

EBOOK

Why Data Management Strategies Can Make or Break B2B Embedded Finance

Embedded Finance Is Experiencing a Major Growth Spurt Right Now. Are You Prepared?



Contents

03	Introduction	09	Why Can Anticipating Risk Be Crucial?
04	What Is Embedded Finance?	10	What Are the Potential Consequences of a Risk Event?
05	What Drives Embedded Finance?	11	Why Can Having Access to Data Be Essential?
07	Key Details about Embedded Finance	12	Full Visibility Can Help with Insight and Decisions
08	The Importance of Secure and Robust Data	13	Where Can You Focus to Help Establish an Effective Data Management Strategy?

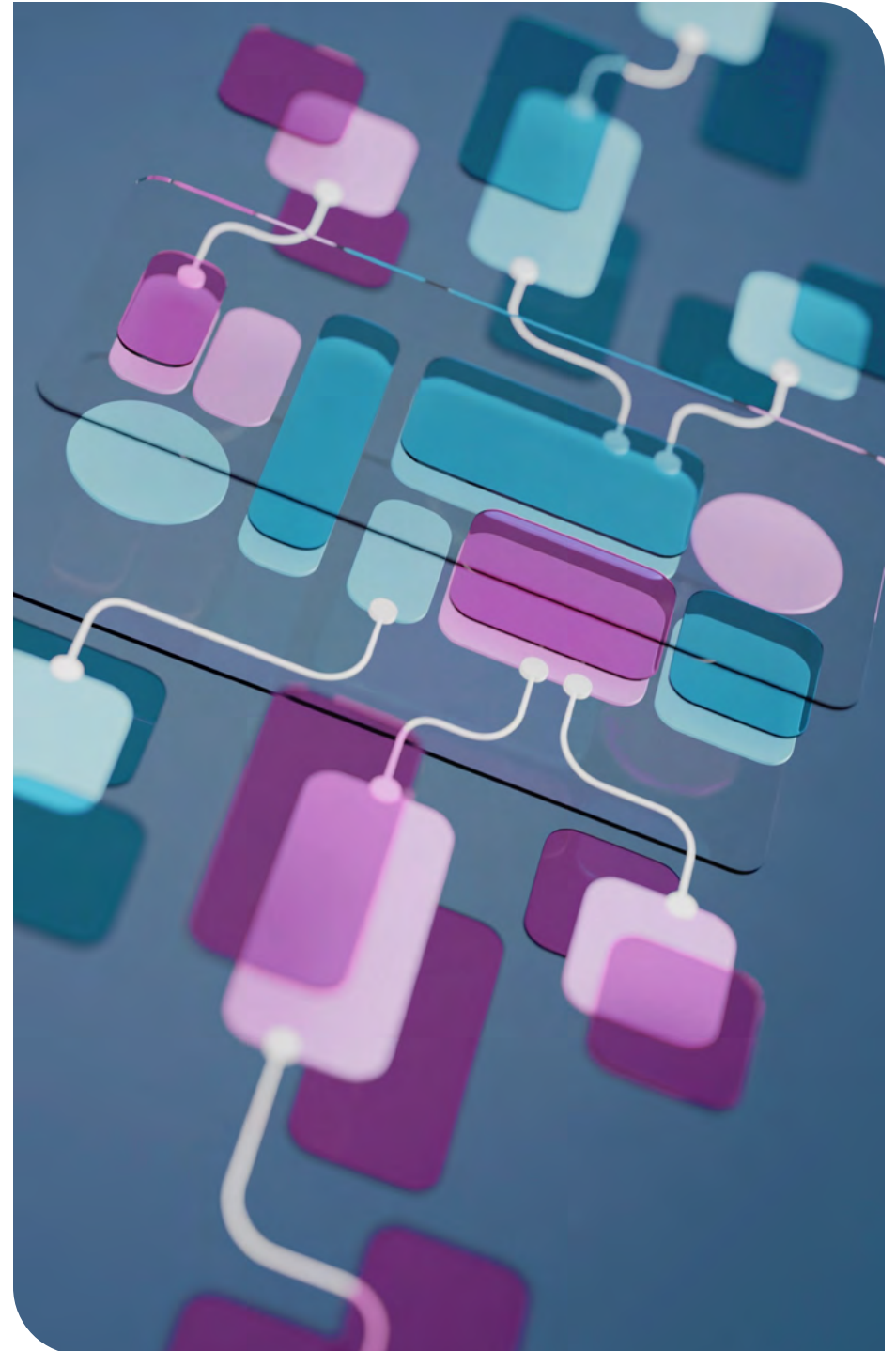
Introduction

In 2021, embedded finance transactions reached \$2.6 trillion, or 5% of all transactions in the U.S. By 2026, it's estimated that the total will exceed \$7 trillion,¹ of which a significant amount comes from commercial (business-to-business, or B2B) transactions. That's explosive growth, to say the least.

