

Executive Interview Series: Open Banking Payments with Todd Clyde, CEO of Token



TOKEN

Flagship Advisory Partners' Executive Interview Series provides readers with exclusive insights from thought leaders in the payments and fintech industry. The series offers diverse perspectives on everything from market developments to strategy to commentary on developments in the industry.

This edition puts the spotlight on open banking developments in Europe. Flagship Advisory Partners met with **Todd Clyde, CEO of Token**, a leading open banking fintech, to learn more about Token's perspective on developments in open banking and how Token is addressing some of the challenges in open banking payments and data services.

1. It has been four years since the open banking regulations were introduced in Europe. How would you assess the market adoption of PIS (payment initiation services) today?

It has taken quite a bit of time, but PIS is finally picking up now. The initial adoption was slow, mainly because the regulations were implemented slowly. For instance, PSD2 regulations were postponed twice in Europe. Secondly, until the first half of 2020, banks were still not ready with their API implementations and therefore, the early open banking APIs were very basic and not usable.

If you look at the adoption levels today, the UK has stayed at the front. The UK's OBIE [ed. Open Banking Implementation Entity, a standards setting body] standardized access to banking rails and this has accelerated the growth of fintechs that can offer PIS services. Adoption in Europe has been good so far but is still a developing story. Markets like the Nordics, the Netherlands, Germany, Poland have remained at the forefront with higher open banking payment volumes. In the last 12 months at Token, we also saw a 10x growth in PIS payment volumes across these markets. I don't think anyone is questioning the viability of open banking payments anymore; however, there is still room for market adoption to develop further.

2. What are some of the industries where open banking PIS has taken off / been widely adopted? What are some of the use cases that PIS is addressing today?

Merchants like open banking payments because they offer great UX at the checkout, come at economical acceptance cost points, and generally offer higher conversion rates with low risk of fraud and chargebacks. Early adopters of open banking payments have been fintechs, challenger banks, and merchants in the high-risk verticals, for example, gaming and crypto. Over the last few years, we have seen more traditional industries such as utilities, public sector, non-profit and fund-raising platforms also adopting PIS across use cases. Several wallet providers offer open banking payments as a payment method for

wallet top-ups. According to our estimates, half of wallet top-up volumes are via open banking enabled A2A payments.

Today, a kind of herd mentality has kicked in where every merchant wants to offer a 'pay by bank' button at the checkout. It is not surprising that we see leading PSPs such as Stripe, Adyen, and others offering an open banking payment method, next to cards and other alternative payment methods (APMs) in traditional e-commerce verticals. Much of the success in open banking payments will come from general e-commerce merchants who are able to embed open banking as part of their checkouts.

3. Open banking payments been slow to be adopted in other mainstream e-commerce verticals. Would you agree with this statement?

I think adoption of A2A payments in e-commerce environments varies across markets. For example, in India, the Universal Payments Interface (UPI) has been a huge success, powering open banking payments in traditional ecommerce. We see a similar trend in Brazil as well. According to a recent study by Token¹, 81% European consumers are quite open to using open banking as a payment method in online commerce, and 46% have made an A2A payment in the last 3 months. In the same study, we also discovered that instant bank transfers are a top 5 payment method across European markets. Therefore, there is an ample demand.

Perhaps the issue lies on the supply side. Banks still control the UX for open banking payments, and European banks have followed their own paths and standards to open banking access. This can at times impact the quality of the user experience.

4. How has AIS (account information services) taken-off? What problems does AIS solve today?

AIS took off much faster than PIS. The initial use cases supported were oriented towards data aggregation, usually around personal financial management (PFM) or cash management tools. Every high street bank built a PFM tool for consumers and businesses to keep record of all their financials in one place. Several fintechs such as Tink, MoneyHub, Yolt, and others emerged that offered white-label PFM capabilities. Today, PFM is an oversupplied market and kind of dead.

The main use cases we see around AIS today are income checks (for lending), credit assessment (for investments, mortgages), KYC and onboarding (getting insights from credit scores, gambling history, others). We also see AIS being used in support of payments (e.g., credit assessment when applying for a credit card). Identity verification is another example of a great use case that will soon become hot. There is a white space in identity verification services, which is different to KYC/KYB services.

5. As open banking is still emerging and the potential is not yet fully fleshed out, what is needed to 'crack the code'?

I think we need a combination of regulatory forces and market innovations to solve the current limitations of open banking. On the regulatory side, the regulators have a role to play to fix some of the gaps left by PSD2 and ensure that regulations are enforced and

¹ Research reference: Who will pay by bank? Token and Open Banking Expo link: <https://token.io/blog/who-will-pay-by-bank>

implemented consistently across the markets. At the same time, open finance^{2,3}, the next step in open banking regulations, can act as a catalyst for market participants to create an ecosystem of financial access and solve the current limitations of API access standardization, IBAN discrimination and consumer/business identity. I also anticipate that market participants like ourselves would play an important role in contributing to such an ecosystem.

6. How is Token trying to be at the forefront of open banking? Could you walk us some of your products and services and the type of problems you are solving today?

We want to be pioneers in solving the existing pain points in A2A payments via the latest payments technology and innovation. A2A payments have existed in the past but the barriers to adoption have been high. Now, with open banking APIs, we have the toolkit to make access to inter-bank networks accessible across the markets. For the first time, we are able to offer universal reach and great UX at lower costs through a single API.

Token powers the underlying infrastructure for open banking payments. We offer broad connectivity to banks in the UK & Europe, and our platform powers businesses to launch and manage A2A payment capabilities. We are not trying to create an acceptance payment mark (e.g. like Trustly). We are not selling directly to merchants, but rather to PSPs who would like to benefit from our white-labeled proposition. In fact, many PSPs (e.g. Paysafe, Nuvei) are our clients.

Token also offers AIS and data aggregation services with broad coverage for multiple use cases. For instance, a large credit scoring company uses Token's AIS for their credit assessments.

7. Token recently received funding from several investors. What are your plans for the future? Any themes that you have been prioritizing (geo expansion, product expansion, others)?

Indeed, we have just raised our Series C funding earlier this year, supported by both existing and new investors. We are looking for efficient growth, but not growth at all costs. Therefore, we are not making any drastic changes to our business model or current strategy. Our immediate priorities are to continue to build our platform; we'll soon be adding premium products and functionality. There is a long tail of banks that we have on our radar, and we will continue building connectivity. At the same time, our teams continue to hire the best talent in the market to help us grow. We are also looking to expand beyond our existing markets and have plans to expand outside of Europe next year.

Please do not hesitate to contact Anupam Majumdar at Anupam@FlagshipAP.com with comments or questions.

² <https://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/exploring-open-finance>

³ https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13241-Open-finance-framework-enabling-data-sharing-and-third-party-access-in-the-financial-sector_en