

# THE EMBEDDED FINANCE ECOSYSTEM SOFTWARE PUBLISHING

January 2024 Report



PYMNTS  
INTELLIGENCE

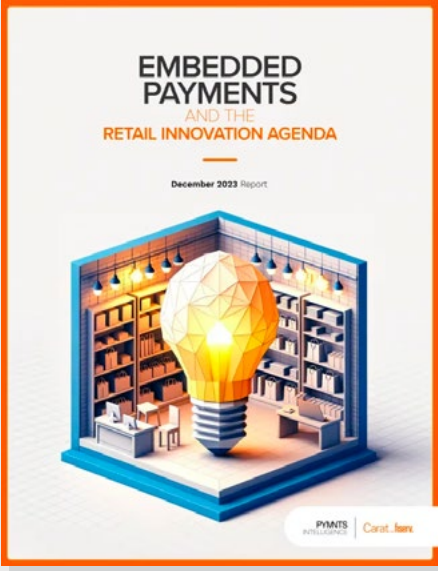
Carat from fiserv.

# THE EMBEDDED FINANCE ECOSYSTEM

## SOFTWARE PUBLISHING

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December 2023

**Embedded Payments**  
and the Retail Innovation Agenda

PYMNTS INTELLIGENCE | Carat from fiserv.

The Embedded Finance Ecosystem: Software Publishing Edition was produced in collaboration with Carat from Fiserv, and PYMNTS Intelligence is grateful for the company’s support and insight. [PYMNTS Intelligence](#) retains full editorial control over the following findings, methodology and data analysis.

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# WHAT'S AT STAKE

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**T**he software publishing industry is upgrading its embedded finance ecosystem as key players in the sector seek to deliver deeper customer engagement and monetize new revenue streams. Across payment facilitators (PayFacs), independent software vendors (ISVs) and marketplaces alike, innovations such as digital wallets and short-term lending products are becoming increasingly standard. This transition will shape the future of eCommerce more widely.

PYMNTS Intelligence's latest study shows that 71% of software industry PayFacs offer digital wallets and are highly interested in enhancing these capabilities — a notably higher rate than observed among ISVs and marketplaces in the sector. The research also shows that 70% of marketplaces are interested in enhancing or introducing short-term merchant credit offerings, providing their business customers with new options for cash flow management.

# 71%

**of software industry PayFacs are diving deep into the digital wallet space —**  
a strategic move that could redefine their market stance.

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These are just some of the findings detailed in The Embedded Finance Ecosystem: Software Publishing Edition, a PYMNTS Intelligence and Carat from Fiserv collaboration. This edition examines the evolving role of embedded finance in the software producers and publishers segment and draws on insights from a survey of 282 executives working at PayFacs, ISVs and marketplaces conducted from May 10, 2023, to Aug. 25, 2023.

**This is what we learned.**

# KEY FINDINGS

**Embedded finance innovations, including digital wallets and short-term credit offerings, are valuable to players in the software publishing space.**

## **PayFacs processing transactions for the software publishing industry are focusing on the digital wallet space.**

PYMNTS Intelligence's latest study finds that PayFacs serving the software production and publishing industry are widely on board with digital wallets. Seventy-one percent of these PayFacs not only offer digital wallet transaction processing but are also highly interested in further innovating their offerings. In comparison, only 26% of ISVs and 25% of marketplaces in this space offer digital wallets and show that level of enthusiasm for enhancing their related services.



