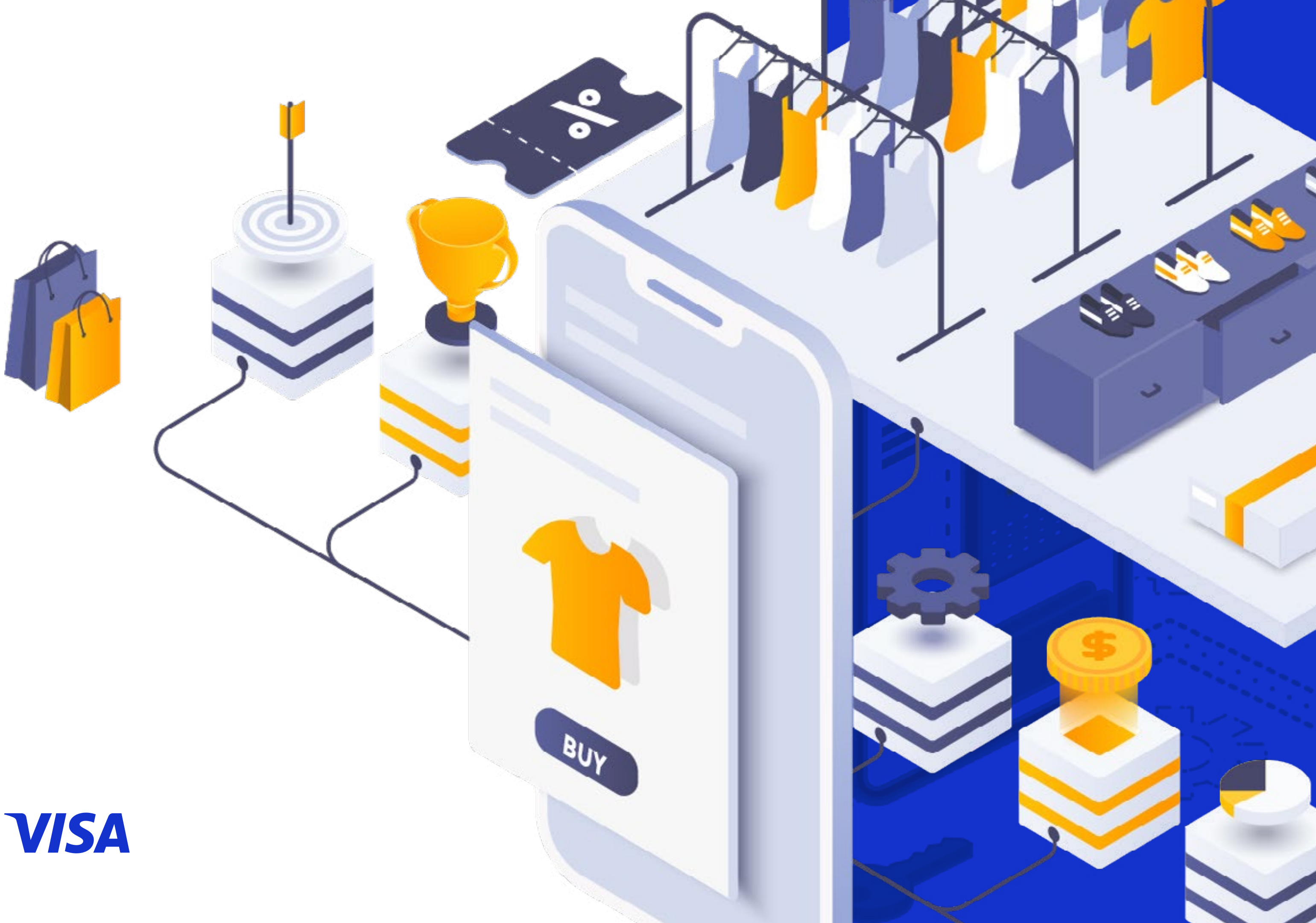
2024

The Embedded Lending Opportunity



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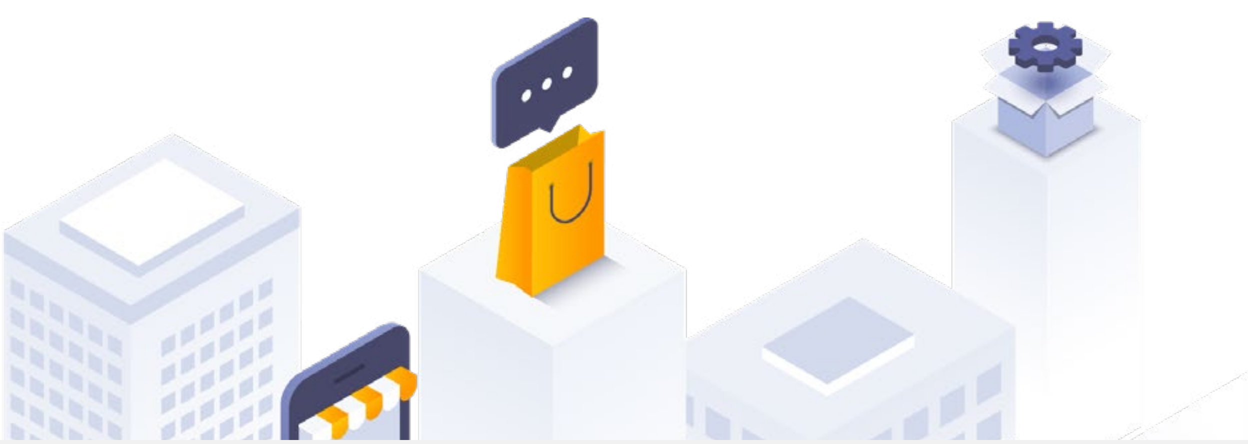
What is **embedded lending?**

Embedded lending describes any credit tool or capability for which borrowers apply directly within the merchant or provider’s platform, often when paying for the product or service. For instance, during an online retail checkout, consumers could be offered the option to apply for a new credit card, an installment on an existing credit card or a buy now, pay later (BNPL) service— and can immediately use it to pay for part or all of the bill.

Other examples of embedded lending include dedicated apps or financial services platforms that provide cash advances or instant loans. Forms of lending that are not embedded include credit options such as charging the expense on an existing credit card or using money from an existing personal loan. Embedded lending is a subset of embedded finance, and though the terms are related, they are not the same.



The Embedded Lending Opportunity was commissioned by Visa, and PYMNTS Intelligence conducted the research and produced the report. PYMNTS Intelligence retains full editorial control over the following content, findings, methodology and data analysis.

2024

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What's **at stake**

Lenders around the world in developed and emerging markets offer an ever-wider range of consumer credit products. Yet consumers — particularly those most in need of flexible lending solutions — widely feel that available financing options fall short of their expectations. Just 50% of consumers are highly satisfied with their access to lending options across the six major economies we studied: Australia, Germany, India, Japan, the United Kingdom and the United States. This dynamic reflects unmet demand in the consumer credit market that embedded lending can fill.

PYMNTS Intelligence's data finds that 43% of consumers express high levels of interest in switching to providers that offer embedded lending. However, relatively few consumers — just 15% — used any embedded lending product in the last three months.

3X more consumers **showed strong interest** in embedded lending than actually used it in the last 90 days.

Many point to insufficient credit limits as a key point of friction. Data also shows that consumers across income groups who face occasional or regular cash flow issues are more likely to prefer embedded lending than those with stable cash flows. Ultimately, the consumer's attitude toward credit — such as whether they use lending strategically or are willing to consider added costs like interest rates — largely determines their choice of financing products, rather than details of the expense. Fifty-one percent of consumers who generally use financing strategically (that is, for rewards or budgeting) say they would switch providers to access embedded lending.

These are just some of the findings detailed in The Embedded Lending Opportunity, a report commissioned by Visa and researched and produced by PYMNTS Intelligence. This report explores the state of play for embedded lending and related consumer preferences about financing options. It draws on a survey of 8,326 consumers across Australia, Germany, India, Japan, the United Kingdom and the United States that was conducted from Jan. 22 to Feb. 13.

This is what we learned.