Digital technology is the engine of embedded finance. But data is the fuel, and having clean, consistent, easily accessible business data can help an embedded finance tool function more effectively. As the use of embedded finance continues to grow, the need for a comprehensive data management strategy is also expected to grow.

In this eBook, we'll take a closer look at embedded finance and provide some practical guidance for B2B companies on how a well-thought-out data management strategy can help enable an embedded finance offering.

¹"Embedded Finance: What It Takes to Prosper in the New Value Chain," Bain & Company, September 2022



What Is Embedded Finance?

Embedded finance is generally defined as any financial service that's offered by a non-traditional provider. While the term is relatively new, the reality is that the concept is nothing new.

In the consumer world, for example, retailers have been offering branded credit cards to shoppers for decades. Airlines, too, have been offering credit cards, as well as insurance to their passengers. And rental car companies have long been offering insurance as an integral part of their customer contracts. *Why?*

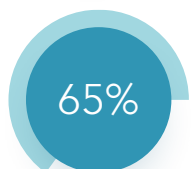
Upselling a customer on a financial product at the moment of the purchase decision may be a game-changer for companies that are looking for innovative ways to increase revenue and deepen customer relationships.

While some industries have already shown an affinity for B2B embedded finance, analysts and researchers see certain segments as "ripe" for these options. These segments — many of which are service-based and heavily customer experience (CX) focused — include construction, e-commerce and retail, entertainment, healthcare, grocery and food services, transportation, travel, and utilities.

KEY FINDINGS INCLUDED



85% of B2B businesses are familiar with the concept of embedded finance



65% of B2B businesses not currently offering an embedded finance solution are now considering offering one



Payments, employee/employer services, and credit and lending solutions are the top three use cases in market today

A survey² of 450 C-level executives in B2B businesses across the U.S. revealed that most B2B companies are not only familiar with embedded finance, but they also are already offering an embedded finance solution. According to respondents, the top three critical business pain points being solved by embedded finance are customer retention, cash flow management, and revenue growth.

² "Galileo Embedded Finance Report: A B2B Market Snapshot by Juniper Research," Galileo, September 2022

What Drives Embedded Finance?

An embedded finance service can be a seamless part of the B2B buyer journey that's offered at the moment the customer decides to conduct a transaction. Digital transformation has played a tremendous role in helping to create that reality. Today, a non-financial services organization may find it easier than ever to integrate financial products and services within its digital CX.

Embedded finance services are typically powered by application programming interfaces (APIs) that are integrated with the systems of financial services providers. As a result, connected ecosystems can be established between businesses, financial services providers, and data providers, and they may continue to expand in scale, scope, and impact.

There can be many challenges to managing embedded finance data. Customers are likely to expect a CX that's seamless — the essence of the concept of "embedded." They are also likely to want assurances that their data is protected. Customers are also likely to expect that compliance regulations are being met, wherever the data resides. To meet these expectations, establishing and maintaining data ecosystems with a reliable set of third-party collaborators can be important.



Another important consideration is the need for comprehensive B2B customer data that can help businesses more effectively manage credit risk, payments risk, and fraud risk. A common denominator among embedded finance data strategies is the mitigation of risk and fraud. The ability of a product or service provider to access commercial data that can help validate customer identity and that can help provide an actionable assessment of their financial profile can be crucial.

EXAMPLES OF B2B EMBEDDED FINANCE



EMBEDDED PAYMENTS: Customers can make and pay for purchases within an app, portal, etc. without leaving it. Their credit card information can be stored for future purchases, recurring payments, or subscriptions, eliminating the need to enter payment details for each transaction.



EMBEDDED CREDIT AND EMBEDDED LENDING: Without leaving a particular platform or application, customers may be able to access capital they need right where they are. Certain providers can offer capital through an online application process. The applicant's identity can be researched using third-party data, and the applicant's current credit scores and ratings can help determine the credit limit and payment terms that may be offered to that business.



