# Payrix

Embedded Payments:

Predictions for 2024

As we kick off 2024, there has never been a more pivotal time for software companies to understand and embrace the trajectory of Embedded Payments — along with the benefits and opportunities they present.

Throughout the past several years, Embedded Payments have increasingly made their way into the ecosystems of software developers who have realized their role in elevating user engagement, enhancing value, and impacting growth.

At the rate software companies — especially B2B software providers — are entering the market, the road ahead is a competitive one. But, those who find a place for Embedded Payments in their overall plan for market differentiation are bound for transformation.

In this eBook, we'll explore:

01 The current state of Embedded Payments

02 The road ahead for Embedded Payments

03 A broader look at Embedded Finance
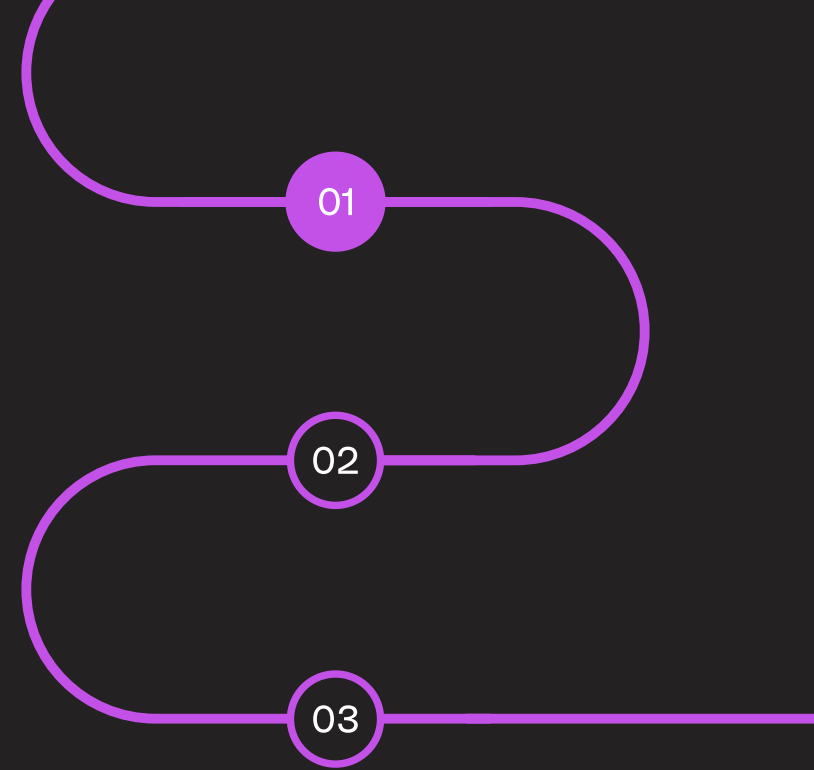
The current state of Embedded Payments

Before we navigate through the present and future journey of Embedded Payments, let's first answer this question:

What are Embedded Payments?

Embedded Payments describe the integration of payment processing into an existing software. Those that embed payments can enhance the level of engagement and overall appeal of their platform, and as a result, improve "brand stickiness".

That's because Embedded Payments have a way of bringing software platforms closer to becoming all-in-one operating systems that offer a more comprehensive digital experience with greater functionality.

〔 〕Payrix

Why Embedded Payments?

According to Bain and Company, "ISVs (independent software vendors) have the potential to address $35 trillion in payments, or 15% of the worldwide total, by integrating payments into their platforms."

Vertical software providers are focused on creating an ecosystem of solutions tailored for a particular industry and because they're so customer-centric, many have been successful with the integration of payment processing. This is because it helps them more directly address customer needs, and offers more customization and control over the customer experience
(a topic we'll expand on further down the road).

How are Embedded Payments set up?

An overview of the Embedded Payment types

Embedded Payments come in a few different forms. Which form software companies choose to align with typically depends on what makes the most sense for their current business capabilities, and what their growth vision looks like.

