Harnessing the power of embedded finance

There's a revolution coming

KPMG in Ireland

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Embedded finance (EmFi) – the integration of financial services (FS) into non-financial businesses – is fast becoming a norm internationally, with established players in industries from retail to telecoms. However, despite clearly burgeoning customer demand for ever-greater convenience, adoption of EmFi remains far from universal.

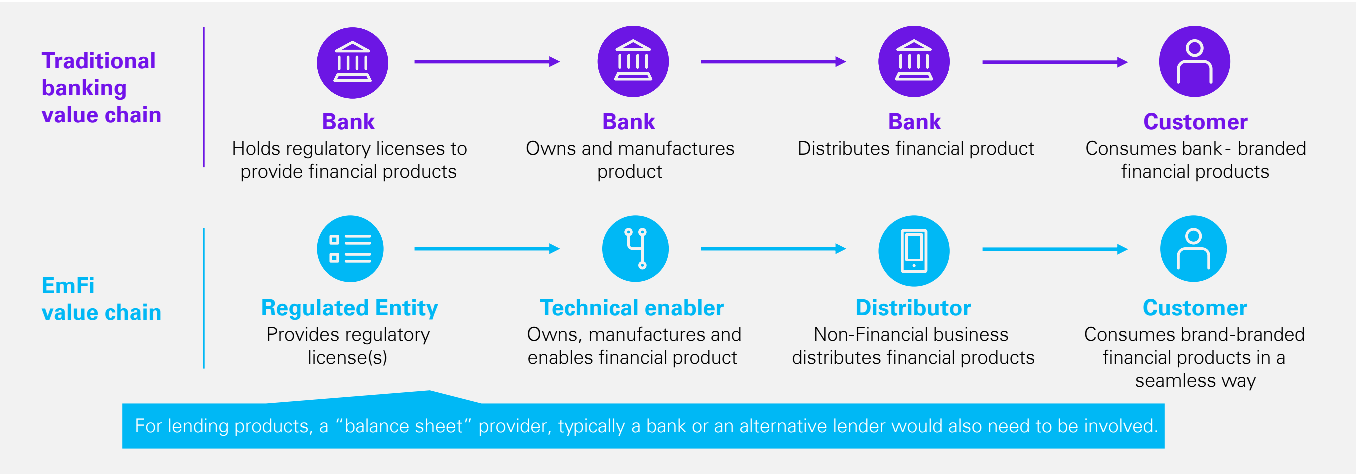
Established businesses across Ireland are generally yet to engage with this huge – but complex – opportunity, despite Ireland's high suitability for EmFi (due to its prevalent internet banking usage, small market size and limited pool of legacy financial institutions). The high degree of consolidation across Ireland's banking sector leaves consumers with few financial services providers – and an obvious opportunity for non-financial organisations to step in.

With that in mind, this paper sets out the rise of the EmFi opportunity internationally and its benefits, identifies the sectors with greatest potential for adoption in Ireland, as well as leading solutions providers, and delineates the key decisions businesses must take when embarking on their embedded finance journey.

The rise of embedded finance and the business case for Ireland

EmFi allows customers to be offered financial services in a frictionless manner within a familiar and trusted enterprise's ecosystem. EmFi presents significant differences in the production, distribution, and consumption of financial products compared to the well-known traditional banking value chain.

Differences between traditional banking and EmFi value chain[1]



This is not a new concept; airlines, retailers, and other industries have all been offering financial products to customers in recent decades, with Tesco and Ryanair just two high-profile examples that launched their own credit cards in the early 2000s in the Irish market. In some cases, non-financial businesses have been able to capture new value from their existing customer base, whilst respective financial service providers have benefited from access to new distribution channels.

However, signing up to and using these products has often felt very different from the rest of the customer experience offered by these non-financial players. In most cases this is because the financial offering itself has been sponsored and controlled by a financial institution – such as a bank – which has therefore had control over the customer experience and, crucially, the revenue opportunity. Financial institutions in such arrangements gain new clients at a lower cost while making money off the card program, to whom they can later offer new financial services. By contrast, launching a card programme with an EmFi provider rather than a financial institution allows a non-financial business to offer its own banking services whilst maintaining control of the customer experience (CX) and the revenue opportunity, at the same time reducing financial transaction costs and affording the consumer a much higher level of convenience.

There are substantial differences for non-financial businesses offering financial products via EmFi platforms as opposed to traditional FS institutions[2]

	Traditional FS institutions	EmFi Platform
Revenue Opportunity	**Non-financial institutions have limited control over the revenue opportunity.** FS institutions are in total control of the immediate revenue and cross-selling opportunity. For example, they could sell loans to customers that were acquired through a credit card programme with a non-financial institution.	**Non-financial institutions have full control over the revenue opportunity.** They can start by offering a single product (e.g. bank accounts), earn corresponding fee revenue, and then cross-sell other products (e.g. credit cards) by augmenting existing portfolio offering.
Customer experience	**Non-financial business have little to no control and influence over the CX** as it follows the same process as of those products offered by the FS institutions own channels. Therefore, offering limited, to non-existing, possibilities for tailoring.	**Non-financial businesses have greater control and influence over CX** as a result of partnering with an EmFi platform that can tailor the CX to their business requirements. For example, desired customer service levels agreements (SLAs) could be tailored to specific needs.

