

Plaid's Cognito deal helps it plan ahead for US open banking

Article



The news: The open-banking provider Plaid [has acquired](#) Cognito, a fintech that offers identity verification and compliance solutions.

More on this: In a blog post announcing the tie-up, Plaid CEO Zach Perret noted that the companies' customer bases overlap, and cited neobanks **Current** and **Brex** as examples.

Plaid now has about 5,500 customers, per TechCrunch, which said that the deal will also expand Cognito's reach. **The combination is valued at about \$250 million**, the publication reported.

The deal's rationale: Perret, along with Cognito CEO Alain Meier, said the status quo for identity verification and compliance—they mentioned know your customers (KYC) and anti-money laundering (AML)—is too fragmented.

- Plaid's CEO called it a “patchwork approach [that] often delivers poor user experiences that result in people abandoning the signup process because it takes too long or it is too difficult to provide the required documents and information.”
- The leaders see themselves as solving this problem by joining together to simplify the onboarding process for people who link their bank accounts with outside fintechs.
- There's also a responsive business case: Perret told TechCrunch that Plaid's customers have asked it about ways to speed up onboarding.
- Perret views verification as a key piece of Plaid's strategic puzzle, calling it “one of three critical parts of a complete onboarding experience, along with account connection (connecting your bank/financial data to an app) and account funding (moving money into an app), which Plaid provides today.”

The opportunity: Cognito's products fill a void in Plaid's product lineup and positions it to weather trust and regulatory challenges in open banking's future.

- Cognito's verification and compliance features may help its fintech customers improve their relationship with US consumers—**just 14% of consumers said they trusted fintechs to connect with their bank accounts in a way that's secure**, per a recent Mastercard survey. Plaid itself agreed to a \$58 million settlement in August 2021 over litigation accusing it of sharing users' data without their consent.
- There's also a large trust gap in how respondents—measured across North America—feel about fintechs and their own banks: 26% replied that they “strongly trust” fintechs, but 56% gave the same answer for banks. This suggests that open-banking adoption could grow if Plaid's banking customers support Cognito's offerings and integrate them into fintech onboarding.

Plaid's deal is well-timed: The Consumer Financial Protection Bureau (CFPB) will eventually wrap up its rulemaking process to enable US consumers to easily move their data from one

bank to another. When that happens, Plaid will have a product suite that already does more than simply connect fintechs with bank accounts.

Open Banking Readiness at US Banks According to US Bank Executives, by Fintech Approach, Feb 2021

% of respondents in each group

Traditional



Progressive*



Total



Note: numbers may not add up to 100% due to rounding; *to be included in the progressive group, a respondent had to report acquiring less than 50% of their technology from a single vendor, working with fintech companies as an integral part of their strategy, and making at least one fintech investment
Source: CCG Catalyst Consulting, "The Banking Battleground: Views from the C-Suite," July 8, 2021

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