Key findings

01
Insufficient lending options

Across major economies, deep satisfaction with available credit options is not yet widespread, meaning there is an opportunity for providers that step in.

50% Share of consumers who are highly satisfied with the **availability of credit and lending products** that merchants or financial institutions currently offer

02
Embedded enthusiasm

More consumers are highly interested in embedded lending products than currently use them.

43% Share of consumers very or extremely interested in **switching to a provider** that offers embedded lending options

03
Cash flow tool

Strategic credit users are more likely than the average consumer to have used embedded lending.

21% Share of consumers who generally **use credit strategically** (that is, for rewards or budgeting) who recently used embedded lending

04
Low credit limits

The most common friction embedded lending users noted was that credit limits were lower than needed.

37% Share of embedded lending users who cited **low credit limits** as a pain point

PYMNTS **in depth**

2024

The Embedded Lending Opportunity

Embedded lending has significant potential to fill unmet needs in the consumer credit space, particularly in the context of short-term financial pressure.

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Across key global markets, only half of consumers are highly satisfied with their available credit options, including embedded lending. This reflects an important opportunity for providers.

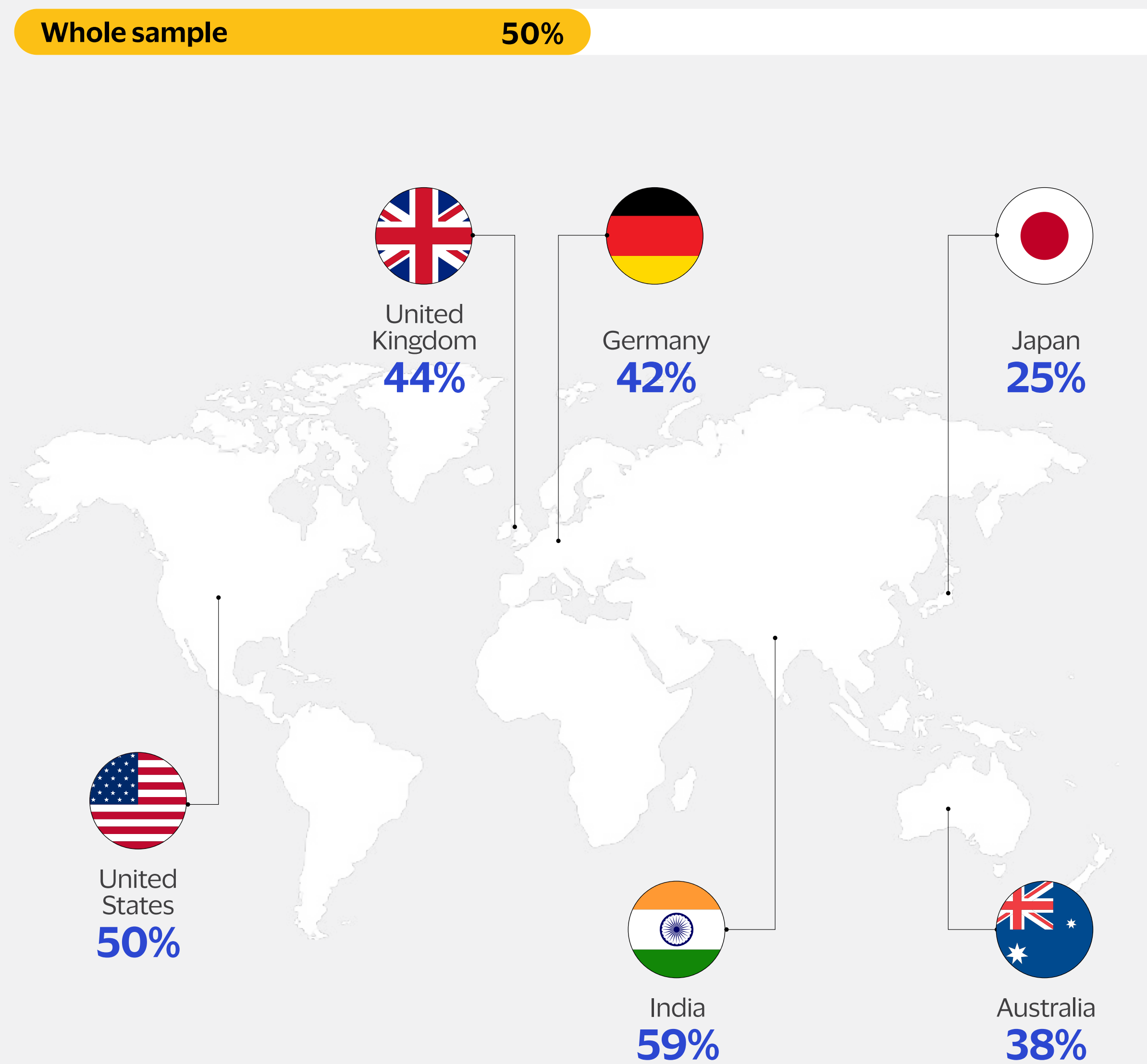
Among the more than 8,000 respondents surveyed across six major economies, only 50% say they are highly satisfied with their access to credit and lending products. Japan and Australia cite particularly low satisfaction rates at 25% and 38%, respectively. Younger individuals tend to be more satisfied than their older peers, but even among millennials — the age group with the highest satisfaction levels — just 60% are highly satisfied.

The data paints a clear picture of unfulfilled demand for credit and lending products across key markets and an opportunity for lenders. Consumers with frequent cash flow gaps across income groups — those with the greatest need for credit — are particularly underserved. However, the pain point remains relevant regardless of how frequently consumers have cash flow gaps: 45% of respondents with frequent cash flow gaps report high satisfaction with credit availability, compared with 50% of those with occasional cash flow gaps and 53% with stable cash flows (that is, no cash flow gaps).

Figure 1A:

Satisfaction with lending product availability

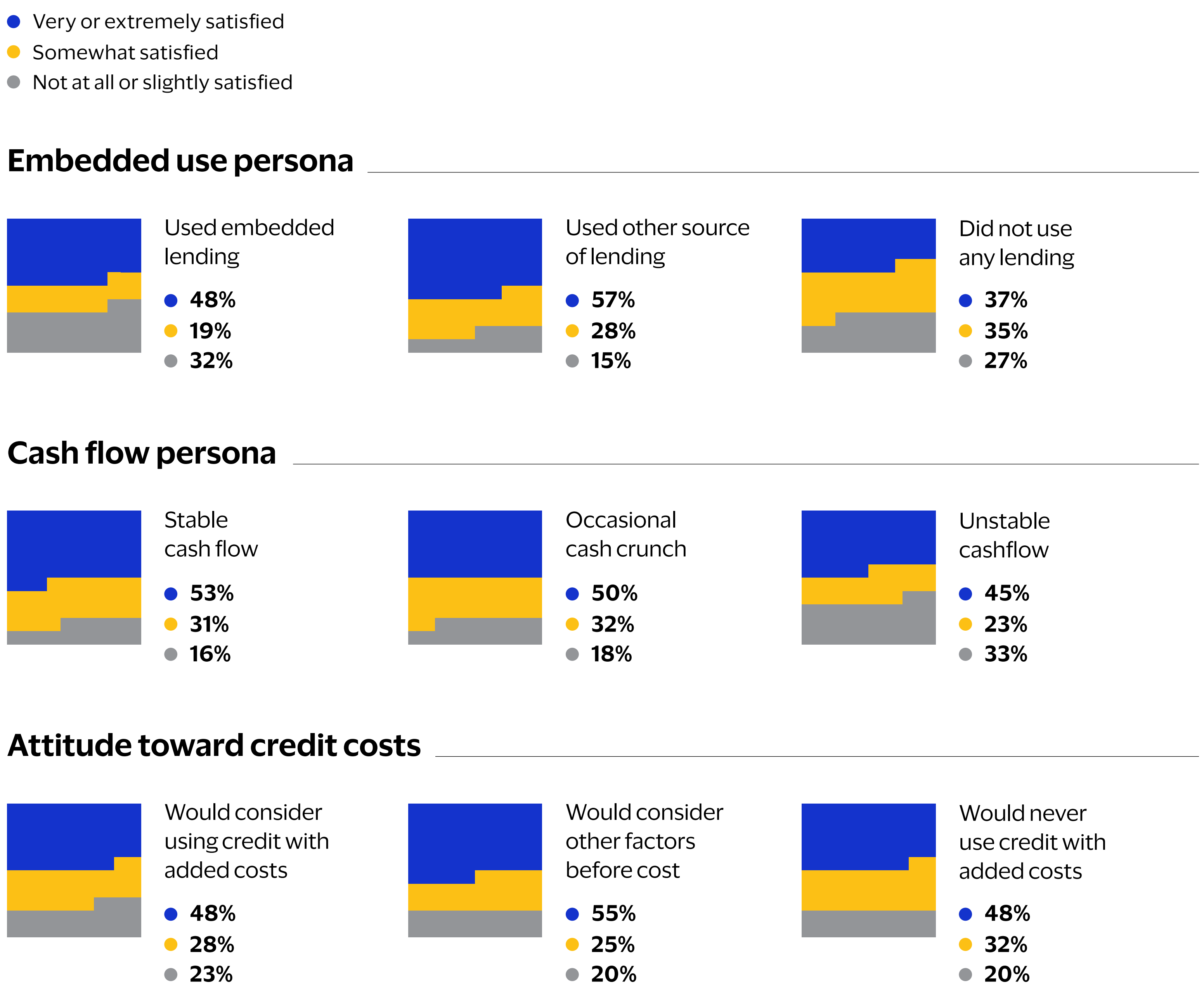
Share of consumers very or extremely satisfied with the availability of credit or lending products that merchants or financial institutions currently offer, by demographic