The three types of Embedded Payments include:

+ Referral partnerships

+ Payment facilitation (PayFac®)

+ Payment facilitation-as-a-Service (PayFac-as-a-Service)

While each carries its own set of considerations and benefits — most notably, the level of control over the customer experience — embedding payments as an overarching strategy offers at least one common benefit: the creation of new revenue streams.

When software companies embed payment processing into their systems, they open the door to new revenue sharing opportunities — but that's not all. By adding payments to a software, providers can deliver a more comprehensive product to their users, offering a frictionless experience that removes the need to work within different third-party systems or reconcile transactions processed through an outside provider.

Where payments used to be viewed as just a cost center for software companies, many are now taking a more active role. Today, they're leveraging payments as a strategic move to drive greater revenue, but also to assume greater control over the customer experience, of which payments are a major part. Rather than sending a user off to a third-party page to process transactions, everything is kept within the interface they're already using, for a seamless experience that offers brand continuity and increased engagement.

Interested in learning more about the different types of Embedded Payments?

[Read more]
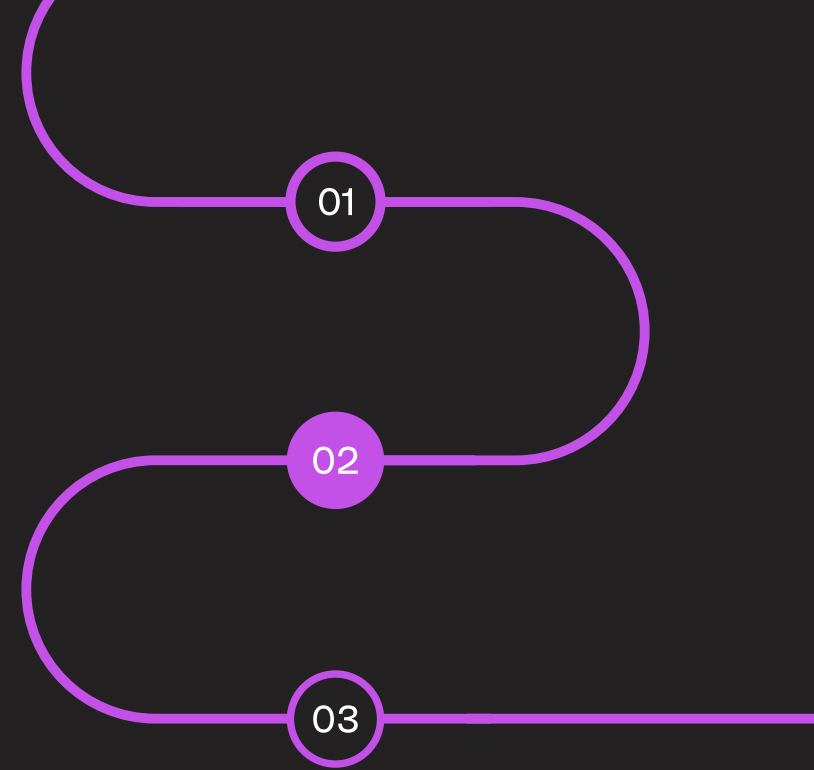
The road ahead for Embedded Payments

Predictions for 2024

Over the next year, there will be significant opportunities for software companies to further tailor the experiences for their user base and ultimately strengthen the value of their platforms. Embedded Payments will play a major role and not just in the way of offering seamless payment processing.

There are strategic advantages for those that establish partnerships with Embedded Payments solution providers who can offer more customized control over the customer experience and drive greater engagement. Partners who can deliver the right technology, security programs, and data-driven enablement — along with vertical expertise and dedicated customer support — will position software companies for success.

