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Platform

# The Rise of Embedded Finance in SME Banking

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# Executive Summary

**Four in ten SMEs to increase use of financial products through non-financial platforms in the next 12 months.**

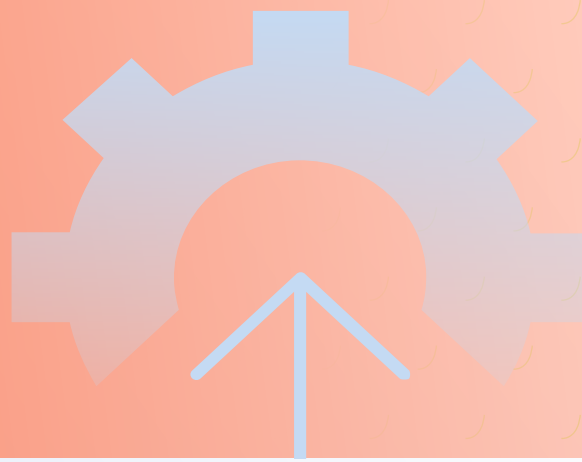
A new survey from Temenos of 500 UK Small and Medium Enterprises (SMEs) finds that amid a wide range of financial concerns and a mixed level of satisfaction in the products and services provided by their banks, SMEs are increasingly using embedded financial services.

Embedded finance, the integration of financial services such as payments, lending, or collections, into non-financial platforms or applications, is the fastest growing trend in the fintech industry. With the platforms operating these products ranging from online retailers to customer loyalty apps, accounting software or transport providers, embedded finance is bringing convenience, speed and economy to consumers and businesses across many of the services they use on a daily basis.

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Survey Methodology: Research commissioned by Temenos and conducted by Opinium Research. 500 senior decision-makers at UK SMEs were surveyed online between 17th and 23rd March 2023.

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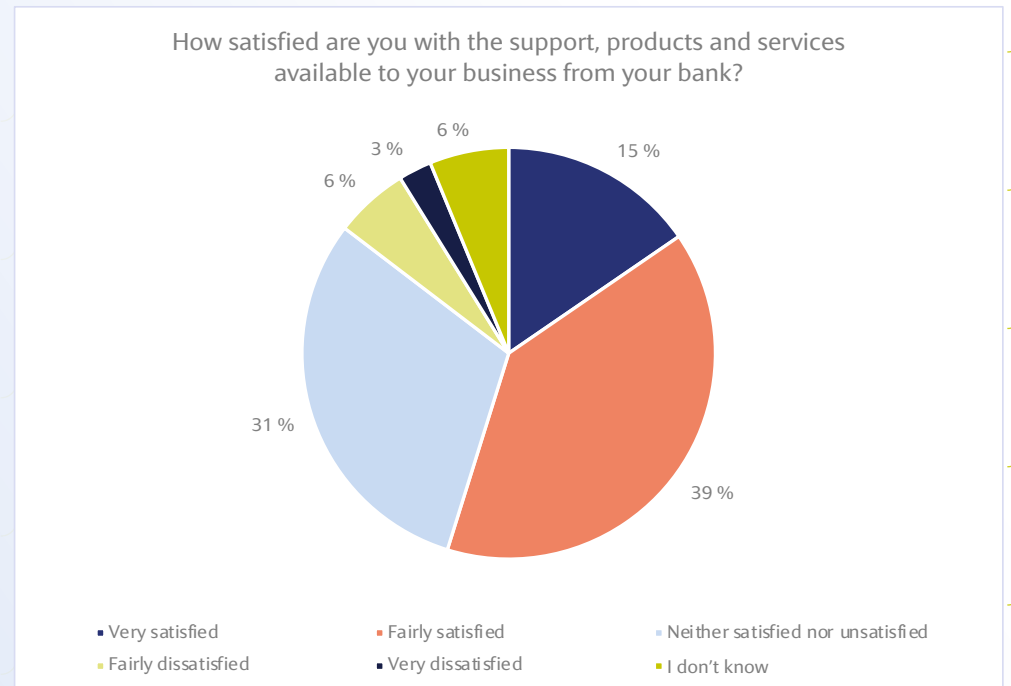


## State of SME Banking

SME banking has been a segment that the banking industry has, at times, found challenging to serve due to its variety, complexity and unique requirements.

There are around 5.6 million private sector businesses in the UK, of which 99% (5.5 million) are small businesses (with 0 to 49 employees) and a further 35,600 are medium-sized (50 to 249 employees). Only 7,700 businesses in the UK are considered large (250 or more employees).

