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MAY 2022

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ACKNOWLEDGMENT

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EDITOR'S LETTER

Digital banking and payment adoption has skyrocketed during the past several years as online payment methods, tools and channels grow more widely available worldwide. Driving much of this shift are younger, so-called digitally native generations, who, having grown up with the online world a mere smartphone tap away, are inherently comfortable with digital payment experiences.

Millennials, ages 26 to 41, and Generation Z consumers, ages 25 and younger, continually show strong preferences for payment solutions such as contactless payments and digital wallets. A May 2021 study found that mobile wallet usage was up year over year to 65% of younger millennials and 57% of Gen Z consumers, while older generations showed much lower rates as well as drops in usage. Today's financial institutions (FIs) and merchants are paying close attention to these two age groups' payment preferences, especially as they gain more spending power, with Gen Z alone representing $360 billion in disposable income.

Millennial and Gen Z consumers' expectations are also filtering into the business-to-business (B2B) payments ecosystem as these groups become more firmly established in the global workforce. Many millennials now hold decision-making roles at their organizations, with a 2020 report estimating that 73% of United States millennials in the workforce are involved in their companies' buying decisions. Recent PYMNTS data also revealed that 74% of millennial B2B buyers have switched vendors for those offering more consumer-like B2B payment experiences. With these two generations set to make up 72% of the world's workforce by 2029, they are clearly poised to shape the course of digital payments before the decade is out.

This edition of the Embedded Finance Tracker®, a PYMNTS and Galileo Financial Technologies collaboration, examines how millennial and Gen Z payment expectations and needs are shaping greater opportunities for embedded finance in the B2B payments space.

Thought Leadership Team
PYMNTS.com

Feature Story

TabaPay On How Millennials And Gen Z Are Reshaping The B2B Payment Ecosystem

AS GEN Z AND MILLENNIALS SCALE THE CORPORATE LADDER, THEY ARE BRINGING INTO THE BOARDROOM THE SAME DIGITAL,

frictionless and seamless online payment expectations that have driven their consumer purchasing preferences — a shift that is dramatically reshaping the B2B payment ecosystem.

With nearly three-quarters of working U.S. millennials now involved in their companies' purchasing, operational and organizational decisions, the same priorities that drive their business-to-consumer (B2C) payments choices — convenience, flexibility, speed, immediacy, transparency and simplicity — are quickly forcing companies to adopt solutions to "consumerize" their B2B ecosystems away from traditional payment processes. Amid that demand, embedded finance solutions are quickly gaining ground in the B2B space.

In a recent interview with Rodney Robinson, CEO and co-founder of TabaPay, PYMNTS took an inside look at how embedded finance is ushering in a new "faster and cheaper" instant-payment reality. TabaPay provides companies and their customers with access to instant payments that are simple, low-cost and reliable.

"What we're seeing among millennials who are in fairly senior positions in some of these digital bank companies or new lenders is that they want it easy," said Robinson. "So from a service provider standpoint, that's what we're focused on: lower costs and high speed. Faster and cheaper: That's the mantra."

EMBEDDED FINANCE INCREASES TRANSPARENCY, SECURITY

Another driving factor among the Gen Z and millennial demographics making B2B purchasing and payment decisions is an increasing call for transparency in pricing and technology. Robinson says TabaPay's embedded financial tools deliver that transparency.

"In the old days, you used to get a [nondisclosure agreement] signed, and you get access to your application programming interfaces (APIs) and your pricing. Now you publish on your website because folks want to shop before they speak, and so they want to see everything before they engage. And so it changes the business model and almost makes payments a commodity," said Robinson.

Another value-add of embedded finance in the B2B space, Robinson said, is its ability to empower these businesses to control risk and add an additional layer of security.

"Our merchants drive us, and they've told us that they don't want to take on the risks of receiving any payment credentials — a bank account or a card number, say — but they want to offer everything embedded within their application. And so we deliver different technologies within our API to enable developers and embedded finance companies to embed a seamless payment experience by leveraging TabaPay," Robinson said.

