Embedded wealth: how fintechs can radically alter the way we invest

*Smartphones with embedded payment services created a seamless experience for consumers. Now embedded fintech technology is poised to radically alter the way we interact with investment services. **Daniel Tammas-Hastings** predicts existential problems for financial institutions that don't understand the threat of a new embedded finance world.*

The term embedded finance was first widely used in payments and is now moving up the financial service value chain into lending, wealth, and other associated markets. Smartphone take-up of greater than 90% in the EU, UK, and US means that residents of most markets are familiar with paying for services through Android or Apple apps. If you've used a popular ride-sharing app or taxi service, or enjoyed a take-away from Deliveroo, then you've benefited from embedded finance. It is all around us and here to stay. For those firms that understand the opportunity, billions of dollars in profits are possible. For legacy financial institutions who don't understand the threat, existential problems could emerge as they lose market share and relevance in the new embedded world.

Consumers could receive huge benefits from the embedded revolution through new and improved services, more competition between service providers, and lower prices generally. These benefits have to be underpinned by strong regulation and better integration of technology, though. It's also worth noting that worries about indebtedness (think "buy now, pay later") and gamification leading to poor outcomes mean that there can be losers as well as winners.

So far, use cases involving payments like the ones above have dominated our use of embedded finance. But the payments sector is only the beginning. Firms like Klarna (currently Europe's highest valued unicorn at $45bn in the last investment round led by Softbank) have extended the reach of embedded finance to transform lending. Innovators like Tesla are seeking embedded finance solutions by incorporating insurance into their core offering. Elon Musk (the chief executive of Tesla) has said that financial services could be a key future source of revenue for his firm.

Embedded wealth could be the next area of focus. Firms like Drivewealth and Alpaca are changing the investing landscape both in their home market (the US) and globally. They offer B2B wealth platforms with fractional shares available over APIs (application programming interfaces) with modular solutions. They now have hundreds of corporates integrating into their platforms including non-financial players.

The creation of this open investment infrastructure enables both easier access to financial markets for consumers and easier product creation for corporates. Drivewealth, despite being far from a household name, has fifteen million customers globally and millions in the UK. As an example, in the UK Drivewealth powers Tulipshare, the first activist stock brokerage which launched in 2021.

In 2022, we anticipate that banks, challenger banks, more payments firms and even companies like Walmart will look at entering the embedded wealth arena. There is already demand for a range of mass-market low-cost brokerage and investment services that didn't exist ten years ago. The fintech solutions that have emerged enable investors to start their savings journey earlier, be more engaged with their process, automate their savings, and perhaps understand when – and if – they need professional financial advice.

Whilst the larger banks will move slowly, challenger bank interest in embedded wealth is strong, and I expect a broad array of wealth products available on these platforms before year end. For a challenger bank, integrating an API into its banking app should be a simple procedure, with its streamlined technology stack and ability to create financial products quickly.

Embedded investment can then quickly expand a banking app's product offering and should improve user retention whilst also potentially bringing new customers into the platform. In a market where many service providers utilise a freemium model, a broad product suite and constant new features can be both an important differentiator, and a means of justifying the price of the service. For a firm seeking to monetise its users with subscriptions or recurring payments (most fintechs), new products and services that make the overall package more appealing and 'sticky' for members are vital for driving growth in subscriptions. This can create customers that are profitable on an individual basis. Crucially, investing has lifelong timeframes, so this can bring long-term sustained value to subscribers and make the relationship with them long term as well.

By committing to a long-term investment product, an application can tie itself in with the long-term future of its users – done well this will be hugely beneficial to both sides.

Entering financial services looks appealing from the outside. Traditionally, margins within financial services have been multiples that of other industries. New entrants should not underestimate the regulatory complexity of handling money and assets, or the depth and expertise of the competition. Bearing that in mind, a change is coming – our relationship with wealth and money will transform significantly over the next ten years. Embedded finance will underpin this change. At this moment it is difficult to pick the winners, but the ways in which we interact with investment services will change radically and it is likely that all but the most agile legacy players lose significant market share.

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Notes:

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