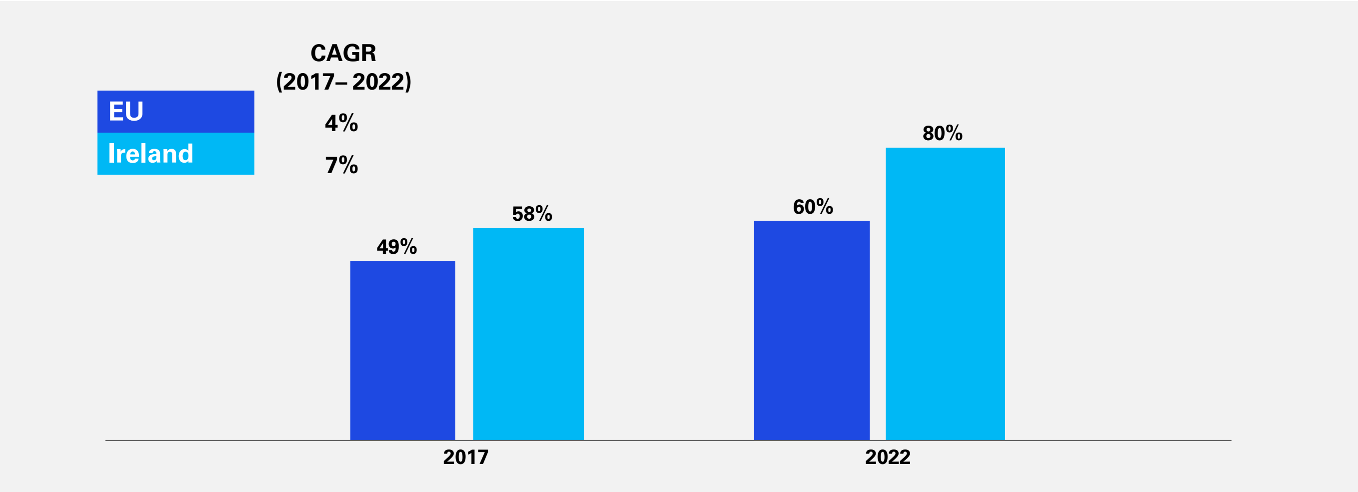
Sources: *(1) and (2) KPMG Analysis.*

The time is therefore ripe for a new EmFi paradigm in the Irish market, built on a timely confluence of key strategic enablers, namely:

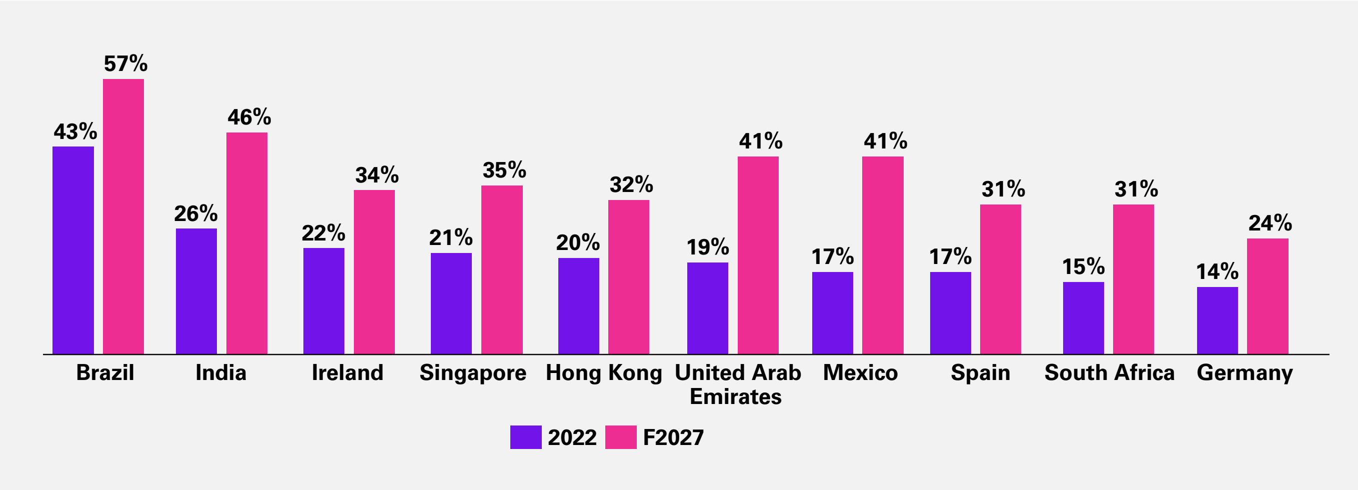
- **The need for diversification and access to banking services in Ireland:** No full-service bank[a] has entered the Irish retail banking market in the past 15 years, whereas there have been multiple exits including Bank of Scotland, Irish Nationwide, Danske Bank, Anglo Irish and ACC Bank. With the recent exit announcements of Ulster and KBC continuing this trend, Irish consumers are faced with unhealthily few remaining options, constraining choice and raising costs of basic financial services. With a population of only 5 million, the relatively small scale of the Irish opportunity is likely to deter other banks and legacy financial institutions from entering the market, creating a particular opportunity for trusted brands to capitalise on underserved customer demand with the right suite of EmFi solutions.

- **Consumer demand:** In the wake of the pandemic, digital commerce has become the new norm for millions, driving a surge in mobile payments and a new level of comfort with online transactions. According to recent studies, almost 80% of Irish people now use the internet for their banking, up from 58% in 2017, whilst Ireland ranks third in the world for the percentage of adults holding a digital-only bank account[4]. At the same time, consumers face limited choices from the traditional banking sector, particularly when it comes to current account products. The former basis of trust for banks, namely personal interaction offered through a brick-and-mortar model of legacy banking, is being replaced by a hunger for convenient digital services. The focus has shifted to the service itself.

% of individuals engaging in e-banking in EU and Ireland[3]



% of individuals with a digital only bank account across key economies[4]



Sources: *(3) Department of Finance, Retail Baking Review November 2022 and Finder, (4) Eurostat.*

Notes: *(a) Only Neobanks such as Revolut have entered the Irish market and specialised FS institutions offering a smaller range of products such as Avant Money, (4) EU refers to average across EU 27.*

- **The current macroeconomic environment:** With global sentiment threatening to depress consumer activity in many sectors, EmFi offers a chance for proactive businesses to protect themselves through the creation of supplementary revenue streams, whilst attracting new customers and re-engaging their established customer base through a more streamlined and seamless customer experience. Mature businesses, operating at scale and servicing stable customer bases, can benefit particularly from EmFi as it can allow them to deepen and further monetise existing customer relationships even after user or customer growth has slowed or plateaued. On the other hand, businesses that ignore the EmFi trend run a risk of losing their future customer base to more proactive competitor brands that are willing to serve millennial and Gen Z preferences with customisable and convenient digital solutions.

