

GenAI and embedded finance steal the show at Finovate Fall 2023

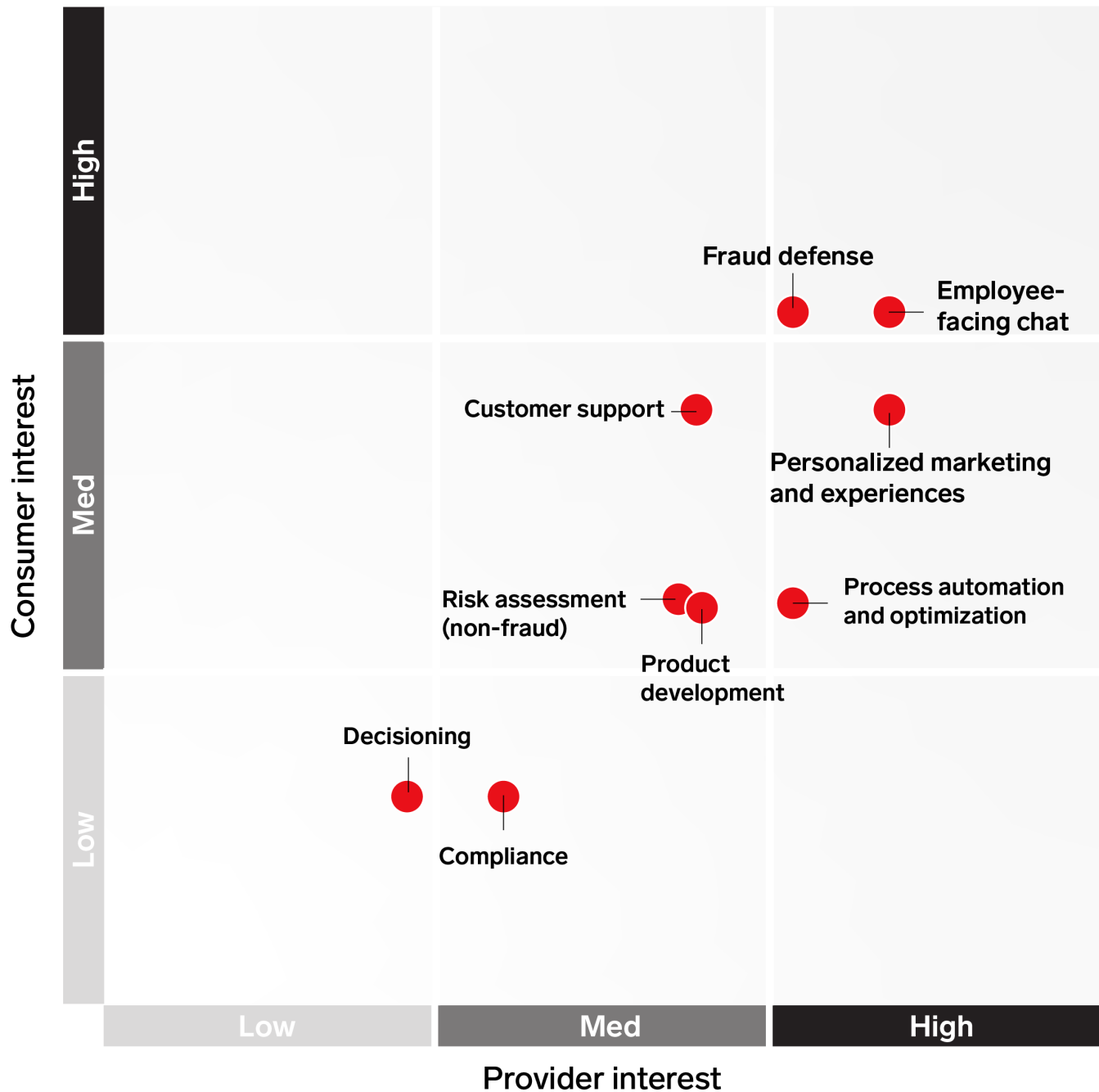
Article

What we heard: Generative AI and embedded finance dominated conversations at the Finovate Fall conference on Wednesday—proof that the two key payments trends are still top of mind for financial services executives.

Is genAI just a fad? It depends on who you ask.

- **Matt Harris**, partner at **Bain Capital Ventures**, said the technology is “wildly overhyped” and has so far only led to disappointments. But his outlook wasn’t all bearish: Harris noted that the technology could transform industries as it improves and matures over the years.
- **Alexa von Tobel**, co-founder and managing partner of **Inspired Capital**, agreed that genAI can be “fundamentally transformative” in years to come but compared the technology’s current skill level to that of a 6-year-old. She said it can be profoundly helpful at low-hanging-fruit tasks, but it needs improvement on more sophisticated tasks like identifying fraud accurately and without bias.
- **Tiffani Montez**, principal analyst at **Insider Intelligence**, argued that **ChatGPT** as an app did deserve the hype. She said we can evaluate hype based on how long it takes it to reach 100 million active users. For **OpenAI’s ChatGPT**, that was **just two months**. **TikTok**, by comparison, took nine months to hit 100 million active users after its global launch. The only app to beat ChatGPT’s record is **Threads**, but it had the advantage of tapping **Instagram’s** user base.