Source: PYMNTS Intelligence
The Embedded Lending Opportunity, April 2024
N = 8,296: Complete responses, fielded Jan. 22, 2024 — Feb. 13, 2024

Figure 1B:

Consumer satisfaction with lending product availability
Share of consumers who exhibit select levels of satisfaction with the availability of credit or lending products that merchants or financial institutions currently offer, by demographic



Source: PYMNTS Intelligence
The Embedded Lending Opportunity, April 2024
N = 8,296: Complete responses, fielded Jan. 22, 2024 — Feb. 13, 2024 * Due to rounding, percent may not equal 100.

The availability of embedded lending represents a key area where providers appear to be missing the mark. Consumers who used embedded lending in the last three months report substantially lower satisfaction with the availability of credit tools than those who used other credit options, with 48% and 57%, respectively, highly satisfied. Even among those who did not use any credit or borrowing tool, just 37% said they were highly satisfied with the available lending options, again pointing to significant unmet demand.

The data reveals that consumers who use embedded lending tend to face more friction than those who only use other forms of credit. Low credit limits stand out as the biggest pain point for embedded lending users, with 37% identifying this as an issue and 18% saying it is their top concern, far higher rates than observed among other borrower segments. Another 22% of embedded lending users cite data security risks as a pain point when accessing credit.

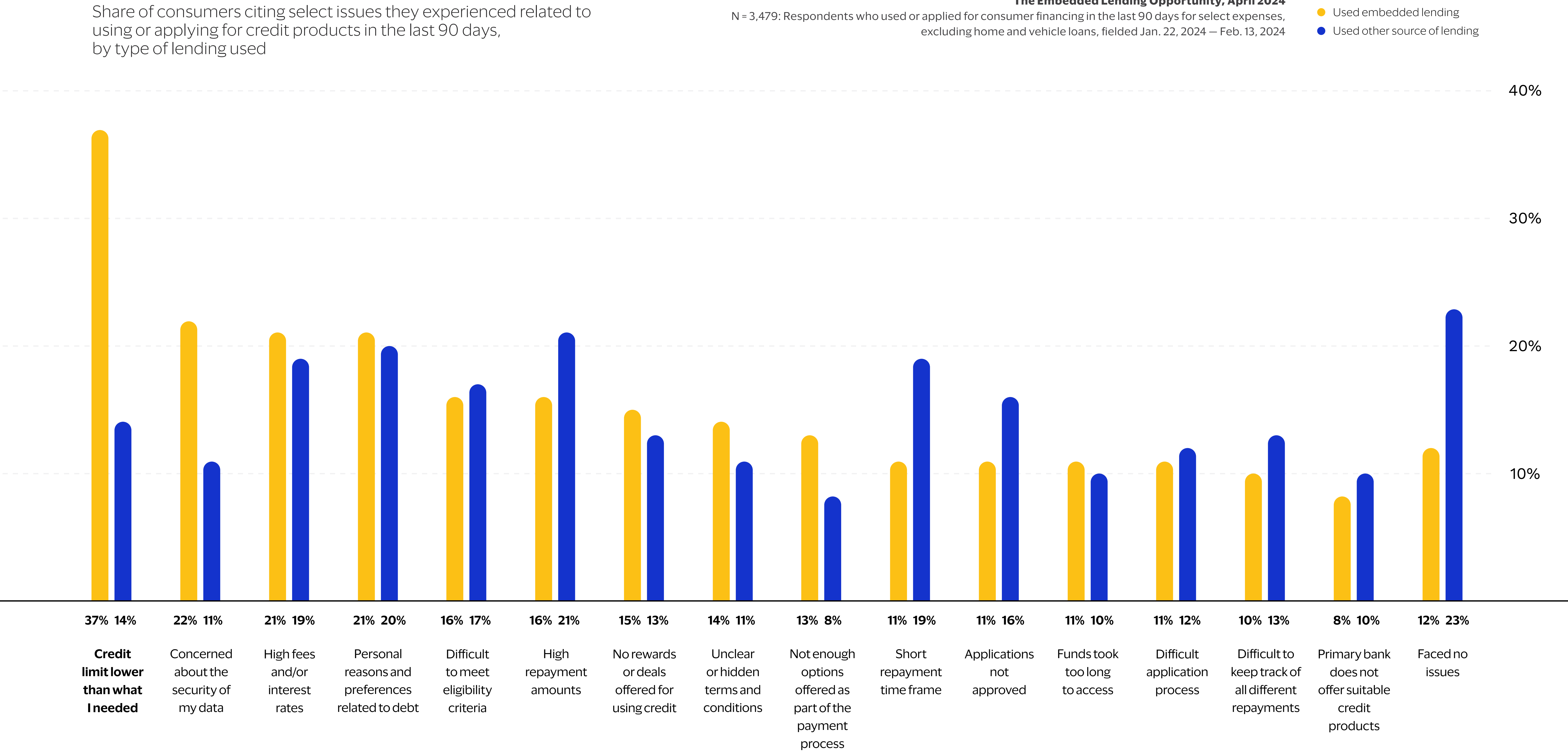
Two more leading causes of friction in embedded lending relate to cost and the borrower's ability to pay. Twenty-one percent name high fees or interest rates as an issue they experienced, and 16% cited high repayment amounts. Overall, 88% of those who used embedded lending say they encountered some kind of issue, versus 77% of those who used only other sources of lending, suggesting that the consumer experience is an important friction point that can be improved.

Figure 2:

Issues consumers face related to credit

Share of consumers citing select issues they experienced related to using or applying for credit products in the last 90 days, by type of lending used

Source: PYMNTS Intelligence
The Embedded Lending Opportunity, April 2024
N = 3,479: Respondents who used or applied for consumer financing in the last 90 days for select expenses, excluding home and vehicle loans, fielded Jan. 22, 2024 — Feb. 13, 2024



Three times more consumers show robust interest in embedded lending than currently use it, indicating substantial potential for providers to better meet consumers' needs.