# PayFacs in the software industry process

47%

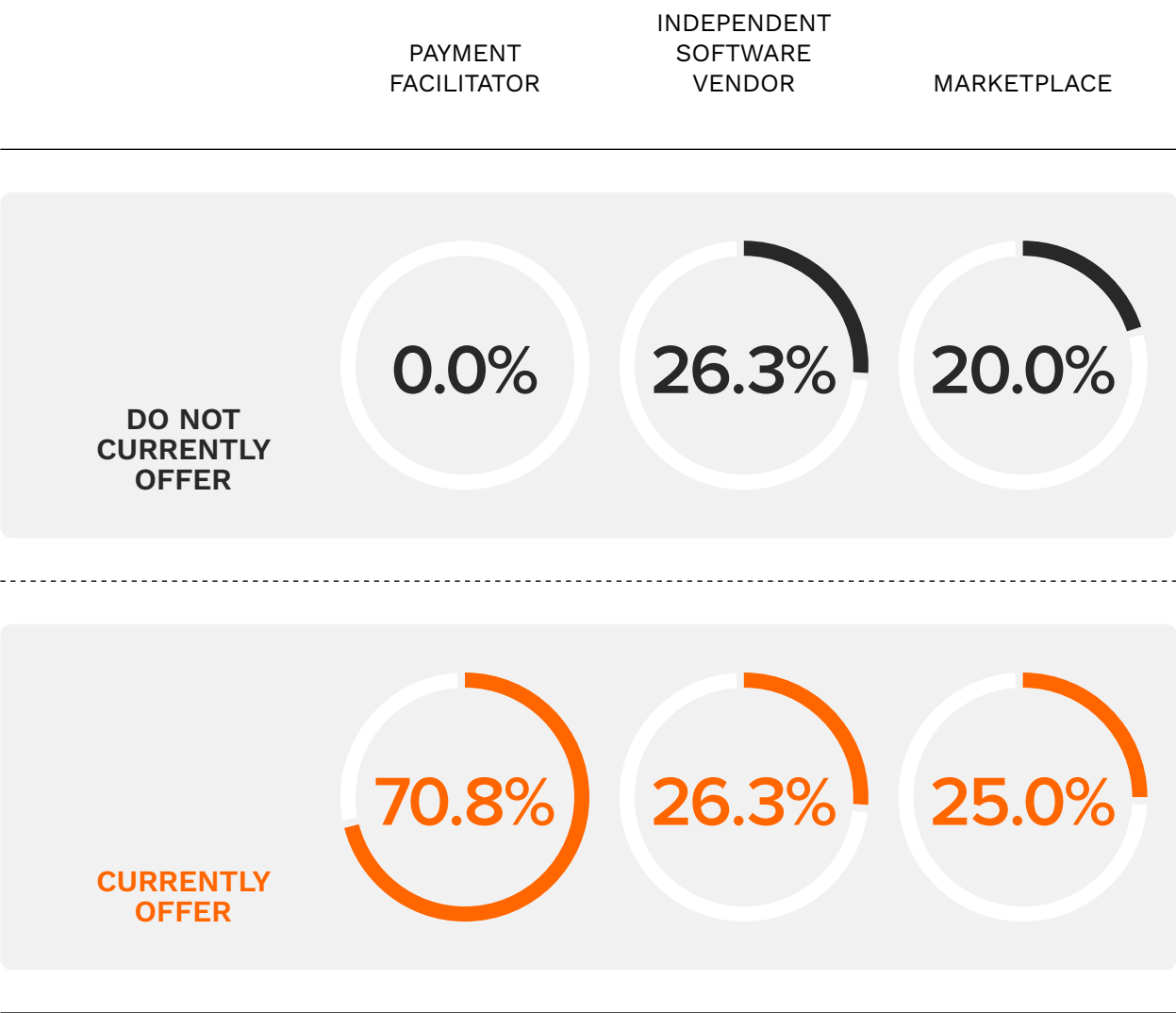
more payments via digital wallet than the retail segment.

To better understand the strong motivation among PayFacs to innovate further in this area, our research analyzed transaction volumes for different industry segments. Among software producers and publishers, 38% of all payment transactions PayFacs processed in the last 12 months were conducted via digital wallets — the second highest share across four industry segments. For example, in the retail industry, just 26% of payment transactions that PayFacs processed over that time occurred via digital wallet. The data suggests that PayFacs are positioning themselves to gain a significant competitive edge in this segment by heavily investing in the digital wallet space.

FIGURE 1:

## Interest in innovating digital wallet offerings

Share of PayFacs, ISVs and marketplaces that are very or extremely interested in innovating and enhancing digital wallets, by whether they currently offer digital wallets



Source: PYMNTS Intelligence  
The Embedded Finance Ecosystem, January 2024  
N = 282: Complete responses, fielded May 10, 2023 – Aug. 25, 2023

## Marketplaces in the software industry are embracing embedded finance for short-term credit offerings.

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Half of all marketplaces in the software producers and publishers segment have already implemented merchant short-term credit offerings and are highly interested in enhancing these products further. This is twice the 25% rate detected across the industries in this study. Additionally, 20% of software industry marketplaces currently offer no such credit products but express a strong interest in innovating in this area in the next 12 months. In other words, 70% of software marketplaces are actively looking to improve embedded finance products for merchants.