We'll explore our 2024 predictions for Embedded Payments through the lens of each of these categories:

+ Technology

+ Security

+ Data

+ Customer experience

TECHNOLOGY

01 Software companies will lean further into the partnership ecosystem

As vertical software providers continue to engineer their offerings to more accurately and comprehensively address the industry-specific needs of their customers, they'll need to lean further into partnerships that can help them fill feature and functionality gaps. As we mentioned before, partnerships with Embedded Payments solution providers — along with other Embedded Finance service providers — will be essential to creating a more optimized and simplified experience for their users.

> "Partnerships are the lifeblood of payments. It takes a village to support the technical aspects, strategy, and service required to create a cohesive experience for the end customers."
>
> -Andy Meadows, Head of Partner Success

[ ] Payrix
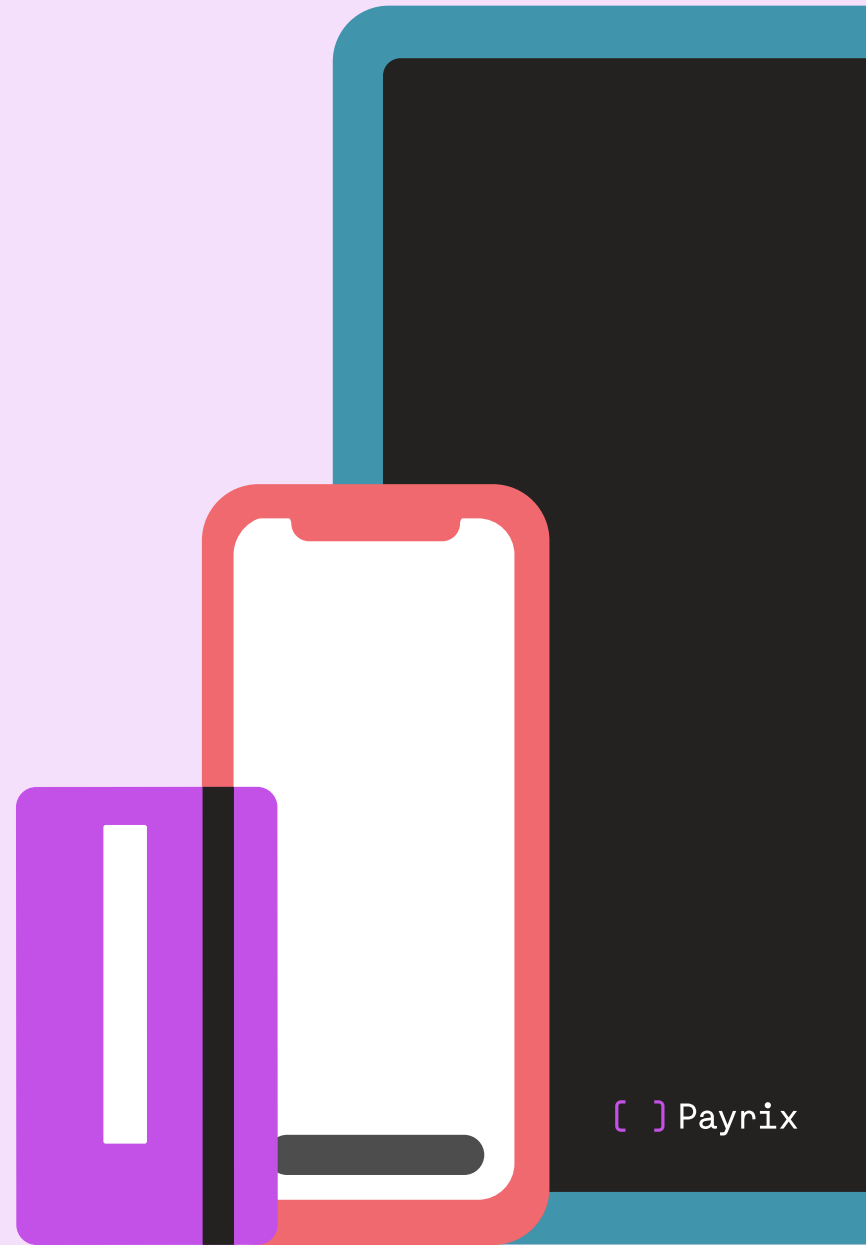
What will be most key for embedding payments successfully is finding partners who can offer seamless integration of preferred payment acceptance methods, omnichannel capabilities that connect a broad range of devices and sales channels, robust security programs and protocols, and levels of control over the customer experience, with dedicated customer support.

