The Next Wave of Embedded Finance

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Portage

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***Embedded finance**—defined as the integration of banking and other financial services into nonfinancial applications—remains a perennial area of interest in the fintech sector. By 2032, the global embedded finance market is projected to exceed US$1 trillion, reflecting a ten-year compound annual growth rate (CAGR) of 32%.[1] That growth is unfolding across a broad and complex landscape. Use cases span the gamut of financial services—from payments, banking, lending (including merchant cash advance and term loans) to insurance, accounting, payroll, and wealth management. In turn, each of these services can be embedded in a wide range of platforms (vertical Software-as-a-Service providers; B2C and B2B e-commerce marketplaces; corporate websites; and accounting or HR software, among others). In short, there are hundreds of potential use cases within embedded finance.*

To navigate this complex landscape, we have focused our research on two key trends that serve as guideposts for this thesis:

- **Broadening beyond payments**. The future of embedded finance will extend well beyond payments, which is already a well-established use case. In the United States, embedded payments via independent software vendors (ISVs) have become the leading distribution channel for e-commerce payment services.[2] Accordingly, our analysis in this report concentrates on other financial service verticals beyond payments.
- **B2B (SMB) focus.** We believe the next wave of embedded finance will target businesses—particularly small and medium-sized businesses (SMBs)—rather than consumers. The first wave of embedded fintech largely focused on consumers, but embedded channels can help SMB-focused fintech platforms reach their customers with less operational complexity. They also enable a key advantage of the embedded model: more effective data sharing, intake, processing, and analysis.

With these guideposts in mind, our conclusion is that embedded **lending** represents the next most attractive opportunity for later-stage investment, whereas embedded **accounting** and **tax** solutions are promising sub-verticals with a longer development horizon and therefore particularly interesting for early-stage venture investors.

1. Embedded Finance Market Report. Vision Research Reports. May 2023.
2. Beyond Payments—The $1T Embedded Finance Opportunity. Joel Van Arsdale, Flagship Advisory Partners. January 2025.

1. The Embedded Finance Ecosystem: Past, Present, and Future

Embedded finance is not a new concept—one could trace it back over 25 years (for example, to the launch of PayPal in 1999 and its integration into eBay as its primary payment service in 2003).