MOVING FROM PULL TO PUSH

Robinson sees the future of the B2B payment ecosystem shifting from a pull-driven one, in which a merchant "pulls" money from a customer, to a push-driven dynamic, with the customer "pushing" money to businesses instead.

"A lot of payments we've seen have been 'pull,' where a merchant will pull money from a customer's account, which increases risk," he said. "Payments will go more toward 'push,' whether it's real-time payments or digital currency, where the customer will push money to the merchant instantly, which would be a zero risk, very low-cost payment versus the current methods, which are pulling money from a Visa or Mastercard, or a bank account. So it's going to shift from 'instant pull' to 'instant push,' which is going to lower the risk and the cost."

Companies that not only meet but also exceed the payment demands of these younger customers will more successfully attract and retain this key demographic. More importantly, they will set the foundation for a relationship that can build a bridge to long-term brand loyalty.

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Q&A

ARCHIE PURI
Chief product officer
galileo

As millennials and Gen Zers take on a greater share of managerial and corporate decision-making roles, how do you expect those generations to influence the B2B digital payment space in the near future?

The ascent of millennials and Gen Zers to corporate decision-making roles is going to have a major effect on nearly all aspects of the business sector because these digital-native generations are different in so many key ways compared to older generations. Within this context, how B2B financial services are delivered is going to be among the areas wherein this tectonic shift is most apparent.

Members of these generations have grown up with access to the internet, smartphones and other tools that have removed a huge amount of the friction that traditionally surrounded payments and financial services. So there's a deeply ingrained expectation in members of those age demographics for a fully digital, fast, convenient and smooth payments experience — and one that's personalized for them, based on their own past behavior and preferences. They also want to be able to run their business from anywhere, which means they need financial services that are not tied to a physical branch or location.

As millennials and Gen Zers have entered the workforce, they've brought those same expectations with them into the B2B arena. This movement will continue to accelerate as they take on more decision-making positions, whether in the form of senior roles within enterprises and larger companies or as owners of their own small businesses.

As today's millennial and Gen Z sensibilities become tomorrow's business priorities, the onus will be on financial services providers serving the B2B space to fulfill those demands, leading to better products that take a human-centric approach.

How are millennial and Gen Z consumers' embedded finance experiences, in particular, impacting B2B payment innovation?

Amid the increased pressure on providers to meet millennial and Gen Z demands in the B2B payments space, the good news is that these generations possess a high level of familiarity and comfort with technology. This means they're more likely to be early adopters of new payment tools — and even entirely new payment models — that can fulfill their needs and wants, no matter where, when and how those interactions occur.

Embedded payments are a great example of that willingness to break free of traditional models. Services like Uber, Venmo and the Starbucks mobile app all were able to gain major traction with younger consumers — and that was largely because those consumers don't have years of ingrained habits about how payments 'should' work. They just recognized the value this embedded model could offer them, and they responded.

That openness to thinking about different ways finance and payments can fit into the ecosystem of various other services represents a major opportunity for providers who can deliver that value in the B2B space. We're seeing that now with services like business lending integrated directly into point-of-sale systems — and as millennials and Gen Zers become a larger part of the workforce and exert greater influence in the business sector, this opportunity is only going to become larger. For context, the total value of the global embedded finance market is expected to grow to $138 billion by 2026, up from just $43 billion in 2021, so it's a major market opportunity.