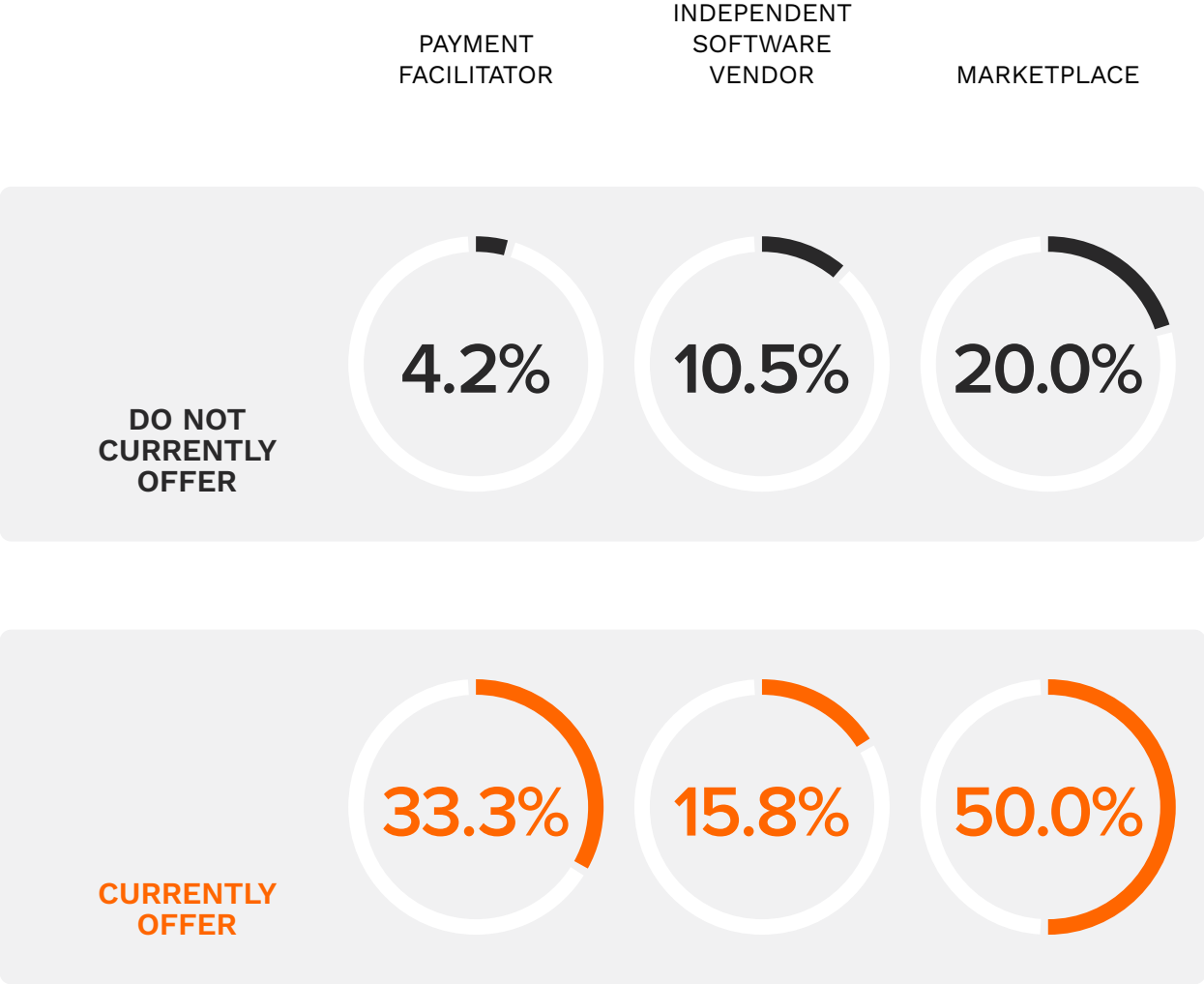
**70%**  
of marketplaces serving the software publishing industry are highly **interested in improving their merchant lending products.**

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Meanwhile, PayFacs demonstrate a robust interest in merchant lending and short-term credit solutions. Thirty-three percent offer these products and display high interest in further innovating them. However, just 4.2% of all industry PayFacs do not currently offer these products and express the same strong interest.