While the average satisfaction level among SMEs is 55%, satisfaction levels increase as businesses grow in size. Only 34% of sole traders are satisfied with their bank, compared to 49% of micro-businesses (1-9 employees); 63% of small businesses (10-49); and 79% of medium businesses (50-249), supporting the school of thought that banks begin to take much more interest in SMEs as they grow to a certain size.

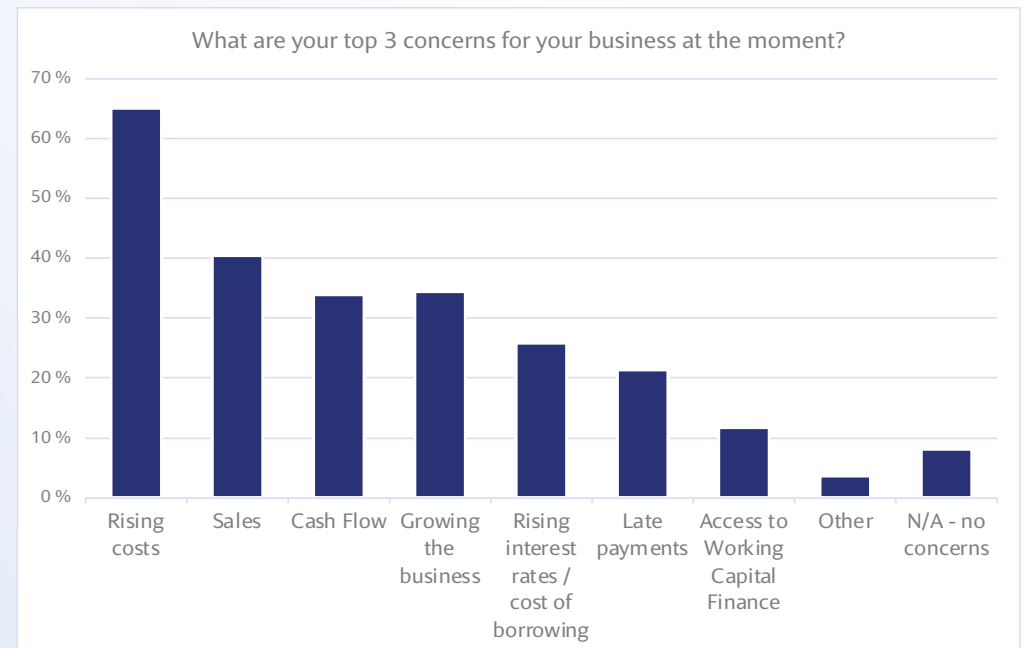


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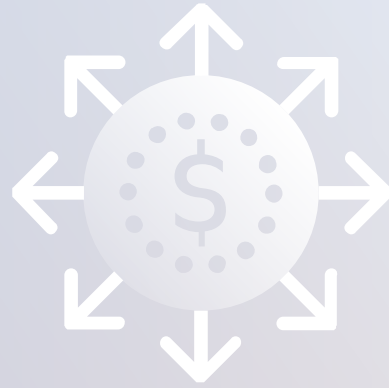


## Top Concerns for SMEs

The research reveals that rising costs are the biggest concern for SME decision makers, named as a top three concern by 65% of respondents. This is followed by concerns over sales (40%), cash flow and growing the business (both 34%). Rising interest rates are a major concern for one in four respondents (26%), late payments for one in five (21%), and access to working capital finance for one in eight (12%).