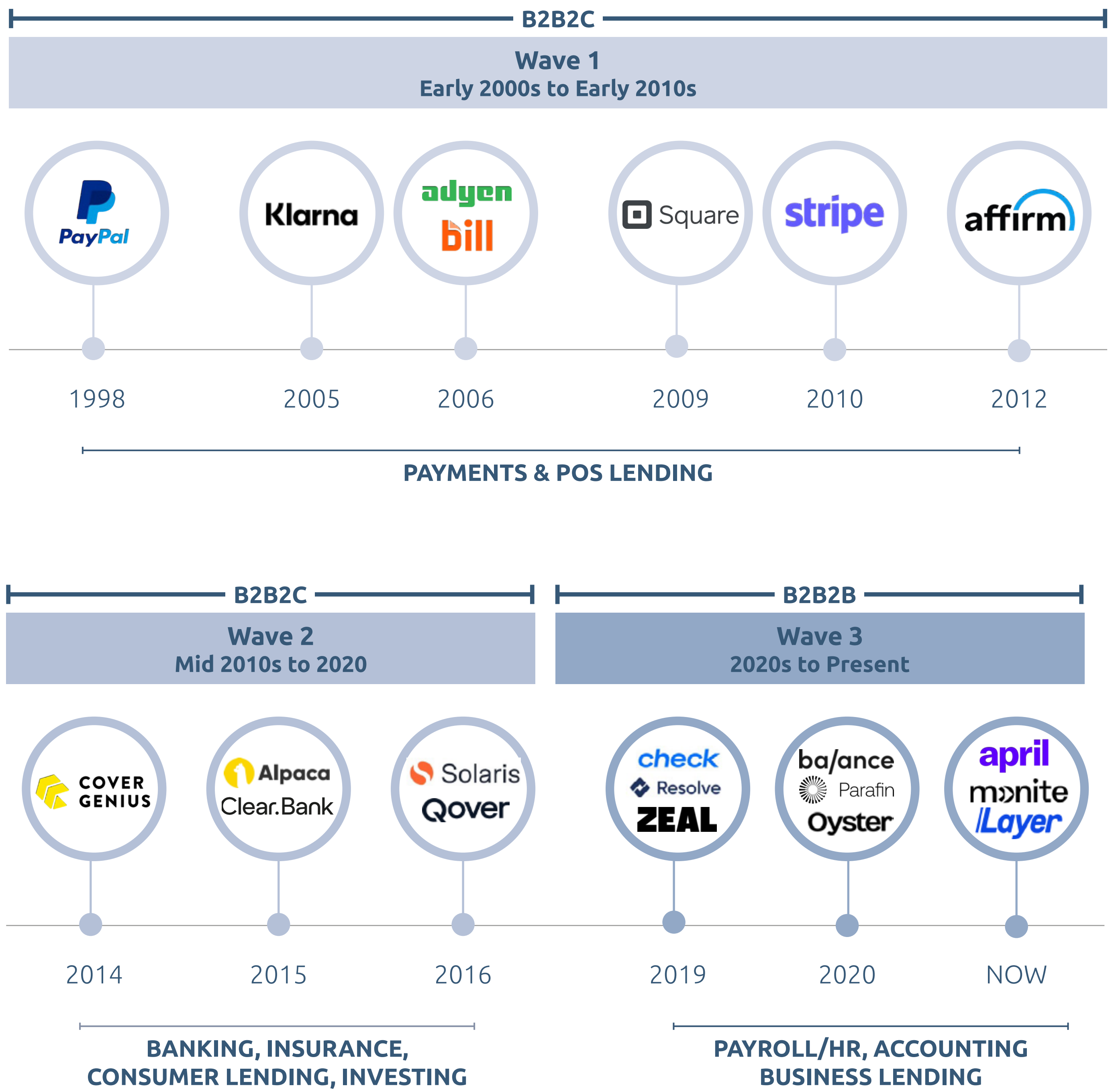
The first significant wave of embedded finance started in the early 2000s. As commerce became more digitized, new point-of-sale (POS) solutions improved payment acceptance and checkout processes for consumers at both brick-and-mortar merchants (e.g., Square) and in e-commerce (e.g., PayPal, Stripe). In the early 2010s, **buy-now-pay-later (BNPL)** providers such as Affirm gained traction by expanding consumer payment options and offering repayment through installments. These early innovators often maintained direct relationships with merchants, but over time they found greater success by integrating with channel partners (like ISVs), leading to the first true wave of embedded fintech solutions.

The second wave, which we can roughly date from the mid-2010s to the present, brought other financial services into embedded distribution channels. Banking-as-a-Service (BaaS) providers first started operating during this period—as well as the emergence of lending and insurance-focused solutions often embedded at checkout across e-commerce sites. Companies such as Unit, Solaris and Synctera, a Portage portfolio company, have been at the forefront of the embedded banking sector, while firms like Cover Genius and Qover have led the way in distributing insurance products through embedded channels.

Notably, most embedded finance developments to date have been consumer-focused. Retail consumers tend to be more homogeneous and purchase products in streamlined ways, whereas businesses are more specialized and transact through larger, less uniform contracts. It is not surprising, then, that embedded products have taken longer to gain traction on business-oriented platforms. However, we anticipate a **third wave** of embedded finance that will emphasize solutions for businesses—SMBs in particular—rather than consumers. This B2B2B segment (business-to-business-to-business) is still in relatively early stages, and, to date, products have centered largely on business lending (e.g., working capital loans or invoice factoring). We are now seeing momentum build around entirely new categories of embedded products for businesses, including HR/payroll, accounting, and investing.

1. The Embedded Finance Ecosystem: Past, Present, and Future (cont.)

The Evolution of Embedded Finance



2. The Third Wave Is About The Small Business Segment

Why is now the time for SMB-focused embedded finance? We know that the SMB market is massive (it accounts for more than 40% of U.S. GDP) but, more to the point, research suggests that there is a huge demand for the kind of convenient, transparent and customized financial services solutions that new technologies could offer SMBs. Incumbents within the financial services space have historically struggled to serve SMBs due to the expense of serving and acquiring these customers relative to their smaller profit potential and high churn.