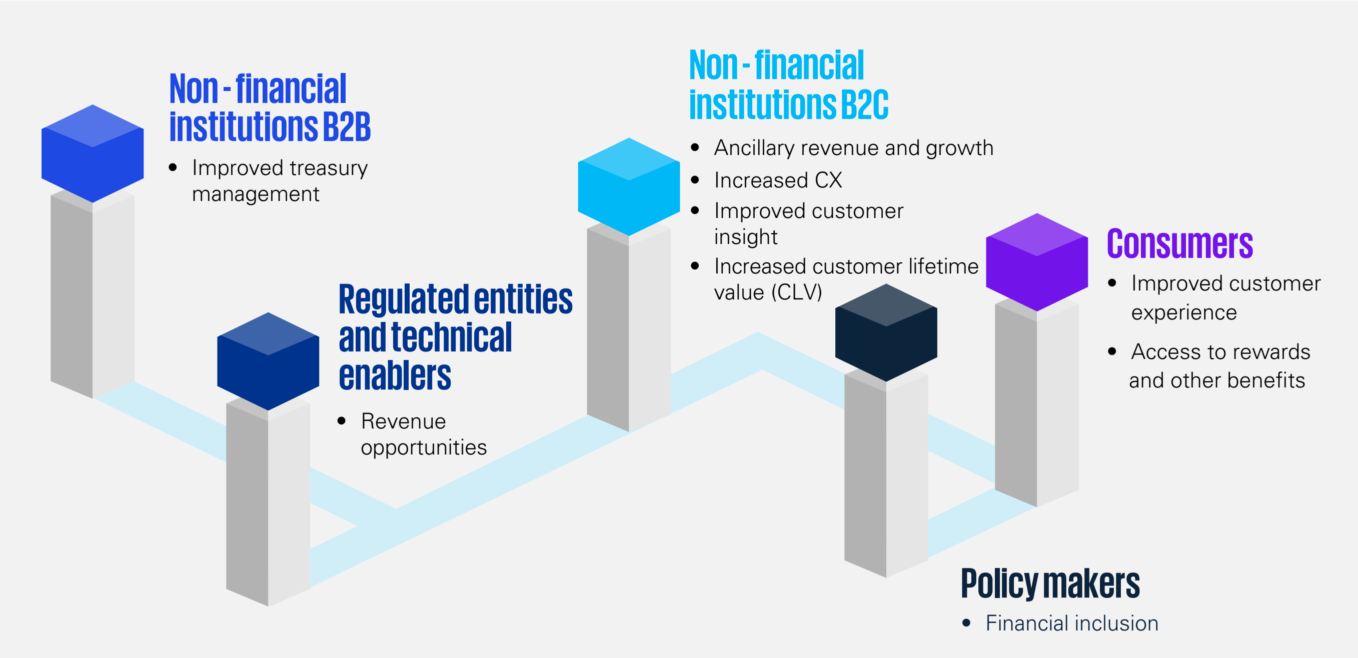
- **Technology and regulatory evolution:** Open banking, facilitated chiefly by application programming interfaces (APIs), has provided the requisite foundation for third parties to share data and interface easily with financial organisations to design EmFi solutions.

  Liberalisations such as the 2015 revision of the EU's Payment Services Directive (PSD2), and the adoption of open banking standards in most jurisdictions have all paved the way for new entrants into the financial services ecosystem – such as EmFi providers. In turn, these providers continue to lobby governments for deeper regulatory reform, further levelling the playing field with banks and widening the space for non-traditional operators.

  In addition, the proactive approach towards the democratisation and mainstreaming of financial services is a trend that will drive adoption of embedded finance in the Irish market in years to come.

Benefits of embedded finance

Embedded finance promises enormous benefits, both directly for those involved in the transaction and indirectly for other parties in boosting the economy[4].



Non-financial institutions B2B

- **Improved Treasury management** – EmFi promises to lower costs and complexity in B2B payments, enabling seamless fund movement and instant settlements whilst bypassing intermediaries.

Regulated entities and technical enablers

- **Revenue opportunity** – For technical enablers and regulated entities, embedded finance offers an opportunity to generate new sources of recurring revenue via partnership with non-financial institutions.

Non-financial institutions B2C

- **Ancillary revenue and growth** – Non-financial players face an opportunity to diversify and augment existing revenue streams by adding FS to core product and service suites.
- **Improved customer insights** – Embedded finance products can give non-financial businesses a new window into their customers' spending behaviour.
- **Increase CLV** - Businesses offering embedded financial services expand the value they offer to their customers, tending to lead to higher levels of engagement and revenues per user, lifting overall CLV.

Consumers

- **Improved customer experience** – EmFi simplifies the consumer's access to financial services, replacing a dispersed experience using separate platforms, apps, and webpages with easy-access offerings embedded in familiar brand sites.

Policy makers

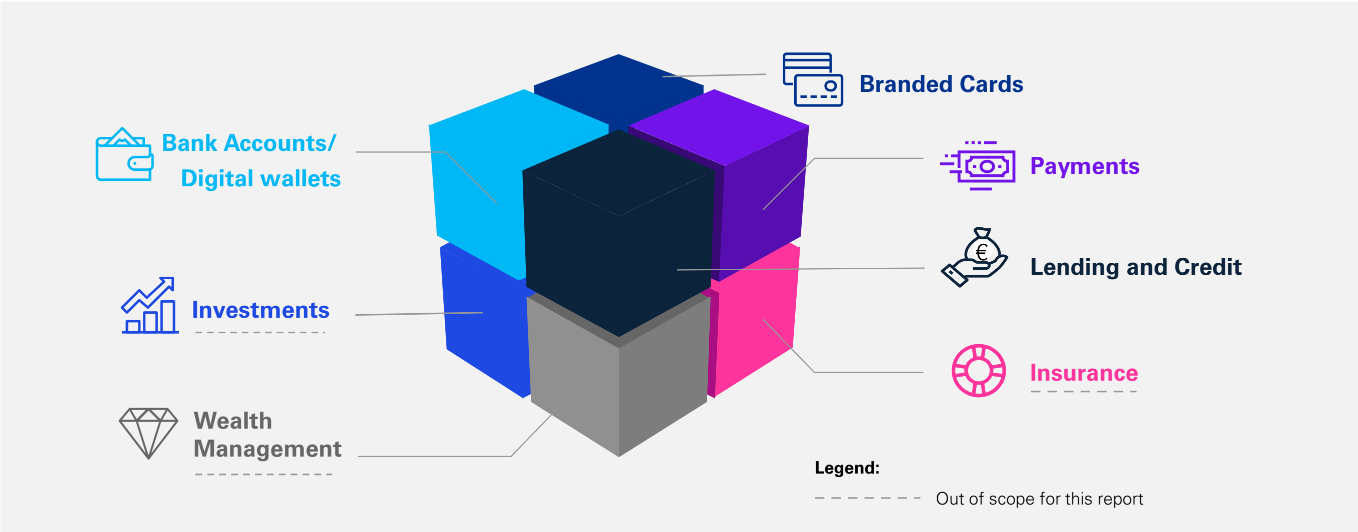
- **Financial inclusion** – Embedded finance can power the desired shift towards greater financial inclusion and digitisation, particularly in economies with significant unbanked and underbanked populations.

