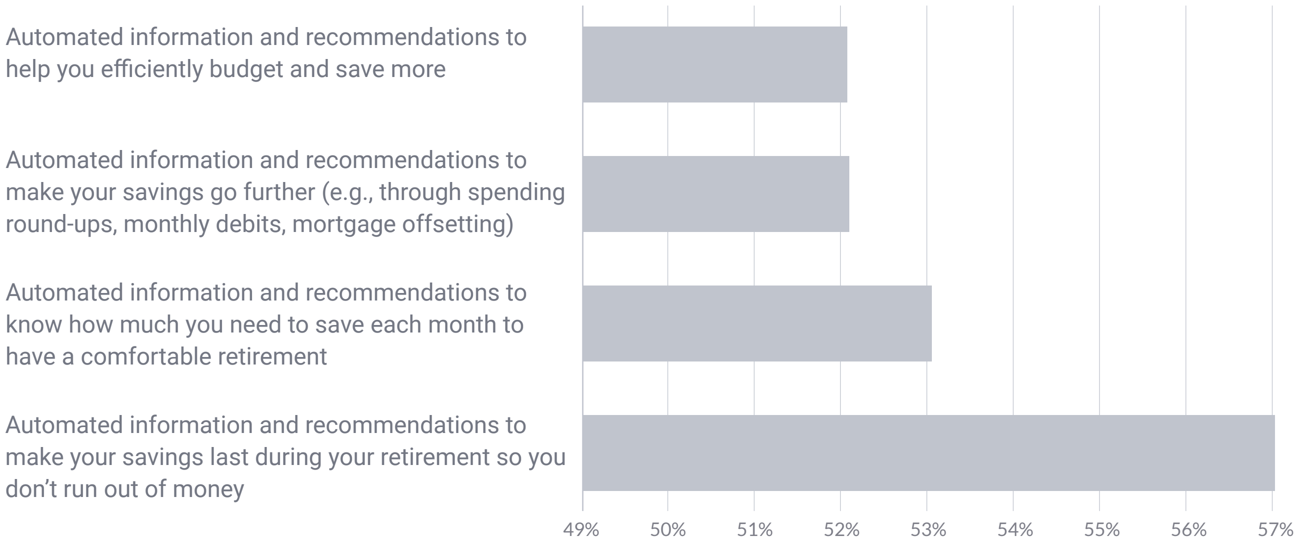
Under-provision of wealth management is at the heart of the problem

A core problem is the chronic under-provision of affordable advice and support to help people prepare for retirement. Today, there are 42 million people who have a personal wealth manager whereas there are 1.8 billion people who have more than $10,000 in investable assets.

This problem is borne out in our survey. A considerable majority of people have not received advice about how much they need to save in order to live a comfortable retirement, nor, where applicable, how to make their savings last during retirement so that they don't run out of money (Fig 15).

Figure 15

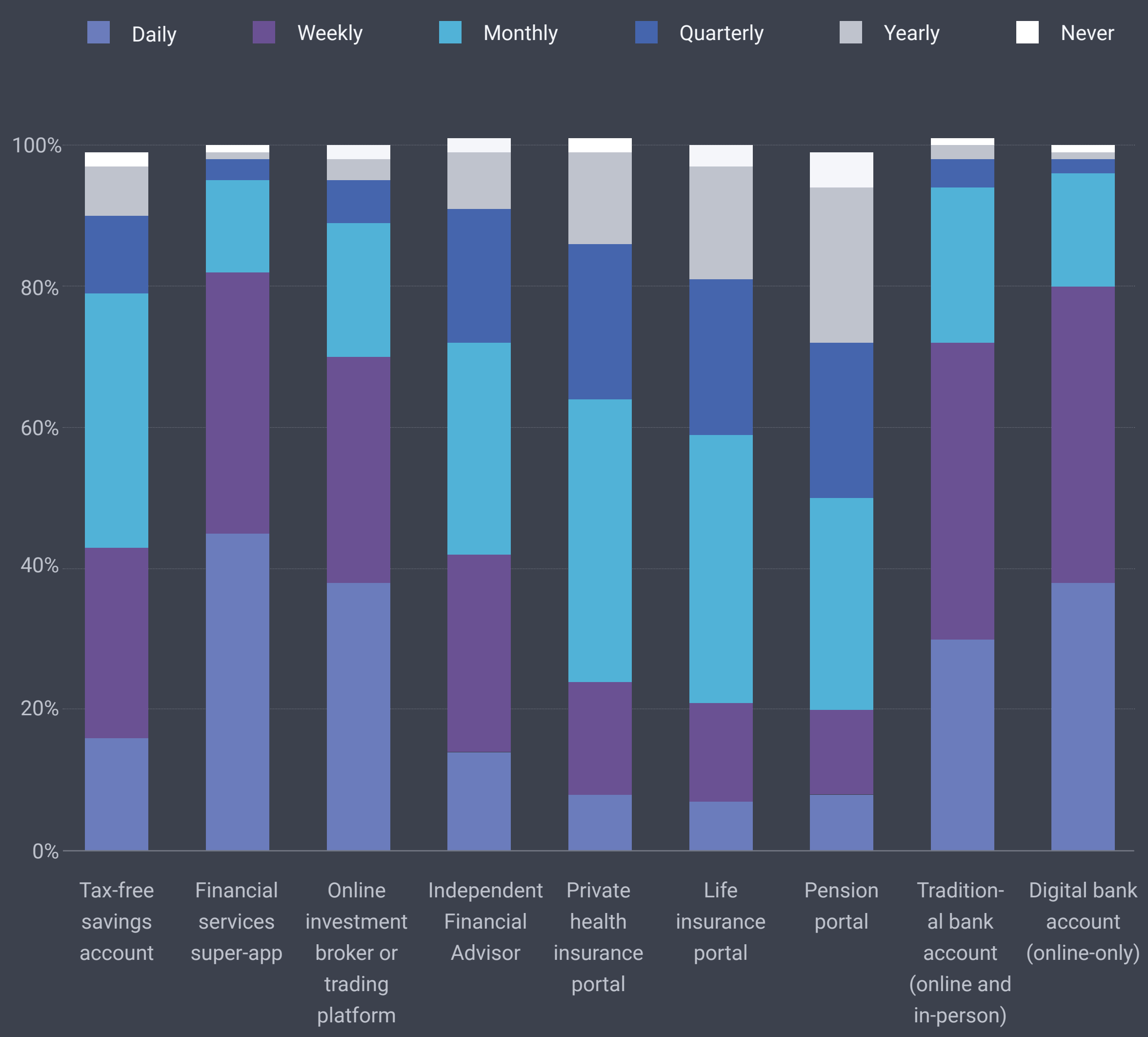
% consumers who received certain support and information in the last 12 months



Furthermore, even where people do have access to a financial advisor and/or an online pension portal, they tend not to use them very regularly (Fig 16). This underlines the challenges we highlighted in page 25 about engagement, and also points to the way in which these types of offers, typically quite complex and not particularly interactive, provide services to their users. Another argument is that, given the majority of consumer's significant shortfall, they aren't keen to be reminded by interacting regularly. To address this, tools offering a realistic plan could put users at ease and result in increased interaction and in turn, increased saving.