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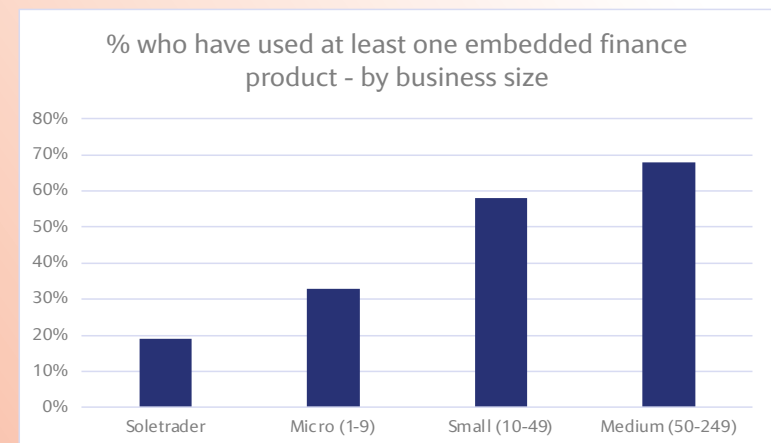
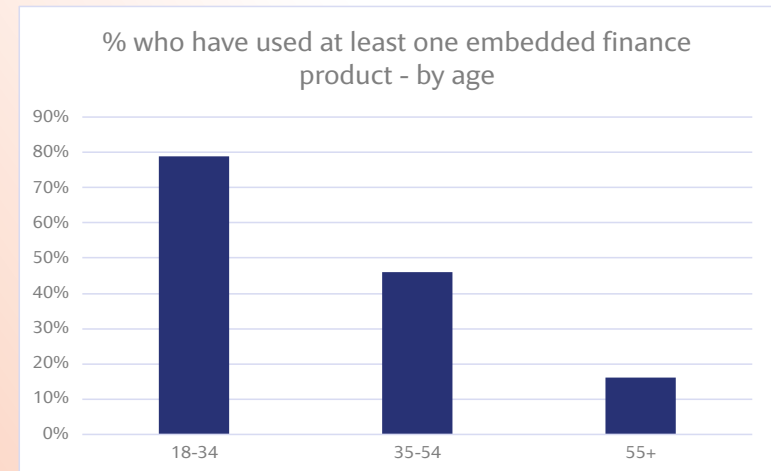


## Who Uses Embedded Finance?

The study reveals that almost half (43%) of SMEs have used at least one embedded financial service in the last 12 months.

Younger SME decision-makers are much more likely to be using embedded finance products, with 78% of respondents aged 18-34 having done so in the past year compared to 46% of those aged 35-54 and just 16% of those aged 55 or over. Similarly, two-thirds (65%) of those aged 18-34 plan to use them more in the next 12 months, compared to 42% of those aged 35-54 and just one in five (19%) of those aged 55 or over.

Adoption of embedded finance services also rises with business size, ranging from 19% among sole traders and 32% for micro-businesses (1-9 employees) to 59% for small businesses (10-49 employees) and 66% for medium businesses (50-249 employees).



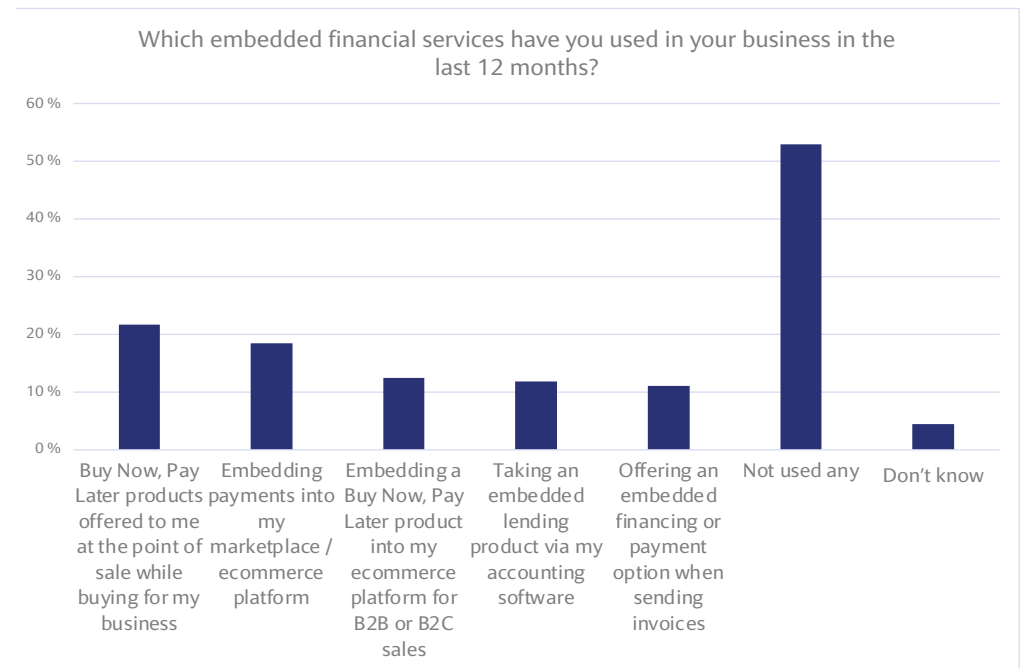
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## Top Embedded Finance Tools Used by SMEs

One of the embedded financial services most used by SMEs in the past 12 months is embedding payments into their ecommerce platform (18%), such as services like Stripe Connect or PayPal Checkout. Adoption rises with business size, ranging from 10% among sole traders to 23% for small businesses (10-49 employees) and 31% for medium businesses (50-249 employees). This is followed by embedding buy now, pay later services such as Klarna or Kriya into their own ecommerce platform (12%), ranging from only 3% among sole traders to 20% of small and 26% of medium-sized businesses.