Sources: *(4) KPMG analysis.*

Key categories of EmFi and revenue opportunities for non-financial businesses

The list of financial products that can be embedded is long, but includes staples such as bank accounts, debit and credit cards, loans and investments.

Key categories of EmFi[5]



Over the past years, concepts such as "buy now pay later" (BNPL) have gained popularity, but the embedded finance opportunity extends much further than that.

No doubt adopters will find success with all of these products and more, but in the Irish context, we see particularly strong use cases for bank accounts, debit cards, lending and embedded payments across a range of sectors, which we explore in greater detail in this report.

Enterprises that want to fold financial services into non-financial business models are wading into a highly regulated, competitive, and technologically advanced marketplace, with all the complexity and challenge that implies. Is it worth it? We believe that for many organisations, the answer will be yes; there is no doubt that EmFi promises substantial benefits for adopters who get it right. First and foremost, they can expect to benefit from a range of new revenue levers across different EmFi products, as listed below.

Key revenue opportunities for non-financial brands across main EmFi products[6]

Product	Bank accounts / Digital wallets	Branded Cards	Payments	Lending and Credit
Key revenue opportunities	• Unclaimed balances • Maintenance fees • FX exchange fees • Account opening fees[b]	• Interchange fees or swipe fees • ATM withdrawals fees	• Domestic transaction fees • Peer-to-peer (P2P) payment fees • SEPA payments fees • International payment fees	• Application processing fees • Loan origination fees • Credit intertest • Overdraft fees • Late payment penalties

Not all of these concepts will be familiar with a wide audience, so it is worth unpacking some of them in greater detail.

Sources: *(5) and (6) KPMG analysis.*
Notes: *(b) Most banks in Ireland do not charge account opening fees.*

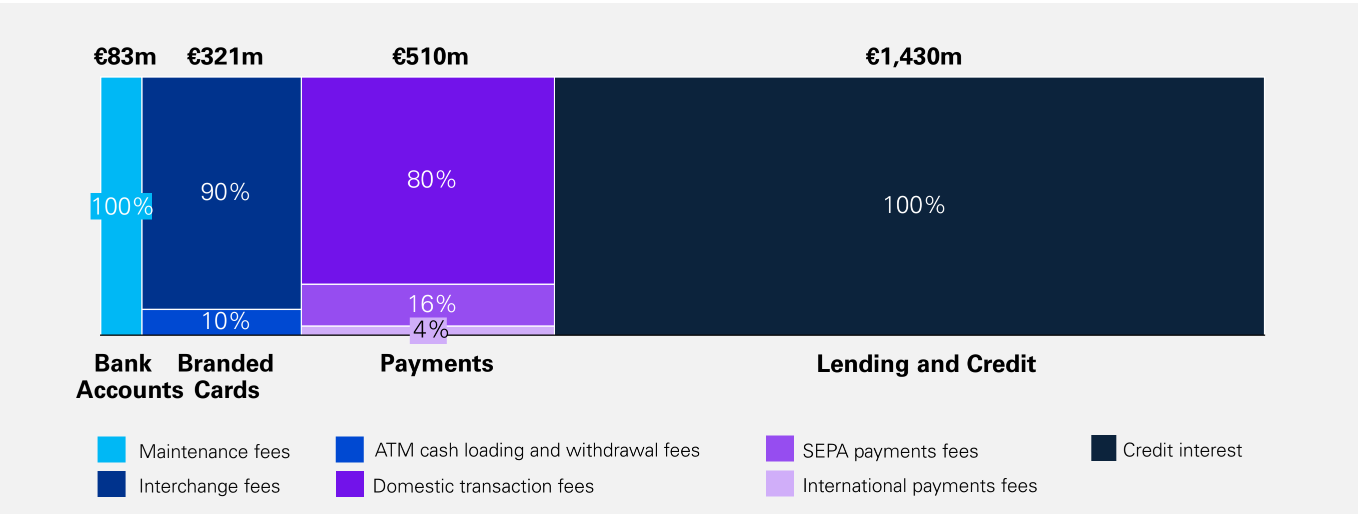
Interchange fees: This is simply a reference to the revenue from fees involved in credit, debit or gift card usage, which has historically tended to accrue to the banks and payment networks involved in facilitating a transaction, having been deducted from the vendor's revenues – typically as a small percentage of the price for goods or services purchased. Interchange fees in Ireland and the rest of Europe are on average 0.1% to 0.4% of the transaction amount for consumer cards, and 0.3% to 2% for commercial cards. EmFi offers brands the opportunity to issue consumers and business networks with their own cards and thereby enter this value chain themselves, gaining control of a proportion of those revenues. With total interchange fee revenue in Ireland estimated to be close to €290m annually, the size of this opportunity is compelling[7].

Transfer fees: Businesses pay millions in fees for money transfers every year, with banks and financial institutions charging a range of fees for both sending and receiving money. EmFi offers non-financial businesses the opportunity to obviate these fees by embedding branded bank accounts directly into their customer relationships, serving to reduce transaction costs by cutting out middlemen whilst simultaneously developing new sources of revenue. Whilst consumer-facing businesses may have more to gain from seeking top-line growth through money transfer fees, B2Bs may find it makes more sense to concentrate on bottom-line growth by cutting transaction costs through offering branded bank accounts to frequent customers and suppliers which will then reduce transaction costs. Either way, in both cases the net result is positive, increased profitability. The size of this opportunity is attractive, with total transaction fees for personal consumers alone in Ireland estimated to be close to €510m annually[7].

Foreign exchange fees: Cross-border payments are another endemic source of complexity and cost for many businesses, due to the interacting difficulties of currency volatility, slow transaction speeds, and regulatory compliance across fragmented jurisdictions. Not coincidentally, this is another set of challenges that EmFi is well-positioned to meet. Some EmFi platforms operate across multiple jurisdictions and provide enterprises the opportunity to meet the cost and burden of regulation in several regions at once. Different from traditional banking networks, EmFi platforms achieve reach and scale by growing their network of strategic partnerships. These platforms can build payment systems that automate regulatory compliance for payments across as many operating countries as necessary, reducing friction and transaction costs and stripping out the complexities of legacy banking processes and archaic payments infrastructure.

Credit interest: Embedded lending options in the form of loans, overdrafts, and other forms of credit have already become popular with many large online retailers, and offer significant new revenue opportunities through fees, commissions, interest and interchange. Historically, only financial institutions have been in a position to earn these revenue channels, but EmFi has the potential to let non-financial businesses take a slice of this substantial pie. In Ireland, personal loans credit interest revenue alone is close to €1,430m annually[7].

