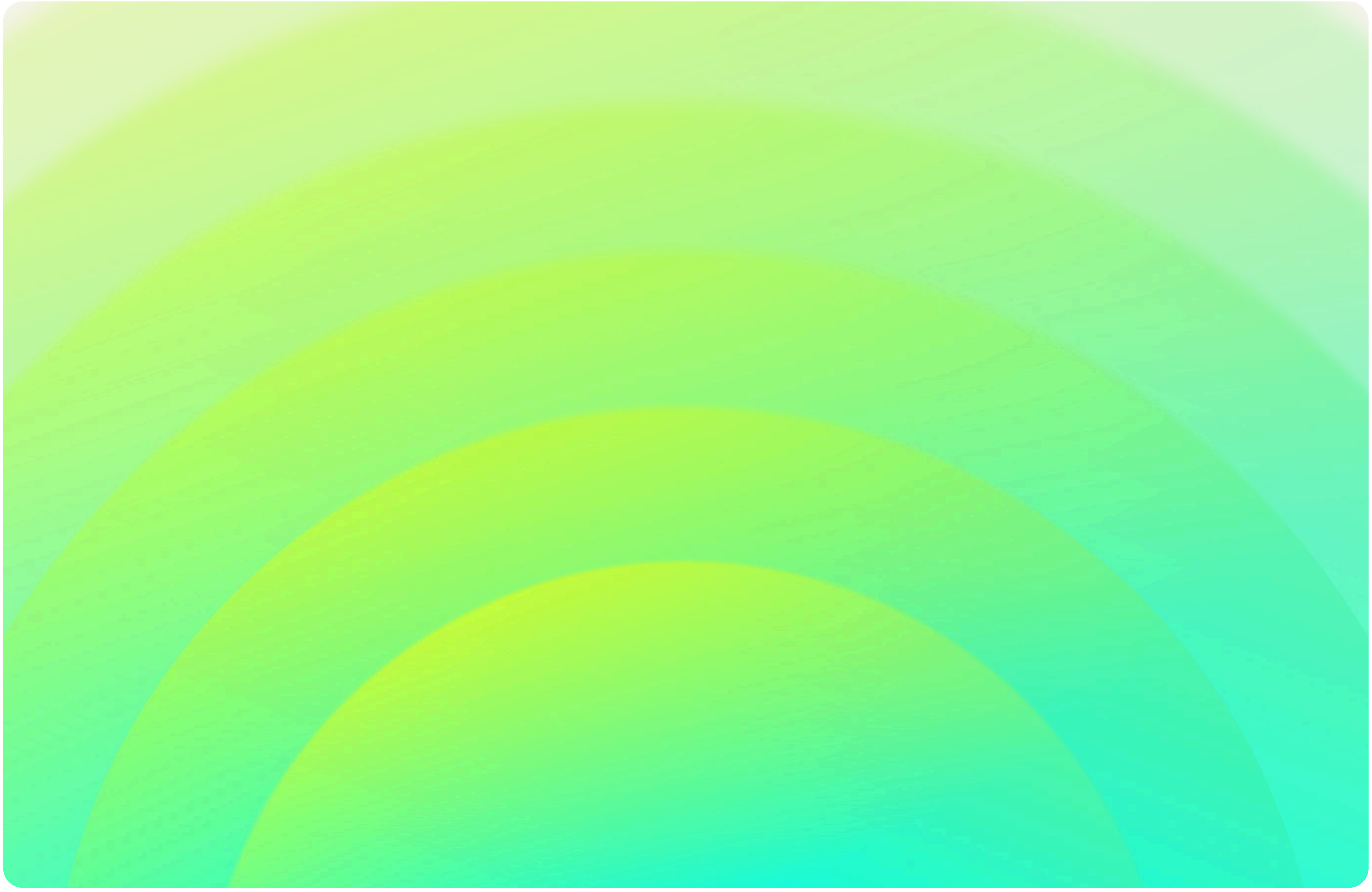
Highnote



# The CFO's Guide To Choosing An Embedded Finance Partner

Build embedded finance on a foundation of visibility, predictability, and control.