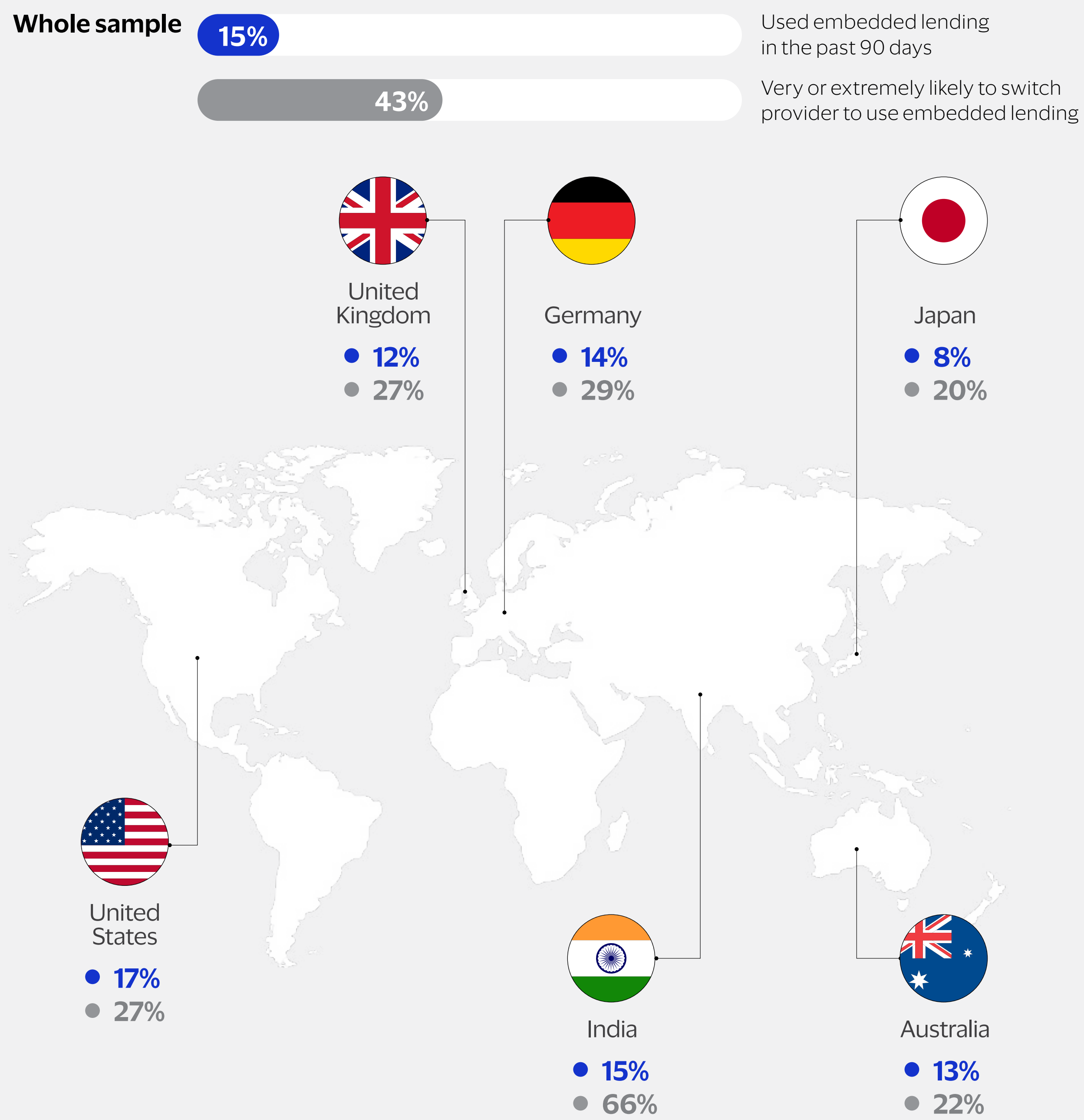
Embedded lending products can fill gaps in credit availability and reach new market segments by providing consumers with additional financing options, such as BNPL or instant credit card offers at checkout. Fifteen percent of respondents used embedded lending in the last 90 days, with notably higher rates in certain groups. For instance, 19% of Gen Z and 25% of consumers reporting frequent cash flow issues took advantage of embedded lending offers.

However, far more consumers are interested in embedded lending than currently use it, demonstrating a missed opportunity and potential for exponential growth. Across the sample, 43% of consumers are highly interested in switching to a provider that offers embedded lending options. Embedded lending has the strongest appeal among younger consumers, with 56% of Gen Z consumers and 55% of millennials expressing high levels of interest.

Figure 3:

Embedded lending: use versus appeal

Share of consumers who used embedded lending in the past 90 days or are interested in switching to a provider that offers embedded lending options, by country



- Used embedded lending in the past 90 days
- Very or extremely likely to switch provider to use embedded lending

Source: PYMNTS Intelligence
The Embedded Lending Opportunity, April 2024
N = 8,326: Whole sample, fielded Jan. 22, 2024 — Feb. 13, 2024

Which consumers are most likely to have recently used embedded lending?

Although a wide variety of consumers have used embedded lending in the past 90 days, data uncovered some common attributes among these users.

High-income

17% of consumers considered affluent or high-income have recently used embedded lending. (In the U.S., for example, this includes those who annually earn more than $100,000, although every country studied has its own adjusted range.)

Gen Z

19% of consumers between 18 and 27 years old have recently used embedded lending.

Strategic credit users

21% of consumers who only or mostly use credit strategically (i.e., for budgeting or rewards rather than for necessity) have recently used embedded lending.

Unstable cash flow

25% of consumers experiencing cash flow issues daily or monthly have recently used embedded lending.

Figure 4:

What consumers use embedded lending to pay for

Share of consumers who used embedded lending options to pay for select types of expenses in the past 90 days

	Whole sample	Consumers who generally use financing strategically (e.g., budgeting or rewards)	Consumers who generally use financing out of necessity
Essentials			
Groceries	6.6%	9.0%	8.8%
Bills	3.6%	5.2%	5.7%
Discretionary			
Luxury clothes or accessories	3.4%	6.3%	0.8%
Educational expenses	3.4%	6.2%	1.0%
Hotel or travel expenses	2.9%	4.7%	1.3%

Source: PYMNTS Intelligence
The Embedded Lending Opportunity, April 2024
N = 8,326: Whole sample, fielded Jan. 22, 2024 — Feb. 13, 2024

Consumers who generally use financing as a strategy rather than necessity — such as for budgeting, rewards or convenience — access embedded lending about equally for essential or discretionary purchases. Among these strategic consumers, 5.2% used embedded lending to pay for bills in the past 90 days and 6.3% used it for luxury items. On the other hand, consumers who access lending only when it is needed tend to limit their embedded lending purchases to essentials, such as groceries and bills.

Attitudes toward the role of credit vary substantially across major economies. Overall, 69% of consumers used at least one credit product, excluding home and vehicle loans, in the last 12 months, with the highest rate in India, at 77%, and the lowest rates in Germany, at 53%, and Japan, at 44%. Across all six markets, consumers who use credit are most likely to say they do so primarily out of choice rather than necessity.

However, between 16% and 24% of consumers in five of the six countries indicate that they mainly use financing out of necessity, suggesting a degree of short-term financial pressure. Japan, where cultural attitudes toward saving and debt tend to be conservative, is the exception, with just 5.3% using credit to cover needs.

65%

of consumers in Japan would never consider using a credit product **if it had additional costs** such as interest rates and fees.

A similar pattern emerges when asked about the cost of financing. Fifty-nine percent of respondents overall say they would never use credit products with additional costs or prioritize the lower-cost option. An additional 19% indicates that cost is important but not the determining factor. However, significant shares of consumers in all countries except Japan — ranging from 12% to 28% — say they consider other factors before cost.

