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Executive Interview with Rob Straathof, CEO, Liberis: “Embedded Finance Isn’t One Size Fits All”



Image: Rob Straathof

Flagship Advisory Partners’ Executive Interview Series provides readers with exclusive insights from thought leaders in the payments and fintech industry.

This edition spotlights Liberis, a leading global embedded finance platform that provides funding and financial products to small businesses. Flagship Advisory Partners met with Rob Straathof, CEO, to learn about Liberis’ perspectives on embedded finance and lending in today’s marketplace.

The term ‘embedded finance’ means different things to different industry actors. Could you define the term and who it serves today?

At Liberis, we refer to embedded finance as the seamless integration of financial services or products, including payments, lending, insurance, or cards, into non-financial platforms/apps or operating systems. We work with companies like eBay and Barclaycard, and verticalized solutions such as Vagaro where we can offer embedded business financing in their dashboard /operating system. We can create a seamless 45-second, four-click journey that gives small businesses (SMEs) access to up to £40,000 in instantly available, pre-approved funding, and up to £1m in funding in under 24 hours.

SMEs have traditionally gone to their bank first for working capital needs, despite banks having a history of traditionally underserving such needs. How does embedded finance fit into SME needs?

The key is to understand who will own the relationship with SMEs in the future. Traditionally, banks controlled all financial services for small businesses—loans, cards, accounts, and payments—since few platforms could manage POS systems or channel configuration. Now, however, we’re seeing innovation that shifts this financial relationship from banks to operating systems—the platforms that small businesses rely on to run their operations.

Vagaro, a SaaS for salons and fitness, manages bookings, runs business operations, takes payments, and integrates with adjacent platforms (i.e., accounting). This system consolidation allows small business owners to access all their financial and business data (from revenues to bank account details) on a singular platform. They now embed lending, insurance, and other financial products through providers like Liberis. Merchants need more than just acquiring from payments companies. The operating systems that can integrate and collate all the services under one roof and collect data will likely dominate relationships with SMEs.

But this doesn't mean banks do not have a role to play, because banks are very good at core services such as risk management, deploying deposits, loans (and others) that are good for small businesses. They do, however, need to become more API-enabled to effectively serve a broader customer base by providing these services to third parties (outside of banking customers).

How hard is it to create integrated layers of financial products, software, and data, considering that the CFO SaaS landscape continues to be fragmented (especially in Europe), and market winners are unclear?

It is an immense task to develop this, and ultimately, the company that comes up with a rapid and workable solution will be the market leader. Today, Liberis receives over 1.2 million records from small businesses across all of our partners, which translates to over 15 million data points every single month that we crunch. As we link more products, services, and partners, this number will multiply significantly. If you can make sense of all the data signals that you're receiving and offer actionable insights to businesses, this is a truly valuable resource for customers and not just another standard service.

Embedded lending is one of the most sophisticated use cases under the embedded finance umbrella and is arguably the hardest to localize at an individual market level. How difficult has Liberis' journey been thus far?

The European economy is complex and fragmented, navigating multiple countries, each with unique regulations, language, and propensity toward taking out funding. Even if you look at ISVs, marketplaces, and acquirers, they are all regionally spun up into their localized countries. The U.S. has some regulatory differences by state, but scalability is higher due to the unified language and larger economy. To give some vertical insights, the size of daily payments from all U.S. hairdressers equals the total daily payments of the entire Netherlands, which showcases the incredible potential within the U.S. The U.S. is better funded and more competitive, although Europe does offer more greenfield opportunities. In embedded finance and alternative finance, only an estimated 5% to 6% of EU revenues come from small businesses (a figure that is much higher in the U.S. and the UK), however, McKinsey predicts a five- to six-time growth over the next five/six years. European embedded finance revenues are forecasted to surpass €100 billion by 2030.

For Liberis, our partners love to have one API and platform that deals across the U.S., UK, and EU. Our approach is to go live in the core countries our partners operate in, allowing them to scale with us and offer financial products to all their customers, regardless of location. While smaller European markets may not be sizeable and profitable alone, they become valuable as part of a whole package. The key to unlocking the EU market is scalability and automation to remove the need to roll out separate platforms for each country.

Lastly, a crucial point for fintechs to focus on is the uptake of regulations such as PSD3 and Open Banking that aim to alleviate the challenges in the European economy. The EU harmonization framework is still very much fragmented, but they're moving towards one regulatory outcome. Still, one thing that will never be solved is the language and cultural barriers where markets like Germany have a high aversion to debt compared to the UK or Nordics, who are far more open to taking on debt to grow their businesses.

Embedded finance has a clear fit for the SME segment, but what is the opportunity for targeting up-market businesses?