Q&A

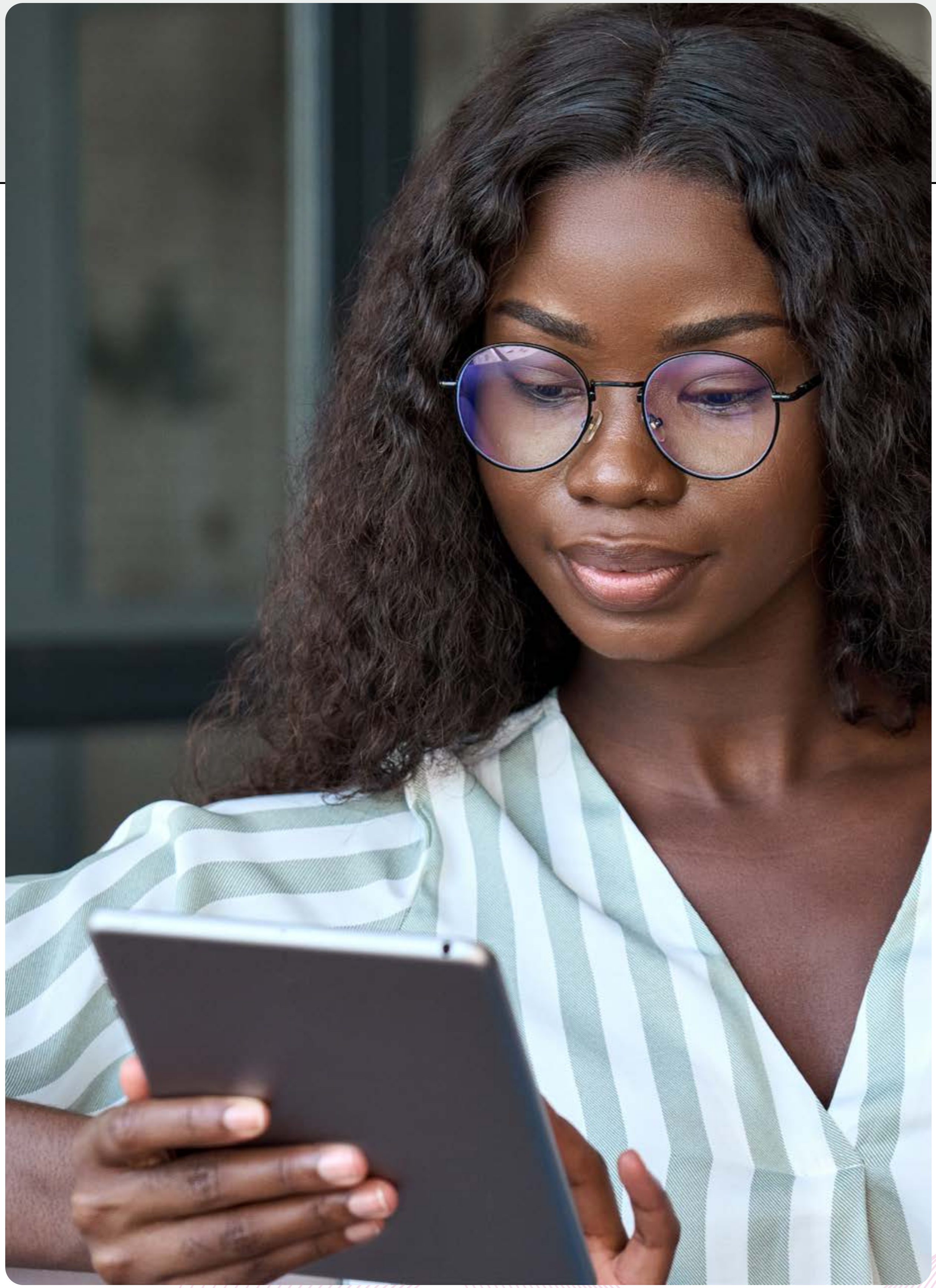
Amid the rise of fully digital payment experiences in the B2B space, what role should banks play to best support such solutions?

"Just as it does in the B2C space, embedded finance offers a great opportunity for traditional banks to overcome some of the core tech-based challenges they face in addressing modern B2B needs.

Many banks are still running on older core systems that worked really well for a more top-down approach to developing products and services that were based around those legacy systems. But those frameworks weren't necessarily built to support the use cases and demands of millennials and Gen Zers in the B2B space, where addressing the needs of the end user first is becoming more important.