According to a recent survey by Aperture, only 40% of SMBs are completely satisfied with their banking provider and only half are satisfied with the lending solutions presented to them; nearly a third complain about the lack of customization in financial services products and a quarter say they would look for a new provider with a focus on more transparent fees. Moreover, SMBs are also willing to buy from non-financial institutions. According to the survey, nearly half would use bank accounts as embedded finance products, and nearly a third would pay for embedded insurance and business lending products. Only about 10% of SMB respondents said they would not buy embedded finance products at all.

As for which non-financial-services platforms SMBs would purchase embedded products from, vertical SaaS platforms lead the field:

- **Vertical SaaS** (TAM: ~US$300+ billion): More than 35% of respondents said they would buy financial services through vertical SaaS platforms, which are already positioned as trusted vendors and are natural providers of the full spectrum of embedded products.
- **Accounting Platforms** (TAM: ~US$20 billion in 2024): More than a quarter of SMBs said they would buy financial services through accounting solutions. The accounting software platform is broadly applicable to all customer and embedded product types, but is especially well-positioned for business payments, invoice financing and other lending categories, where access to detailed accounting data enhances underwriting ability.
- **B2B e-commerce marketplaces** (TAM: ~US$10 billion in 2023): Just over 25% of SMBs would buy financial products through e-commerce marketplaces which present clear use cases for banking and insurance-related services.
- **HR software** (TAM: ~US$25 billion in 2023): HR Software which is one of the first platforms that many businesses interact with may allow providers to acquire customers earlier in their life cycle, but may also restrict use cases to those targeted at employee-related financial needs—for example, early wage access, payroll, benefits management, and insurance and pensions. Nonetheless, 1/5th of SMBs say they would look for additional financial products through these providers.

3. The Opportunity Beyond Payments

Much of the embedded finance market has matured significantly. Embedded payments—the largest and most developed vertical—is estimated to have a market size of ~US$30 billion.

As noted above, fintech solutions already dominate payments in e-commerce in the U.S., and payments comprise a significant share of revenue for such leading software companies as Toast, Shopify and Intuit QuickBooks.[3] In a Flagship Advisory Partners survey, all software platforms that offer embedded finance offered payment acceptance services.

Interestingly, most software platforms are not offering embedded services beyond payments and the market opportunity for embedded solutions beyond payments is significant. Banking and lending are relatively mature verticals, but their market sizes today are about half the size of payments.[4] According to Flagship, fewer than half of software platforms offer these services, although many plan to do so. Our research suggests that all three of the core embedded finance verticals—payments, banking and lending—have similar growth profiles of ~20% annually, although we see additional opportunity for lending in the SMB space.[5]

SMB Focused Embedded Finance Landscape

MATURE

SEGMENT	SELECT SEGMENT LEADERS	SUB-SEGMENTS
Embedded Payments	adyen, bill, PayPal, Square, stripe	Consumer Payments, B2B Payments
Embedded Lending	affirm, afterpay, balance, Parafin, Resolve	BNPL, Growth Capital, Factoring/Working Capital
Embedded Banking	galileo, MARQETA, railsr, Solaris, synctera, treezor	Digital Bank Accounts, Card Issuing, Lending
Embedded Insurance	boost, COVER GENIUS, NEXT, Qover, Trellis	Licensed Intermediaries, Full Stack Providers, Infrastructure
Embedded HR	argyle, check, gusto, Oyster, ZEAL	Employment Verification, Payroll, Benefits
Embedded Investing	additiv, Alpaca, APEX Fintech Solutions, DRIVEWEALTH	Brokerage/Trading, Wealth Management
Embedded Accounting	april, Layer, softledger, teal	Bookkeeping, Tax, FP&A

NASCENT

Source: Portage research.