There's a significant opportunity in the mid-market segment, which is often overlooked as the "forgotten middle." Banks tend to focus on larger clients, as mid-markets are too small for dedicated account managers. Alternative finance providers serve small businesses as mid-markets are too large to really be of interest at this point. However, a few establishments (Allica Bank) are making inroads in the middle market.

Mid-markets often have finance directors or CFOs instead of owners making decisions, meaning a different approach is needed. You have to hook them with the right product that's of interest with clear value proposition, which could be cash flow or channel insights, tailored financing options, etc. It is also very sector-dependent, as some of these verticals are notoriously difficult to serve, especially if they're offline. The target focus should be on tech-enabled businesses, restaurants, franchises, etc., where it makes sense to have an integration into their booking or management software. We should adopt the mindset that businesses don't just need a product for its sake, but that it should be offered at a point in the lifecycle where it makes sense. A good example is Amazon, an amazing marketplace, but its 3rd party insurance offering for customers aren't always on target, i.e. £4 insurance on £10 batteries. The applicability of embedded finance needs to be seen in the context of the services that are offered, and not a one size fits all kind of approach.

Can you please describe Liberis's journey to date, and what makes you differentiated in the marketplace?

In the last few years, we have heavily invested in developing a best-in-class customer application journey. That means we understand our customers and partners, ensuring that our APIs are top-notch. The key for us is to have the best technology, aim to make the application journey as little as 4 clicks. We make sure to understand our end customers' needs.

This interest is driven from a behavioral and data perspective. We have upgraded our data repository and currently receive 118 million monthly data entries from our entire merchant customer base, which we use to test actionable outcomes. Over the last nine months, we have updated our risk algorithm approx. 70 times with tweaks to maximize deal time and acceptance rates, focusing on what end customers need and not one size fits all. We are also launching multiple new products, including Flexi Advance, an overdraft product for businesses. Based on months of trials, tests, and feedback, we successfully developed something that people love to use (with plans to roll out in the U.S., UK, and EU).

Liberis has been actively pursuing partnerships with SME-focused verticalized SaaS/ISV platforms (e.g., MyPOS) in recent times. What is Liberis' strategy when it comes to partnerships?

Liberis had been actively meeting with partners where merchants have high touchpoint rates, i.e., salons using Vagaro's platform to manage general operations, bookings, etc. The more touch points the merchant has with the software, the higher our penetration is. In our first month embedded with Vagaro, nearly 6% of their merchant base applied for funding, which is a win-win as we are simplifying the lending process in just 4 clicks with no need to provide additional data.

We serve 3 types of merchants: thin credit file merchants that do not have enough background data to apply for funding from banks, high-growth merchants seeking investment to scale their business, and opportunity merchants seeking investment to kick-start their business in a timely manner. With these in mind, we base our partnerships on who controls these merchant relationships, which are the SaaS /ISV platforms, PSPs, acquirers, and (neo)banks. Specialized marketplaces across the U.S., UK, and EU are also great opportunities for us to collaborate with for merchant funding. Regardless of the type of partner, the goal is to simplify onboarding with full API integrations. Once a level of trust is established, the customer cohorts that we serve show an average revenue uplift of more than 20% over the first year.

What are some of your strategic priorities through 2025?

Our expansion strategy is to follow and launch in markets with a joint business case for our partners, merchants, and ourselves, successfully launching in five countries: Iceland, Norway, Poland, Canada, and Germany. We have also launched several new strategic partnerships to strengthen our distribution with partners such as Sezzle, MyPOS, Shop Circle, eBay, Paytrail, Viva Wallet, etc. Going forward, we are focused on three core elements: continuing to strengthen our core revenue products, expanding and diversifying our partnership base to include more marketplaces, ISVs, and platform partners, and expanding our product offerings.

Artificial Intelligence (AI) is a trending topic in the world of Fintech. What is your view on its impact, and how does it relate to Liberis' future business plan?

In the next five to ten years, the market will shift toward a system where businesses can easily switch between best-in-class banking, lending, and accounting products across different providers. With current advancements in topics such as open banking, AI, and Gen AI, the main lever is going to the financial operating system coupled with multiple products, cash flow insights, and data-driven insights that guide small businesses in making informed decisions.

Gen AI will have a larger impact than previous technological revolutions like cloud computing, mobile phones, etc. It will transform industries such as financial services, customer service, and compliance; however, the adoption and impact will take longer than expected. While it won't displace the human workforce just yet, it will significantly increase productivity and will be beneficial for executives to use for tasks like document drafting, compliance, and data management.

Looking towards 2025, Liberis will focus on maximizing the potential of the data in our data repository. Using Gen AI tools to help generate data insights that we can present to the customer and use to validate the right type of advice will be highly valuable. The next stage would be to create a layer that will eventually learn to select the right product for the right customer at the right time.

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