Estimated size of B2C EmFi market per product and key revenue opportunities in Ireland, €m[c]



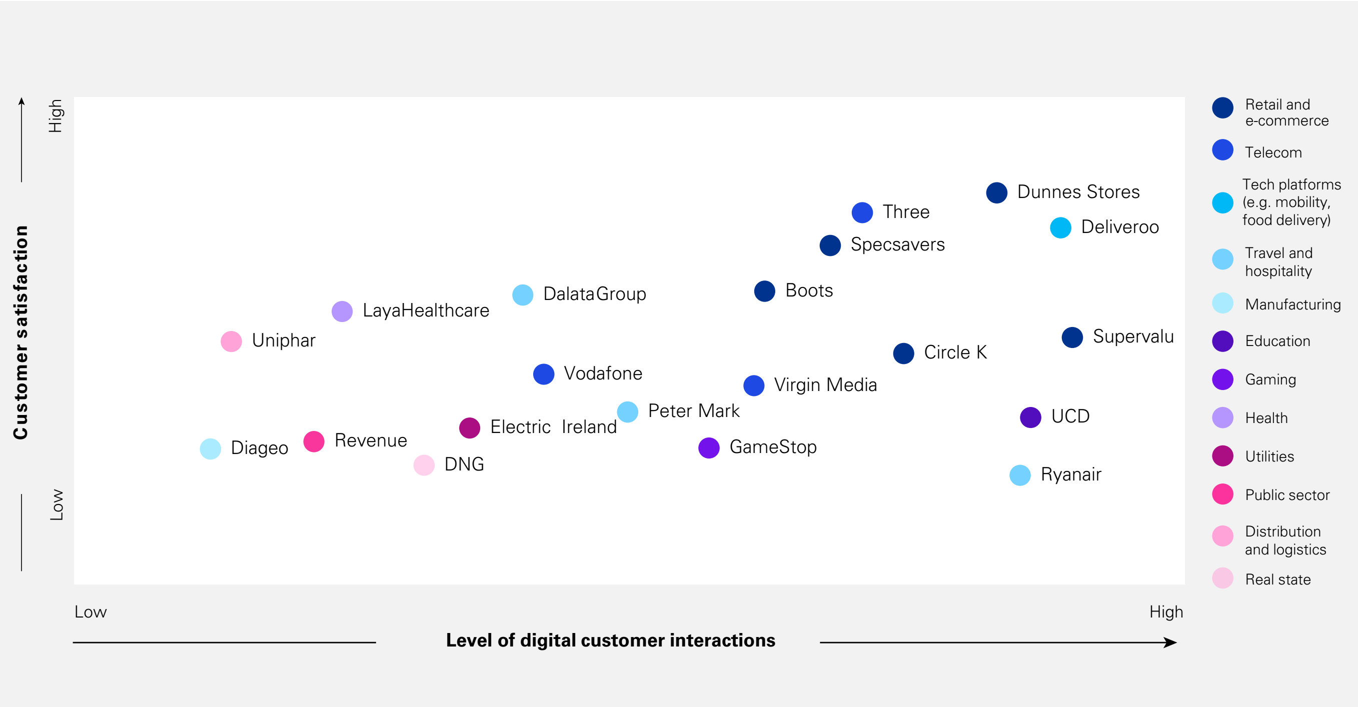
Sources: *(7) KPMG analysis on CBI, AIB, Bank of Ireland, gov.ie and SBCI.*
Notes: *(c) Revenue pools across key products refers only to personal customers. Credit interest refers only to personal loans and excludes mortgages overdrafts and any other type of personal credit.*

Applications and use cases relevant to the Irish Market

Not every business will be able to, or should, adopt EmFi. But any business or organisation with a large customer base, whose customers make a large number of financial transactions and with already-high levels of digitisation, are likely well positioned to adopt EmFi solutions – particularly those with high levels of customer trust and a strong focus on customer experience.

Based on our macro analysis, we see potential and use cases for embedded finance solutions in a variety of sectors, from retail to real estate. From all sectors, Irish Retailers, Tech platforms, and Telcos are those best positioned to integrate financial services as leading brands in these domains exhibit the highest levels of customer satisfaction and digitalisation.

Brands[d] best positioned to adopt EmFi solutions in the Irish market[8]