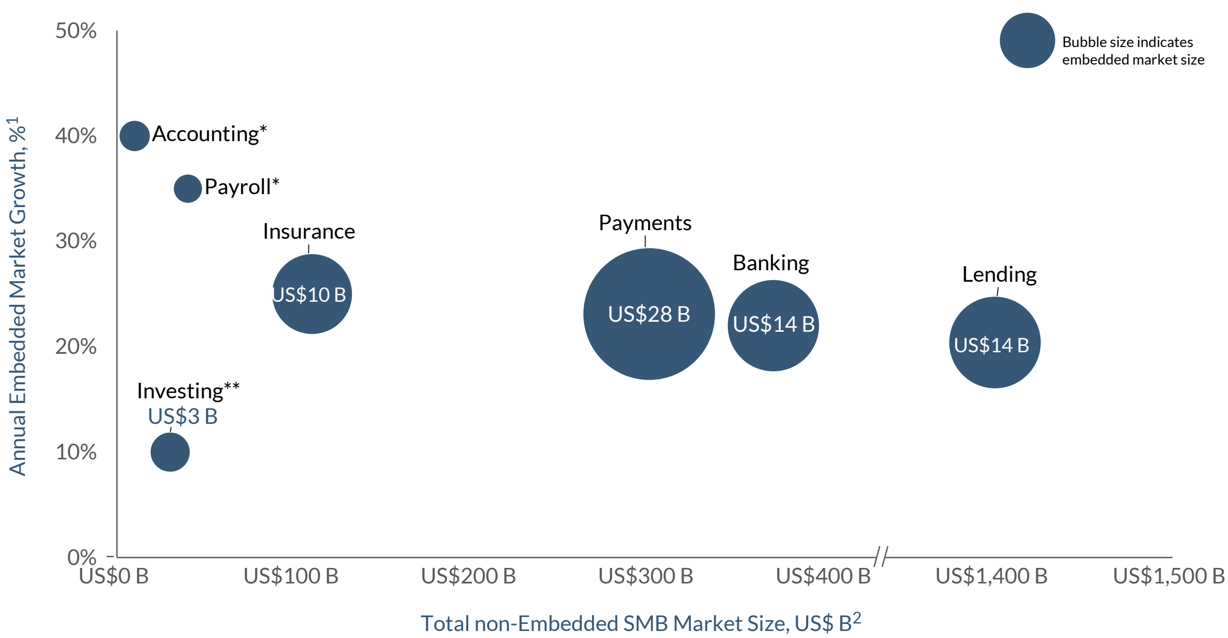
Select players operate across verticals (e.g., BaaS providers enabling lending products; Additiv offering BaaS solutions); companies that had various offerings were assigned to verticals based on the most distinctive offerings of their platform (e.g., Additiv offering embedded wealth & brokerage solutions)

3. Flagship Advisory Partners
4. Oliver Wyman, Jack Henry, Consumer Financial Protection Bureau, McKinsey. // 5. Ibid.

3. The Opportunity Beyond Payments (cont.)

Other verticals are far less mature by comparison. Insurance is the largest of the other verticals with an estimated US$10 billion market. HR/payroll, accounting and investing are newer categories, and while still nascent (estimated market of US$1 billion to US$3 billion), they may also have more exciting growth potential. Based on current market trends, we believe accounting and HR/payroll may have the potential for stronger growth compared to more mature verticals, with our analysis suggesting possible growth rates that could significantly outpace other segments.

Embedded Market Growth vs non-Embedded SMB Market Size by Vertical



1. *Market Growth based on annual projected growth rate.*
2. *Total non-embedded SMB market size based on total 2022 revenue in the U.S. only.*

* *Embedded market size and non-embedded SMB market size based on Portage estimates due to lack of data availability.*

** *Investing non-embedded SMB market size based on Portage estimates due to lack of data availability.*

Sources: Oliver Wyman, Jack Henry, Consumer Financial Protection Bureau, McKinsey, Payments Cards & Mobile, Allied Market Research, Munich Re, Future Market Insights, Global Market Insights.

4. The Opportunity Landscape: Key Areas of Interest

We believe there continues to be investable opportunities across the embedded finance ecosystem. However, we have identified these three key areas of particular interest:

- **Embedded lending**, *while a relatively mature vertical, may offer opportunities for later-stage investors (i.e., Portage Capital Solutions) in the context of SMB lending.*
- **Two emerging verticals—embedded accounting/tax and insurance**—*represent a nascent but promising opportunity set for early-stage investors (i.e., Portage Ventures).*

4.1. Embedded Lending

A highly competitive landscape

The SMB lending market is both crowded and highly competitive. Most SMB lending takes place through such traditional channels as banks and brokers, as well as through lending marketplaces such as Funding Circle and Lending Tree. These distribution channels are well established (and often expensive), and that means SMBs typically have multiple options when looking for loans.

SMBs are open to nontraditional financial services, and key players in the space have taken different paths to market, integrating with payment providers, purchasing platforms, marketplaces and vertical SaaS. In general, however, all players focus on platforms that have built-in data, which helps streamline merchant onboarding and supports more robust underwriting.