By engaging with partners who can help create a more complete ecosystem for their customers — with Embedded Payments as a core strategy — software companies can:

- ✓ Sharpen their competitive advantage
- ✓ Add value and credibility to their services
- ✓ Attract more users
- ✓ Boost customer engagement and retention
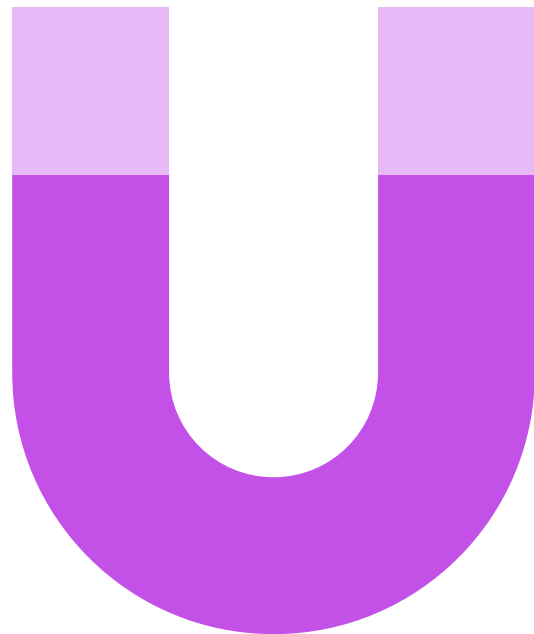
02 The mobile-first mindset will continue to take precedence

Over 50%
of consumers use
digital wallets

PAY

While the mobile movement has been among the most consistent ongoing trends for the past several years, we would be remiss if we didn't include it here. The mobile-first approach to development is no longer just an option for software providers — it's a non-negotiable requirement.

In 2024, Embedded Payments will be designed and implemented to consider mobile use before anything else, ensuring that the payment experience is smooth, fast, inuitive, and optimized for smartphones and tablets. Every day, the pressure grows for businesses to accommodate the preference among consumers to pay with mobile wallets including Apple Pay and Google Pay at checkout. A survey from Forbes reveals that more than half of American shoppers use mobile wallets more often than traditional methods.

If creating an ideal payment experience is the goal, software companies will need to offer mobile wallet payment acceptance to their customers and work with a strategic Embedded Payments partner who can effectively enable and support those integrations.

SECURITY

03 Software companies will look to their Embedded Payments partners for protection

As software companies continue to embed financial products into their ecosystems, including Embedded Payments, they're increasingly becoming the target of data breaches. Furthermore, the proliferation of AI-driven tools have made it easier for cybercriminals to increase their attack volume and harder for targeted victims to identify the threats. Moving into 2024, software companies will need to carefully consider their integrations and select partners with comprehensive security expertise, fraud monitoring and security technology, and other robust measures to safeguard their products, their customers, and all sensitive payment information.

Think you have an idea of
how common payment fraud is?

Find out more

"Security is at the core of every product design and everything we do, our 2-decade track record of helping software companies protect themselves is proven. As software companies develop deeper integrations there are new emerging threats and challenges that their businesses are facing for the first time. We walk that journey with them to protect what is most valuable, their brand and subscriber's trust."

-Matt Downs, President of Worldpay for Platforms

04 Encryption and tokenization will continue to be the security standard

Among the most impenetrable security solutions, encryption and tokenization will continue to take the lead in safeguarding sensitive information from the threat of data breaches. Encryption is the process of covering sensitive payment information with a 'secret code' to keep it hidden as a transaction is processed. For a malicious actor to have any success with the encrypted information, they would need to access the encryption key — otherwise, the information is indecipherable and therefore, useless.