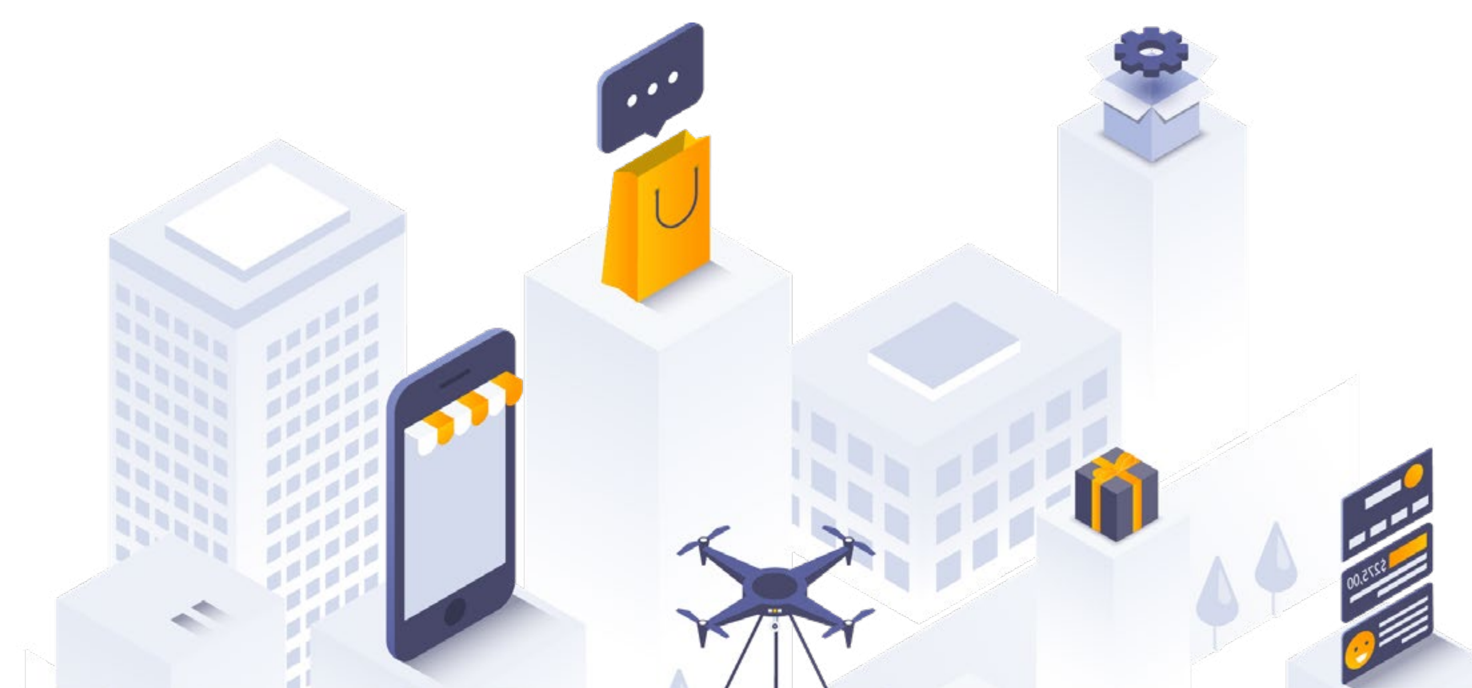
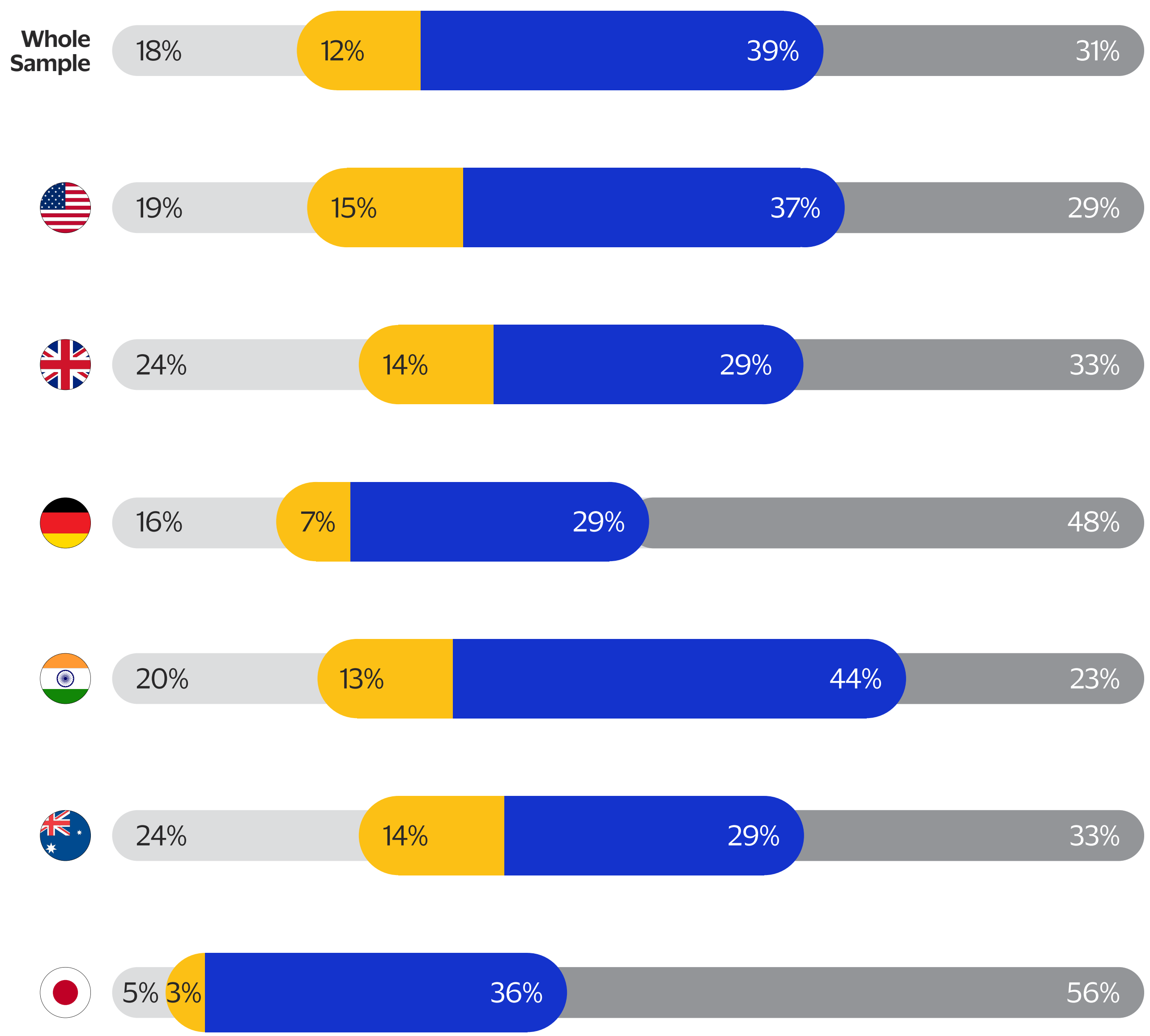


Figure 5A:

Consumers' attitudes toward credit use

Share of consumers citing whether they use credit strategically or out of necessity, by country



