



PRIVATE EQUITY & VC INSIGHTS

Smarter Risk Management with Embedded Payments

Payments Insights & Strategies for Investors in
vertical SaaS Platforms

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Smarter Risk Management with Embedded Payments

Executive Summary

A successful software-led embedded payments strategy is best achieved via a more modern approach to risk management that couples smart people, products, processes, and new technologies to transition this critical function into a strategic asset for growth and value creation.

In the rapidly evolving landscape of software-led embedded payments, risk management has emerged as a critical function. As software companies integrate payment processing capabilities directly into their platforms, they gain greater control over the customer experience and unlock new revenue streams. However, this integration also introduces a range of risks that must be managed effectively to ensure success and sustainability. Effective risk management not only protects the business from potential threats but also enhances its value proposition, making it a strategic asset for growth and value creation.



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Different Risk Categories within Embedded Payments

Smart risk management serves as a vital function to identify, assess, and mitigate potential threats that can impact platforms accepting payments. Beyond payment processing, platforms also handle sensitive data and financial transactions, making them prime targets for various risks. Embedded payments risk categories include operational, regulatory, financial, and security risks.

Operational Risks

Operational risks arise from the daily activities of managing payment processes. These include issues related to onboarding new merchants, monitoring merchant activity, and deploying fraud mitigation techniques. Effective onboarding processes, such as analyzing risk, checking for duplicate accounts, and implementing temporary controls, are essential to mitigate these risks¹.

Regulatory Risks

Regulatory risks involve compliance with laws and regulations governing payment processing. Software companies must ensure their platforms adhere to regulatory requirements, such as data protection and anti-money laundering laws. In choosing a payment services provider (PSP), make sure the partner expertly understands these regulations and provides tools to help protect customer data².

Financial Risks

Financial risks pertain to the potential financial losses that can occur due to fraud, chargebacks, or other financial discrepancies. Implementing strong financial controls, such as keeping cash reserves and monitoring merchant behavior, can help mitigate these risks¹.

Security Risks

Security risks involve protecting the platform from data breaches and cyber-attacks. Security processes like multifactor authentication (MFA), user access management, and working with a qualified security assessor (QSA) ensure the platform's security measures are robust².

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Risk Management Best Practices

A risk management strategy is a game plan for tackling risks, exposures, and unexpected events - it's essential in working with payments. Effective risk management is best understood not as a series of steps, but as a cyclical process in which new and ongoing risks are continually identified, assessed, managed, and monitored. To establish a successful risk management program for software-led embedded payments, we share some industry best practices:

1. Comprehensive Merchant Onboarding

Effective merchant onboarding processes are crucial for identifying and mitigating risks early. This involves gathering detailed information about new merchants and conducting thorough evaluations of their financial and operational history. Key onboarding steps include:

- **Risk Analysis:** Establish a stringent checklist for merchants to complete during the onboarding phase before granting them access to the platform. Gather details about their products and services, refund policies, expected payment volume, and their history of using similar platforms¹.
- **Duplicate Accounts:** Conduct a search during the onboarding process to ensure a fraudulent merchant isn't trying to set up multiple accounts on the platform¹.
- **Temporary Controls:** Temporarily limit transaction volume to closely monitor new merchants as you get more familiar with their activity. Consider limiting transaction volume over set periods and pausing payouts if they exceed the limit until the merchant can review and verify their transactions¹.

2. Continuous Merchant Monitoring

Regularly monitoring merchant activity is essential for proactively identifying and addressing potential risks. This includes tracking transaction volumes, checking for duplicate accounts, and implementing temporary controls as needed¹. Monitoring should also involve:

- **Merchant Behavior:** Regularly monitor factors to determine if a merchant is committing fraud on the platform¹.
- **Transaction Analysis:** Analyze transaction patterns to identify unusual or suspicious activities¹.

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3. Regulatory Compliance

Ensuring compliance with all relevant regulations is critical with payments. Software companies should work with PSPs that understand the regulatory landscape and provide the necessary tools and support². Best practices include:

- **Understanding Regulations:** Stay updated on laws and regulations governing payment processing, such as data protection and anti-money laundering laws².
- **Partner Collaboration:** Choose a PSP that gives you the flexibility to create the customer experience you want and supports your growth through embedded payments².

4. Robust Security Measures

Implementing strong security measures is vital to protect your software platform from cyber threats. Best practices for security include:

- **Multifactor Authentication (MFA):** Implement MFA to enhance security².
- **User Access Management:** Focus on managing user access to ensure only authorized personnel can access sensitive information².
- **Qualified Security Assessor (QSA):** Work with a QSA to ensure the platform's security measures are robust².