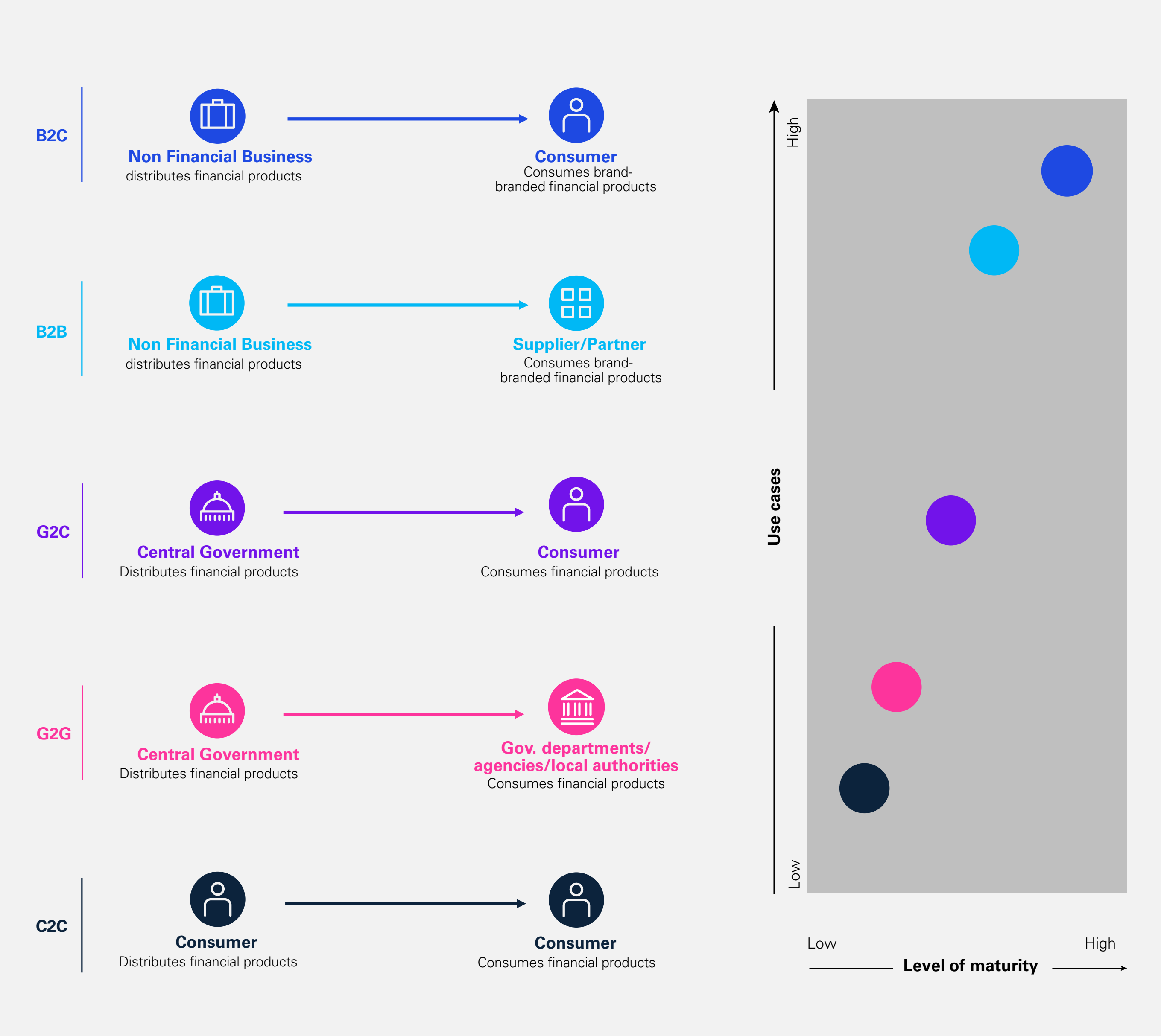


> COFARES has decided to extend the service portfolio to its members using EmFi as a model for adding third-party services to them. EmFi has allowed us to verticalize traditional banking services and adapt them to the Pharma sector.
>
> **Manuel Lopez Anton – CFO, Grupo COFARES – Co-op with more than 5,000 associated pharmacies.**

Source: *(8) KPMG analysis on CXi Ireland customer experience report 2022 and Similarweb.*
Note: *(d) These brands shown in the graph are just a sample of a larger group of businesses that were examined. Outside of those represented here, there are numerous other brands that are well-positioned to adopt EmFi solutions in the Irish market.*

Within each sector there are a number of different EmFi business models that exist today, while B2C and B2B are the most predominant in the Irish market, G2C, G2G and C2C will gain attention over time[e].

EmFi business models[9]



While use cases within different EmFi business models might differ on adoption and maturity, the opportunities associated with the use of EmFi are vast, making the widespread embedding of financial services into all sectors almost inevitable in the future.

> “The new EmFi models represent the next step in the natural evolution of IATA payment systems beyond the use of APIs from our partner banks. EmFi makes it possible to give consistency to the ecosystem of airlines / agencies and IATA itself by digitizing its processes and financial flows.
>
> **Javier Orejas – Global Head of Banking and IATA Pay, IATA – International airline association with more than 300 member airlines.**

Source: *(9) KPMG analysis on CXi Ireland customer experience report 2022 and Similarweb.*
Note: *(e) B2C – Business to Consumer, B2B – Business to Business, G2C – Government to consumer, G2G – Government to Government and C2C – Consumer to Consumer.*

Practical examples relevant to the Irish market

Cross-border payments & FX in travel and hospitality – the opportunity for airlines to offer faster payment methods and increase customer satisfaction across their partnerships.

Clear use cases present themselves in aviation, where airlines routinely have to deal with a high degree of complexity of suppliers in a wide range of geographical locations, making their corporate payables and receivables processes difficult to manage due to the variance in applicable regulations, currencies, and payment methods.

EmFi offers airlines an opportunity to cut through this complexity using embedded cross-border payment and FX solutions, which have the potential to reduce cost and payment delays as well as automate what are currently back-office functions concerned with collections, account reconciliation and the optimisation of foreign exchange payments.

For airlines, enhanced transparency, predictable fees and control of payments translates to better understanding of the costs of doing business and, crucially, a tighter grip on cash flow. Key partners and suppliers benefit from richer and more transparent transaction data, giving both sides of the transaction a clearer understanding of settlement times and transactions costs, raising satisfaction levels on all sides.

Next generation reward programmes in retail – the opportunity for fuel forecourts across the country to augment their loyalty programmes with branded cards.

Rewards programmes have long been a feature of Irish retail, but tend to fit a familiar template, with customers being rewarded for loyalty to a particular brand with points that are redeemable with that brand, in a closed-loop. Irish petrol stations have long offered such programmes to incentivise loyalty in their customer base, but today's climate of rising fuel costs is pushing customers to look harder at the value they can extract from stockpiled rewards points, presenting petrol station operators with new pressure on revenues.

EmFi offers petrol stations the opportunity to open the loop via their own branded debit cards, thereby providing new value for themselves and for consumers, who are ready for the next generation of rewards programmes. For example, a petrol station could launch a branded debit card that provides cash back on all petrol purchases and other in-store purchases, creating rewards tiers to drive purchases in the brand's stores. Such a card would allow the customer to continue reaping unique benefits through their spending with the card supplier (in this case, the petrol station), whilst also being able to use it at other merchants – activity that then provides interchange fees revenue and consumer spending data for the petrol station operator, which may be mined for helpful insights to hone their customer interactions.

Obtaining full visibility into customer spending patterns can reveal opportunities for new goods, services, and partnerships and result in lower marketing expenses, all of which have a positive effect on the bottom line.

Embedded bank accounts and digital wallets in Telecommunications – the opportunity for Telcos to create new forms of ancillary revenue.

03.

Telcos are another sector well positioned to embed a full suite of financial products into their offering. Some Telcos across the country offer embedded finance in the form of direct carrier billing which allows consumers to have their purchases billed to them by their Telco. By working with EmFi providers, Telcos can grow the embedded finance opportunity well beyond carrier billing.

With their large customer bases, high volumes of frequent transactions, digitised platforms and intimate knowledge of their customer's payment habits, they have all the foundations laid to offer their customers financial products such as bank accounts, digital wallets, and connected debit or credit cards, all of which customers would be able to control via already-existing mobile apps. The Telco in such scenarios gains new revenue sources from a range of possible fees including maintenance, overdraft, and mobile check deposit fees, as well as enhanced oversight and control of revenues, whilst customers gain convenience and flexibility of banking within a trusted and digitally-optimised brand environment.