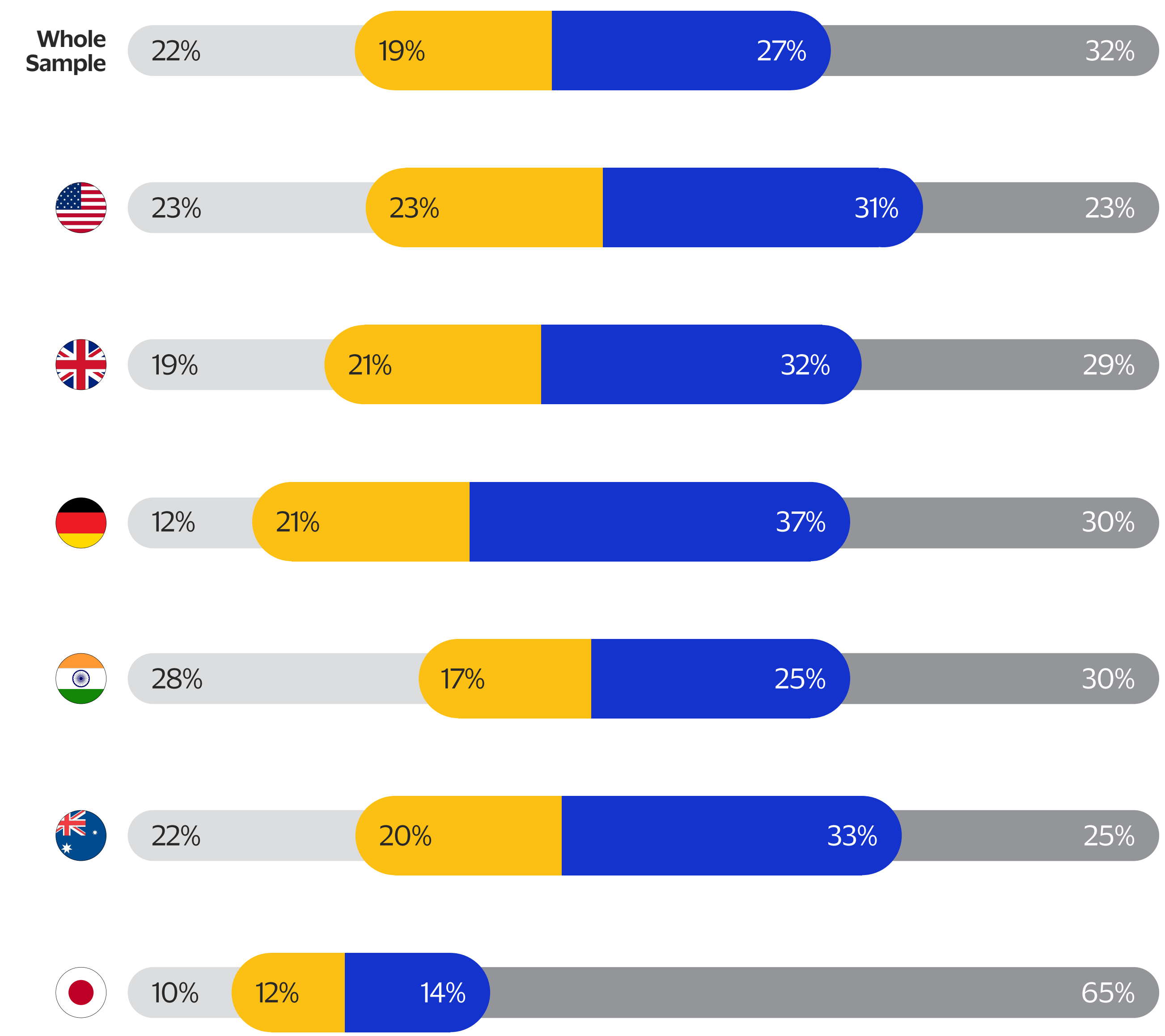
- Always or mostly used financing out of necessity
- Used financing equally out of necessity and strategy
- Always or mostly used financing strategically (i.e., for budgeting or rewards)
- Did not use any credit products in the last 12 months

Source: PYMNTS Intelligence
The Embedded Lending Opportunity, April 2024
N = 8,326: Whole sample, fielded Jan. 22, 2024 — Feb. 13, 2024

Figure 5B:

Consumers' attitudes toward the cost of using credit

Share of consumers citing select attitudes to credit costs such as interest rates



- Consider other factors before financing cost
- Financing cost is important but is not a determining factor
- Prioritize lower additional cost
- Never used credit products with additional costs

Source: PYMNTS Intelligence
The Embedded Lending Opportunity, April 2024
N = 8,326: Whole sample, fielded Jan. 22, 2024 — Feb. 13, 2024

Embedded lending utilization preferences are driven more by attitudes to credit than by item cost or type of expense.

The survey presented respondents with a list of potential expenses at different cost levels — for example, home improvement bills for $500 and $10,000. The results show that neither the expense category nor the cost highly influenced whether consumers chose embedded lending or other financing methods, such as charging an existing credit card. Between 31% and 37% of respondents say they would probably or definitely prefer embedded lending, and the jump between the lowest and highest item costs made no more than 5.5 percentage points of difference.

Figure 6:

Likelihood of preferring embedded lending
Share of consumers who would probably or definitely prefer embedded lending as opposed to non-embedded for select expenses, based on item cost

	Share of consumers who prefer embedded lending for the **lower item cost**	Share of consumers who prefer embedded lending for the **highest item cost**	Percentage point difference in share between highest and lowest item cost	**Item cost brackets**
Luxury clothes or accessories	31.2%	36.7%	+5.5	$1,000-$10,000
Purchases of common retail products	32.0%	34.8%	+2.9	$100-$400
Home improvement or construction expenses	34.8%	36.8%	+2.1	$500-$10,000
Bills	33.2%	33.9%	+0.7	$50-$400
Restaurant purchases	34.4%	34.3%	-0.2	$50-$400
Educational expenses	34.7%	34.3%	-0.5	$500-$1,000
Hotel or travel expenses	33.9%	32.9%	-1.0	$500-$3,000
Rent	34.7%	32.4%	-2.2	$1,000-$5,000
Grocery purchases	33.1%	30.4%	-2.6	$50-$400
Medical expenses	37.2%	32.6%	-4.6	$500-$1,000

Source: PYMNTS Intelligence
The Embedded Lending Opportunity, April 2024
N = 8,326: Whole sample, fielded Jan. 22, 2024 — Feb. 13, 2024

Consumers will likely increase their use of embedded lending if given options that work well for short-term or unexpected cash crunches alongside sufficient credit limits.

Embedded lending has built a substantial market presence but is falling far short of its potential. As discussed before, just 15% of consumers used embedded lending in the last three months, despite 43% reporting high interest in switching to providers offering embedded lending options. At the same time, attitudes toward using lending as a choice versus need play an outsized role in whether and how individuals choose to use embedded lending. Together, these trends suggest that embedded lending can be a helpful solution for different types of consumers.

Among consumers who generally use financing out of necessity, 40% would be likely to prefer embedded for unplanned expenses, compared to 26% of consumers who use financing as a strategy. The strategic users are more concerned with interest rates and credit costs, and 32% of them would be likely to prefer embedded if these costs were lower.

These findings highlight the distinct priorities of these two consumer groups — and the importance of catering products to align with different needs. Large shares of respondents provide two other reasons that reflect similar urgency: 18% said they would use it in case of short-term cash shortages, and 22% for quick financing needs.

29%

Share of consumers that would likely prefer embedded lending over other borrowing tools for **unplanned expenses**

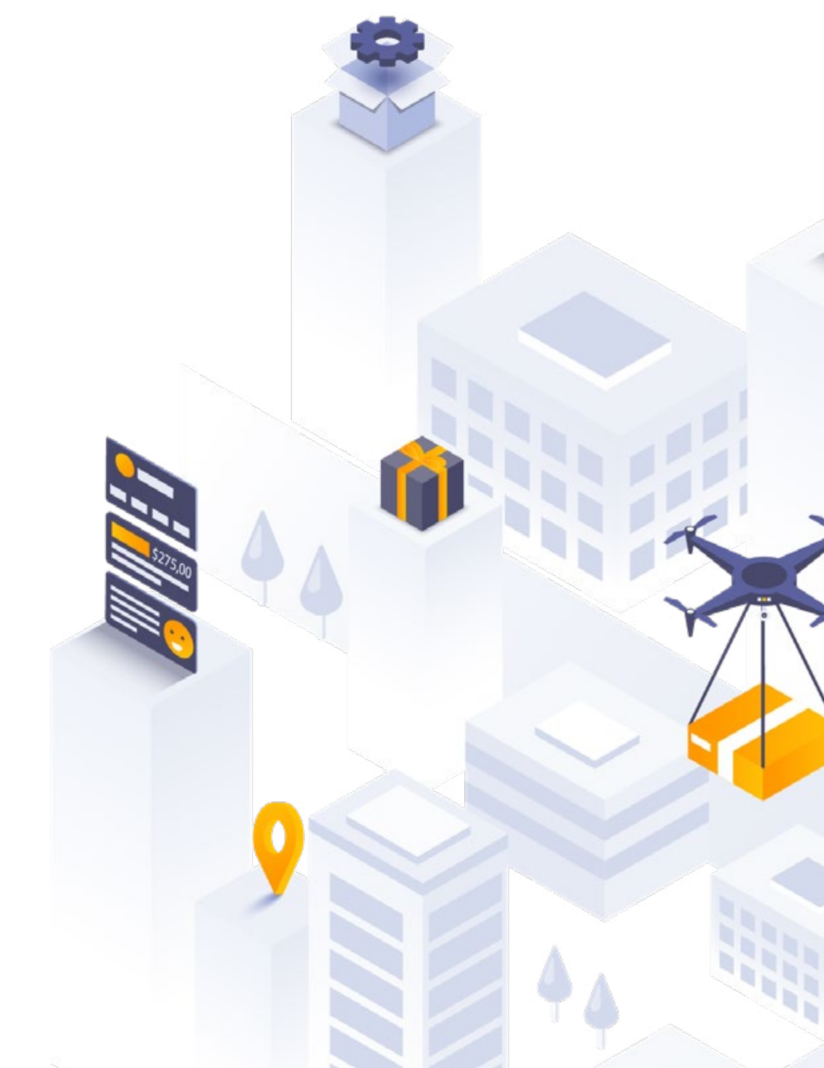


Figure 7:

When consumers prefer embedded lending

Share of consumers citing select situations in which they would be likely to prefer embedded lending options instead of paying another way, by credit use persona

	Generally use financing out of **necessity**	Generally use financing **strategically** (i.e., budgeting or rewards)	**Sample average**
For emergency expenses	40.3%	26.2%	**28.7%**
If fees or interest rates were lower	28.1%	31.6%	**27.6%**
If it was easy to apply	27.9%	21.0%	**20.2%**
For quick financing needs	24.7%	20.5%	**19.3%**
In case of short-term cash shortages	21.1%	16.4%	**16.2%**
For regular expenses	16.4%	15.0%	**13.4%**
If primary bank offered it	18.9%	12.7%	**13.0%**
If favorite stores offered it	13.7%	15.4%	**12.1%**
If I could not get financing any other way	16.7%	9.7%	**10.9%**
If the merchant or business offered it	15.3%	9.9%	**10.3%**
If it did not require a hard credit check	16.1%	9.0%	**9.1%**
If a bank other than my primary bank offered it	15.3%	9.0%	**8.1%**
If a FinTech or financial service provider offered it	6.3%	5.7%	**4.5%**
Would never prefer this type of financing	11.0%	18.5%	**22.8%**

Source: PYMNTS Intelligence
The Embedded Lending Opportunity, April 2024
N = 8,296: Complete responses, fielded Jan. 22, 2024 – Feb. 13, 2024

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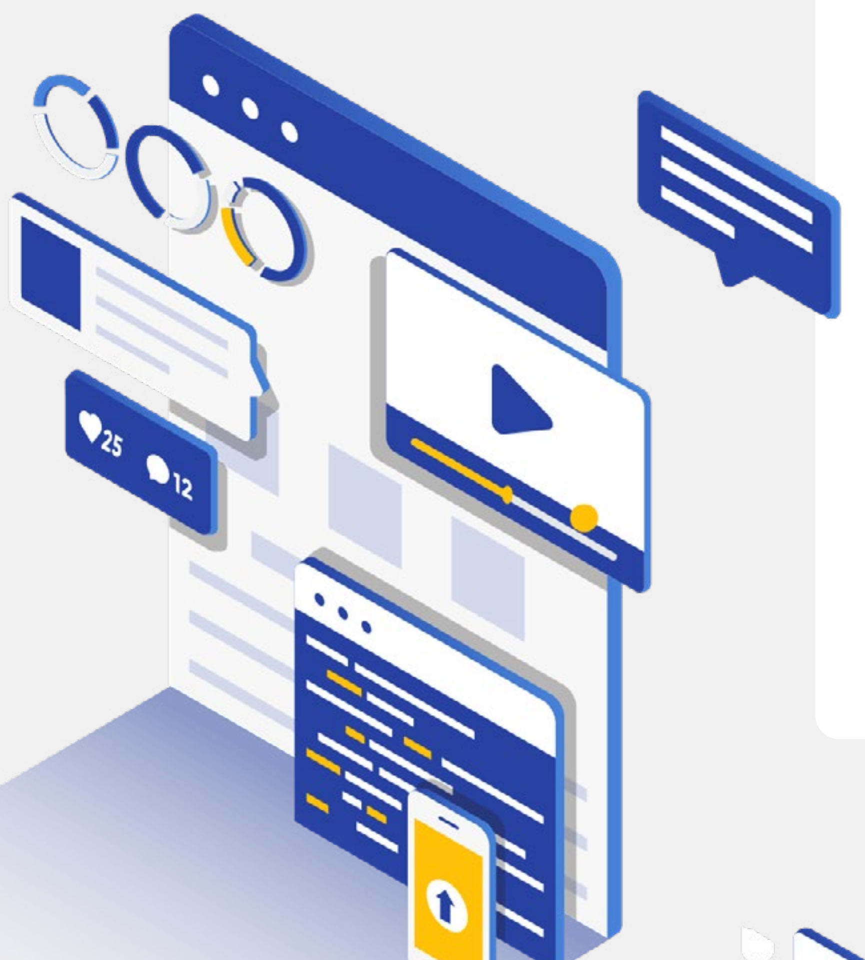
37%

of consumers who used embedded lending cited **low credit limits** as a pain point.

Additionally, 11% say that access to financing from a bank other than their primary bank would make them likely to choose embedded lending, highlighting the demand for alternative credit options. It also indicates that consumers may have experienced rejected applications for credit from their primary banks or worry about applying for too many lending products from the same providers.

Importantly, consumers must have access to a large enough credit limit. An insufficient credit limit is the number one cause of friction among consumers who use embedded lending, with 37% naming it as one of their key pain points. This is particularly critical for embedded lending to meet the needs of borrowers in the context of unplanned expenses, such as medical care and home or auto repairs.

Data focus



Consumers are open to sharing their data for quick embedded lending access, especially from trusted institutions.

Giving consumers quick access to financing is a critical area where embedded lending can deliver value to consumers and fill gaps in the current market. However, rapid approval processes require consumers to be willing to share their financial data with lenders for real-time review. While 29% of consumers surveyed say they are somewhat comfortable doing so, 37% are very or extremely comfortable.

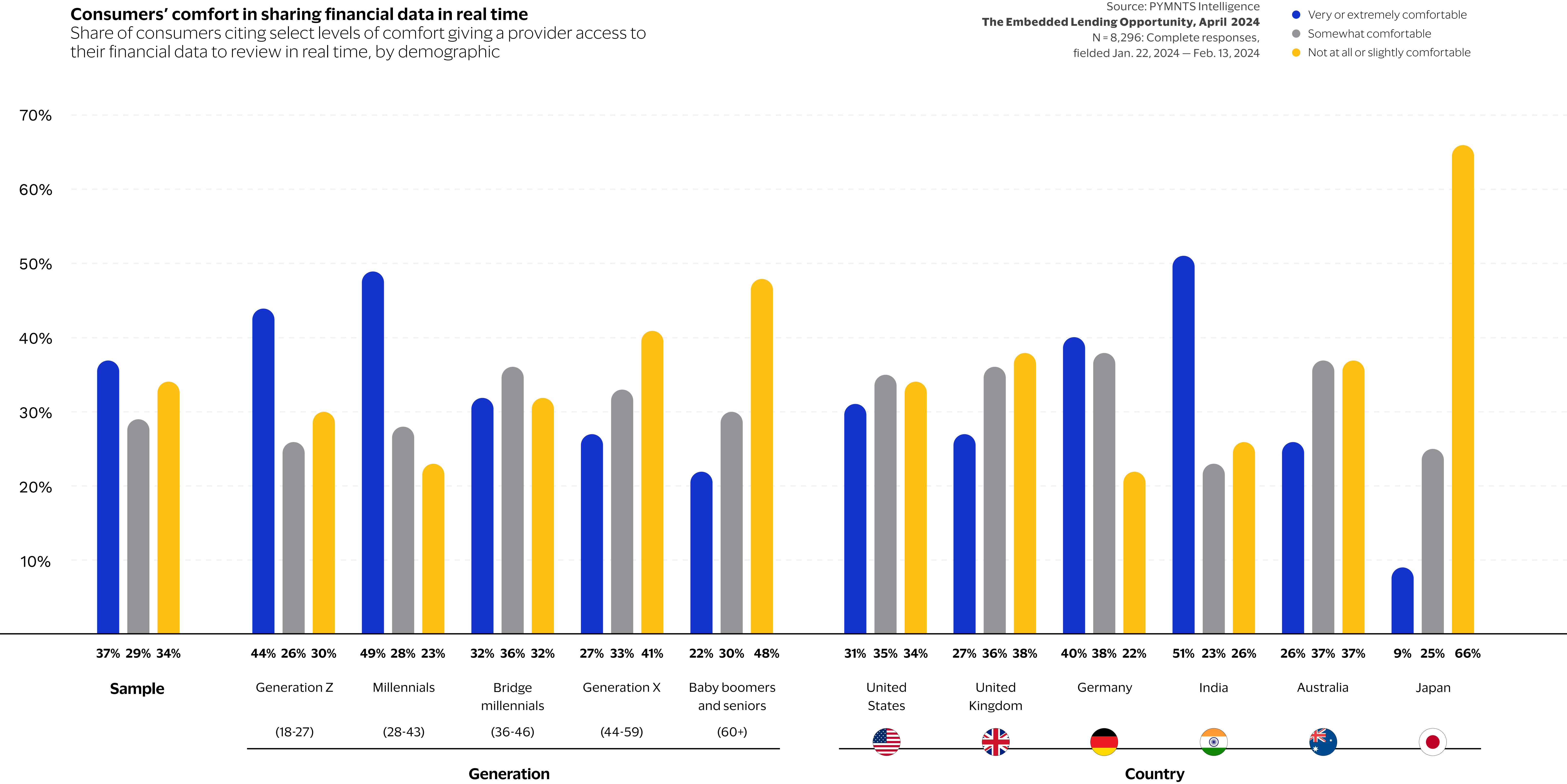
However, this varies significantly across age groups and countries. Younger consumers are more likely to be willing to share their financial information in this context, particularly millennials, with 49% saying they would be very or extremely, or in other words, highly comfortable. In contrast, just 22% of baby boomers and seniors say the same. Meanwhile, respondents in India are more open to sharing their financial data for real-time review than their counterparts elsewhere, with 51% indicating high levels of comfort. Consumers in Japan are by far the least comfortable, with just 8.7% indicating high levels of comfort, while U.S. consumers fall in between, at 31%.