Figure 16

% frequency of consumers who use online finance services

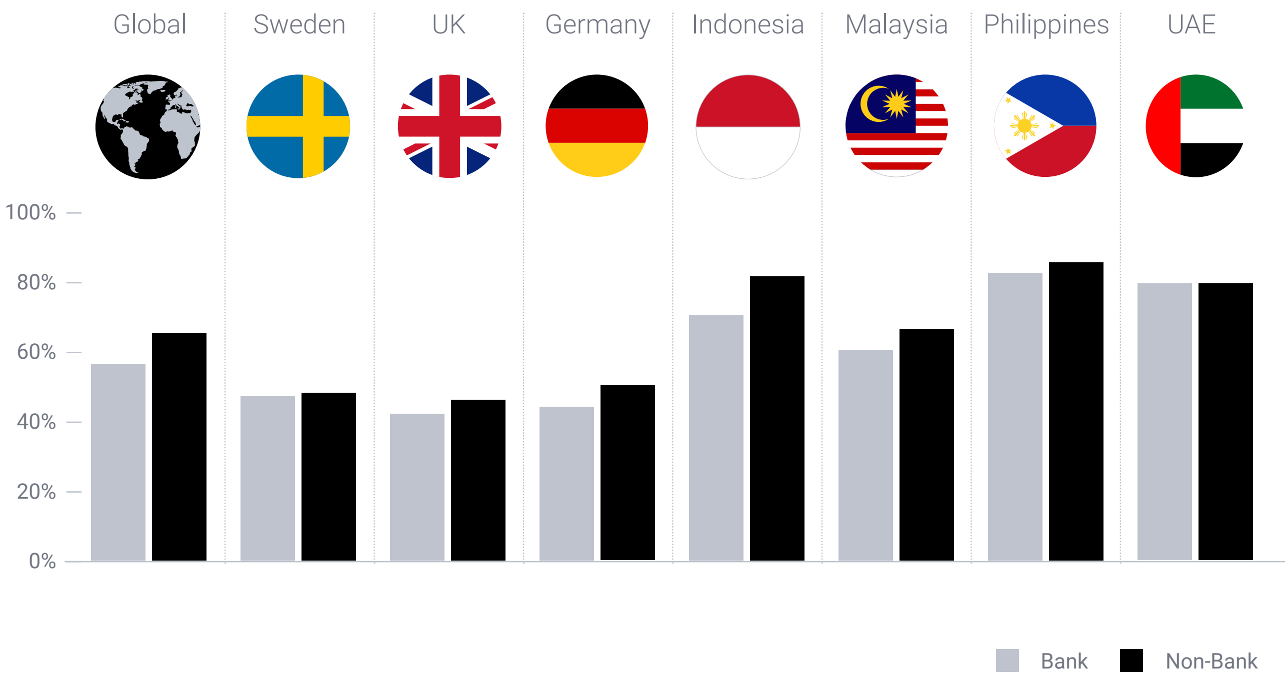


Consumers inclined to take pension and investment services through non-financial channels

It is this lack of engagement that perhaps explains the high willingness of consumers to take services around long-term financial planning through non-financial channels, which is surprising to us. Our expectation is that, for "moments of truth" services, like pensions, people would naturally gravitate to specialist financial services providers. However, this was not the conclusion of our survey. Our respondents showed a greater proclivity to take even advice around long term planning through non-financial institutions (Fig 17). Lack of engagement may be a factor, or it could be just cost. As we have discussed in other reports, the cost of distribution, both the cost to serve and the cost to acquire customers, is a significant factor in explaining the under-provision of financial services. Since most digital platforms have existing customer relationships, which would dramatically lower distribution costs, significant customer data, consumers think they could get cheaper long-term planning advice, and a more engaging and more personalised service.

Figure 17

% consumers wanting insight and recommendations on how much to save monthly for retirement



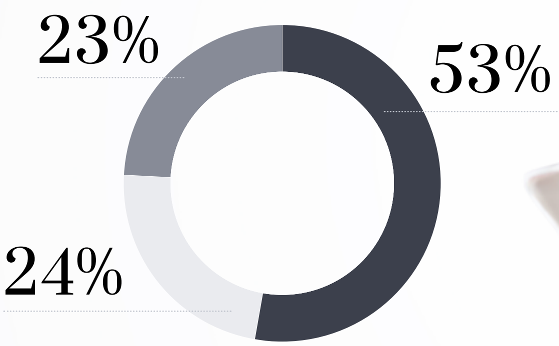
Bundling services less interesting for investments and pensions

Also surprising to us was the lack of interest in bundling certain types of long-term planning payments. For instance, we asked whether people would be interested in paying a monthly subscription in order to take advantage of all of their tax-free savings opportunities, which are either difficult to take up in full without planning (such as a UK ISA) or comprise a series of smaller opportunities, which could conveniently be bundled into a monthly payment. While a majority of people said they would be interested, we were surprised that the number was only 53% since we thought this was a high value activity which would make people's lives simpler (Fig 18).

Consumers seem highly cost averse. Anything that comes with a perceived cost is not demanded. Hidden costs paid as part of the overall price of a consumption good while allowing for cashback, i.e., a perceived rebate, seems the better steering alternative.

Figure 18

% consumers interested in paying multiple tax-free investments through one single monthly payment



% Interested

% Uninterested

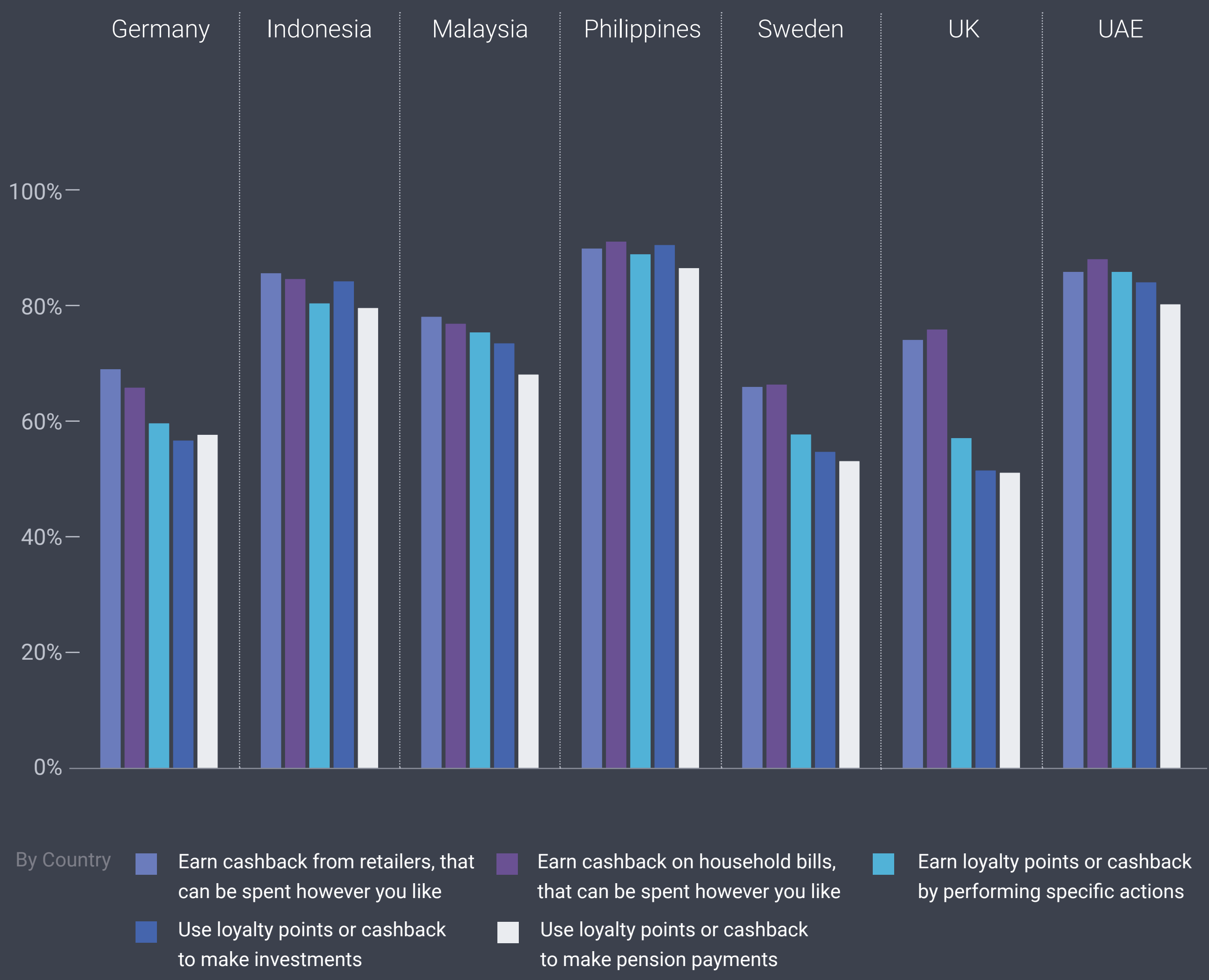
% Neither interested nor uniterested

Cashback and loyalty points interesting for pension payments and investing

Building on the concept of using spare change, we asked questions about how people prefer to use their cashback and loyalty points. Surprisingly, the interest in using cashback and loyalty points to invest for the future was almost as popular (70% interest) as when using these for more general spending (73% interest). Furthermore, the interest in using cashback for investing was extremely high, at 71% (Fig 19), in absolute terms and also relative to other unmet needs.