Tokenization is a process that secures card numbers in a cloud-based vault as soon as a payment is initiated. For every transaction, a token is created to replace the actual card information, and the substitute 'value' is then transmitted. The token is a unique number that has been generated by an algorithm. If it's intercepted by a malicious actor, it also has no useful value.

Together, both security measures create a strong defense against the financial harm of data breaches.

05 PCI compliance will be among the top priorities for software companies

As software companies bolster their strategic defense against threats of fraud — to protect both their own business and their customers — many will ramp up their understanding of and involvement in PCI compliance.

We predict (and hope) that staying up-to-date with the mandatory standards and regulatory changes will be a priority for software platforms in 2024, especially as the PCI SSC plans to retire its 3.2.1 edition of the PCI DSS early in the year and bring the new 4.0 standard into effect by 2025.

Ready for the new PCI 4.0 standard?

Get prepared

PCI compliance management is complex. To help keep their customers compliant, many software companies will lean into their Embedded Payments providers for expert consultation and access to products and resources that reinforce PCI education and prevent businesses from making mistakes that leave them vulnerable.

Are you up-to-date on your PCI compliance knowledge?

Listen to our podcast

DATA

06 Software companies will harness data to optimize their offerings and dev roadmap

One of the many benefits of implementing an Embedded Payments strategy is getting access to data that leads to actionable insights. The ability to analyze user transactions, trends, preferences, and behavior empowers software companies to make more informed, strategic decisions with confidence.

Knowing what customers want will help shape the roadmap for feature and functionality development, giving software companies clear direction on what projects can be prioritized to meet the needs of their user base and create the most value.
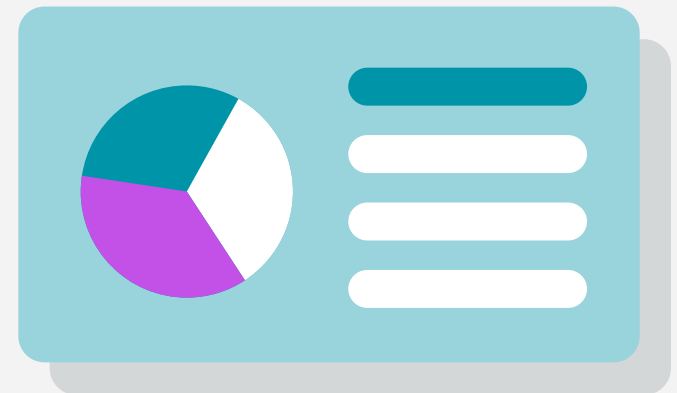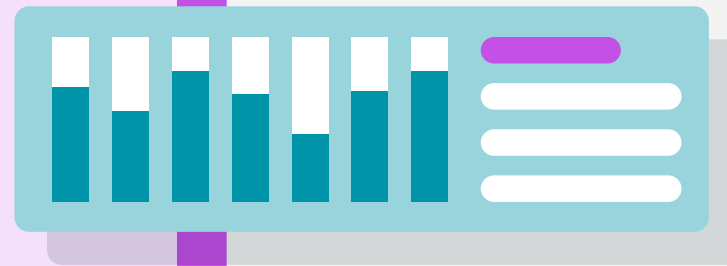
07 Software providers will leverage data to fortify fraud detection and prevention measures

Outside of monitoring market signals and consumer behaviors, payment data is also instrumental in the detection and prevention of fraud. With the help of automation tools, software companies can monitor for suspicious activity, which is particularly effective against chargebacks. For example, by keeping an eye on customers with frequent chargebacks, you can evaluate the causes and prevent fraudulent disputes.

