

The trends helping payments disruptors take on financial services

Article

Payments service providers are building an array of financial services to compete with financial institutions (FIs). Lending, bank account products, issuing, and other services that have been FIs' bread and butter are being challenged in a bid to add more revenue opportunities and engender greater loyalty. These payment disruptors, such as Square, Stripe,

and Shopify, are using their existing relationships with small businesses to attract clients away from FIs and persuading them to use their own financial offerings.

Two trends are powering service providers' pushes into financial services: one from their own industry and another from banks and fintechs.

The surging popularity of service providers has given firms huge client bases to whom they can push financial solutions. Many of these service providers have already amassed millions of users over the years by processing their payments and otherwise helping them digitize their operations. The pandemic further boosted their ranks as clients responded rapidly demanding help moving their businesses online. This helped Square boost its card-not-present gross payment volume (GPV) by 26% year over year (YoY) in Q4 2020, and Shopify grow its number of merchants from 1.1 million merchants at the end of 2019 to 1.7 million by the end of 2020.

It is already thought that small businesses engage with service providers' ecosystems more than those of banks providers are involved in their day-to-day operations including processing payments and managing workers. Potentially this gives small businesses greater affinity and trust in their providers. For service providers, this creates a golden opportunity to boost growth by offering additional financial solutions to loyal customers; they must meet their specific needs, such as speedy access to lending funds and a dynamic repayment process that considers their ongoing performance.

The emergence of new digital distribution models for financial solutions has armed service providers with the tools to offer their clients financial services. The emergence of digital banking in recent years has given rise to BaaS and embedded finance. BaaS enables banks and fintechs to offer their services to third parties, while embedded finance enables financial products to be weaved into nonfinancial platforms. This gives service providers avenues to either disseminate their own solutions or to use products from banks and fintechs similarly distributing their own tools.

Combined, these trends have positioned service providers to take financial services by storm since they have both a captive audience and the capability to offer them solutions. Now that service providers have different ways of deploying financial solutions, their success in the space will largely be determined by how each firm leverages a unique relationship with its clients. And since those relationships are influenced by their established nonfinancial services offerings, their past operations may be just as important to their financial services pushes as their financial services themselves.

To learn more about how the likes of Square and Stripe are evolving from SMB payments providers into merchants' one-stop shop for financial services, Insider Intelligence subscribers can read our recent report:

Report by Daniel Keyes May 28, 2021

Small-Business Payments Disruptors

