



PYMNTS



December 2022

SMBs Look To Tap The \$51 Billion Embedded Finance Market Opportunity

Embedded Finance Tracker® Series

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OCTOBER 2022
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Tracker® Series**

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Need To Know

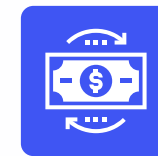
SMBs Face Payment Processing Challenges

Small to mid-sized businesses (SMBs) often face a legion of challenges when attempting to process payments swiftly and securely.

Incorrect invoices, insufficient cash reserves and late payments from customers or to vendors are just some of the obstacles SMBs tackle on a regular basis. Almost one-third of organizations [said](#) they are often unable to pay vendors due to accounts payable or accounts receivable difficulties, and 60% of business owners [worry](#) about cash flows on a monthly basis as a result of these accounting problems.

These challenges, while small individually, quickly add up to cost SMBs big over the course of their lifetime. Businesses in the United States [produce](#) approximately 400 billion invoices each year, 49% of which are overdue. In the United Kingdom, 66% of businesses produce duplicate invoices, 33% of which are mistakenly paid.

Outdated payments infrastructures can mean massive challenges for SMBs around the world.



62%

Share of SMB owners who report cash flow issues



32%

Portion of SMBs that could not pay vendors due to cash flow issues



33%

Share of SMBs that have more than \$20,000 in outstanding receivables

Need To Know

Many of these payments and cash flow issues are the result of an institutional reliance on legacy payment protocols.

Paper-based payment systems relying on checks and the post office are still incredibly common, with 89% of SMBs in Australia [using](#) paper invoices on a regular basis, for example. Studies have [found](#) that the average paper invoice costs \$30 in administrative time compared to just \$10 for an electronic invoice, so relying on paper can cost businesses thousands of dollars over the course of a given year.

Legacy payment systems at SMBs can also result in massive man-hour costs in addition to financial expense. A recent [study](#) of law firms found that 52% of accounting departments in the legal industry cite time-consuming invoice creation as their top billing struggle, for example.

SMBs [cite](#) multiple billing struggles due to a lack of seamless payments technology.



52%

Portion of law firms that say invoice creation is their top challenge



47%

Share of law firms that cite reconciling trust accounts as their top challenge

Need To Know

Late payments to vendors or from customers can have massive downstream ramifications, ranging from accounting headaches to delayed or missing payroll. Fixing these late payment headaches are often an insurmountable obstacle for SMBs that lack the resources or know-how to upgrade their payments systems to a more efficient alternative.

Embedded finance can be a vital aid to these SMBs, allowing them to make more timely payments, eliminate administrative waste in inefficient AP processes and have more capital on hand with which to hire new employees.

Late payments are also a major obstacle, but can be significantly mitigated by leveraging embedded finance solutions.

SMBs are having trouble addressing the complications of late payments.

53%

Share of SMBs that would like to reduce their late payments but lack the in-house resources to do so

50%

Share of companies that say faster payments would help them hire more employees

News And Trends

Late Payments Cost U.K. SMBs Hundreds Of Millions Of Pounds Each Year

Late payments are a constant concern for SMBs, as they can interrupt long-term cash flow and have devastating effects on payroll, vendor payments and other vital functions. A recent [study](#) found that these late payments ultimately cost SMBs in the U.K. approximately £684 million (\$812 million USD) a year.

Twelve percent of these payments were more than a month overdue, according to the study. These cash flow issues can have upstream effects on other businesses besides the payee in question, as 79% of large businesses in the country said their own organizations would be more expensive to operate without their SMB suppliers.



News And Trends

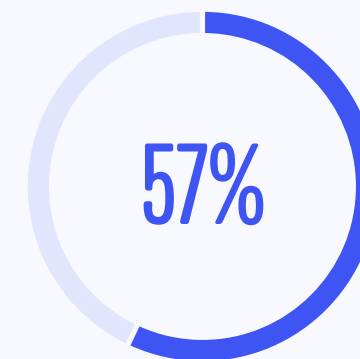
New payment methods expected to comprise 26% of non-cash transactions by 2026

Instant payments, eMoney, digital wallets and other emerging payment methods are quickly becoming the way of the future, with a recent [study](#) finding that these methods are expected to comprise 26% of all non-cash transactions by 2026. They represented 21% of non-cash transactions last year.