5. Financial Controls

Maintaining financial controls is essential to mitigate financial risks related to payments. This includes:

- **Cash Reserves:** Keep cash reserves as collateral to counter the risk of fraudulent or non-compliant customers¹.
- **Regular Financial Audits:** Conduct regular financial audits to ensure the integrity of financial transactions and identify any discrepancies¹.

By following these best practices, software companies can establish a robust risk management program that not only protects their business from potential threats but also enhances their value proposition, making risk management a strategic asset for growth and value creation.

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How Worldpay Raises the Bar in Risk Management?

Worldpay has established itself as a leading PSP that offers some of the most robust and comprehensive risk management solutions for embedded payments in the market today. Worldpay's approach raises the bar from the typical best practices approach by incorporating leading technological solutions/processes supported by its people-driven expertise.

- **Expert Grade Risk & Compliance Team:** Worldpay is a leading payments advisor on understanding risk and compliance for software platforms through its global team of experts. Worldpay's Compliance organization totals 500+ experts of which ~60 FTE work exclusively with our Managed PayFac software platforms. This specialized team of experts helps software companies navigate the complexities of regulatory requirements, combat fraud, run risk assessments, monitor operations & protect customer data 24/7². Working with dynamic risk models, advanced security measures and best-in class compliance management tools this expert grade team is a critical resource for software companies looking to excel at embedded payments smartly & securely with a hands-on-approach that most other PSPs overlook.
- **Next-Gen Technology-Enhanced Risk & Fraud Management Tools:** Worldpay offers a range of best-in-class technology driven risk management tools designed to address the unique risks associated with embedded payments, including onboarding processes, merchant monitoring, and fraud mitigation techniques¹. At the core is Fraudsight, a real-time fraud decisioning engine powered by machine learning that analyzes 40 billion transactions annually to detect anomalies and stop fraudulent transactions. The comprehensive next-gen toolset also includes Omnitoken for secure tokenization across all payment channels as well as Giact for advanced identity verification and fraud prevention. Innovations like SaferPayments which bundles PCI compliance tools, vulnerability scanning, and breach assistance provides complete security coverage for software platforms.

Recognizing that eChecks and ACH funding present unique risk challenges, Worldpay's next-gen risk management framework specifically addresses these payment methods, helping partners and merchants develop robust strategies around ACH funding security and monitoring. This specialized focus is further enhanced by Worldpay's acquisition of Ravelin, a leading fraud prevention and risk management company, which has strengthened Worldpay's machine learning capabilities and expanded its fraud detection arsenal across the broader payment ecosystem.

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Predictions on Smarter Risk Management

Worldpay has several predictions on the future of risk management in the embedded payments industry that software platforms monetizing payments should consider to smartly stay ahead of changing headwinds in the industry.

- **Strategic Partnerships and Mobile-First Experiences Matter:** Establish partnerships with software payment providers who can fill key experience gaps and remove friction for merchants, creating a more complete solution ecosystem especially related to mobile & omnichannel experiences³.
- **Increasing Payments Fraud:** There will be a continued focus on support and services that help software companies mitigate more frequent & sophisticated fraud threats. Effective fraud monitoring and security technology will be essential³.
- **Regulatory Shifts:** A loosening of regulatory constraints especially in the U.S. presents opportunity for innovative companies to leverage changes for growth. However, businesses must focus on sustainable strategies as regulatory trends often swing back⁴.
- **Technological Evolution:** Transformative advancements in embedded finance and platform regulations are expected to impact payments-enabled software platforms. Companies must remain agile & adaptive to navigate these technical changes⁴.

Conclusion

In conclusion, effective risk management is essential for the success of SW-led embedded payments. By addressing operational, regulatory, financial, and security risks, software companies can transform risk management into a strategic asset that drives growth and value creation. Worldpay's comprehensive risk management solutions and expertise make it a valuable partner for software companies looking to navigate the complexities of embedded payments and achieve long-term success.

For more insights & support on how Worldpay can help your PE/VC firm or portfolio investments related to payment strategies, contact our Private Equity Partnerships team.

<https://platforms.worldpay.com/partnerships/>

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Sources: ¹ <https://platforms.worldpay.com/resources/podcast/understanding-and-managing-the-risks-of-moving-money-part2/> ² <https://platforms.worldpay.com/resources/podcast/what-software-companies-should-understand-about-risk-and-compliance-episode27/>
³ <https://platforms.worldpay.com/blog/software-led-payments-predictions-a-look-back-on-2024-and-insights-for-2025/> ⁴ <https://platforms.worldpay.com/resources/podcast/software-led-payments-whats-on-the-horizon-for-platforms-in-2025-episode-46/>