Twelve per cent of SME respondents have taken an embedded lending product via their accounting software with 18% of small and 21% of medium businesses doing so; and 11% have offered an embedded financing or payment option when sending invoices (16% of small and 22% of medium-sized businesses). Over a fifth (22%) of all SMEs surveyed have used a BNPL service while buying goods and services for the business.



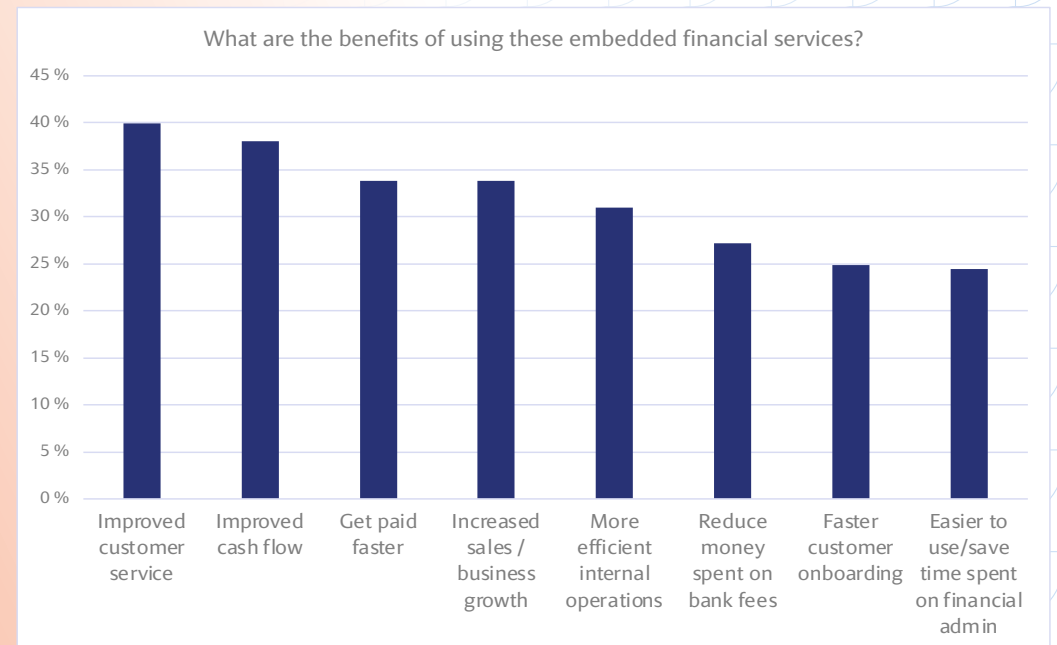
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## Top Reasons SMEs use Embedded Finance

Of SMEs that have used at least one embedded financial service in the last 12 months, improved customer service is deemed to be the biggest benefit (cited by 40%), followed by improved cash flow (38%), getting paid faster and increased sales (both 34%). SMEs also claim to benefit from these products through more efficient internal operations (31%), a reduced amount of money spent on bank fees (27%); faster customer onboarding (25%); and time saved on financial admin (24%).

As a result, four in ten UK small and medium-sized businesses (38%) plan to use embedded financial service products more in the next 12 months. Among the younger cohort (18-34 year olds) almost two thirds (65%) say they expect to use embedded finance services more in the next 12 months.





# What Should Banks Do?

To deliver embedded finance requires banking processes such as deposits, loans and payments- as- a -service from specialist cloud-based API platforms that use a licensed bank's secure and regulated infrastructure.

This new banking-as-a-service (BaaS) model is gaining popularity worldwide with almost 40% of banks (according to data from Cornerstone) currently pursuing or considering pursuing a BaaS strategy.

The Temenos Banking Cloud enables BaaS and a recent benchmark proved the capability of the platform to power the world's biggest banks and their BaaS offerings with hundreds of millions of customers, efficiently and sustainably in the cloud.

[Learn More](#)