We predict software companies will heavily utilize advanced analytics and machine learning in 2024 to:

✓ Identify and mitigate fraudulent transactions

✓ Safeguard financial data against breaches

✓ Become more vigilant in identifying threats

Are you implementing the latest fraud prevention strategies?

Read more
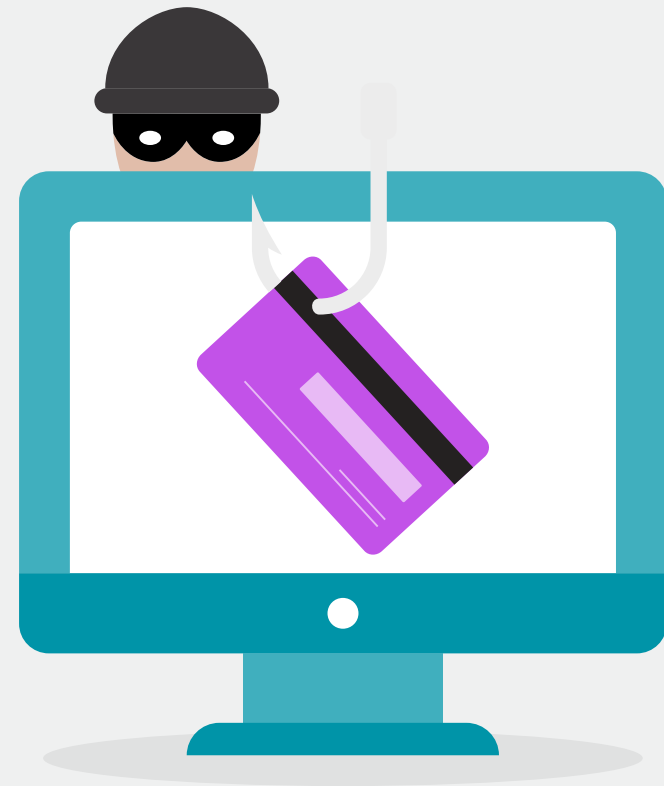
CUSTOMER EXPERIENCE

08 The payment experience will help shape the overall customer experience

As we mentioned at the start of these predictions, software companies that establish partnerships with Embedded Payments providers who can effectively deliver on technology, security, and data — all of which ladder up to the overall customer experience — will be well-equipped for growth in 2024.
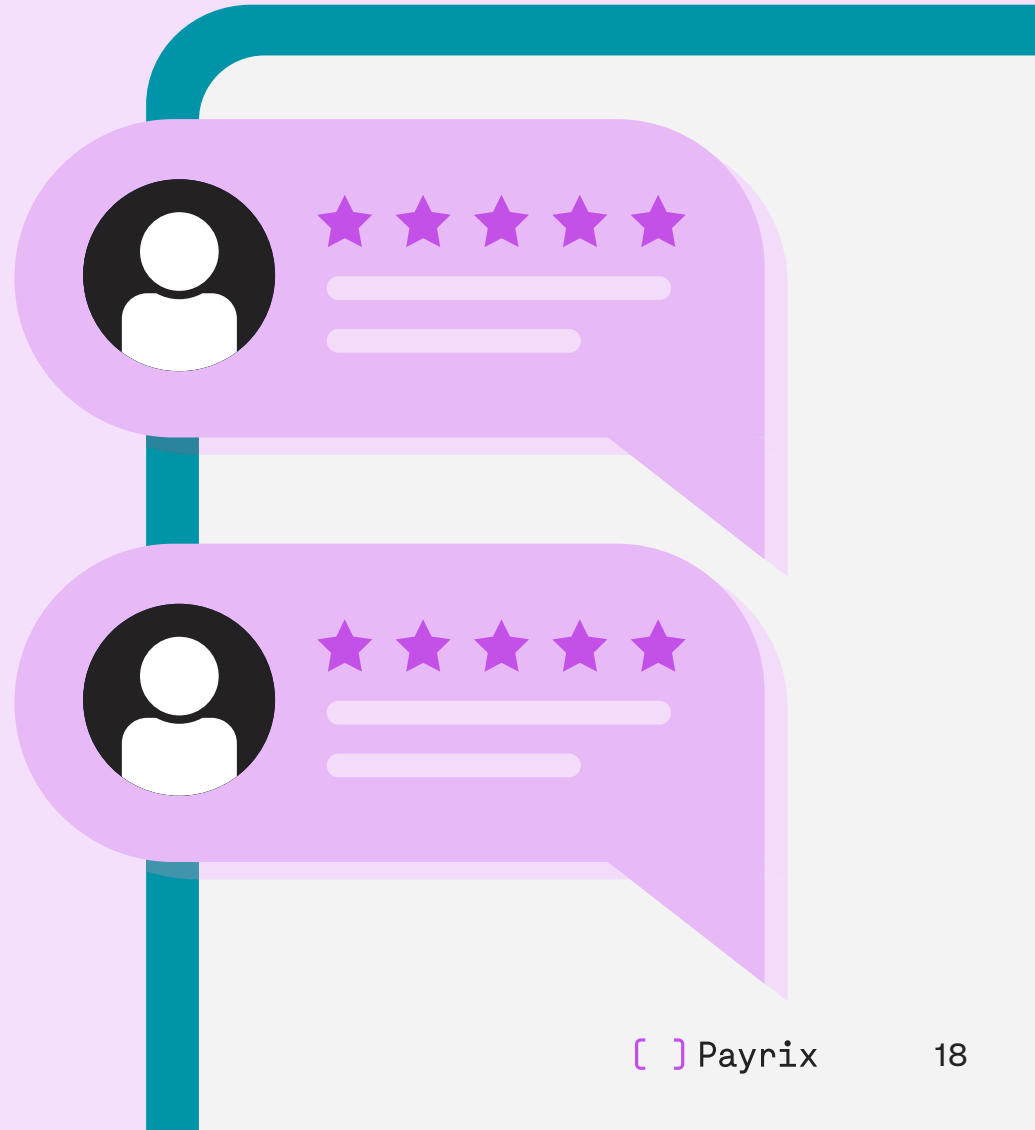
