

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.

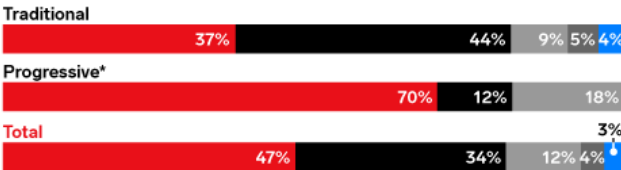
- Cognito's verification and compliance features may help its fintech customers improve their relationship with US consumers—**just 14% of consumers said they trusted fintechs to connect with their bank accounts in a way that's secure**, per a recent Mastercard survey. Plaid itself agreed to a \$58 million 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



- Manage our own application programming interface (API) layer built in-house
- Manage our own API layer supplied by a vendor
- Leverage a fully API-enabled core
- Our core provider provides us with an API portal
- Have no/limited APIs available

*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