Figure 19

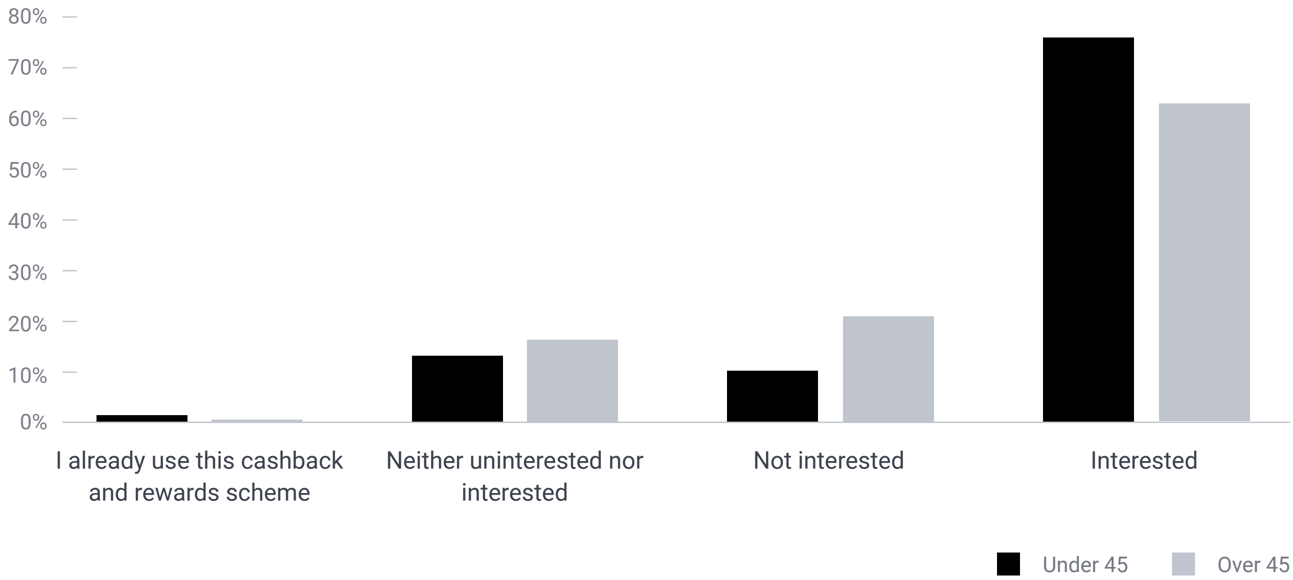
% consumers interested in using cashback and reward services offered through an organization other than a bank (by country)



What is also interesting is that there was a marked difference in the data between younger consumers compared to older consumers, and between lower income countries and higher income countries. Younger demographics and respondents from lower income countries are more likely to opt to use cashback and loyalty points to invest in the future. This is no doubt consistent with the finding in section 1 that younger people (Fig 20) and people from lower income countries find it harder to save, which makes the use of cashback more appealing. For instance, respondents from the Philippines are almost twice as inclined as respondents from the UK to use cashback for this purpose (Fig 19).

Figure 20

% consumers interested in using loyalty or cashback services to invest offered by an organization other than a bank



The other interesting point to note is that, given these results, there is a clear route, clearer in our mind than giving recommendations around how to save for retirement, for retailers and super apps to start offering embedded investment services. If consumers want their loyalty points and cashback to be invested, then it makes sense for retailers to offer simple investment products which fulfil these customer needs.

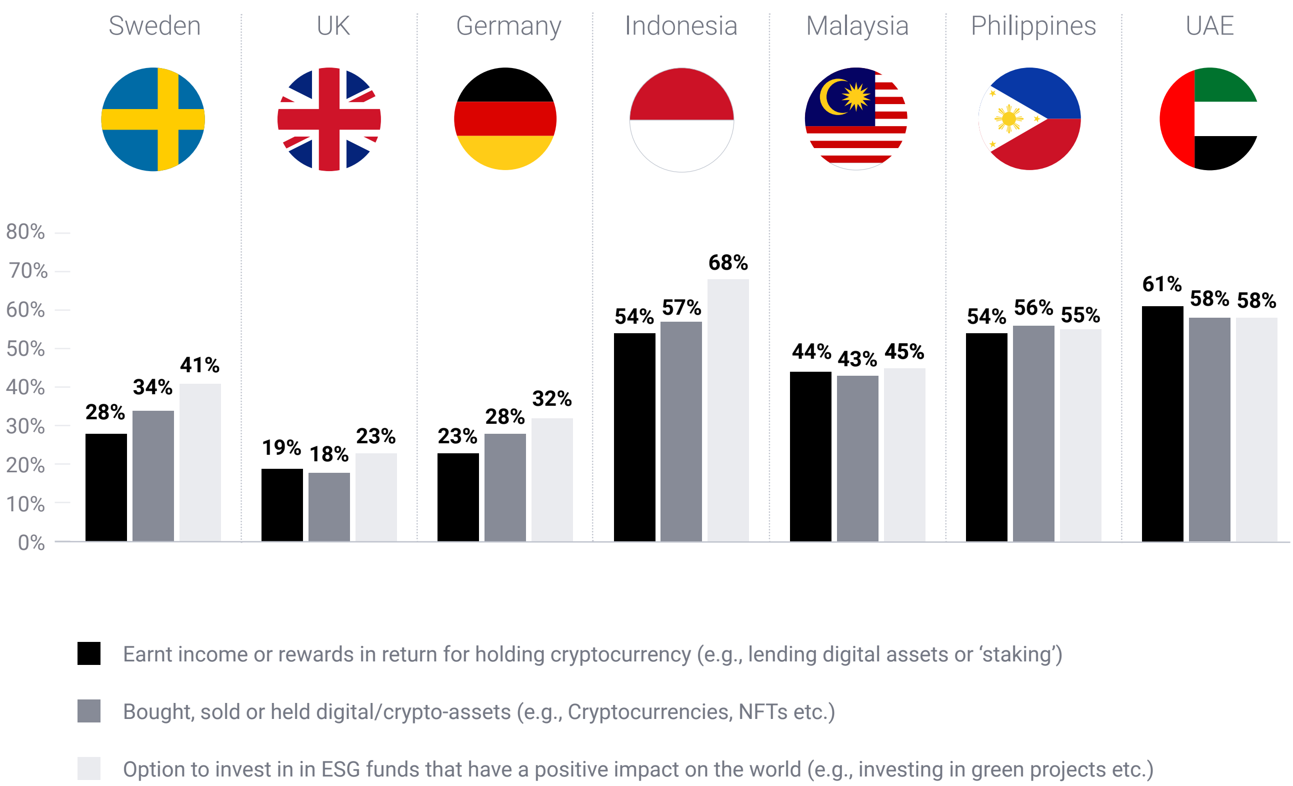
What are consumers' investing preferences regarding impact and digital assets?

The world of investing has never been more diverse. Buoyed by easy and cheap access through trading and investment apps such as Robinhood and eToro, as well as changing investor preferences, digital assets show little sign of losing momentum within the medium to long-term.

This is reinforced by our survey which highlighted that particularly in Asia and the UAE, a high proportion of respondents had used or invested in Environmental, Social and Governance (ESG) focused funds and digital assets within the last 12 months (Fig 21).

Figure 21

% consumers who in the last 12 months have invested in ESG or digital asset solutions (by country)



Impact investing is key with Generation Z and millennials

Digital assets are particularly popular with Generation Z (Gen Z) and millennials.

This profile of new investors often has a particular interest in digital assets as well as investments related to ESG (Environmental, Social, and [corporate] Governance related products and investments). Making up an audience of over 3 billion[1], Gen Z's and millennials are different to traditional high net wealth individuals. It's a segment that usually prefers brands to be more aligned with their personal values [2]. In fact, in a global survey conducted by the de Vere Group [3], a remarkable 77% of millennial investors said that environmental, social and governance (ESG) issues are their top priority when assessing investment opportunities.

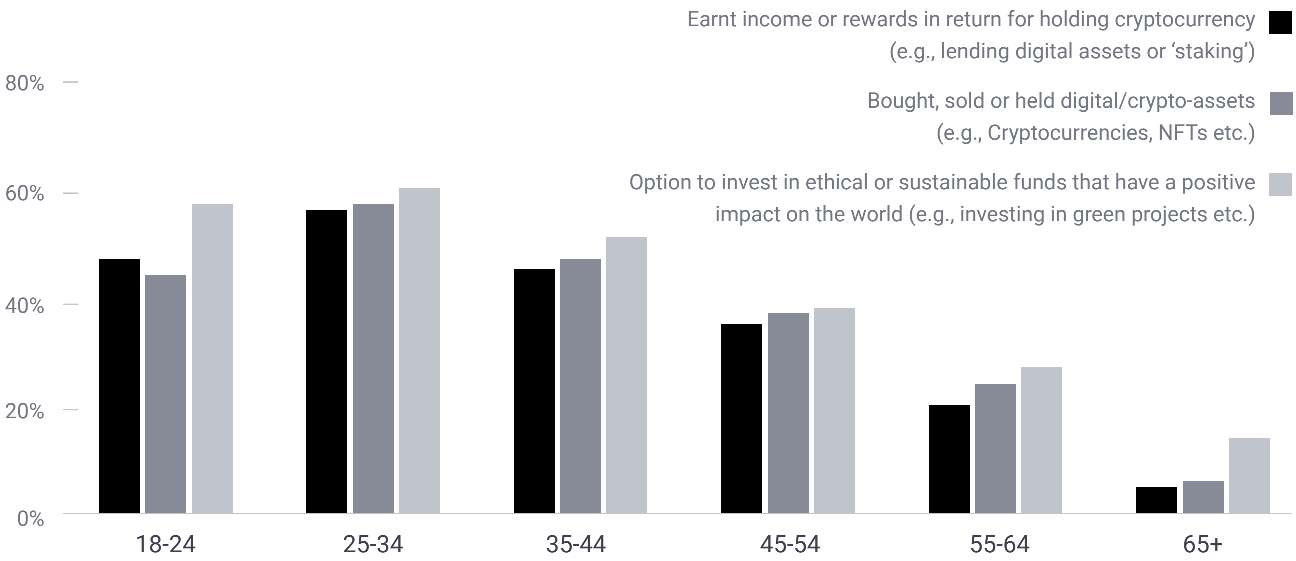
Equally, Gen Z's and millennials are also interested in digital assets. One reason for this includes the 'get rich quick' hopes that cryptocurrencies have historically induced. Additionally, these alternative currencies are often associated with trends and fashions boosted by high profile brands and individuals, resulting in hashtags and posts that help to increase awareness and temporary popularity while not being a investment advice..