Figure 8:

Consumers' comfort in sharing financial data in real time

Share of consumers citing select levels of comfort giving a provider access to their financial data to review in real time, by demographic

Source: PYMNTS Intelligence
The Embedded Lending Opportunity, April 2024
N = 8,296: Complete responses, fielded Jan. 22, 2024 — Feb. 13, 2024



Actionable **insights**

01

Across major economies, half of consumers report low levels of satisfaction with their existing access to lending options, reflecting significant potential for the market to better serve their needs. This is particularly true among consumers with tight cash flows, regardless of income — the segment most in need of ready-to-access, cost-effective solutions. Providers should position their consumer credit products with these broad dynamics in mind.

02

Relatively few consumers take advantage of embedded lending today. However, nearly half of consumers express strong interest in switching to providers that give them access to embedded lending, indicating huge growth potential. To close this gap, providers must address key causes of friction, including insufficient credit limits and concerns about the cost of financing.

03

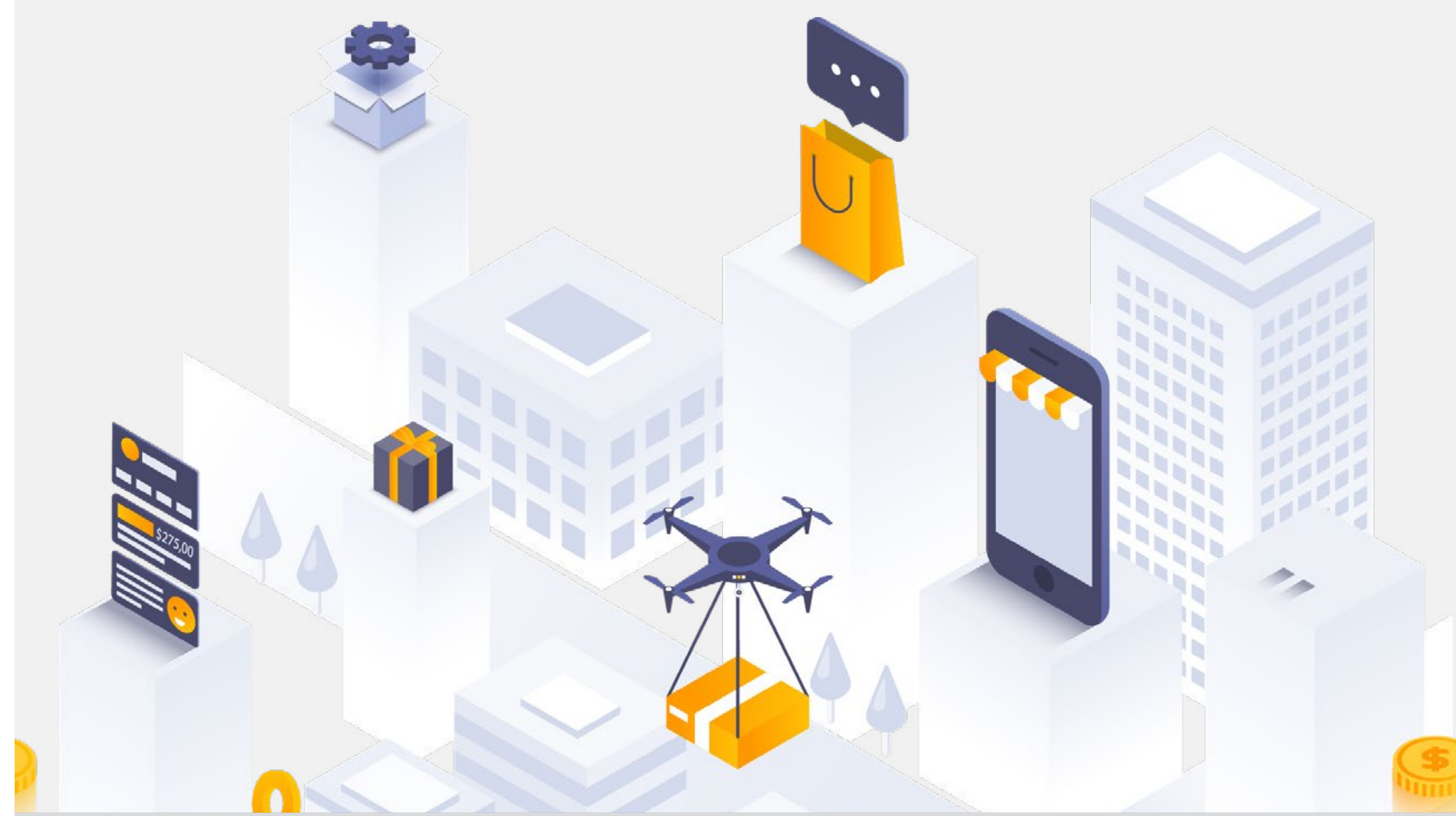
Consumers tend to see embedded lending as a good fit for financing in certain situations, particularly unplanned expenses and short-term financial pressure. Most notably, unplanned expenses rank as the use case in which consumers would be most likely to choose embedded lending over other forms of payment, although other situations in which consumers seek rapid access to financing also stand out.

04

Do not consider embedded lending as a product only for emergencies or unplanned expenses, however. Almost one in five consumers use financing as a strategy (for rewards or budgeting) and they are equally likely to use embedded lending for essential and discretionary purchases, including luxury items and travel. Providers should deeply consider costs: For about a third of these strategic consumers, lower credit costs (such as lower interest rates) would be a strong motivating factor to use embedded lending.

Methodology

The Embedded Lending Opportunity, a PYMNTS Intelligence report commissioned by Visa, explores the state of play for embedded lending and related consumer preferences about financing options. It draws on a survey of 8,326 consumers across six major economies — Australia, Germany, India, Japan, the United Kingdom and the United States — conducted from Jan. 22 to Feb. 13. The survey segment from each economy was balanced based on the country's census data. In our sample, 46% of respondents identified as female, the average age was 42 years old and 27% were college-educated.



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About

Visa Inc. (NYSE: V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network — enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device, for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce. For more information, visit www.visa.com, https://corporate.visa.com/en/solutions/buy-now-pay-later.html and https://www.linkedin.com/company/visa.

PYMNTS INTELLIGENCE

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts, and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multi-lingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

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