A combined banking-mobile communications offering is a way for Telcos across the country to go beyond commodity telecommunications services and differentiate their products to improve customer retention in a market with a notoriously high churn rate.

Embedded cards and digital wallets in Supermarkets – the opportunity for grocery stores to reduce costs and differentiate customer loyalty programmes.

04.

Most grocery retailers across the nation have implemented loyalty programs. These programs provide the supermarket chain with some insights on consumer spending and may slightly increase customer retention, but they do not capture any additional value beyond that.

Supermarkets could adopt EmFi products such as closed-loop branded cards and digital wallets to replace existing loyalty programmes and gift cards. For example, branded cards could be used to make purchases directly in the supermarket chain and customers could also preload their virtual wallets with the incentive to earn more rewards for using the card whilst the supermarket chain gets to bypass all fees associated with the transaction.

With regard to closed-loop cards, these preloaded funds serve as a source of interest-free funds for the grocery store chain. Since the stored card values for the grocery retailer cannot be redeemed for cash and are not insured, they function as bank deposits and are subject to fewer regulations. For accounting purposes, these deposits are recorded as a liability, allowing the grocery retailer to use the money however they see fit for their operations. This also eliminates the accounting uncertainty due to breakage that arises from gift cards that are currently on offer but not fully spent – a common problem.

Embedded bank accounts in public sector – the opportunity for the Irish government to streamline social welfare payments.

05.

The government and welfare payment recipients can both benefit from government provision of bank accounts. Existing social welfare payment mechanisms are complicated by duplicates, corruption, ghost beneficiaries, and other inefficiencies. On the recipient side, access to banking services can be a serious impediment, given that some 5% of the Irish adult population lacks access to these.

EmFi solutions can obviate both of these challenges, offering state agencies the opportunity to facilitate preloaded accounts, open loop debit cards, and other alternatives to legacy bank account-based financial transfers. Not only can this dramatically improve outcomes for welfare recipients and reduce systemic inefficiency and insecurity, it can also promote financial inclusion.

Embedded bank accounts and payments in the pharma sector – the opportunity for pharmacies and drug distributors across the country to create their own B2B payments ecosystem.

06.

The distribution of pharmaceutical products across the country is highly concentrated across a few major players. With pharmacies around the country having frequent deliveries, twice per day in some cases. Keeping track of cash flows and goods as these move across the supply chains is a difficult task, to put it mildly.

EmFi presents an opportunity for both pharmacies and drug distributors to offer value-added services beyond the existing transactional relationship. Embedded accounts and payment methods can enhance transparency and control over payments for both sides, providing a better understanding of the cash-to-cash cycle.

Using a single proprietary ledger to manage both pharmacies' and drug distributors' accounts would effectively create a B2B payments ecosystem, with the potential to eliminate traditional bank fees and allow both parties to benefit from richer and more transparent transaction data. This can afford both sides of the transaction a clearer understanding of settlement times and costs, raising satisfaction levels all round.

Embedded bank accounts and cards in the education sector - the opportunity for Irish academic institutions to streamline the process for international students.

International students in Ireland can face serious difficulties opening a bank account. In most cases students are required to book an appointment online with their preferred banking institution and then go to the branch to present necessary documents such as proof of address, ID and a letter from their academic institution. The lengthy nature of the process means it can take weeks until students are able to access basic bank services, leading to stress and pressure that negatively affect their student experience.

As an alternative, academic institutions in Ireland have the opportunity to offer international students access to embedded bank accounts and open loop cards as part of the international student onboarding process. For universities this will simplify the onboarding of new students, reduce administrative headaches, and offer a new opportunity to earn revenue from interchange fees on the student cards. For students the benefit would be greatly enhanced convenience, as they will have much earlier access to basic banking services on arrival into Ireland.

Merchant payment processing in retail – the opportunity for large Irish beverage distributors / retailers to gain a deeper insight on customer spending.

In recent years, key players in the hospitality and leisure sectors such as pubs and restaurants have seen payments pivot from cash to debit and credit card transactions, with demand for merchant payment processing services increasing. Today's payment processors come with enhanced POS (point-of-sale) systems. Not only do these systems make it easier to process debit or credit card transactions, but they can also offer enhanced record keeping and financial management.

For businesses in the hospitality sector, whenever a customer uses a debit or credit card to purchase a product, part of the profit from that transaction goes to pay fees to the credit card processor. The actual processing rates and pricing models vary, but typically the issuing bank, credit card network, acquiring bank and payment processor will get some portion of these interchange fees. By partnering with an EmFi provider that offers competitive rates, non-financial brands could lower payment processing fees and increase control on its customer data.

Beverage distributors face an opportunity to provide proprietary POS systems to those businesses they distribute to, enabling them to track the sale of goods and improve supply chain management. Knowing how much customers spend at the till is the first step for any non-financial brand to augment its financial product offering, since this is the data that provides them with a firm foundation on which to offer secondary products and services that meet customer needs.

For many businesses, these multiple new revenue opportunities will be the primary driver of adoption, but they are far from the only benefit. Alongside the ancillary revenue opportunity without additional customer acquisition cost, businesses can expect to glean a deeper understanding of customer spending habits, which can be mined to better meet customer needs, target product or service offerings, and hone the design of customer experiences. All of the above naturally tends to increase the business value to the consumer, growing loyalty, customer retention, and conversion rates.

Embedding financial products: key considerations

Partnership is the bedrock of embedded finance. Partnering with an experienced provider with a track record of delivery will, in the vast majority of cases, be the cheaper course of action, yield better results, and substantially mitigate the risks involved.

Before any business can begin the all important partner search, however, they need to understand clearly what they're trying to achieve, and thus what they are commissioning. Any successful EmFi solution answers a genuine business need. To avoid embarking on EmFi projects for their own sake, a business needs to first understand the following:

- What are its customers' aims and how can embedded finance help achieve them? (e.g. what end is their product servicing? Is there a financial service that can facilitate that end?)
- Do they enjoy sufficient trust with their customers to provide new financial offerings?
- Will the proposed EmFi offering build naturally on the rest of their business? Does it augment existing channels, or detract from them?
- What strategic purpose does the EmFi offering propose to serve?
- Is there a sufficiently rich set of APIs to enable an EmFi partner to innovate high-quality solutions?

Who to partner with? Key trusted embedded finance platforms

Having understood the rationale for a partnered EmFi solution, choosing a partner is another key decision any business takes.