This is further reinforced by our survey which highlighted that of those that had invested in digital assets the majority were aged under 55 years of age (Fig 22)

1. Financesonline research: 113 Key Generation Z Statistics 2021/2022 - Characteristics & Facts You Should Know + MSCI - How Millennials Consume Character Trait or Economic Reaction?
2. THE DELOITTE GLOBAL 2022 GEN Z & MILLENNIAL SURVEY (Sept 2022
3. Almost 8 in 10 millennial investors put ESG first – Investment News 2020

Figure 22

% consumers who in the last 12 months have used digital assets and ESG investments (by age)

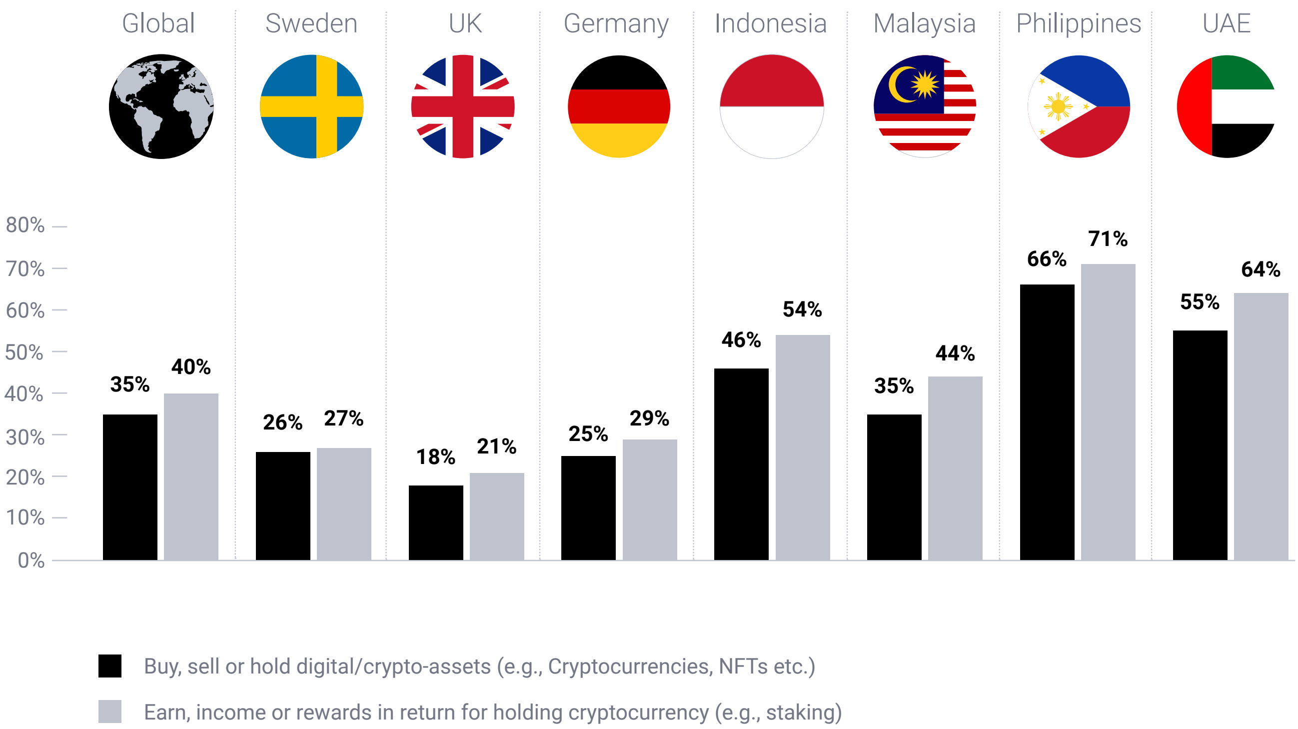


Digital assets are still of interest despite turbulence

2022 has particularly seen uncertain times for digital assets. The stronger US dollar, higher inflation, global unrest and tighter financial conditions have taken their toll, particularly with reference to digital assets, some of which, at the time of writing, are at their lowest rate in two years. However, our survey shows that interest in digital assets was not only strong with consumers over the last 12 months but, despite the current financial markets, this interest is set to continue (Fig 23). This popularity was particularly high within the Philippines, where the interest is surprisingly higher than in Indonesia (where we saw the highest level of respondents investing into digital assets in the previous 12 months.

Figure 23

% consumers who in the last 12 months have used digital asset investments (by country)



What's important to note here is that the questions (and their responses) went beyond cryptocurrencies and extended to interest and income related to Non-Fungible Tokens (NFTs). Like with digital assets, many people believe that NFTs represent a secular shift in how value can be created, monetized and exchanged.

Thanks to the rise of the social platforms, NFTs allow anyone interested in this market, such as artists, influencers, and other creators, to earn passive income by digitising their creations, and broaden the appeal beyond traditional investors. As a result, the NFT market is expected to grow from $3.0 billion in 2022 to $13.6 billion by 2027[4].

Part of NFTs' popularity is related to metaverse platforms. Juniper Research experts have highlighted a direct correlation between the NFT sector growth and the use of metaverse technologies by different brands. With the increased adoption of crypto and NFTs, investors and well-known brands like the idea of improving this market since the opportunity size will probably reach $800 billion in revenues by 2024, according to an analysis by Bloomberg Intelligence.

This interest in digital assets leaves room for non-financial platforms to occupy this market, if traditional financial firms do not occupy it. We have seen a cautious take up on the part of traditional finance firms to embrace digital assets, for what are valid reasons such as the potential reputational and regulatory risks. However, as our survey shows, the interest in these assets remains strong, creating an opportunity for those firms that provide digital asset services, as well as an opportunity to capture younger customers. What is more, if NFTs are to become an important unit of exchange and store of value, and the Metaverse emerges, then financial institutions should already be making strategic steps in this direction, especially since the potential to embed NFT-related services is significant across a broad range of non-financial platforms, such as in the areas of education and creative arts.