The good news is that there is absolutely a place for established banks in embedded finance frameworks. The pass-through model — in which a digital platform enables users to access bank-provided financial services within the flow of other types of business activity via API integration — means that banks need to offer their services in a white-label way. That model enables millennial and Gen Z users to engage with modern digital brands while still getting high-quality, compliant and regulated products from the bank, without even realizing it. Banks play a key role by absorbing the complexity of regulatory compliance while providing high-speed processes and systems to digital platforms to continue innovation.

Furthermore, banks can leverage the data stemming from these embedded interactions to develop a real-time, consolidated view of a business customer, a vital part of driving effective engagement and activation strategies in the B2B vertical, just as it is in B2C."



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PYMNTS Intelligence

How Millennial, Gen Z Payment Preferences Are **Driving B2B Payment Innovation Forward**

DIGITAL BANKING VOLUMES HAVE RISEN SWIFTLY IN THE PANDEMIC'S AFTERMATH,

with consumers and businesses increasingly treating online platforms as their primary banking and shopping channels. One recent study found that 54% of consumers were using digital banking tools more often due to the pandemic, and 49% of consumers surveyed in a recent PYMNTS report were interested in obtaining online banking services from large organizations, including both banks and nonbanks.

Online-only banks are especially attractive to millennial and Gen Z consumers, with these digital natives gravitating to neobanks and other technologically innovative providers in large numbers to make payments and conduct their banking. A 2021 report found that of the roughly one-fifth of U.S. consumers whose primary bank is online-only, 29% were bridge millennials, or consumers between the ages of 35 and 44. The growing preference for digital banking is also steadily making its way into the B2B environment as individuals in these demographics take on decision-making roles at their organizations, bringing their payment expectations with them. A 2020 report estimated that 73% of U.S. millennials in the workforce were involved in making buying decisions at their companies.

This month, PYMNTS Intelligence takes a close look at how millennial and Gen Z payment preferences are influencing B2B payment developments. It also examines how these preferences fuel the impetus to adopt embedded finance solutions in both B2B and consumer-facing payment verticals.