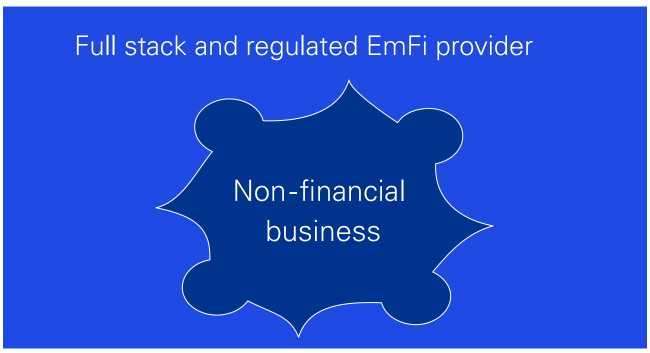
The FinTech scene is alive with new entrants looking to capitalise on EmFi and other trends, but individual businesses need to work hard to identify a partner capable of meeting their needs. Mission-critical considerations include:

- Do they understand your industry well enough to grasp the specifics of your proposed use case?
- Would the EmFi solution satisfy my business's needs? (e.g., would the cash pooling and cash sweeping options be suitable for my business?
- Can they integrate the technology seamlessly with your own? Is their tech stack complementary?
- Are we confident on their solvency and financial condition? How does it compare with other EmFi platforms?
- What KYC approach is the EmFi partner offering?
- Will they support your team to both adopt and adapt the solution over time
- Is there a good organisational DNA fit?
- Do they have a track record of tailoring EmFi solutions to clients' specific and unique business profiles, or are they selling 'off the peg' solutions?
- Do they have access to trusted delivery partners and will they be able to scale according to your needs?
- Do they offer a single point solution, or multiple financial products in a singular platform?
- Are they a licensed and regulated financial institution, or only a front-end platform for a bank?

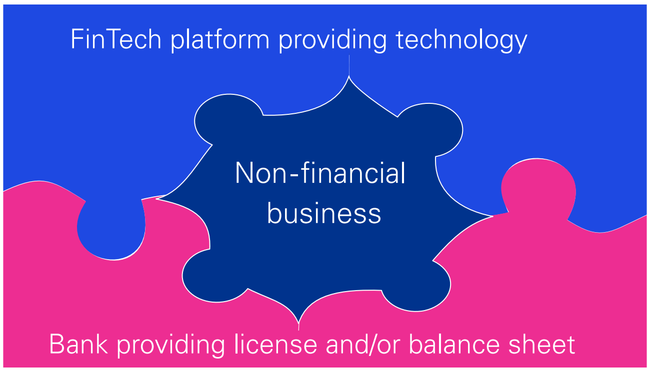
Of all considerations, this last one may be the least understood and yet the most important piece of the puzzle. Not all EmFi providers are licensed financial institutions with the accountability and the capability to provide a complete compliance and risk management framework.

Most common types of partnership options[10]

Option 1. Single-party alliance



Option 2. Multi-party alliance



Many FinTechs are simply a direct front for, or 'agent of', a third-party bank, meaning that the bank is ultimately responsible for sponsoring the fintech's activities as well as ensuring regulatory compliance, whilst the provider remains unlicensed. This can lead to confusion on the part of the consumer about who they are ultimately doing business with, as well as about whose shoulders the regulatory compliance risk rests on. On balance, non-financial businesses are likely to be better served by partnering with a full stack and regulated EmFi provider, for a number of reasons:

Flexibility: Businesses whose ultimate partner is a bank are ultimately bound by the bank's rules and standard operating practices, which is likely to make tailoring and personalising their EmFi programmes more difficult.

Reputational risk: Businesses in a multi-party alliance are exposed to higher levels of scrutiny due to the higher levels of complexity involved in negotiating compliance obligations between multiple partners.

Ownership of benefits: In most cases where the ultimate partner is a bank, the bank will ultimately control the EmFi offering and is therefore likely to realise a greater share of its revenue opportunities, particularly in lending products where they bear the ultimate risk of default.

Breadth of choice: in the Irish market, the banking sector is highly consolidated, with recent exits by both Ulster Bank and KBC further narrowing the field of options for consumers and businesses looking for prospective bank partners.

Source:
(10) KPMG analysis

Case study

In the Irish context, one such embedded finance partner is Alviere, a US technology platform which has recently established its European base in Ireland.

Alviere was the first Embedded Finance provider to become a fully-licensed, regulated money transmitter throughout the United States, Canada, and in Puerto Rico, with an emphasis on strong regulatory relationships, compliance, risk management, and security. Alviere is also PCI Level 1, SOC 1 and SOC 2 certified. Through its local operating subsidiary based in Ireland, Alviere is currently seeking authorisation from the Central Bank of Ireland to operate as an Electronic Money Institution and shall be a principal member card issuer of Mastercard throughout Europe, allowing it to offer a variety of solutions to customers across geographies and markets.

As an Embedded Finance solution for enterprises, the Alviere platform simplifies delivering financial services. The Alviere platform makes it easier for organizations to orchestrate highly complex flows across unlimited business cases, providers, and geographies.

In addition to Ireland, Alviere plans to grow its presence across key EU/EEA markets, particularly in markets such as the UK, Germany, Iberia, Italy, Holland, and France.

> “Our successful and expedited launch of Coppel Access into the market was only made possible through our partnership with Alviere. The team’s extensive experience, steadfast commitment to innovation, and relentless determination in development and deployment have proven to be invaluable assets.

Adrian Jaimes - CEO, Appriza Pay - FinTech company providing downstream payment processing services for licensed originating and payment entities.

Conclusion

Embedded finance will play a key role in the future of corporate treasury for trusted brands in the Irish market. In the anticipation of a deteriorating commercial outlook for many sectors, EmFi is an opportunity for most businesses to insulate themselves through the establishment of new revenue sources.

In such a climate, established businesses in a wide range of sectors will find themselves sidelined by the next generation of customers if they ignore the EmFi trend, and will miss out on a golden opportunity to solidify their relationships with their existing customer base.

Done well, EmFi has proven its capacity to drive growth and engagement, generate new revenue streams, and improve customer lifetime value. In our view, the future of many sectors is tied to EmFi technology and will become the expectation of many consumers. With Irish consumers facing an increasingly consolidated banking landscape, and a burgeoning digital economy, they are likely to adopt innovative EmFi solutions that can service existing financial needs within trusted companies.

From a business perspective, single-party alliances are likely the simplest way to serve this opportunity.

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