Embedded lending for SMBs is a huge space, estimated at US$14 billion in the U.S. alone. But competition among players is already starting to squeeze margins as platform partners have begun to play embedded providers off of each other to negotiate more favourable terms. We see similar dynamics at play, too, in the even more mature payments segment, where vertical SaaS platforms have started to look for ways to capture more of the payment economics.

Sticky relationships

The good news for embedded lending providers is that relationships with distribution partners tend to be very sticky—a function of the integration overhead required to onboard new partners and the time required to train their models for a new customer base. New partnerships generate a high return on investment, and provider/partner relationships tend to be long-lasting.

One way that platforms can differentiate is based on the quality of the data those partnerships generate. Embedded lending providers need customer data from their partners to supplement machine-learning models, improve underwriting efficiency, and reduce loan losses. The better the data pipes between partners, the better the underwriting.

4. The Opportunity Landscape: Key Areas of Interest (cont.)

While data is valuable, so is the lender's position in the flow of funds. When the lender is integrated with a payments platform or a vertical SaaS provider that is actually handling order flow and, therefore processing a company's revenue, it can take what it is owed directly from the SMBs' cash flows. This leads to much better loan performance for these lenders.

Finally, the type of platform a lender is integrating with is also critical to performance. For example, when a lending provider is integrated into a purchasing platform, it knows its lending is backing the cost of goods sold—a better signal for lenders than general working capital and one that generally means lower associated losses.

A good example of a beneficiary of such marketing positioning is **Oatfi**, a Portage portfolio company. Oatfi provides end-to-end credit infrastructure for B2B payment platforms to embed and monetize working capital tools, with solutions across both Accounts Payable (Net Terms/ B2B BNPL, embedded working capital) and Accounts Receivable (factoring, lines of credit). It has partnered with purchasing and procurement platforms such as Order.co. Oatfi and its partners receive data about where the funding will be going—for instance, toward a specific piece of equipment or other physical assets. This can improve underwriting efficiency and mitigate the risk of loan losses while also abstracting away the complexity of both standing up and managing a lending product for businesses.

It is important to note that embedded lending models are naturally more exposed to capital markets than SaaS businesses and therefore anyone looking at the space should spend time understanding the diversity and resilience of the funding model being employed. While maintaining a balance sheet can allow players to keep more of the economics, it is also more capital-intensive and exposes the investors to additional risk.

Companies of interest

Three entrants that we think are representative of the opportunities and risks in the embedded lending space:

- Based in the UK, **Liberis** is an example of embedded tech that addresses a critically underserved area for SMBs: revenue financing. The firm enables its partners, which are typically e-commerce or payment platforms, to provide revenue financing to their small business customers with payment terms based on actual transaction data. Liberis is also the provider for eBay Seller Capital, a revenue finance model embedded in the eBay platform. The firm boasts strong customer retention and high-profile partners (e.g. Elavon, GlobalPayments, Worldpay), which demonstrates just how strong large platforms' appetite for fintech payment streams is.
- U.S.-based **Parafin** is a provider of merchant cash advance and flex loans, enabling repayment based on a fixed percentage of future sales—an offering especially suited for seasonal businesses. It also offers traditional term loan financing and is developing a digital wallet solution allowing SMBs to access sales earlier, pay bills, earn interest and transfer funds.

4. The Opportunity Landscape: Key Areas of Interest (cont.)

Since its founding in 2020, Parafin has assembled a diverse partner base, from vertical SaaS platforms to marketplaces—including industry behemoths DoorDash, Amazon and Walmart—where capital availability for merchants is of high importance. Working with marketplaces also puts Parafin firmly in the flow of funds—a critical advantage.

4.2. Embedded Accounting and Tax

Where are the incumbents?

While small compared to more mature verticals like payments or lending, embedded accounting/tax, with an estimated SMB market size of ~US$1 billion in the U.S., represents perhaps the highest-growth-potential region of the embedded landscape. The question is who will seize the opportunity. Large, well-established incumbent platforms (e.g., QuickBooks, Xero, Sage) dominate the accounting software vertical, but they have generally been slow to roll out fully embedded solutions. While they have API integrations in place, most of those are relatively simplistic, allowing users to perform basic tasks such as accounting data pulls and invoice generation. Some incumbent platforms have considered launching more robust embedded solutions, but they are wary of handing over valuable customer relationships to vertical SaaS platforms.