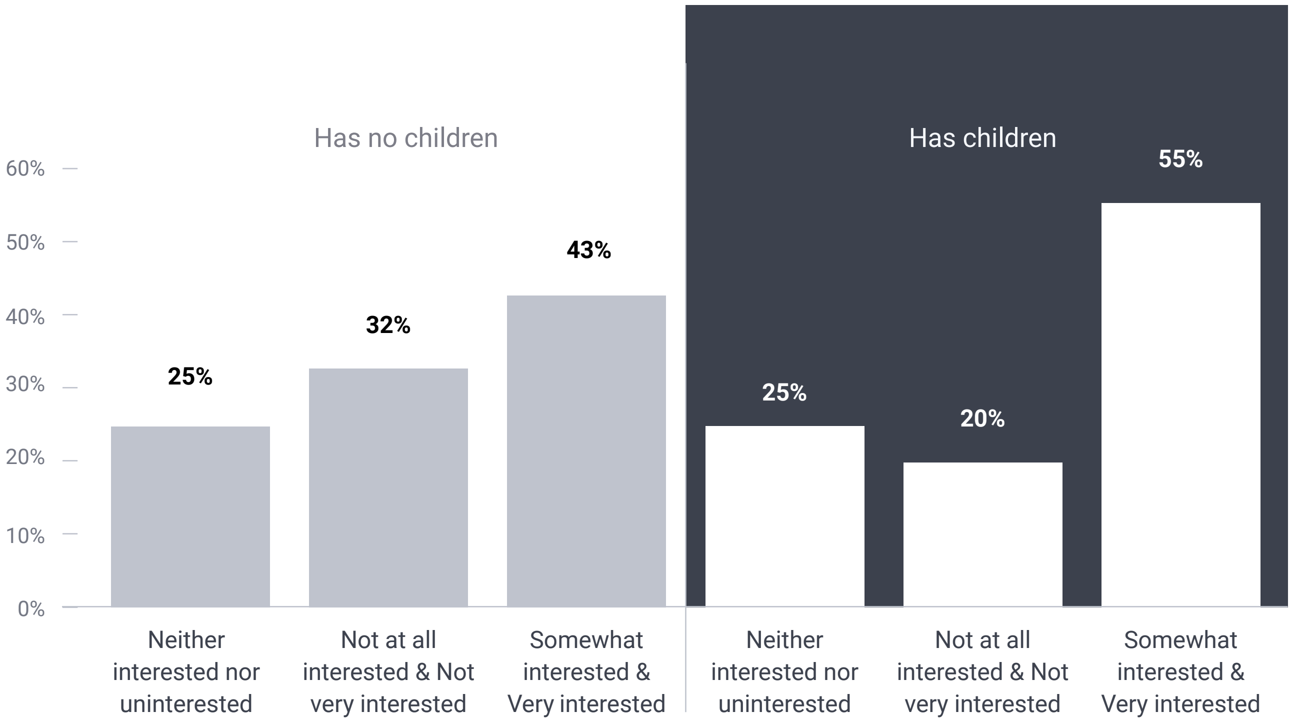
4. Non-Fungible Tokens Market by Offering - Global forecast to 2027 (Markets and Markets 2022)

Impact matters in investing

Reinforcing that ESG investing is more than a financial decision. Our survey shows that a higher proportion of consumers with children are interested in investing in sustainable causes (Fig 24). This comes as little surprise, as parents strive to protect their children's future (the UN climate change panel IPCC warning that 2030 is our deadline for halving global carbon emissions to prevent climate catastrophe).

Figure 24

% consumers interested in investing in ESG funds that have a positive impact on the world (by parental status)

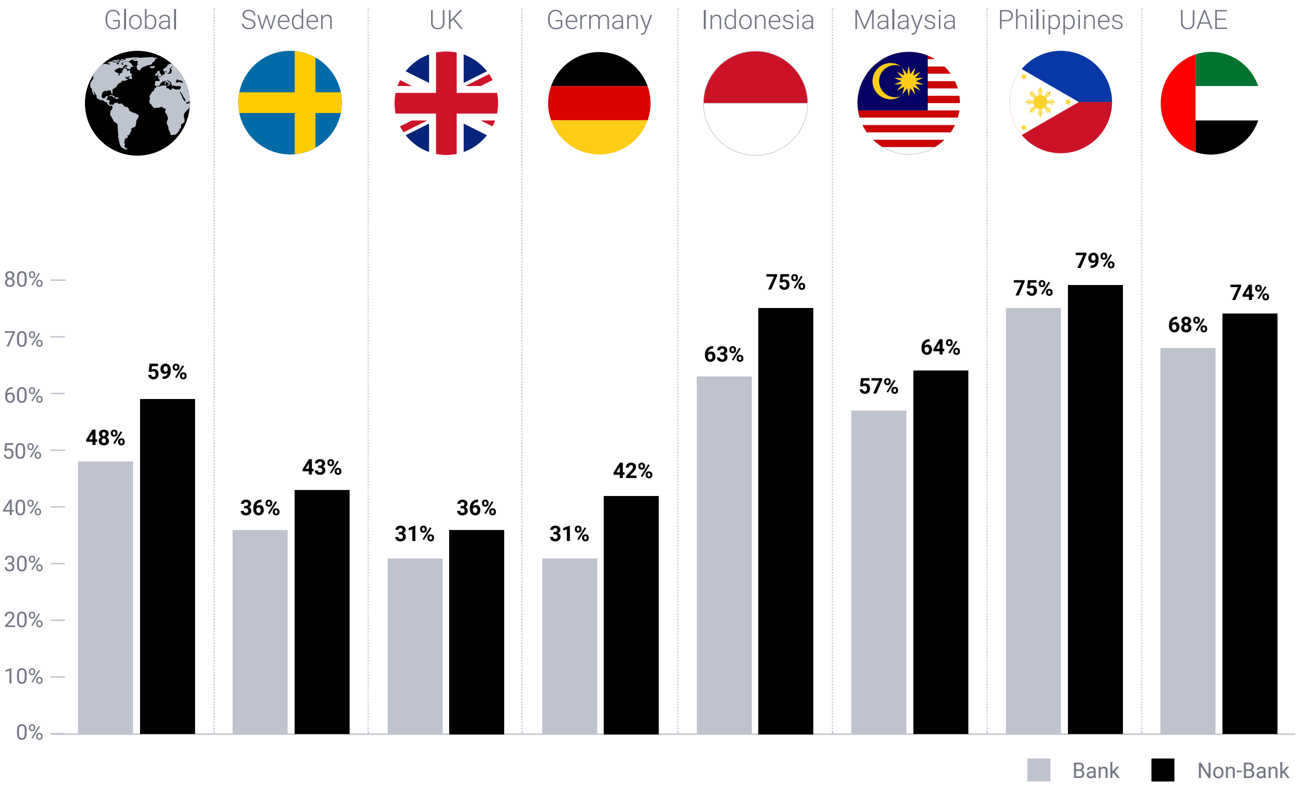


ESG remains popular in APAC

Our survey shows that ESG related investments are clearly a priority for consumers in some countries more than others. In APAC, and UAE (where 90% of residents are migrants), ESG remains more important than to those respondents in Europe (Fig 25). There may be several reasons for this, including perhaps an appetite due to previously limited opportunities to support ESG related causes, or because respondents have seen the first hand impact of the effects of climate change.

Figure 25

% consumers interested in investing into ethical or sustainable funds that have a positive impact on the world from a bank vs. non-bank (by country)



In addition, our survey showed that there are no concerns (or loyalties) on which type of platform consumers invest in ESG. In fact, there was a preference across all locations for purchasing via non-banks. This result is consistent with all investment products reviewed within the survey but what is clear is that, regardless of the channel selected to invest, ESG remains crucial.

What are the other opportunities for embedded finance?

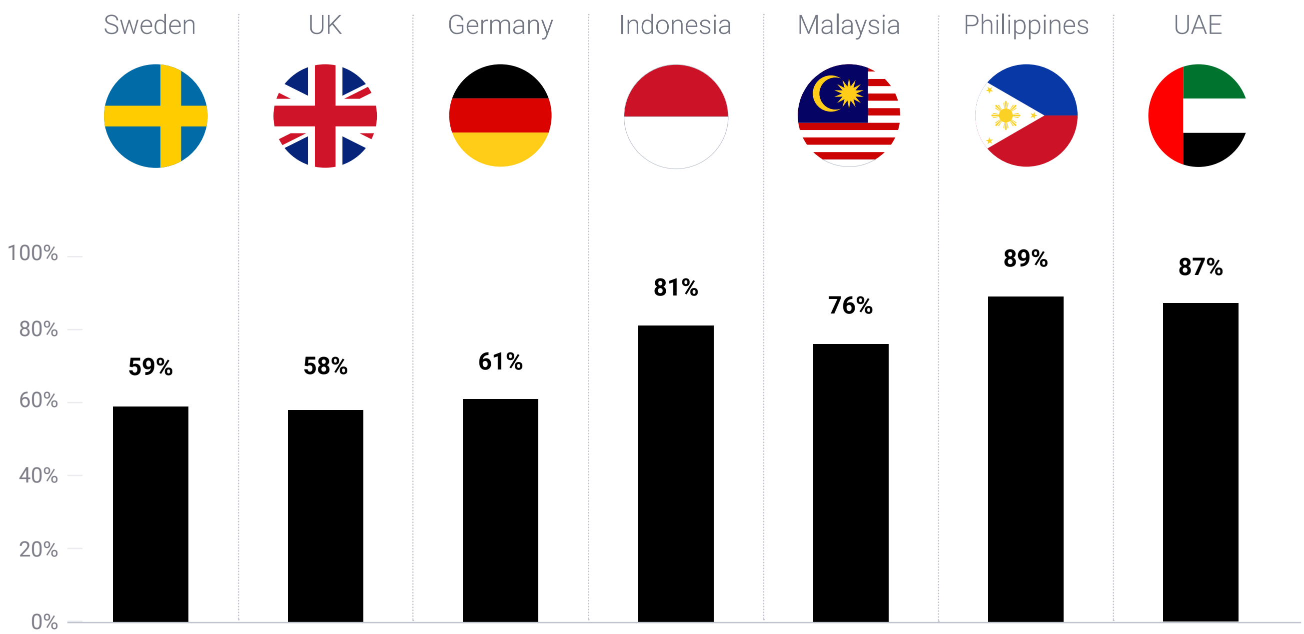
In this final section, we wish to gauge consumer interest for other financial services, ones which we thought naturally lend themselves to embedded finance.