EMBEDDED INVOICE FINANCING OR INVOICE FACTORING: For businesses looking to borrow money against their outstanding accounts receivable (A/R), embedded invoice financing can help connect them with a lender that can potentially offer a loan or line of credit. For businesses that want help with A/R payments, embedded invoice factoring can help link them with a third-party invoice factoring company that may offer them cash advances and may collect payments from their customers.



EMBEDDED INSURANCE: Customers can avoid the time-consuming process of identifying a relevant insurer and insurance coverage via an embedded insurance offer, which can present an online application and appropriate insurance product at the point of sale.

Key Details about Embedded Finance

Digitalization is increasingly seen as part of the new normal in B2B commerce. While the catalyst for its rapid, widespread adoption may have been COVID-19, many businesses have found that their customers prefer the convenience of digital technology to conduct transactions.

The ability for B2B customers to self-direct their own buyer journeys completely within a digital environment has been aided by embedded finance. It can help transform the way business has been traditionally conducted by removing numerous intermediary steps between the initial purchase decision and the actual purchase itself.

Embedded finance often leverages APIs, which are likely to need strong risk compliance management and oversight at every level to help ensure customer trust and help avoid penalties of noncompliance.

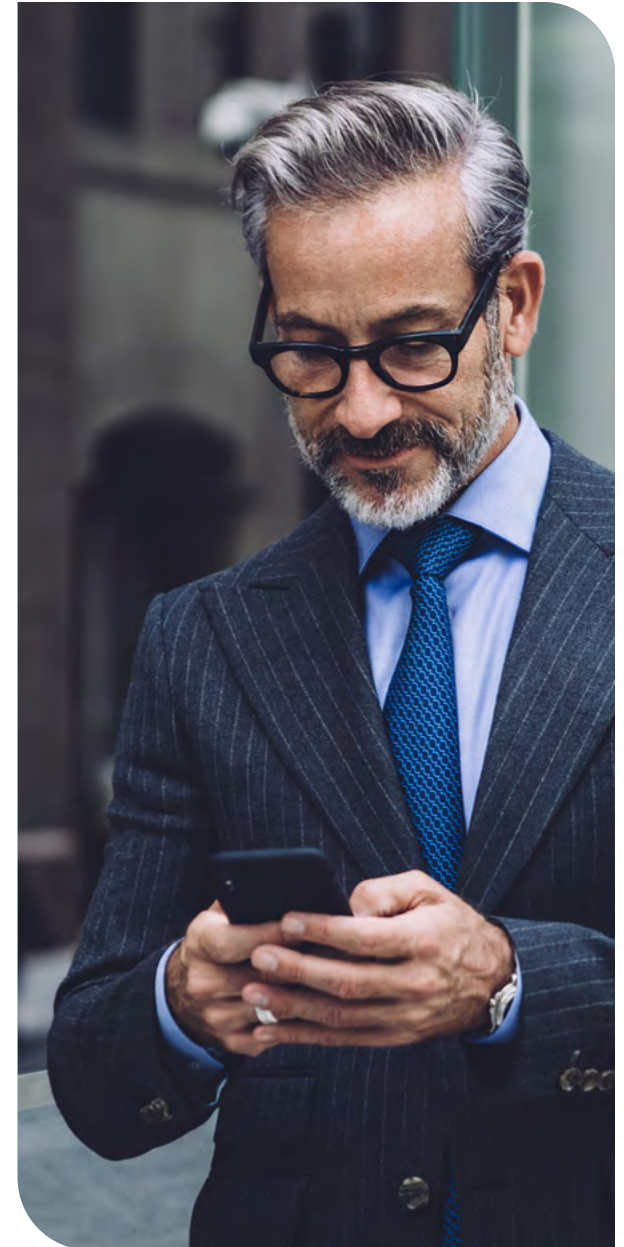
As noted, data is the fuel of embedded finance, and there can be huge value in the data that's generated with embedded finance processes. Valuable first-party data may be gathered via a business's owned digital channels (for example, if

customers complete an account application on a company's website).³

To help conduct due diligence on customers, businesses may decide to append first-party data with their own internal data.⁴ Third-party data may be used to help augment data to compensate for gaps or for outdated information — which may in turn help ensure the customer assessment is thorough, current, and actionable.⁵ In all cases, companies should remember to follow all applicable laws related to the collection and use of data.