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Embedded finance has become core financial infrastructure for modern companies, with direct impact on margin, forecasting, and operational efficiency. This playbook provides a CFO-level framework for evaluating partners, understanding the economic levers that shape program performance, and ensuring embedded finance remains a predictable, scalable, and strategically valuable part of your financial model.

# Foreword

The right embedded finance partner should give CFOs in any sector the same control over their cards, credit and payments as their counterparts working on the frontline of financial services.

But that's not always the case.

The promise of embedded finance was that any company could be a finance company. The reality is that any company can offer financial products – that's not the same.

Finance companies – banks, insurers, payment processors, lenders – have a variety of levers at their disposal to ensure they negotiate deals and optimize their costs and revenue streams. They have experience and expertise, networks and licenses.

Companies that can offer financial products don't have that degree of leverage or control. As a result, most embedded finance customers get what they're given, from a cost and product perspective.

For CFOs, that often shows up in uncomfortable ways:

- margin that's harder to explain quarter over quarter
- costs that don't map cleanly to forecasts
- programs that quietly become more expensive as they grow

We produced this playbook to help CFOs ensure that embedded finance delivers on its original promise.

It sets out a CFO-first framework for evaluating embedded finance partners, demonstrating how switching to a unified payments platform can:

- reduce cost drivers through better routing, vendor consolidation, and predictable pricing
- increase net interchange margin
- save hundreds of internal operational hours per quarter
- unlock entirely new high margin revenue products without additional integrations.

Of course, we hope that after reading this playbook you contact us. However, whether you decide to partner with us or not, this playbook should serve as a genuinely useful and actionable guide to finding the right embedded finance partner.

We believe that our platform is the current best-in-class (and because our "first principles" approach means our platform is infinitely scalable, we expect it to be for some time), so we're confident that our process also functions as a playbook for the wider industry.

Happy reading!

# The due diligence questions you have to ask your provider

Whether you're sticking with your existing provider or in the market for a new one, you need the right questions answered to  understand whether they're setting you up to be a financial services company, or just a company that offers financial services.

## "How many vendors does it really take to run our program?"

When issuing, ledgering, acquiring, and compliance are fragmented across multiple vendors, the cost structure becomes unpredictable.

| The due diligence questions you should ask | The answer you want |
| --- | --- |
| How many systems sit between a transaction and reconciliation? | All transaction, ledger, and reconciliation flows run through a single unified platform – no external systems required. |
| What processes do we still own (e.g., disputes, OFAC, complaints, audits)? | We manage core compliance infrastructure, dispute management, and BSA/AML, while you remain responsible for certain operational and reporting activities related to your program, with Highnote providing oversight. |
| Which functions does the vendor actually deliver vs sub-contract? | Every single one. |

## “Who is really carrying our compliance burden?”

Embedded finance compliance is shared between the issuing bank, Highnote, and the subscriber.

| The due diligence questions you should ask | The answer you want |
|---|---|
| How much of our compliance workload will we still be responsible for? | The issuing bank and Highnote provide compliance infrastructure and oversight, while you remain responsible for operational compliance activities related to your program. |
| Do we need separate tools or third parties for KYC, AML, or PCI? | Highnote provides PCI-certified compliance infrastructure. Depending on your program, you may also choose to maintain your own PCI certification. |
| How predictable are our annual compliance costs? | Completely – compliance costs are baked into a transparent, usage-based pricing model with no surprise audits or one-offs. |

## “Is our pricing actually predictable?”

Headline pricing rarely reflects true cost. CFOs need vendors who make cost structures simple, transparent, and forecast-friendly.

| The due diligence questions you should ask | The answer you want |
|---|---|
| Can you clearly explain our net margin per transaction after network fees and bank fees? | Yes – your exact net interchange margin is defined upfront and remains stable. |
| Are there any variable or volume-based fees we should anticipate later? | No hidden variability – every fee is disclosed and fixed within your model. |
| How will our cost structure change as we scale? | It doesn’t – costs scale predictably with usage, not with one-off infrastructure events. |