Startups in embedded accounting/tax offer more sophisticated and customizable solutions for SMBs, but there are risks to investing in this market. Should one or more of the incumbent accounting platforms decide to launch a full-scale embedded offering, the likelihood of a startup successfully gaining meaningful market share seems low, given the advantages for incumbents in terms of brand equity, accounting technology, and integration experience.

The case for tax tech

Our view is that embedded tax solutions are more compelling in the current market environment than accounting solutions.

Full-suite accounting tools solve for comprehensive workflows. Fitting the functionality of true accounting platforms into the framework of an existing vertical SaaS platform can be a challenge, both from a technical and a user experience perspective. In contrast, tax tools generally solve for specific workflows—for example, in the U.S., W-2 or 1099 filings. That makes them more easily integrated into other platforms, ranging from payroll providers to vertical SaaS and banking.

Taxtech also addresses a growing need among SMBs. The burden of tax compliance in the U.S. has ballooned over the past decade—the number of information forms sent to the Internal Revenue Service has more than doubled since 2013.[6] Yet, from an opportunity standpoint, embedded tax

4. The Opportunity Landscape: Key Areas of Interest (cont.)

remains a relative greenspace. Some full-fledged accounting players exist, but there are no companies at scale in the embedded business tax space.

Lastly, embedded tax solutions present a natural synergy with embedded lending, particularly for SMBs, as tax platforms can provide advance payments on expected refunds. This capability can further help ease cash flow constraints, highlighting how embedded fintech products can complement each other.

Importantly, both embedded tax and embedded accounting are incredibly sticky as they enable mission-critical processes and are in naturally risk (and change) averse functions.

A clear value proposition for embedded plays

Building an accounting/tax solution is capital-intensive. Due to the complexity, many platforms lack the resources to buy or build their own solutions, forcing them to fall back on manual reporting or integrations into players like QuickBooks. Relatively recent tax tech M&A involving acquirers without a tax or accounting focus (e.g., Gusto's acquisition of Symmetry Software and Carta's purchase of YearEnd in 2021) may point to the potential for more seamless integrations between full-service platforms and point-solution-focused tax tools.

Recently we've seen more neo-banks beginning to add more of this functionality into their products. SMB focused neo-banks like Tide in the UK are BlueVine in the US have started adding accounting into their product offerings and offering discounts and connectivity to tax software as well. As this type of offering becomes more common there is room for embedded players to take the lead.

Companies of interest

The number of startups with an explicit embedded strategy in the accounting/tax space is limited—a sign of just how nascent and complex this vertical still is. However, we have identified two firms that merit interest:

- **April** (New York) – Offers an embedded tax-filing solution for individuals delivered through partner platforms in banking, fintech, and payroll. April's product helps its partners improve deposit retention (nearly all end customers have their tax refunds deposited into linked accounts) and provides a year-round tax estimator that dynamically adjusts based on the user's context. The company also offers a tool for optimizing wage withholding. Interestingly, April's partnerships with payroll providers have gained significant traction: conversion rates (employees filing taxes through their payroll provider) have been much higher than anticipated. This points to strong potential for April to expand into business tax services, which could provide another layer of growth on top of its individual tax offering.

6. Internal Revenue Service Data Book (2013 & 2024). Internal Revenue Service. 2013 and 2024.

4. The Opportunity Landscape: Key Areas of Interest (cont.)

- **Abound** (San Francisco) – Provides embedded solutions for IRS Form 1099 reporting, along with workflow automation that reduces manual work for in-house tax teams, and even business-process outsourcing services to help third-party providers review and correct clients' tax compliance workflows. (Form 1099 is used in the U.S. to report non-salary income, and with the rise of the gig economy, the number of 1099 forms filed is expected to more than triple from 2022 to 2025.[7]) This means there is already a large addressable market for Abound's services, and there is additional opportunity to expand into adjacent offerings — for example, solutions for forms related to non-U.S. payees, or automation across the entire 1099 compliance lifecycle.