Consumers are interested in payment and currency switching

Our survey has demonstrated that there is little loyalty to traditional financial service providers and, in fact, consumers prefer purchasing financial products through non-financial service providers if offered at their point of context. And this lack of loyalty extends to payment options. 73% of consumers within our survey highlighted that they would be prepared to switch payment methods in return for rewards (Fig 26).

Figure 26

% consumers interested in earning loyalty points or cashback rewards for performing specific actions (by country)



Payment method choices are already widely offered, particularly within large retailer platforms, and often offer the option to pay by a variety of methods/brands including Klarna, Paypal, Visa, Mastercard, internationally through SEPA etc. and incentives are sometimes present.

Regularly offering rewards for the payment method chosen could have a profound impact on the payments industry, disintermediating electronic fund transfer companies, and even currencies, as consumers are encouraged to switch instantly between currencies.

Interest for point-of-sale credit remains high but is becoming saturated

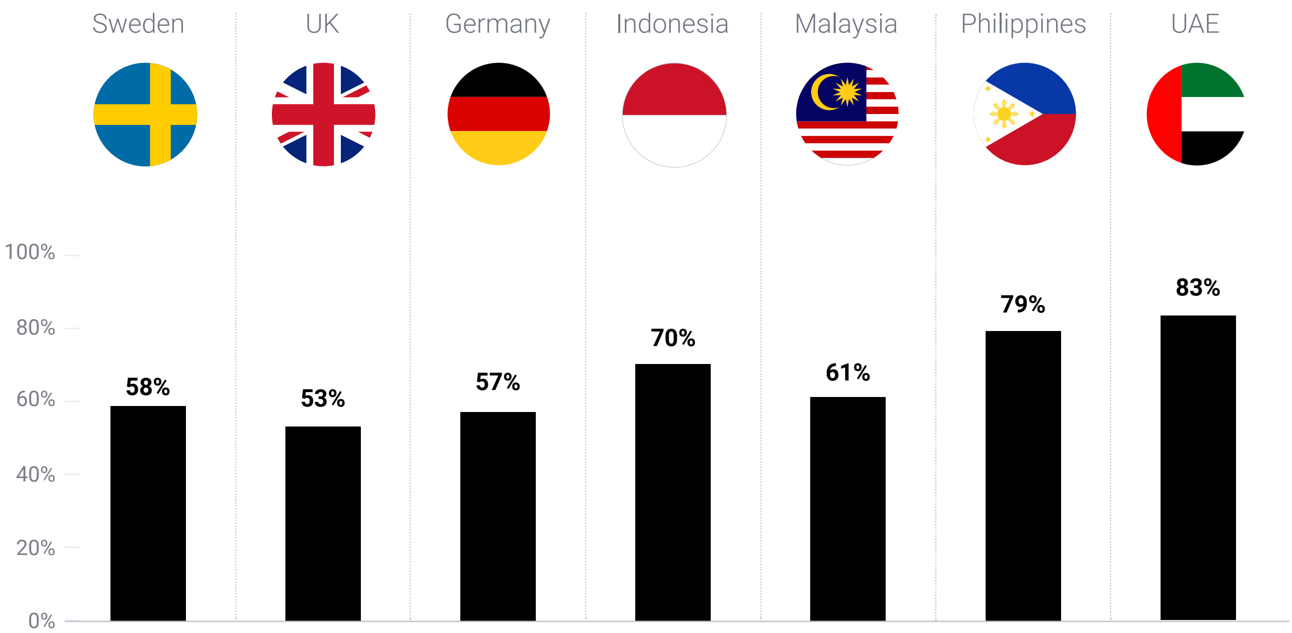
Fuelled by the emergence of embedded payments companies such as Klarna, the rise in popularity of "Buy Now, Pay Later" (BNPL) has created a new fintech vertical already worth $97 billion.[1] BNPL has proven popular with merchants worldwide as it allows e-commerce companies to offer instalment products to consumers that are ineligible for credit cards. Unlike credit cards, BNPLs offer simple and transparent pricing models and make it easy for consumers to pay for products in instalments. BNPL is ideal for those who live in countries with low credit-card acceptance and availability, and this is reflected in our survey with 66% of respondents globally interested in spreading out the cost of large purchases over several months. Nevertheless, given rising interest rate environments globally, BNPL' grwoth will be limited as seen in the past, and a credit cycle with credit losses might happen. (Fig 27).

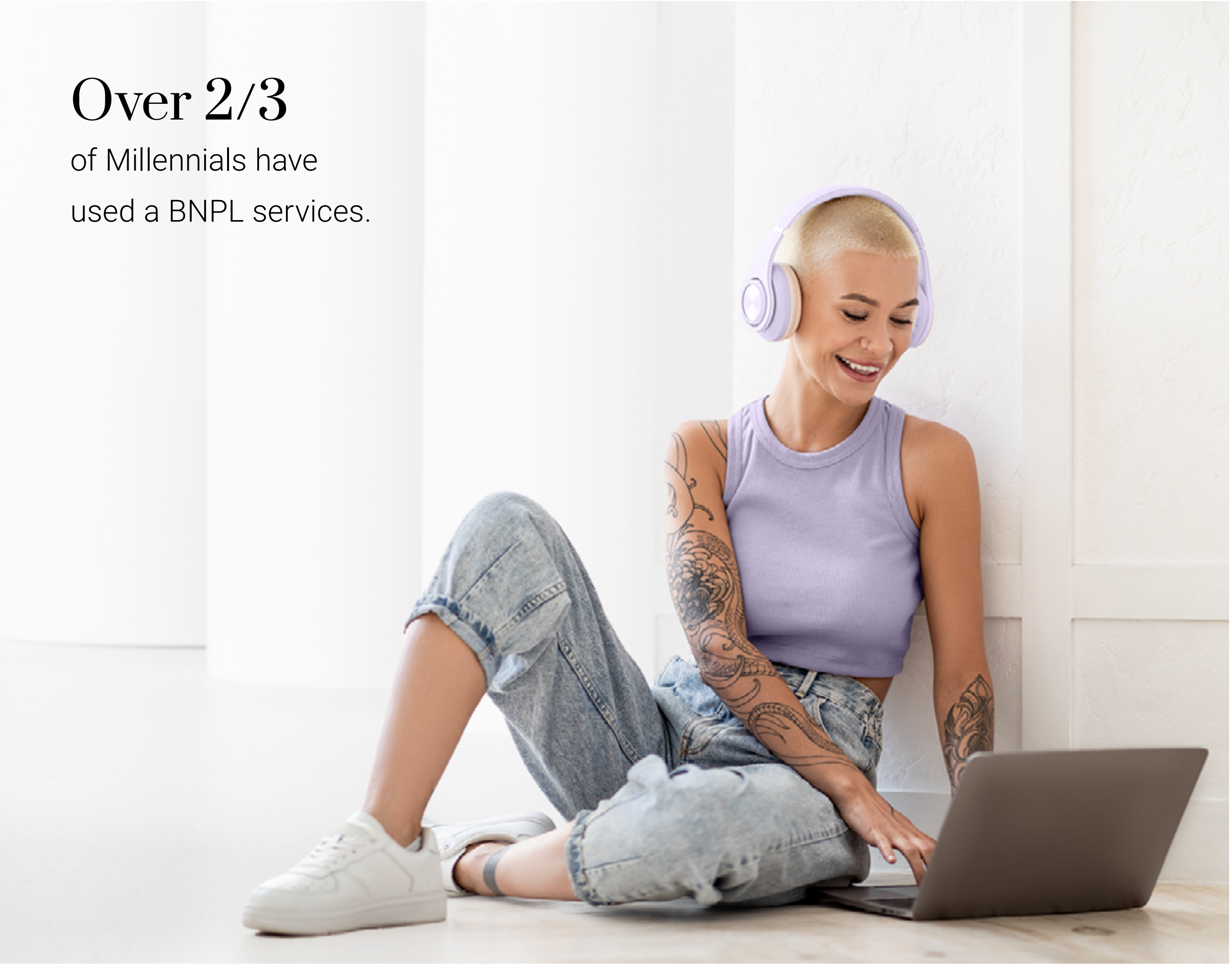
1. BNPL accounted for 2.1% — or about $97 billion — of all global e-commerce transactions in 2020, according to Worldpay.