## “What operational lift does this vendor create for our team?”

A vendor should remove work from your finance, accounting, product, and support teams – not shift work onto them.

| The due diligence questions you should ask | The answer you want |
|---|---|
| How much of our team’s time will be spent on reconciliation, exceptions, or data cleanup? | Minimal – reconciliation is automated and real-time, reducing manual effort to near zero. |
| Who handles disputes and chargebacks? | Us – with full workflow support and minimal internal involvement. |
| Who negotiates with banks and networks? | We do – and we have the expertise, experience and scale to secure some of the best rates around. |

## “Will this partner actually help us grow revenue?”

Vendors should not only minimize cost; they should actively help CFOs find new revenue streams.

| The due diligence questions you should ask | The answer you want |
|---|---|
| Do you provide data-driven guidance on margin optimization? | Yes – the vendor continuously analyses spend patterns and recommends cost-savings and margin-expanding changes. |
| Can you support multiple pricing models (fees, subscriptions, tiers)? | Yes – with built-in tooling for feature-based or behavioral pricing strategies. |
| Do you help us evaluate and launch new revenue products (credit, rewards, premium tiers)? | Yes – with end-to-end support, modeling, and infrastructure included. |

# Key Takeaways

- Vendor sprawl is one of the fastest ways embedded finance costs become opaque and difficult to control

- Compliance responsibilities are shared, making clear role definition essential for maintaining predictability and control.

- Headline pricing is meaningless without a clear view of your total costs

- Predictable pricing is essential for accurate forecasting as programmes scale and evolve

# How the right vendor optimizes cost to create opportunity

## Predictable pricing creates financial clarity and strengthens forecasting

Many CFOs enter embedded finance programs with a clear expectation of net interchange – only to discover months later that costs quietly erode it. For example, one Highnote partner told us that with their old provider they had expected a net interchange of around 230–250 bps. That translated to around 170 bps once network costs, processing fees, and low-volume inefficiencies were applied.

Volatility is one of the biggest risks in embedded finance when fees vary by vendor, transaction type, network behavior, or month-to-month operational changes. Unpredictable costs make it harder to set targets, model revenue, and explain margin swings. A unified payments platform – that is, one where all elements of an embedded finance program run from one source of truth rather than through multiple vendors – negates this.

**With a unified payments platform:**

- Pricing is consolidated into a single, transparent structure.
- Network and bank fees flow through cleanly, without blended or hidden markups.
- Net interchange margin is clear upfront and remains stable as volumes grow.
- CFOs can forecast contribution margin with confidence, even as product lines expand.

If fragmented stacks create unpredictable cost swings – whether from shifting network fees, inconsistent dispute behavior, or unplanned audit requirements – a unified payments platform reduces that volatility and stabilizes the economics. That means cleaner forecasts, fewer unplanned variances, and a clearer understanding of where every basis point (bp) goes.

## Consolidation removes duplicated costs and cuts margin leakage

In a fragmented setup, each transaction touches multiple systems: every step introduces cost, complexity, and reconciliation friction.

**With a unified payments platform:**

- Issuing, ledgering, compliance, and settlement sit on a single stack
- You eliminate duplicated vendor fees
- You regain several basis points typically lost to inefficiencies across the chain

If a fragmented setup results in basis points leaking across network routing inefficiencies, extra vendor charges, and manual reconciliation work, a unified platform helps reclaim these by collapsing the architecture. Cleaner margins, fewer moving parts, fewer surprises at month-end.

Cost optimization is also about improving transaction behavior. For some programs for example, ticket size has a measurable impact on network cost.

### Highnote in action

Working with one of our partners, we found that keeping average transaction values low was increasing cost by roughly ~8–10 bps, while larger transactions (e.g., over $200) reduced it relative to high-frequency micro-payments. That insight led to a simple operational change: aggregating smaller payments into fewer, larger transactions where possible (e.g., batching spend instead of paying per small event). The result is a margin improvement that's hard to capture in fragmented stacks because the data needed to diagnose it lives across authorizations, settlement files, and network invoices.