There can be a plethora of deep insights that may be leveraged from all this data to help perform more targeted marketing, help develop more enhanced services, support improvements to CX, and help identify and manage risk.

In the world of B2B transactions, there can be a multitude of risk areas, including credit, operational, supply chain, regulatory, identity, money-laundering, cybersecurity, and privacy. Each of these (and more) should be monitored, with the appropriate safeguards put in place.



³ "Why First-Party Data is More Important Than Ever and How to Use It," Digital Marketing Institute, March 2022

⁴ Ibid

⁵ "Why External Data Should Be Part of Your Data Strategy," MIT Management Sloan School, February 2021

The Importance of Secure and Robust Data

It's still early days for B2B embedded finance, and as it continues to emerge, regulations to help guard it against incidents of fraud are likely to be developed.

Even so, embedded finance APIs can be impacted by the quality of data they can process. The data can be more useful if it is robust, valid, and usable. If the data can move between applications and environments, it may also be

more useful because APIs often need connected data services. This means that financial services providers and B2B businesses should consider sharing critical customer data to help make embedded finance work.

B2B companies are likely to need assurances that their data is secure and fully protected. Businesses offering embedded financial services can consider working with established financial services providers to help provide the level of security that they — and their customers — may expect (and that may be required).

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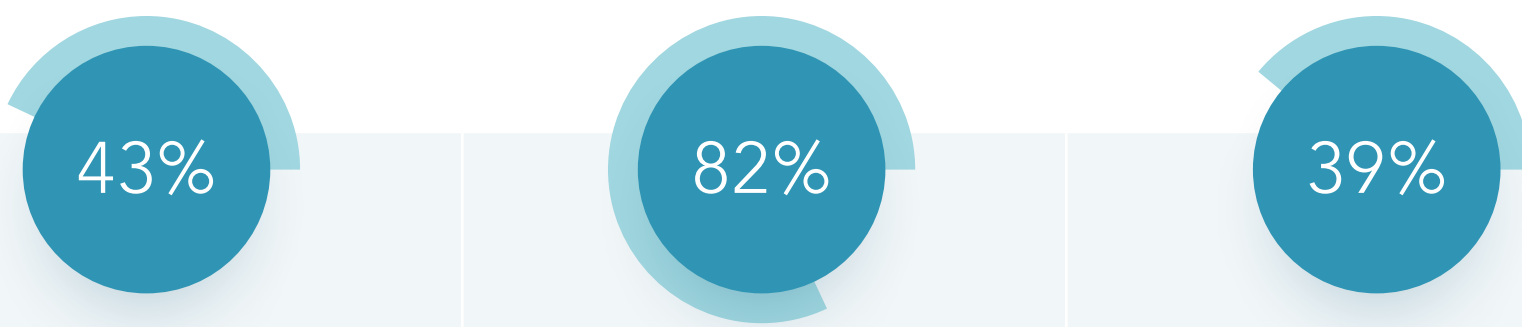
Why Can Anticipating Risk Be Crucial?

Financial services may be a new and highly profitable territory for companies offering embedded finance experiences. But this new territory may come with a rocky landscape, where rogues, scammers, and criminals can wreak havoc.

Risk levels are rising, with events causing significant reputational, business, or financial damage becoming increasingly common. In a Forrester Consulting survey⁶ commissioned by Dun & Bradstreet, 43% of respondents reported that their companies' level of risk increased in 2021–22, while 82% experienced at least one discrete critical risk event, and 39% saw four or more critical risk events over the same period.

Because B2B companies and financial services providers operate with a significant amount of customer data to enable an embedded finance transaction, it's critical for them to follow all regulations governing the transaction. But it's important to note that the level of risk may also be influenced by the quality of the data that can be accessed.

Where data is stale or spotty, businesses and financial services providers can struggle to gain visibility into the operational and financial risks that may threaten the success of embedded finance offerings. A comprehensive, current, and wide range of data can be key to a more accurate, inclusive risk assessment.



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39% saw four or more critical risk events over the same period

⁶ "Change the Culture of Risk Management to Increase Business Resilience" (a commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet), Dun & Bradstreet, August 2022

What Are the Potential Consequences of a Risk Event?