Figure 27

% consumers interested in spreading the cost of large purchases over several months (by country)

e.g., buy-now-pay-later





Over two-thirds of Millennials have used a BNPL service, and with the growing risk of a global recession looming, there is a possibility that this type of service becomes mainstream (and saturated), particularly as it supports the ability to purchase expensive items when cash is tight. Furthermore, there is no need for credit history, which makes this option available to many who wouldn't typically be able to take advantage of delayed payment options. Simply put, it could be an alternative approach to providing financial access and inclusion. However, there is a risk of over-indebtedness (particularly when it is used on luxury rather than essential items, i.e., the latest iPhone rather than replacing a washing machine) and to avoid this, we believe that BNPL services should be offered in conjunction with round-up and spare change savings related services (SNBL - Save Now Buy Later). Overall, however, we see strong levels of existing take-up coupled with relatively low levels of interest (compared to say, goal savings or use of cashback for investing) as an indication that the service is widely available and unlikely to be an area where most brands are leaving large pockets of untapped revenue.

“Insurance gives people the peace of mind to plan beyond day-to-day expenditures, protects against financial hardship, and helps build financial resilience in an uncertain world”

Point-of-sale insurance demand higher outside of Europe

In terms of insuring at the point-of-sale, as with BNPL, the appeal and benefits are similar: supporting financial inclusion considerably. In their Insurance Inclusion Report, The Financial Inclusion Commission stated that “Insurance gives people the peace of mind to plan beyond day-to-day expenditure, protects against financial hardship, and helps build financial resilience in an uncertain world’ . Without that safety net, vulnerable people can become even more so.” Embedded insurance is now bringing this insurance to the masses.

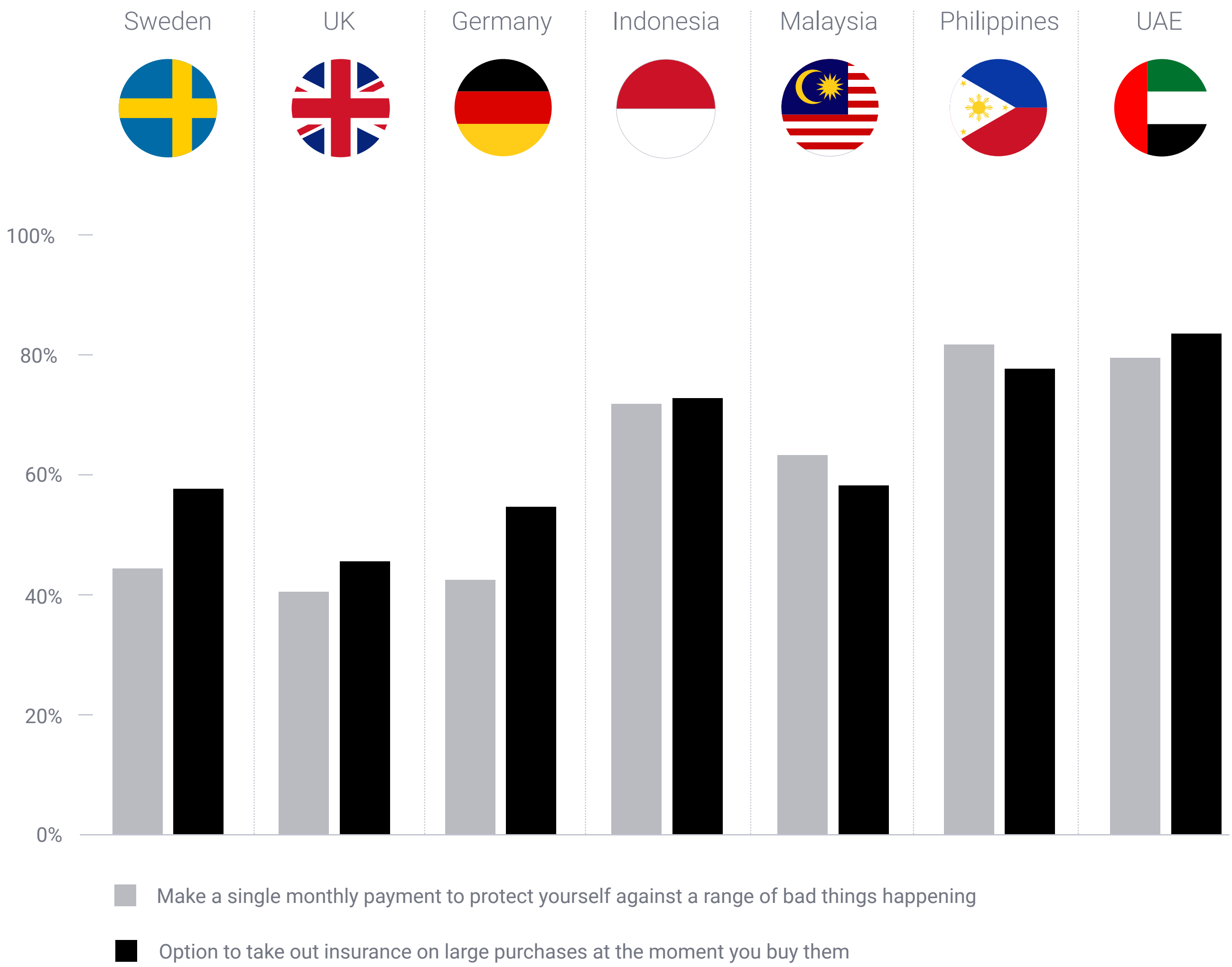
Historically, insurance at the point-of-sale has been a ‘hard-embedded (opt-out) offer’. Included within a primary purchase by default, this might be an extended warranty alongside the purchase price of an electronic device (often the customer must affirmatively take action to refuse the embedded insurance product). However, with embedded insurance, we are starting to see the occurrence of a ‘soft-embedded (opt-in) sale’. As with all truly embedded finance offerings, this occurs when the right customer is presented with the right insurance product at the right time, i.e., in the right context. For example, an airline might present travel insurance just as a client is booking plane tickets and is more aware of this risk.

Our survey shows that this type of service is well received by consumers with 60% interested globally in 'making a single monthly payment to protect against a range of bad things happening (e.g., travel insurance when booking flights, insurance when booking theatre tickets, job loss insurance when making large purchases) and 64% interested in the 'option to take out insurance on large purchases at the moment you buy'. However, it is in UAE and APAC where these two types of insurance are most popular (Fig 28).

Figure 28

% consumers interested in using certain financial services if offered by a non-financial organisation, i.e., non-bank (by country)

e.g., retailer, utility company, real estate agent, insurer, consumer platform, super-app etc.



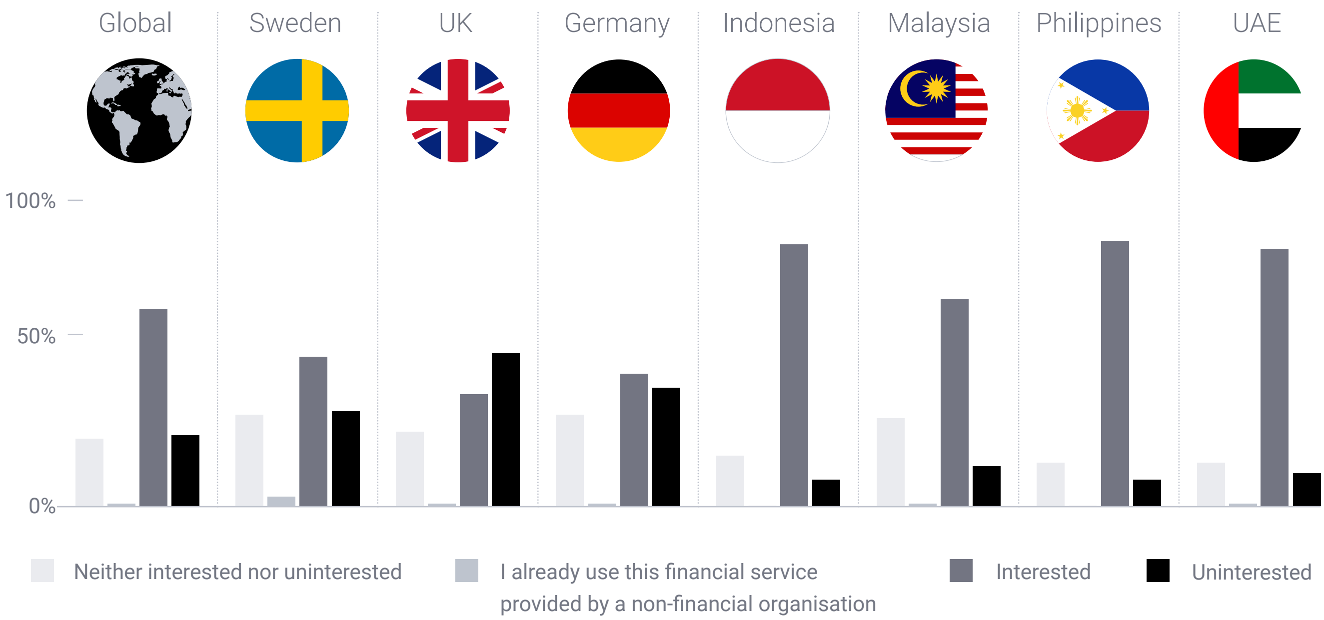
This interest outside of Europe may be due to cheap and easy availability of insurance for both individual items but also legal requirements for home contents insurance which often cover large, utility items within their policies. However, despite this, the level of interest is still surprisingly high in Europe and therefore there is no doubt that the desire for insurance to be offered at their point of need remains popular globally.