## Pricing becomes scientific and margin-friendly

Headline economics can be misleading unless you can see — line by line — where each basis point goes. For example, you may see gross interchange around 250 bps based on published network rates, but with low volumes and a suboptimal transaction profile, underlying network and processing costs can consume around 50 bps. When platform fees add another 25–30 bps, the "expected" margin quickly becomes materially smaller in practice. A unified partner makes this visible upfront and turns it into an optimization plan: isolate the cost drivers, quantify what's structural vs. fixable, and then recover margin through changes in routing, transaction behavior, and program strategy.

## Reconciliation stops being a hidden expense

Multi-vendor stacks often require finance teams to manually reconcile data across:

- The issuer
- The ledger
- The bank
- KYC systems
- Card network statements

Manual reconciliation doesn't show up on a P&L as a line item, but it reduces output, increases error rates, and delays reporting.

**With a unified payments platform:**

- All data is generated from the same source of truth
- Reconciliation happens in real-time, not via spreadsheets
- Finance teams recover meaningful time previously spent cleaning data.

Eliminating data mismatches can prevent small reconciliation discrepancies that otherwise erode margins through manual write-offs or timing mismatches.

## Better routing means better margin

A modern payments partner can intelligently route transactions to:

- Lower-cost networks
- More favorable interchange categories
- Optimized domestic or international paths

A shift of even a small percentage of volume into lower-fee routing can improve net margin by several bps. Optimized routing means built-in margin improvement.

Large merchants often can negotiate rates that diverge significantly from those published benchmarks. In practice, this means a card program can concentrate volume in places that quietly compress margin. For example, where a published interchange rate might imply ~265 bps, a major marketplace merchant may effectively deliver closer to ~100 bps due to negotiated economics. You may not control what a merchant has negotiated with the networks, but you can control how your program steers spend — shifting incremental volume toward higher-yield categories and merchants.

## Compliance is baked in to the budget

Compliance is one of the largest hidden cost drivers – especially when vendors offload responsibilities onto the finance team.

In a fragmented ecosystem, companies can lose basis points indirectly through:

- Slow dispute handling
- Remediation effort
- Manual OFAC or AML processes
- Inconsistent KYC/KYB approval logic
- Audit preparation pulled from multiple systems

**With a fully managed compliance stack:**

- All major requirements – KYC/KYB, AML, PCI, reporting – sit under the vendor, not your internal team
- CFOs avoid the operational drag that silently suppresses margin

Compliance and risk controls are often treated as overhead, but they can also be a direct margin lever — especially in card-not-present environments where authentication decisions meaningfully change unit economics.

### Highnote in action

One Highnote partner found that the cost of leaving authentication unmanaged was approximately 7.5¢ per transaction, whereas properly authenticating eligible transactions reduced that to around 0.5¢. At scale, the impact is not subtle: monthly authentication-related costs that ran into the tens of thousands of dollars were reduced to around $100/month through better handling and optimization. Beyond cost reduction, these controls can also shift fraud liability and reduce downstream operational burden — turning "compliance" from an unpredictable drag into a contained, forecastable line item.

| Cost Category | Fragmented Vendor Setup (Typical) | Unified Payments Platform |
|---|---|---|
| Card Network Fees | Billed separately through network or processor; often opaque and variable month to month | Fully disclosed upfront and passed through predictably with no hidden uplifts |
| Issuer Processor Fees | Charged per vendor; authorization, clearing, settlement each billed separately | Consolidated processing fees with a single rate covering all stages |
| Ledger Fees | Separate ledger provider, integration fees, reconciliation overhead | Native ledger included, real-time reconciliation built in |
| Bank / BIN Sponsor Costs | Additional bank fees, audits, certifications, annual program fees | Predictable bank economics through consolidated program oversight |
| KYC/KYB / AML | Charged per verification and platform licensing fees | Included as part of a unified compliance framework |
| Fraud Tools | Third-party vendor charges, often volume-based | Integrated fraud controls with predictable pricing |
| Dispute & Chargeback Management | Manual workflows or outsourced vendors; billed per case | Centralized dispute management with workflow automation included |
| Card Issuance & Fulfillment | Multiple suppliers → design fees, card bureau charges, shipping discrepancies | Streamlined issuance flow with unified pricing and vendor management |
| Reporting & Audit Costs | Internal team must collect data across 5–8 systems → high audit prep overhead | Consolidated reporting from a single platform → minimal prep time |
| Engineering Integration & Maintenance | Integration for every vendor; maintenance for each API; continuous breakage | One integration, one API surface, zero multi-vendor maintenance |
| Reconciliation Overhead | Manual reconciliation across ledger, issuer, KYC, and bank systems means hours of work each month | Real-time, unified reconciliation eliminating manual work |

