

by Anupam Majumdar, 18 November 2022

Executive Interview Series: Open Banking Payments with Wilko Klaassen, VP Business Development, Klarna Kosma

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.



Image: Wilko Klaassen, Klarna Kosma

This edition puts the spotlight on open banking developments in Europe. Flagship Advisory Partners met with **Wilko Klaassen, VP Business Development at Klarna Kosma**, Klarna's newly created open banking business unit, to learn more about Kosma's perspective on developments in open banking, and how Kosma is addressing the challenges in open banking payments and data services.

1. Four years since the open banking regulations were introduced in Europe, how would you assess the market has evolved so far?

Open banking has been a revolutionary concept that has democratized the access of A2A payments and data services for regulated third parties. The PSD2 regulations introduced in 2018 provided the early push by setting up a new standard. Since then, the market has accelerated due to wider participation from banks and fintechs. For us at Klarna, open banking began as an exciting journey in 2004 with SOFORT payments. In the early days, SOFORT was in fact one of the early drivers of PSD2 allowing consumers to pay by using bank transfers. Over the years, we have further optimized the user experience, extended our product portfolio, and stayed at the forefront of open banking innovation by constantly improving our services.

If you look around today, open banking API services are well established overall, though the quality of bank coverage does differ across markets. You'll find the quality of APIs and associated data to be great in several Northern and Western European markets, for example, the Netherlands, the UK, and the Nordics. Banks provide good endpoints to access PIS (payment initiation services) and AIS (account information services) in these

markets, and we have seen good market adoption here. There are still some markets that are still struggling with API standards and the general quality of data. Therefore, while the market has seen an overall good momentum, the real potential is yet to be realized.

2. Why has open banking payment initiation services (PIS) been slow to be adopted in mainstream e-commerce verticals?

A2A bank transfers running through PIS infrastructure have existed successfully as an online payment method in several markets historically. For instance, in the Netherlands, iDEAL is the main online commerce payment method that works on a PIS infrastructure and has enjoyed great success over the last 15 years. In Germany, SOFORT is one of the most important payment methods (amongst the top 3), with an awareness of 94% among consumers.

However, if you look at pure PIS services, the volumes in online commerce have been low. Part of this low adoption is the lack of innovation at the front end (where the checkout experiences are driven). A2A bank transfers already existed, and PSD2 which was originally launched to drive innovation failed to make incremental step changes. Also, most of the innovation came through at the backend (e.g., bank API access).

We now see some emerging payment use cases that are innovative, for example, the variable recurring payments (VRP) in the UK. Hopefully, these kinds of innovations will drive higher adoption of PIS in online commerce in the future.

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

AIS (account information services) has been way more interesting and innovative as a market development. AIS provisions data and insights to solve existing gaps across several use cases. For example, mortgage lenders, loan underwriters, and lease companies have traditionally relied on cumbersome paper-based processes to perform customer income and verification checks. Now, most of these parties can use AIS to get real-time data feeds and solve these inefficiencies.

We see AIS being adopted in a big way across several industries today, for example, financial institutions, underwriters, credit bureaus, and banks. At Kosma, we have developed a proven AIS product to provision underwriting and account verification use cases for big techs, challenger banks, insurance firms, retailers, lenders, investors, and banks. We also utilize AIS for the underwriting and customer account verification for our flagship Klarna Buy-Now-Pay-Later (BNPL) product.

4. How do you see AIS and PIS evolving in the near future?

PIS only allows the initiation of a payment, as such it is only a payment enabler today and not a complete payment solution. You would need to embed several enablers and value-added services (e.g., risk management, reconciliation services, fraud detection, and others) to be functional in online commerce.

I think we'll see an evolution of such services on PIS going forward. I also anticipate some flexibility to come for PIS, e.g., expansion into recurring payments via variable recurring payments (VRP), and subscription based payments.

AIS on the other hand has the potential to be more disruptive. Due to PSD2, you can integrate data from multiple banks into a single app. These data services can be combined and enriched with self-learning algorithms to offer predictive intelligence. Future AIS services can therefore be more advisory based. The real innovation in this space needs to come from fintechs that power front-end use cases; banks are not yet pushing for these services.

5. Who will emerge as the future market winners in open banking?

Consumers and businesses will anticipate innovation to come from challenger banks (e.g., Revolut, N26, Monzo), and tech companies (e.g., Uber, Google, Airbnb). These firms have a lot of data and, have the technology in-house to build valuable applications on this data. I think open banking platform providers that offer the broadest and best bank connections will stand out from the rest of the pack. Everyone can offer an API connection, but providing the right value is often the tricky part. Providers with the largest connectivity will benefit from partnerships with Neobanks, tech companies, and power new use cases. Further innovation and product superiority are key factors in the open banking space. Klarna Kosma combines bank connectivity with innovation; therefore, I would say that we are set up for success in this space. Ultimately, I hope both businesses and consumers can be the actual benefactors from open banking.

6. The launch of Kosma seems to be Klarna's first move into B2B infrastructure services. How is Kosma different from Klarna?

Klarna and Kosma serve two different target groups. While Klarna provides consumers and retailers with branded plug-n-play BNPL products, Kosma offers open banking infrastructure services to anyone in need of customized open banking building blocks. Nevertheless, with Kosma, we're building on the expertise and brand value of Klarna. Kosma might be a new name, but it is the engine that has been powering Klarna for all these years. Now we are making it available for other companies to help them scale their business with open banking. Kosma is not an end-to-end user brand in itself; the service is completely white-labeled for our licensed partners only. We have developed a single API that connects to a proprietary network of 15,000+ bank connections across 26 markets. Any business can use the same API to access open banking services across markets. Since all the connections are proprietary, we guarantee a high degree of data availability. On top of these connections, we also power the UX and AIS/PIS licensing for businesses.

7. Can you share some details of Kosma's products and services in open banking?

Kosma supports three main product lines:

- i. We offer a PIS payment product, a white-labeled offering that powers businesses to launch PIS and bank transfers. Given our SOFORT capabilities, we can power everything required for a bank transfer, e.g., account connections, UX, risk engine, and transaction flows.
- ii. Our AIS product provides customized data aggregation services to solve several use cases such as ID verification and income verification.
- iii. We also offer an account categorization product that provides unique insights from bank accounts/statements and can be supported across 200+ spend categories

Next to these products, as Klarna, we also support our consumer-centric BNPL suite of products and SOFORT, our branded bank transfer payment method for online e-commerce. We are also fully licensed, and that license can be used by our partners, or they can utilize their own license and use us as a tech partner.

8. Can you share what's next for Kosma on the horizon?

We are currently developing new use cases by combining AIS and PIS products together. We are seeing that is the kind of innovation our clients are seeking. Further, our efforts go towards developing use cases for newer verticals, going beyond financial institutions to businesses that desire to embed financial products and services. Expanding to these verticals may also require us to get licensed. Therefore, we may plan to get additional licenses in the future. Beyond these initiatives, we'll continue to utilize the power of Kosma infrastructure services to fuel our Klarna ecosystem of products (e.g., SOFORT bank connectivity and KYC, underwriting for Klarna BNPL products).

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