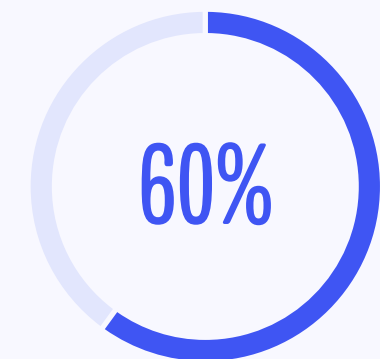
Many merchants are struggling to keep up with the influx of new methods and are turning to alternative banking to meet the demand. Eighty-nine percent of SMBs said they were doing so in the near future, in fact. Traditional banks could be well-served by implementing embedded finance to help their SMB partners cope with the new normal.

More than half of SMBs cite cash flow issues as a current challenge

A recent survey found that 57% of Canadian SMBs faced cash flow issues, a jump from 41% that said the same before the pandemic. One in 10 said it was their most formidable business obstacle, and another third said they had trouble accessing critical financial products and services thanks to these cash flow troubles. A full 70% relied on personal credit cards for business expenses or had otherwise exposed their owners to personal financial risk on behalf of the firm.



Share of businesses that currently have cash flow problems



Portion of U.S. businesses that have adopted real-time payments to alleviate cash flow issues

PYMNTS Intelligence

Why Embedded Finance Could Be The Silver Bullet For SMBs

SMBs face significant obstacles when it comes to payments friction. These payment complications can take many forms, with 45% of SMBs [reporting](#) that manual reviews are a top challenge, 43% complaining about the high costs of making payments, 41% reporting time-consuming payments processes and 35% lacking financing options. The average SMB cited no less than four different payments challenges.

Reducing these challenges requires choosing the right financial partners, and for many of these SMBs, traditional players in the banking industry are not meeting expectations. This month's PYMNTS Intelligence examines how embedded finance solutions can help SMBs ease their payments complications.

“Small and mid-sized business owners are desperate for ways to drive more efficiency in order to realize critical financial savings and have more precious time to devote to actually running their company. Making business payments traditionally has been a very time-consuming, error-prone and costly process, so it is one of the lowest-hanging fruits to optimize to realize those impactful efficiencies. Now the technology is there to do that by embedding payments into the other non-financial systems SMBs use every day to manage aspects of their company.”



SCOTT JOHNSON
Senior vice president,
business development



PYMNTS Intelligence

SMBs scramble for solutions

More than 60% of SMBs [said](#) they desire embedded financial services to help them smooth their payments processes, and half of them believe that these embedded finance solutions could help them analyze their payments data and provide insights into their day-to-day operations.

The data analytics functionalities that come with embedded finance often mean a higher upfront cost for the businesses that leverage them, but this is widely viewed as money well spent. Fifty-five percent of surveyed SMBs said they are willing to weather a potential financial burden to attain these insights and provide their customers with a superior payments experience.

Embedded finance solutions can also help bridge the payment expectations gap that exists between buyers and suppliers. The former group [told](#) PYMNTS they preferred to pay suppliers by regular ACH or check, while suppliers preferred receiving payments via methods that give them faster access to funds,

Embedded finance can [solve](#) many of SMBs' most pressing payment complications.



45%

Share of SMBs that cite manual review problems when making B2B payments



43%

Portion of SMBs that have problems with the high cost of using credit

such as real-time payments. Shifting to a more convenient digital payments experience powered by embedded finance can offer a seamless payments experience for both groups, reducing their reliance on different payment methods in favor of a singular transaction system that meets both of their needs.