Currency hedging seen as valuable

Currency hedging is a strategy used to reduce your exposure to adverse foreign exchange price moves. There are different types of currency hedging strategies that can be active or passive and include currency forward contracts, options and derivatives, and are all relevant to different types of situations. Traditionally, currency hedging has been an activity focused on large amounts (when buying a house abroad or by a business for example), however, with the emergence of embedded finance, this is changing.

Figure 29

% consumers interested in guaranteeing the value of future-dated payments in different currencies (by country)



Research shows[2] that 80% of SMEs (and even fewer individuals) do not protect their currency exposure. As result, millions of people face unmitigated risks to their businesses and their livelihoods. This risk is estimated to be over $100 billion annually[3]. Our survey shows that this risk is now being acknowledged by consumers: as many as 58% of respondents globally are interested in having the value of future-dated payments in different currencies guaranteed (Fig 29).

Upon initial review, this interest in currency hedging is surprising, however, there are perhaps several reasons why this may be so popular.

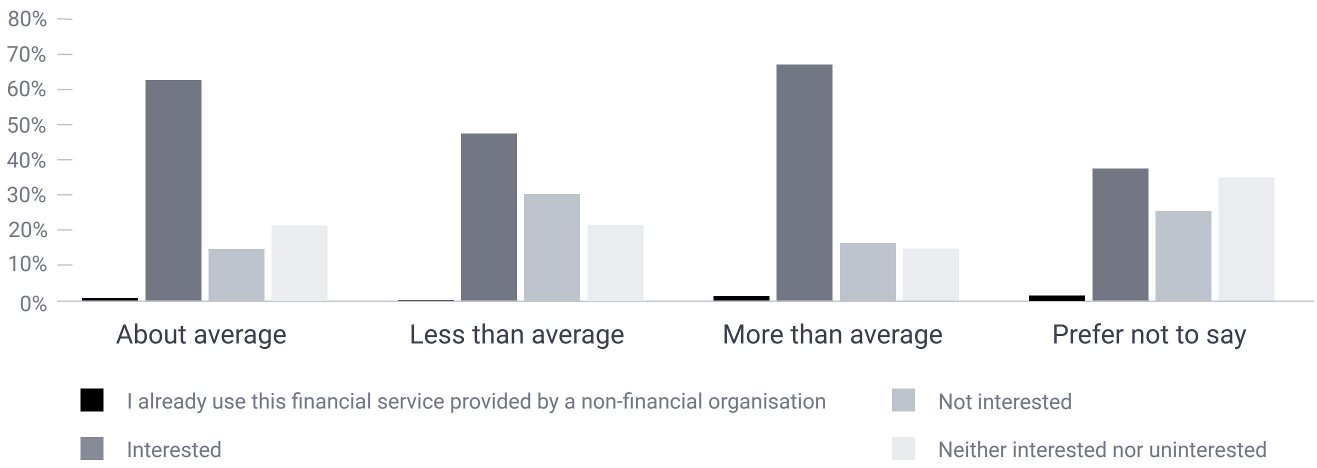
The pandemic sent the demand for international shipping skyrocketing in 2020 and this has continued. More people are purchasing their products online and from abroad than ever before. And some of these purchases are large ticket items such as cars and electronic items. However, perhaps the main reason becomes clear when you consider the erratic state of the current investment and currency markets (particularly the recent sudden decline in the British Pound in October). Hedging brings certainty. And our survey results point to people's desire to simplify things and have fewer surprises in this increasingly uncertain world, particularly for those who can afford higher priced items (Fig 30).

2. East & Partners, March 2021
3. Aperture Consulting

Figure 30

% consumers interested in having the value of future-dated payments in different currencies guaranteed (by income range)

e.g., to protect against currency fluctuations when shopping with international retailers



An opportunity to engage investors through gamification

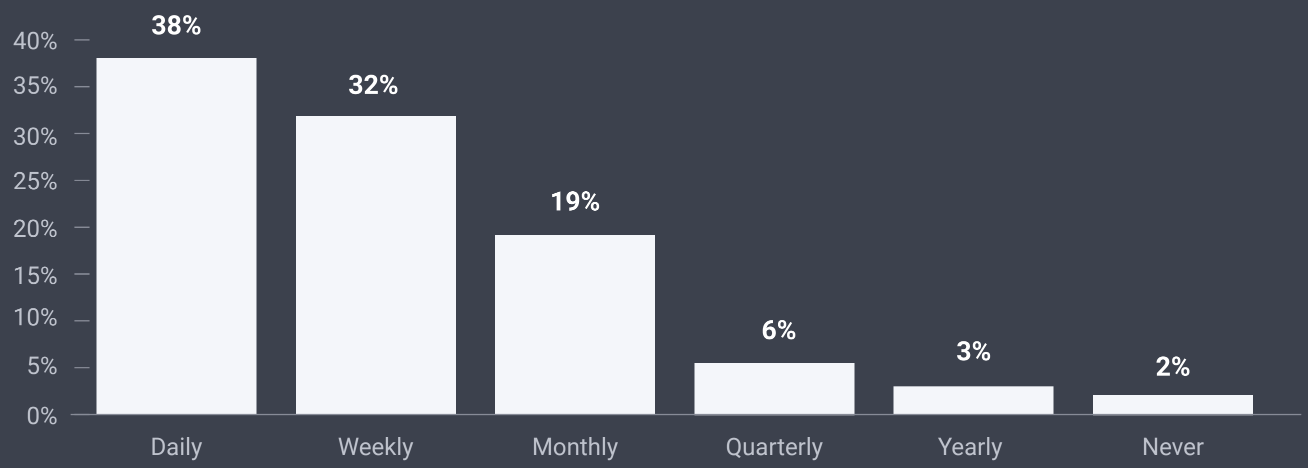
Gamification is the application of typical elements of game playing (e.g., point scoring, competition with others, rules of play) to other areas of activity, typically as an online marketing technique to encourage engagement with a product or service. It is a beneficial tool to motivate employees, drive user-engagement, increase sales, or solve a business problem. It is widely used in sales, education, health and wellness, design, enterprise, and retail but also, more recently in financial services. For example, in our embedded finance report (Embedded Wealth Management – a $100 billion opportunity in plain sight), Brian Carroll, CEO and Co-Founder of TNEX Bank, described how the bank asks questions on their well-being using TNEX emojis, manifesting positive consumer behaviour.

With financial service engagement and retention rates dwindling because of the pandemic and consumer attention span taking a downhill trend, gamification is posing as a timely antidote to these, particularly in the world of investments which is often perceived as complex. However, apps such as Robinhood and eToro enable users to engage in commission-free stock trading and investing and with tools that let individuals make the most of their investments.

Our survey shows the growing popularity of these tools over the last 12 months, particularly in certain regions, with 29% globally using these services, as much as almost half of those consumers interviewed in Indonesia (43%) and UAE (42%) already using these services. And of all that used these services, a staggering 89% access their online investment broker or trading platforms regularly (Fig 32).

Figure 31

% consumers interact with their online investment broker or trading platform (by frequency)



The regular engagement is related to the gamification elements that these online investment brokerage and trading platforms offers. For example, Robinhood has a feature called Robinhood Options. To access it, users have to gain approval by gaining experience in stock trading (Investing Simple, 2020). They enable them to invest in ideas they believe in. And by investing, individuals can socialize—they can share information and views with others.

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additiv's embedded finance operating system, DFS®, is an orchestration platform enabling financial institutions to access new distribution channels through a Banking-as-a-Service (BaaS) model. It also allows banking and non-banking providers to embed wealth services into their client proposition. While it supports wealth managers looking for best-in-class Software-as-a-Service (SaaS) to deliver better engagement at greater scale.

Headquartered in Switzerland, with regional offices in Singapore, UAE, and Germany, additiv is supported by a global ecosystem of partners.

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