DIGITAL NATIVES DRIVE B2B PAYMENT INNOVATION FORWARD

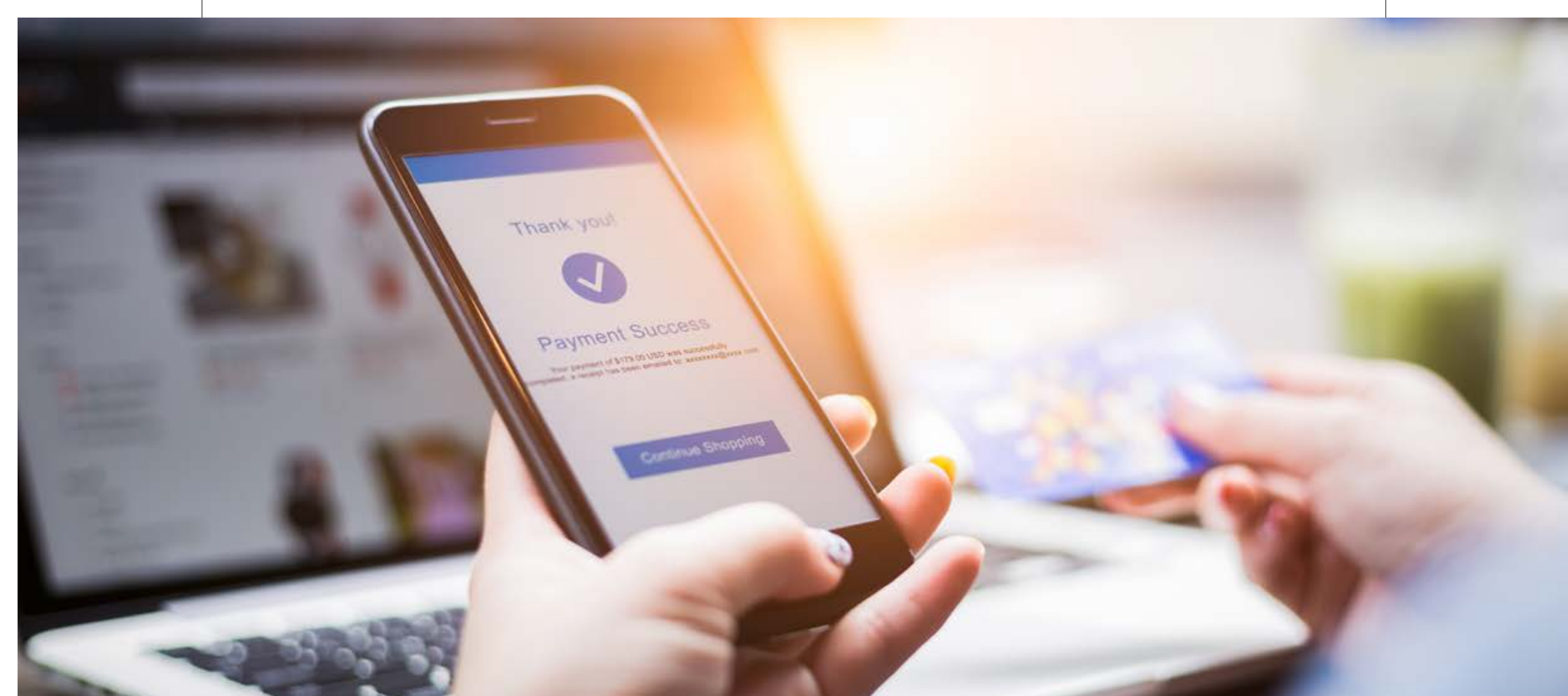
The pandemic forced businesses across multiple industries to confront the frictions in their B2B payment processes, with remote work rendering manual and paper-based payments difficult or impossible. Businesses tackled the weaknesses in their legacy infrastructure, often spurred by a growing millennial and Gen Z leadership culture at their organizations. One recent study reported that more than 60% of millennials in the workforce are now in management positions, giving them direct influence on and responsibility for their companies' operations and organizational processes.

At the same time, B2B payment innovation is becoming a top priority for many organizations. Companies are reporting more usage of API technologies, which enable them to support multiple payment options and tools as well as swifter payments by easily connecting to banks and third-party payment innovation partners. Banks are also eyeing these technologies, with 64% of FIs in a recent PYMNTS survey saying they were "very" or "extremely" willing to adopt new technologies to aid the "consumerization" of B2B payments.

Millennial and Gen Z expectations are thus creating key opportunities for today's banks as businesses look to innovate their payment processes. Implementing embedded finance for B2B offerings is one way companies could move to match these shifting expectations, especially as younger consumers become more familiar with embedded finance solutions in their everyday lives. Many consumers are becoming increasingly comfortable with the idea of relying on nonfinancial entities to meet their banking and payment needs. One recent study found that 48% of consumers would be willing to use banking services offered through their streaming, internet or wireless providers, and 46% would be interested in using banking services through a national retailer or warehouse store.

Embedded finance is already becoming the next phase in B2B payments. A recent report noted that more than 80% of banks either offer or plan to offer their clients the ability to use their own enterprise resource planning (ERP) systems to access accounts and make payments to suppliers or vendors. The next generation of this development could see banks using APIs to embed more services into their clients' systems, such as supply-chain finance. While just 6% to 13% of banks currently offer such services, 32% to 46% say they plan to do so in the next three years.

Keeping pace with this newfound interest in embedded finance must, therefore, be top-of-mind for today's businesses and banks. Understanding how millennials and Gen Z consumers use embedded finance and how this could affect what they want as corporate decision-makers is critical as B2B payment offerings evolve. Embedded finance will likely be key to meeting these expectations and fostering greater digital payment innovation.



NEWS & TRENDS

GEN Z AND MILLENNIAL PAYMENT EXPECTATIONS

MILLENNIALS MOVE TO MOBILE WALLETS

Millennial and Gen Z consumers are increasingly turning to digital-first technologies to fulfill their banking and payment needs, with mobile methods especially popular. A March 2022 study found that 38% of millennials used mobile wallets to pay for their purchases in the month preceding the survey, compared to 22% of baby boomers.