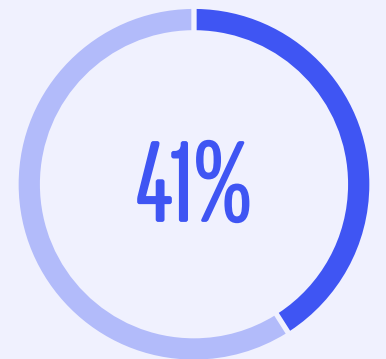
PYMNTS Intelligence

Exploring embedded finance solutions as an alternative

A recent [study](#) found that 47% of SMBs would be willing to pay the same amount or more for embedded finance solutions over solutions provided by traditional financial institutions, a clear demonstration of the superior services embedded finance solutions can provide.

This willingness to switch to embedded finance among SMBs is paying dividends for the entire industry. New embedded finance solutions could claim up to \$32 billion in SMB financial services revenue by 2025 and expand the overall SMB financial services market by up to \$92 billion.

Share of SMBs that would be [interested](#) in leveraging a digital banking service provider



Portion of SMBs that would be [willing](#) to pay the same or more to switch from a traditional bank to an embedded finance provider

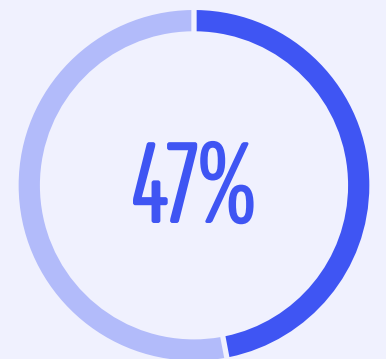


Chart Of The Month

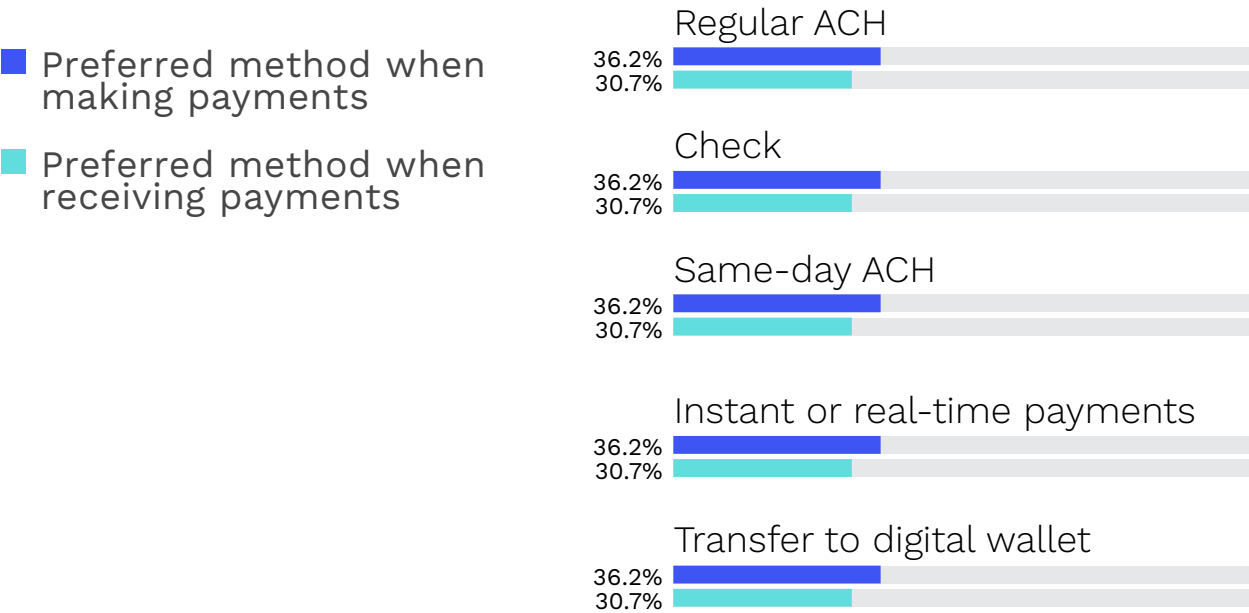
Leveling The Payment Method Preference Playing Field With Embedded Finance

SMBs’ preferences when making or receiving payments can vary greatly. While 22% of SMBs prefer to send payments via ACH, just 9% prefer to receive payments in this manner. The opposite dynamic can be observed when it comes to instant payments, with just 10% of SMBs preferring to send payments this way as opposed to 28% that want to receive them. SMBs thus appear to value convenience when sending payments and speed when receiving them. Embedded finance could be a crucial tool for providing both qualities as well as an opportunity to level the playing field when it comes to sending and receiving payments.