Analyst Estimates: Provider and Consumer Interest in Generative AI Applications in Financial Services over a 3-year horizon



Source: Insider Intelligence, 2023

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What's next? ChatGPT may have had gangbusters adoption, but it didn't keep all those users. Worldwide traffic to the ChatGPT site has **fallen for the last three months**, according to Similarweb data cited by Axios.

Every speaker at Finovate Fall said genAI still faces many hurdles before it can achieve its potential.

- Montez said the top five hurdles facing ChatGPT in the US were data collection, data security, fairness and transparency, accuracy and reliability, and accountability. She said GenAI can be transformative across industries if it can overcome these obstacles.
- In the meantime, financial service providers can prepare by keeping their tech and tools up to date. And they can lean into the opportunity and identify high-priority use cases to develop a testing framework. As Montez said, early movers have the most to gain.

To embed or not to embed? Fintechs are focused on **embedded finance 2.0**.

- Embedded finance 1.0, according to **Marqeta** VP of go-to-market strategy **Mahesh Kedia**, has been around for a while—like **Amazon's** one-click checkout or airlines folding travel insurance into the ticket-buying process.
- But **Arvind Purushotham**, Head of **Citi Ventures**, said that embedded finance is still underused and underadopted.
- Embedded finance 2.0, per Kedia, will take things a step further, expanding into new use cases like accelerated wage access, buy now pay later (BNPL), and SMB credit lending. Purushotham said embedded payments are a theme for a lot of Citi Venture's investments and will be a force going forward in payments.
- **Sarit Amir**, executive director and lead of corporate development and partnerships at **JPMorgan**, has a love/hate relationship with open banking. She loves that it creates room for new possibilities but hates that companies lose control over their data and therefore don't have the same protection over their customers.

Looking forward: Embedded finance is expected to exceed **\$7 trillion worth of total US transactions in 2026**, according to data from Marqeta. And people are ready for this shift: Almost 50% of consumers globally are open to accessing financial services from nonfinancial companies.

But going forward, providers need to be careful that they aren't embedding for the sake of embedding, Amir cautioned. She said it only makes sense to implement when the embedded service solves a customer problem that already exists.

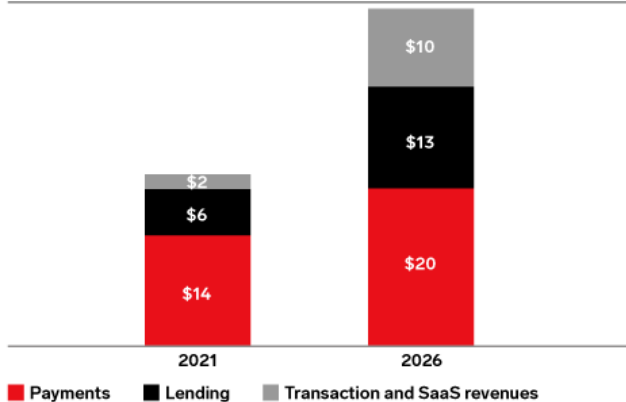
Finovate Fall conclusions: The payments industry is at a turning point, and even the experts are unsure how the innovations of today will play out tomorrow.

- The promise of all of this tech—from AI to open banking and embedded finance—is speed: faster payments, faster credit underwriting, faster account opening, faster identity verification.
- And for nonfinancial institutions, it turns transactions into relationships, per Marqeta's Kedia. Checking out at any store can now be a touchpoint for Apple if you use the Apple Card or tap to pay. And it encourages consumers to open more financial products with Apple, like the Savings accounts.
- But rising fraud will continue to be the bogeyman haunting adoption—and inviting increased regulatory scrutiny. Faster payments mean faster fraud and new battles over who's responsible for compensation. And while genAI isn't developed enough to fight fraud, it too has unleashed a torrent of scams.

Firms don't want to risk falling behind while others claim first-mover advantages, but rushing headlong into new tech without a comprehensive strategy could lead to costly headaches down the road.

US Embedded Finance Revenues, by Segment, 2021 & 2026

billions



Note: includes consumer payments, B2B payments, consumer lending, buy now, pay later (BNPL), point-of-sale (POS), B2B lending, transaction revenue, and software-as-a-service (SaaS) revenue
Source: Bain & Company, "Embedded Finance: What It Takes to Prosper in the New Value Chain," Sep 12, 2022

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