

COLUMNS

# Elevating exclusivity: Embedded finance as a gateway to enhanced loyalty programs

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By A LUXURY DAILY COLUMNIST

By **Philipp Buschmann**

What is luxury?

The state of great comfort or elegance. In the marketplace, the traditional way to define luxury products is those whose demand increases as income increases.

It must be exclusive of the highest quality, aspirational and signal status.

## **Embracing embedded finance**

Luxury is also often at the forefront of production technology. However, the industry's single biggest issue is dealing with impostors and reproductions.

Where do modern financial products intersect with high-end fashion, bags, scarves and jewelry? First, it is the point of purchase.

When I pitched Hugo Boss to go online in 1999, I got the cold shoulder. "We are a luxury high street brand" but even Hugo Boss would admit that 25 percent of luxury goods are now online.

Online means online payments and Buy Now, Pay Later, as well as insurance, the three classic embedded finance products of retail. The technology is now much further along.

I'll share two examples and one story: regarding payment systems, BMW's next-generation X series cars will be an embedded finance powerhouse.

First, at over 150,000 pounds, it is clearly a luxury car. It will have its own embedded bank account and the ability to pay for tolls, parking, charging and even its own Netflix account.

It will earn points for driving sustainably and is paired with insurance and pay-per-use upgrades. Cabriolet versions come with rain insurance: if it rains too often, you earn a stipend for lost days of enjoyment.

In all these cases, embedded financial solutions increase the value, convenience and luxury of the product. The payment and

banking rails are irrelevant.

Not having to worry about signing up for and using 10 different e-charging services that is modern luxury. The next example involves LVMH, which was considering building a loyalty credit and insurance card.

Credit cards, like the American Express Centurion Black Card, increase payment power and create status by offering concierge services and exclusivity.

The incredible feature was that it would allow cardholders to put LVMH products in a digital vault on their phones. I could take my bag with me on holiday, put it in the digital vault and rest assured that the bag was insured no stress, no worry.

### **Luxury transactions**

So where is this innovation heading? Let's delve into the art of the possible for a moment.

Imagine a group of friends having lunch two years from now. Some of them like to wear authentic accessories like designer bags and scarves, but not all.

Which accessory is authentic, and which isn't? This is becoming more and more difficult to tell and, worse still, more difficult to signal without being pretentious.

Imagine if Gucci built a credit card that you can only apply for if you have purchased an authentic Gucci product a handbag, for example. Within the credit card app, the purchases are logged as yours.

If you ever choose to sell your bag, there is provenance. The buyer knows it's genuine and when and where it was purchased.

Continuing with the lunching ladies, lunch is now over, and the bill arrives. One of the women, sporting a gorgeous Gucci handbag pulls out her credit card to pay.

The card's issuer is Gucci, and every purchase she makes automatically supports carbon offsets and increases her reward points. Her purchases signal: "I wear authentic goods and care about my footprint."

This is understated financial signaling that melds payment methods with authenticity and increases the brand perception of her purchase. It is subtle but highly effective.

### **Future of finance**

In short, embedded finance augments and increases the quality, exclusivity and luxury allure of products, but it must be employed thoughtfully.

Suppliers for these products already exist at brands like Enface, CrossE, Edenred and b-Surance or at aggregators where the products are available under one roof.

This is one future I see and wish to explore further. The art of the possible isn't as far-fetched as you think.