Software companies that do find the right partner to support their Embedded Payments strategy will experience ongoing support throughout their payments journey and guidance through the complexities.

They'll also have the chance to take greater control over what kind of payment experience their customers have. Compared to the payment referral models of earlier years, which kept software companies beholden to the standards of payment processors, today's integration of payments directly into their platforms creates an opportunity for software companies to design the customer experience for their user base. If done well, this results in a frictionless process, better brand continuity, and an enhanced experience — all of which can increase customer satisfaction and retention.

Curious about the evolution of Embedded Payment models, and what it means for software companies?

Listen to our podcast
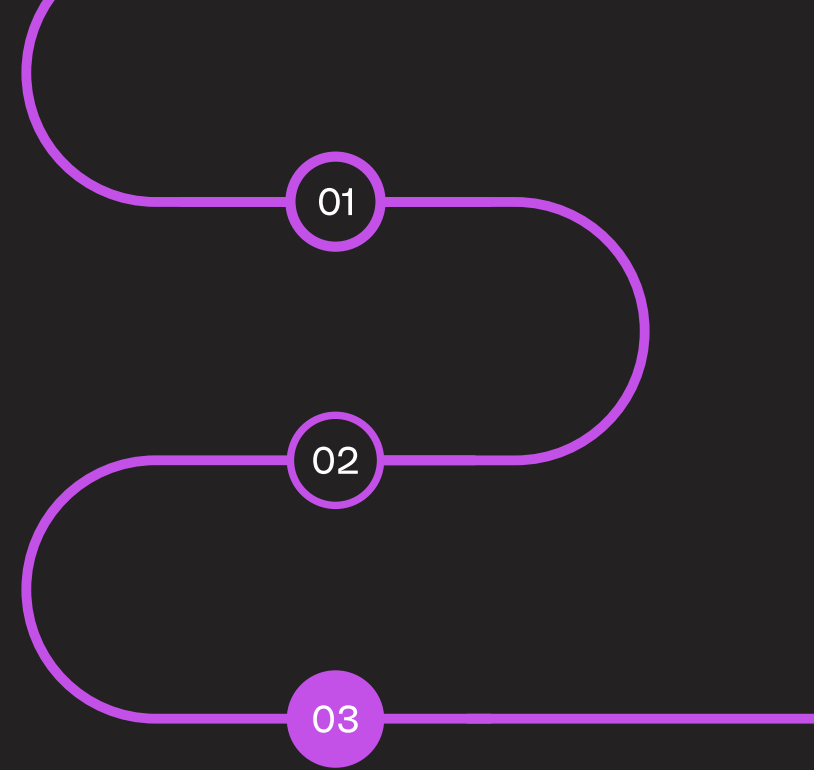
A broader look at Embedded Finance