How SMBs’ payment method preferences differ when sending or receiving payments

Share of SMBs that prefer select methods when making and receiving payments



Source: PYMNTS
The AP/AR Quick-Start Guide: Reducing B2B Payments Friction For SMBs, August/September 2022
N = 500: Complete responses, fielded Nov. 22, 2021 – Dec. 20, 2021

Insider POV

Leveraging Embedded Finance To Fuel Small Business Ambitions



SOFIAT ABDULRAZAAQ
CEO



“The cloud is different from what a typical bank is used to managing. But I believe the future is bright [for cloud systems], which will allow banks and embedded payments to accelerate and expand.”

An interview with Sofiat Abdulrazaaq, CEO at on-demand food truck marketplace [Goodfynd](#), about how embedded finance can help merchants address the most common payments complications.

Efficiency is the name of the game when it comes to digital payments. Merchants expect digital payments from their customers to be processed swiftly and seamlessly, and to have the money in their accounts without any complications on the front or back end.

“It’s all about efficiency, and nobody wants to sacrifice security or anything else to get there. They have to go hand in hand, but the primary customer value is the ability to easily process payments for products or services.”

Insider POV

Enabling this efficiency is easier said than done. Traditional banks have been the go-to in the past, but they often fail to keep up with the dynamic modern reality of digital payments. Many merchants are finding that embedded finance solutions provided via a financial technology platform is a more reliable alternative.

“Finding the right partner is one of the biggest challenges. You need to identify the right payment partner that brings you value at the right price point that works for your business, and embedded finance helps provide this seamless experience.”

Embedded finance solutions are especially useful for small businesses, particularly those run by disadvantaged individuals. There is no telling how many individuals have business ideas for the next Apple or Microsoft, but their ambitions may never make it off the ground due to payments complications.

“[Embedded finance] offers more access to underrepresented and underserved individuals for creating products — be it food, clothing, shoes or anything like that. Payment processing has always been a barrier to great ideas, and my hope is that embedded finance continues to make SMBs’ jobs easier.”



Companies To Watch

Three Firms Augmenting Their Embedded Finance Capabilities



Fraud and risk management firm DataVisor recently [partnered](#) with financial technology company Galileo to offer machine learning-powered tech to help combat fraud and cut down on losses in embedded finance solutions. Payment card fraud transactions will likely rise 20% and hit \$38.5 billion by 2027, making fraud prevention a top priority.



Another Galileo partnership comes from Mastercard, which [aims](#) to deploy embedded finance to improve access to financial opportunities for unbanked segments in Latin America. The partnership will enable Latin American FinTechs to launch digital financial services.



Commercial loan curation platform Cion Digital is also [entering](#) the embedded finance space, allowing its clients to leverage embedded finance to better manage their customer relationships. The platform includes bank reconciliation, cash management and business valuation tools.



What's Next

Embedded Finance Transaction Value To Hit \$7 trillion In U.S. By 2026

The popularity of embedded finance is exploding in the U.S., with experts [projecting](#) that it will account for 10% of nationwide transactions by 2026 for a total value of \$7 trillion. This translates to a \$51 billion market opportunity. The revenue at stake in this booming market is driven not only by the expansion in transaction volumes but also by the penetration of embedded finance in a variety of fields, including business-to-business payments and buy now, pay later. Consumer payments currently account for 60% of all embedded finance transactions, but the market segment for business lending is expected to grow fivefold over the next five years.

“Beyond payments, embedding things like business lending or credit offerings into these systems also can significantly benefit SMBs as well. Overall, the level of pent-up demand for these embedded finance tools in the B2B sector represents one of the highest growth potential opportunities in the financial services industry today.”

SCOTT JOHNSON
Senior vice president,
business development



About

PYMNTS

[PYMNTS](#) 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 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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