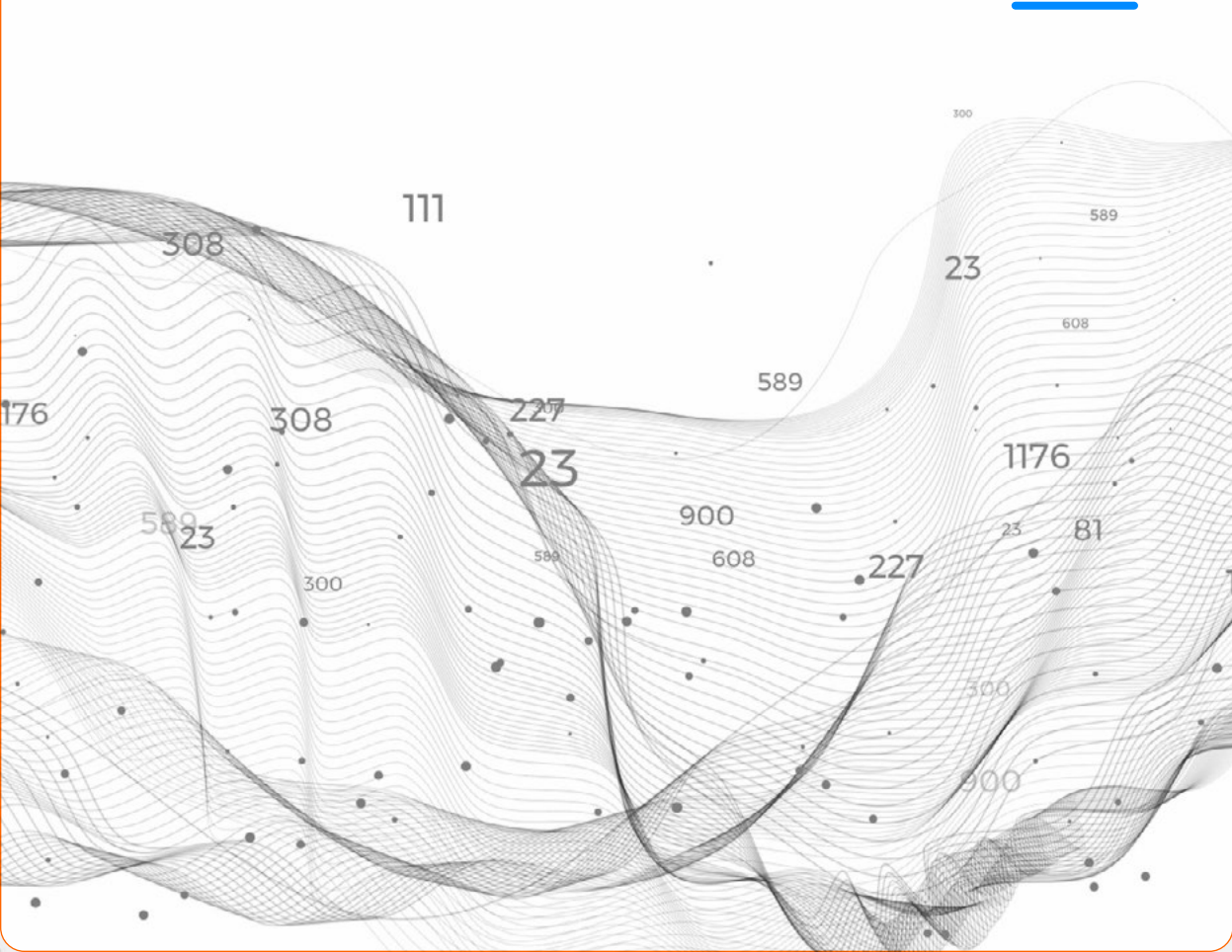
Among ISVs targeting the same segment, 16% currently offer merchant lending products and are eager to innovate further, while an additional 11% without any are strongly interested in possibilities to enhance the merchant lending products they could offer.