Embedded Payments as a strategy is just one part of a broader picture of Embedded Finance.

Generally speaking, Embedded Finance is the integration of financial services into other non-financial services or products. This isn't a new concept. It's been around for years, taking on forms such as retail-branded credit card offerings and financing services at places like car dealerships.

The current generation of Embedded Finance, however, now offers the integration of financial services into the digital interfaces we use daily — as we've highlighted, this includes payment processing features offered by Embedded Payments.

Over the years, Embedded Finance has demonstrated its power to create a more integrated and financially inclusive world that transcends borders and <u>fuels global payments</u>.

At a more granular level, it has the ability to transform the offerings of software companies into all-in-one solutions for their customers and prospects. Rather than relying on multiple tools or services to accommodate their financial service needs – such as secure payment processing – users can find everything they need directly within their industry software provider's ecosystem.

Embedded Finance solutions, especially Embedded Payments, will become the cornerstone of market differentiation in 2024, offering a strategic advantage for software companies to create more value for their customers and ultimately drive greater user acquisition.

Learn more about how software companies use Embedded Payments to rise above the competition.

Listen to our podcast

Key takeaways for your journey ahead
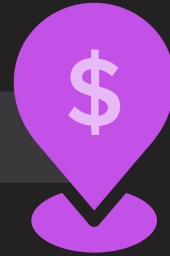
The predictions included in this eBook are not just our guesses for the directions vertical software providers will take with Embedded Payments. They offer a roadmap for how embedding payments as an overall strategy can improve the customer experience and unlock new growth opportunities.

Wondering how to create your best Embedded Payments roadmap?

Listen to our podcast

Summary of 2024 Predictions for Embedded Payments

Technology

Establishing partnerships — particularly with Embedded Payments solution providers — will be key to filling gaps and removing friction, to create a more complete solution ecosystem and advance the value of software companies. Those partners should enable omnichannel capabilities that connect a broad range of payment acceptance devices to different sales channels, and deliver on preferred payment methods that meet evolving customer demands, including digital wallets like Apple Pay and Google Pay.

Security

It will be important for software companies to look for Embedded Payments partners who can implement effective fraud monitoring and security technology, protocols, and ongoing support to ensure data is secure and ongoing PCI compliance is maintained.

Data

Software companies with an Embedded Payments strategy will likely have access to sophisticated data that enables them to optimize their offerings, more effectively address needs within their user base, and prevent issues related to payment fraud.

Customer Experience

Software companies that establish true payments partnerships can expect an elevated experience that goes well beyond simply handing off payments to a payments vendor. The right partner will offer ongoing support and guidance throughout the entirety of their Embedded Payments journey. Software companies will also have greater control of the payment experience and in turn, opportunities to create a more simplified, streamlined, on-brand, and ideal customer experience that leads to better acquisition and retention outcomes.

If you're ready to take on the future of Embedded Payments in 2024, we're ready for the journey together.

Contact us today to learn more