| Cost Category | Fragmented Vendor Setup (Typical) | Unified Payments Platform |
|---|---|---|
| Network Optimization | Often unavailable, leaving cost savings unrealized | Intelligent routing and optimization built in, improving margin |
| International Fees | Charged unpredictably across networks and vendors | Fully transparent cost structure with controlled pass-through options |
| Operational Lift | High–teams manage vendors, disputes, exceptions, audits | Low–unified operations handled by the platform |
| Total Cost Outcome | Far higher true cost when all vendors, audits, and ops are factored in | Predictable, consolidated, structurally lower cost over time |

# Key Takeaways

- Hidden costs compound quietly in fragmented payment stacks
- Consolidation reduces duplication and margin leakage
- Predictable pricing improves forecasting and financial clarity
- Scientific pricing enables ongoing optimization, not reactive fixes

# Post-integration cost optimization

Ask any potential vendors how they'll help you protect margin and unlock new revenue long after the program launches. That should mean:

**Ongoing margin optimization:** Regular analysis of where basis points are being lost – network costs, routing inefficiencies, cross-border usage, merchant mix, dispute patterns – with clear recommendations to recover them. For example, even declines can be an avoidable cost center. Domestic declines may cost roughly $0.01 per attempt, while international declines can be closer to ~$0.30 per attempt — meaning failed spend can create material cost without creating revenue. A unified platform can identify which merchants and cohorts drive repeated declines, then work with your team to reduce waste.

**Transparent economic modeling:** A line-by-line view of net interchange, network fees, and program costs, enabling high-confidence forecasting and scenario planning.

**Data-driven pricing decisions:** Guidance on whether to introduce international fees, tiered pricing, premium card plans, or specific pass-through structures to protect margin.

**Support for monetizing new products:** Financial modeling for revenue-positive offerings such as credit, premium card tiers, rewards, or instant payout products.

**Identification of untapped revenue pools:** Insights into cardholder or merchant behavior (e.g., MCC clusters, international pockets, high-value cohorts) that could be leveraged for new pricing or product strategies.

Margins shift constantly in embedded finance. A partner who actively monitors your economics and collaborates on new revenue initiatives turns your payments program into a growth engine not a passive cost center.

Highnote in action

In one early wage access program, we found that frequent ATM withdrawals were eliminating spend and interchange entirely. Rather than accept this as fixed behavior, we used transaction data to redesign pricing — introducing fees and incentives aligned to unit economics. The result was a commercial model that matched real usage patterns, protecting margin while supporting program growth.

# Key Takeaways

- Post-launch support is where long-term value is created
- Continuous optimization protects and expands margin
- Managed compliance reduces risk as programs scale
- Finance and product move faster when infrastructure is unified

# Every company can be a financial services company

Choosing the right embedded finance partner directly shapes your margins, risk exposure, and operational efficiency. A unified payments platform removes the hidden costs that quietly erode basis points, replacing complexity with clarity and predictability.

Ongoing optimization, transparent economics, and strategic revenue support ensure your program continually improves over time.

For CFOs, this means total control through visibility: real-time data, clear cost structures, and a partner who proactively protects and enhances margin.

In a market moving faster than ever, the strongest advantage is choosing a partner built to scale with you, simplify the journey, and help you capture what's next.

Contact Us →