**FIGURE 2:**  
**Enhancing merchant lending offerings**  
Share of PayFacs, ISVs and marketplaces highly interested in enhancing merchant lending solutions, by whether the solutions are currently offered



Source: PYMNTS Intelligence  
The Embedded Finance Ecosystem, January 2024  
N = 282: Complete responses, fielded May 10, 2023 – Aug. 25, 2023

**20%**  
of marketplaces that do not currently offer merchant lending solutions are highly interested in innovating in this area in the next 12 months.



## Innovation strategies diverge as PayFacs, ISVs and marketplaces each tailor their approaches to better serve software publishers.

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Key players in the software production and publishing industry place different levels of emphasis on innovating in compliance and operational enhancement. The study finds that 25% of PayFacs in this segment prioritize risk management and compliance above all else on their innovation agendas, while only a small fraction of ISVs (16%) and marketplaces (10%) do the same. This priority is second only to the 29% of PayFacs that place customer experience at the forefront of their innovation agendas.

Meanwhile, 50% of the marketplaces serving this segment emphasize operational enhancements as their innovation linchpin — a share almost six times greater than the 8.3% of PayFacs that reported the same, and substantially higher than the 40% average across all marketplaces surveyed.

## Operational enhancements are the top innovation priority for

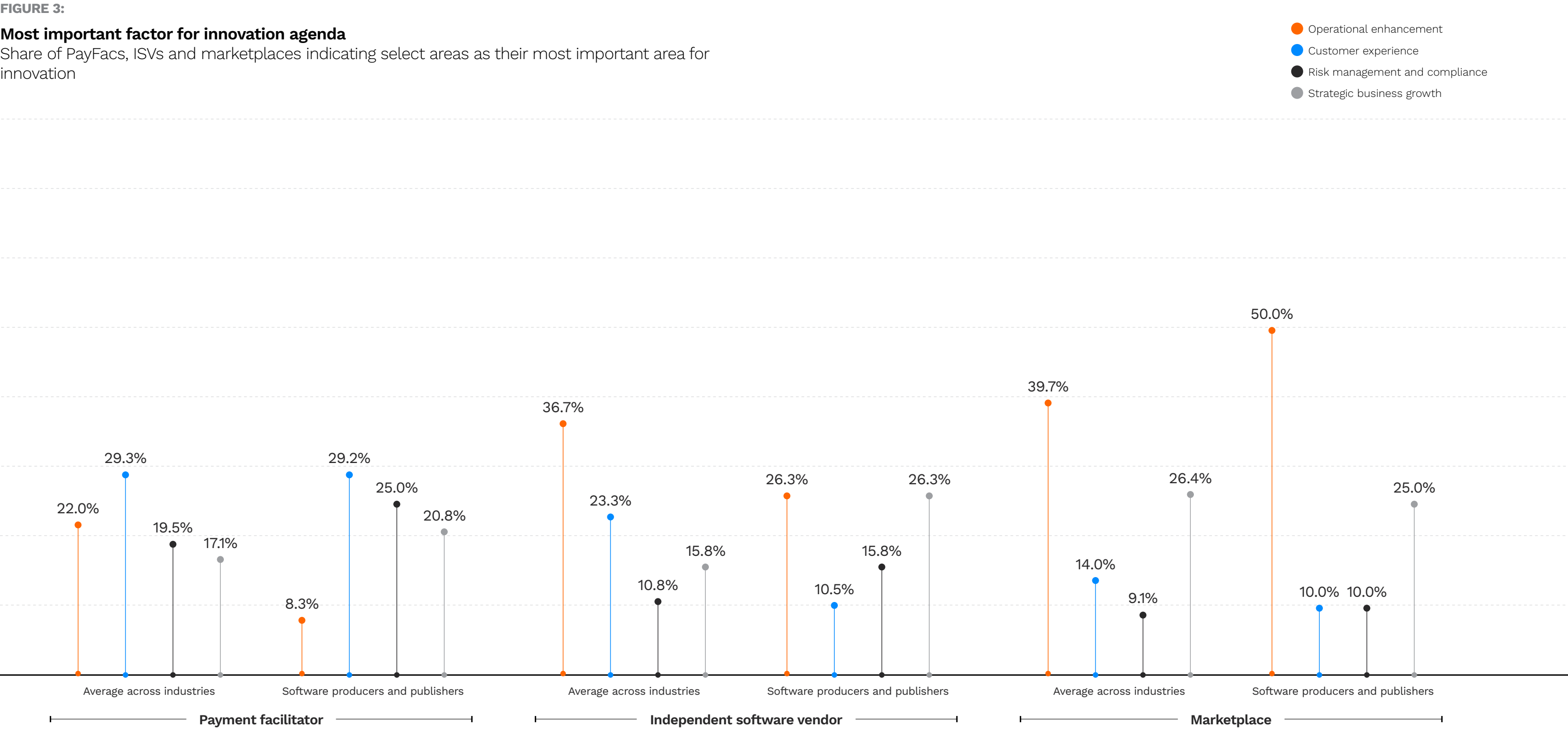
# 50%

of the marketplaces serving the software publishing industry.

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ISVs differ by appearing to weigh equally the importance of operational enhancement and strategic business growth, with each harnessing the focus of 26% of ISVs. For comparison, strategic business growth captures the top spot for 25% of marketplaces serving this segment, followed closely by the 21% of PayFacs that said the same.





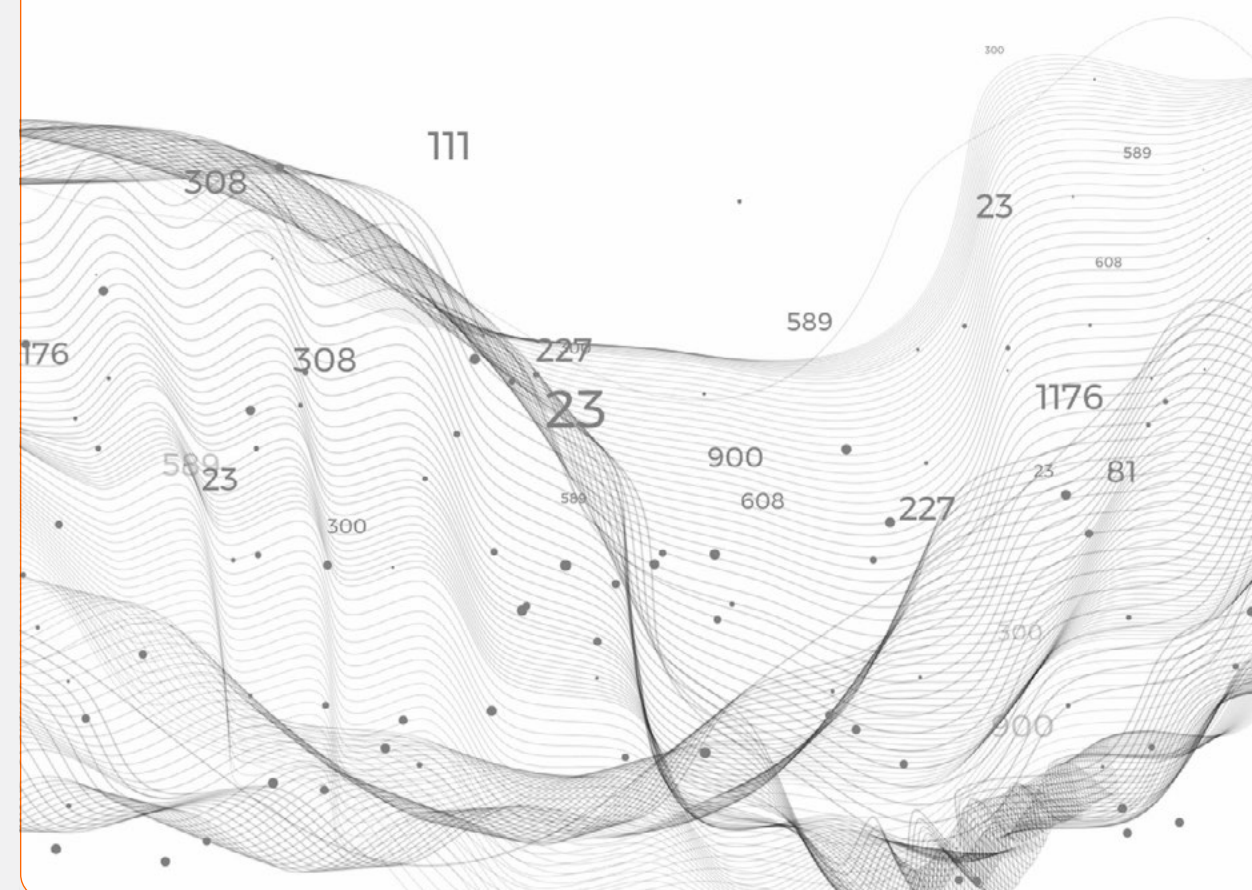
Source: **PYMNTS Intelligence**  
The Embedded Finance Ecosystem, January 2024  
N = 282: Complete responses, fielded July 10, 2023 – Aug. 25, 2023