Critical risk events, including fraud and cybersecurity attacks, can cause significant damage to a company's reputation, operations, and financial performance. In the Forrester Consulting survey,⁷ 51% of the respondents said the risk event they experienced came in the form of operational breakdowns or delays.

The consequences included increased costs, lost revenue or fines for regulatory noncompliance, and the potential for serious reputational damage. (It should come as no surprise, then, that 100% of the survey respondents said that managing risk is a priority, and 92% said it is a critical or high priority.)



92% said that managing risk is a critical or high priority

100% of the survey respondents said that managing risk is a priority

⁷ Ibid

Why Can Having Access to Data Be Essential?

Embedded finance solutions can use trustworthy data sources to help prevent risk events. With the ability to collect, integrate, and analyze data, companies and financial services providers can generate critical insights to help drive better decisions for embedded finance offerings.

Trustworthy data sources can help enable businesses and their financial services associates to mitigate financial risk, and they can help maintain regulatory compliance. These abilities in and of themselves may create greater strategic value and can align with business objectives.

Access to meaningful, comprehensive data may also help B2B businesses and financial services firms identify and avoid fraud. Without it, embedded finance transactions may be vulnerable to common fraud schemes.

COMMON FRAUD SCHEMES



SHELL COMPANIES — Shells are intended to mislead other businesses and customers by obscuring payments and cash flow, beneficiaries, ownership, etc. Many lack physical addresses and offer few, if any, goods or services.



ACCOUNT TAKEOVERS AND BUSINESS IDENTITY THEFT — Fraudsters steal another business's credit information or account numbers to generate unauthorized applications, orders, etc. for the legitimate business.



ADDRESS FRONTING — A business uses a different address for an application or account to reduce the cost of a service or receive more favorable rates, ratings, etc.



COMMERCIAL BUST-OUTS — Fraudsters apply for multiple credit lines, based on an existing good credit history, and ultimately max out each to the full limit without making a payment.



BUSINESS MISREPRESENTATION — This is a deception created by inventing, exaggerating, or omitting key business data, such as exaggerating employee headcount.



FINANCIAL STATEMENT FRAUD — Data contained in financial reports and documents is altered or manipulated to create a false sense of financial health and business success.

Full Visibility Can Help with Insight and Decisions

Wherever the B2B customer data resides, having the ability to access and unify it to create a consolidated view can help create a robust foundation of information to help assess potential risk and understand risk exposure.

In a credit decisioning process, which is invisible to the customer, third-party data may be needed for more complete risk assessments. For example, having full visibility into a company's "family tree" — its size, its ownership, various branches, and subsidiaries — can help determine how much credit can be extended. At the same time, that information can help determine whether any associated companies are already existing customers.

Ultimately, the more you know about your customers, the easier it may be to sell to them. Data transparency can help support good business. For

example, good data may help improve the take rates for a pre-screen credit program, which in turn may help impact the overall adoption rates.

That may also be true for B2B customer onboarding or for an acquisition program. As more customers are acquired, the potential for bad debt can increase. The key is to make as accurate an assessment of the risks as possible to help determine the acceptable level of tolerance.

Even knowing something as straightforward as the legal business name of a company can help make a significant difference. The Dun & Bradstreet D-U-N-S® Number — a unique nine-digit identifier of hundreds of millions of businesses worldwide — can be a good start because it can help unlock comprehensive, current information about an individual company.



Where Can You Focus to Help Establish an Effective Data Management Strategy?