An exciting agentic future

The emergence of generative AI further amplifies the potential of embedded accounting and tax. AI agents are exceptionally well-suited in synthesizing complex accounting rules and applying those rules to unstructured data, such as invoices, receipts, and contracts. Generative AI can automate the interpretation and classification of financial data, enabling seamless tax calculations and compliance within the user's existing workflow. This advancement simplifies the integration process and enhances the accuracy and efficiency of embedded solutions, creating a more dynamic and valuable landscape for providers and SMB users. Several large B2B fintech platforms have already begun implementing AI tools into their product suites. Ramp's AI solution helps clients automate much of the manual work involved with expense report submissions, transaction categorizations, and invoice processing. Vic.ai applies AI to invoice processing, approvals, and payments. We expect to see similar use cases permeate across embedded solutions.

4.3. Embedded Insurance

While embedded insurance may not boast the growth potential of accounting/tax, we believe this segment presents a compelling value proposition to distribution partners. Embedded insurance plays offer partners not only a single insurance integration without the need to build in-house, but also an effective sales channel to access curated customer groups and grow their top line.

In our view, for embedded insurance to be successful, they must focus on specific industries and offer specialized insurance products. An industry-specific focus provides market differentiation from competitors, fosters more manageable regulatory compliance as well as operational efficiency, and enables customization of products to meet the unique needs of target markets. Even with those features, however, embedded insurance faces challenges given the structure of the insurance market. Revenue and gross written premiums are often highly concentrated among a few potential partners,

7. New IRS Data Still Vastly Underestimates the Increasing 1099-K Burden on Taxpayers. Demian Brady, National Taxpayers Union Foundation. October 2023.

4. The Opportunity Landscape: Key Areas of Interest (cont.)

and revenue sharing with distribution partners could lead to pricing pressure. Given the unequal balance of power between the product provider and the distribution partner, competitive pricing is imperative for embedded players to achieve a high renewal rate with partners.

Company of interest

- San Francisco-based **Vouch** is a provider of insurance to businesses ranging from early-stage start-ups to publicly traded companies. The firm offers more than 10 lines of proprietary coverage, including general liability, employment practices liability (EPL), directors and officers (D&O) liability and cyber policies. Vouch has a dedicated team that provides support with third-party negotiations, coverage analysis and industry-specific benchmarking. The company launched an embedded API in 2023 to access new distribution channels; among them is Carta, which gives Vouch access to some 40,000 startup clients. As well, the management team includes underwriting and claims executives hired from leading insurance companies.
- Portage portfolio company **Walnut**, a Toronto-based embedded insurance provider, offers an embedded insurance platform connecting enterprise partners to 20+ insurance products from 15+ carriers. Through the Walnut API, consumer-facing businesses can seamlessly integrate insurance into their customer journeys, generating shared revenue opportunities. Walnut manages coverage, servicing, and renewals. Current distribution partners include notable companies such as KOHO, Tim Hortons, and Telus. Walnut also has a business-to-business-to-business partnership with ATB Financial, offering small business insurance to ATB clients.

5. Risks and Cautions

While we see clear opportunities for embedded finance plays in the SMB-focused space, we highlight four risk areas that we will closely monitor as we continue to follow this space.

- **Uneven balance of power between provider and platform**: Embedded finance is relationship-driven, and distribution platforms can profit from the lack of differentiation between infrastructure providers. That may allow platforms to negotiate favourable revenue shares and play providers against each other. As a result, embedded providers may face difficult unit economics and constrained profit margins as the space develops and becomes more crowded.
- **Data and customer ownership**: When choosing a partner, embedded players must prefer platforms with strong data pipes. These enable streamlined merchant onboarding, scaling of product distribution and more automated underwriting. Especially for earlier-stage companies, however, internalizing customer data and building out sophisticated models remains a key challenge.
- **Product and partner alignment**: One key factor to success will be the degree of alignment between an embedded product and its embedding platform. Lending providers who can access the flow of funds, or working capital providers who can get into the flow of purchases, will see an advantage. Partner alignment is imperative to ensure effective distribution.
- **High degree of regulatory scrutiny**: Subverticals within embedded finance, such as BaaS, are facing heightened regulatory oversight. The collapse of providers like Synapse has exposed the structural vulnerabilities of relying on these embedded service providers, creating risks for both fintechs and their customers. As a result, embedded finance players must navigate increasingly complex and tightening regulatory environments to ensure compliance and safeguard trust.