**ISVs in particular encounter barriers to rolling out innovations for payments processing in the software publishing sector.**

ISVs serving the software producers and publishing industry encounter significant system integration issues: 26% of ISVs in this segment cite this as their primary obstacle to launching their innovative products — a rate double the 13% average for all ISVs. PayFacs and marketplaces, however, report less difficulty in this area, with only 8% and 15%, respectively, identifying system integration issues as their main challenge.

The hurdle of data availability is also pronounced for ISVs, with 26% of those serving this segment indicating a lack of data as a critical barrier to decision-making, surpassing the 10% average for ISVs overall. This issue is cited as a primary pain point by 17% of PayFacs and 10% of marketplaces, but the data suggests that, overall, it has a smaller impact on these providers than on ISVs.

26%  
of ISVs serving the  
software publishing industry cite  
system integration issues as their  
primary obstacle to launching  
innovative products.



**FIGURE 4:**  
**Biggest obstacles for innovation**  
Share of PayFacs, ISVs and marketplaces indicating select areas as their most significant obstacles to innovation

	CHALLENGES INTEGRATING DIFFERENT SYSTEMS	LACK OF RESOURCES	REGULATION AND COMPLIANCE	COMPLEX INTERNAL DECISION-MAKING AND REVIEW PROCESS	LACKING THE DATA TO MAKE GOOD DECISIONS
Payment facilitator					
• Sample	9.8%	17.1%	17.1%	12.2%	22.0%
• Software producers and publishers	8.3%	20.8%	16.7%	8.3%	16.7%
Independent software vendor					
• Sample	12.5%	15.0%	27.5%	15.8%	10.0%
• Software producers and publishers	26.3%	5.3%	10.5%	15.8%	26.3%
Marketplace					
• Sample	18.2%	8.3%	22.3%	13.2%	13.2%
• Software producers and publishers	15.0%	5.0%	20.0%	25.0%	10.0%

Source: PYMNTS Intelligence  
The Embedded Finance Ecosystem, January 2024  
N = 282: Complete responses, fielded May 10, 2023 – Aug. 25, 2023

Complex internal decision-making processes pose another significant barrier, particularly for marketplaces. The study reveals that 25% of marketplaces serving this segment view this as their biggest challenge — nearly twice the average of 13% across all marketplaces and substantially higher than the 8.3% seen among their PayFac counterparts. This calls attention to the somewhat unique and substantial barriers that ISVs and marketplaces must overcome to complete innovation life cycles.



# CONCLUSION

**P**ayFacs, ISVs and marketplaces are tasked with navigating an eCommerce landscape marked by interconnected challenges and opportunities. PayFacs’ substantial focus on digital wallets signals the importance of embedded finance offerings for digitally native payment solutions. Meanwhile, marketplaces are pulling ahead as leaders in the embedded short-term credit space, reflecting a broader trend toward more flexible financial solutions. Facing distinct challenges, these providers must embrace solutions or face an even bigger risk — playing it too safe with the status quo and being left behind.

# METHODOLOGY

**T**he Embedded Finance Ecosystem: Software Publishing Edition is based on a survey of 282 executives working at PayFacs, marketplaces and ISVs conducted from May 10, 2023 to Aug. 25, 2023. The report examines the evolving strategies and challenges PayFacs, ISVs and marketplaces face in the software producers and publishers segment.

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# ABOUT

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