Millennials are also more likely to complete their purchases using debit cards rather than credit cards, remaining wary of debt and credit-related fees. The survey found that 63% of millennials report using debit cards more frequently than credit cards. This indicates that millennials are seeking out swift, digitally connected but also budget-friendly payment methods, a trend that could offer key opportunities for the continued growth of embedded finance.

YOUNGER CONSUMERS CITE GROWING PREFERENCE FOR BNPL

Millennial and Gen Z consumers are also more likely to use embedded finance tools such as BNPL solutions, according to another study. Younger consumers are early adopters of these solutions, with India and the U.S. leading this trend. Seventy-four percent of millennials and 73% of Gen Z consumers in India reported paying with BNPL tools. U.S. millennials are following closely behind those in India, with 61% now tapping BNPL methods to meet their payment needs.

BNPL methods can be attractive to younger consumers in particular because they do not come attached with the same fees as other payment methods such as credit cards. These tools can also be easily integrated into eCommerce sites' checkout experiences, making them convenient for younger consumers who are used to swift, one-click payment experiences.

U.S. CONSUMERS FLOCK TO DIGITAL BANKING CHANNELS

Consumers across all demographics are leaning harder on digital channels to conduct their payments and financial activities, especially following the impacts of the global health crisis. A recent survey reported that 23% of respondents had more experience with digital banking in 2021 than in 2020. Digital banking enthusiasts were also more likely to have a positive outlook for their financial health than consumers who had less experience with digital banking tools. Seventy-one percent of self-identified “financial experts” said they are “very confident” with growing their finances due to their comfort with online banking.

Digital natives such as millennials and Gen Z are important consumer demographics driving this trend, but they are reluctant to let go of more traditional banking channels, such as branches, altogether. Millennial and Gen Z consumers largely prefer a hybrid banking model, the study found, through which they can choose to use branches or emerging financial tools at their convenience.

EMBEDDED FINANCE **DEVELOPMENTS AND NEW TECHNOLOGIES**

LATIN AMERICAN EMBEDDED FINANCE MARKET SET TO EXPAND

Digital-first payment tools are seeing especially rapid growth in the Latin American market as both availability and consumer trust in such offerings expand. Digital payment solutions’ increasing market presence also creates more opportunities for embedded finance in the region. One recent study predicted that the Latin American embedded finance market will grow 46% this year to reach $3.8 billion by the end of 2022. This growth is expected to continue, with the market estimated to record a compound annual growth rate (CAGR) of nearly 28% between 2022 and 2029. Businesses and banks looking to compete in Latin America will want to keep a close eye on embedded finance developments in the region.

APIS PROVE KEY TO BUSINESS GROWTH, INCREASED REVENUE

Businesses wishing to digitize both their customer-facing and B2B payment processes are taking a keen interest in API technology. Many companies are beginning to view increased API adoption as a key part of their organization’s future growth. One report commissioned by an API management provider found that 72% of businesses anticipate an average 26% leap in digital business growth, provided they can boost API adoption at their organizations. The report also found that 71% of businesses have not seen the business results they want from their APIs thus far. Such technologies are essential building blocks for the continued expansion of embedded finance, and further innovation is needed for these technologies to reach their fullest potential.

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ABOUT

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PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

galileo

Galileo is a leading financial technology company whose platform, open API technology and proven expertise enable FinTechs and emerging and established brands to create differentiated financial solutions that expand the financial frontier. Galileo removes the complexity from payments and financial services innovation by providing flexible, open API building blocks and a secure, scalable, future-proof platform. Trusted by digital banking heavyweights, early stage innovators and enterprise clients alike, Galileo supports issuing physical and virtual payment cards, mobile push provisioning and more, across industries and geographies. Headquartered in Salt Lake City, Galileo has offices in Mexico City, New York City, San Francisco and Seattle. Learn more at galileo-ft.com.

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