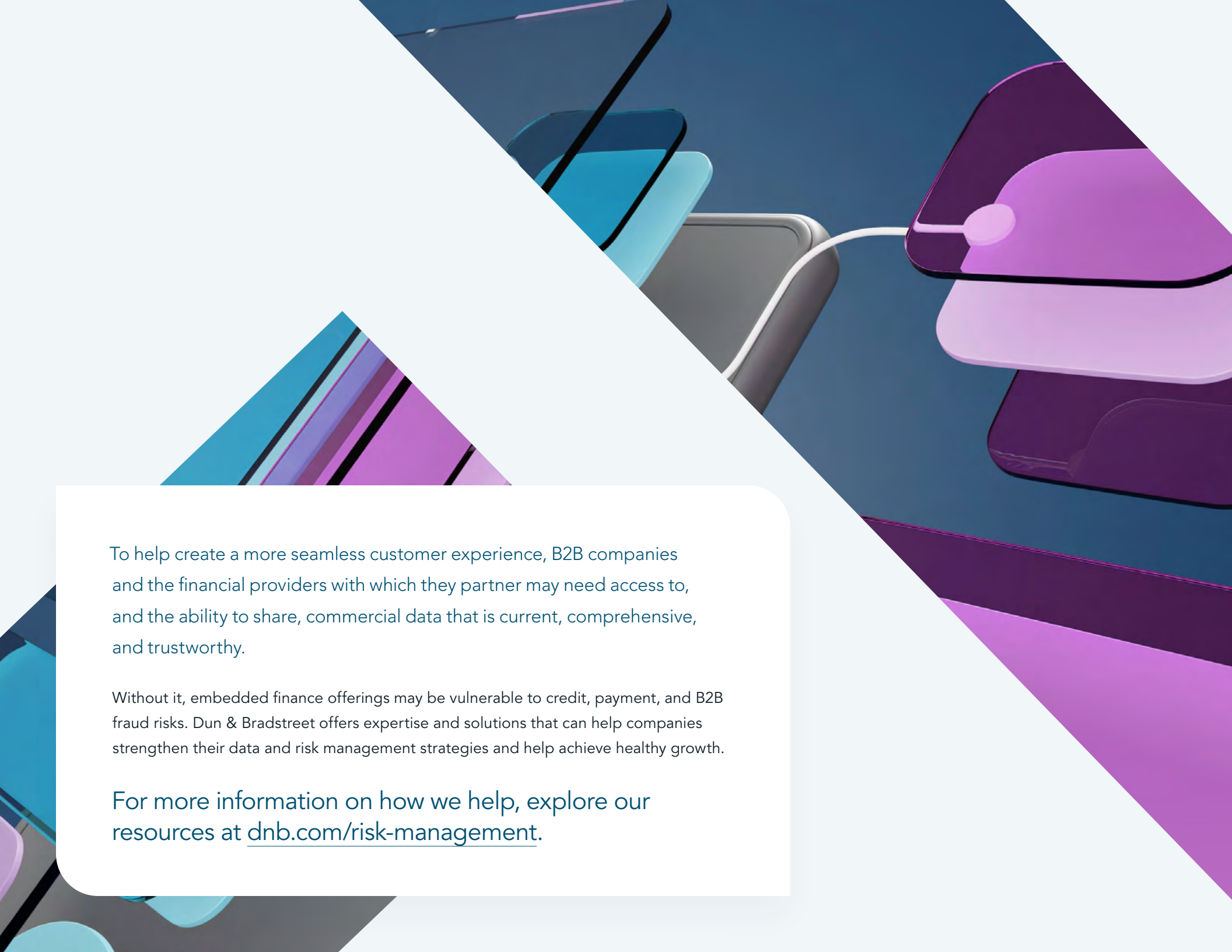
The answer is people, processes, and technologies.

With the right mix, your data management strategy and your embedded finance solution may stand a much better chance of success.



These *three steps* can help you access crucial information, help you manage risks, and connect meaningful insights that can help you make the right decisions for your embedded finance needs:

- 01 SEEK QUALITY ALLIANCES:** As noted earlier, B2B companies can collaborate with financial services providers for the financial services expertise to support embedded finance. Working with established financial services providers that can provide security and infrastructure may help ensure a secure transactional environment.
- 02 IMPROVE DUE DILIGENCE:** Third-party data and analytics can be crucial to improving due diligence in the decisioning process. Using a persistent key — a unique company identifier such as the Dun & Bradstreet D-U-N-S® Number — can help improve accuracy, timeliness, and cross-border consistency of customer information. Other third-party data, such as credit scores and personalized analytic models, also can help enhance risk assessments and can help prescreen offers for embedded finance offerings.
- 03 INTEGRATE:** Remember that embedded finance may rely on the ability of data to move between applications and environments. Integration can be important not only for unifying necessary data and data sources, but also for facilitating the flow of information through the tools and systems that help enable the embedded finance experience.



To help create a more seamless customer experience, B2B companies and the financial providers with which they partner may need access to, and the ability to share, commercial data that is current, comprehensive, and trustworthy.

Without it, embedded finance offerings may be vulnerable to credit, payment, and B2B fraud risks. Dun & Bradstreet offers expertise and solutions that can help companies strengthen their data and risk management strategies and help achieve healthy growth.

For more information on how we help, explore our resources at dnb.com/risk-management.

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