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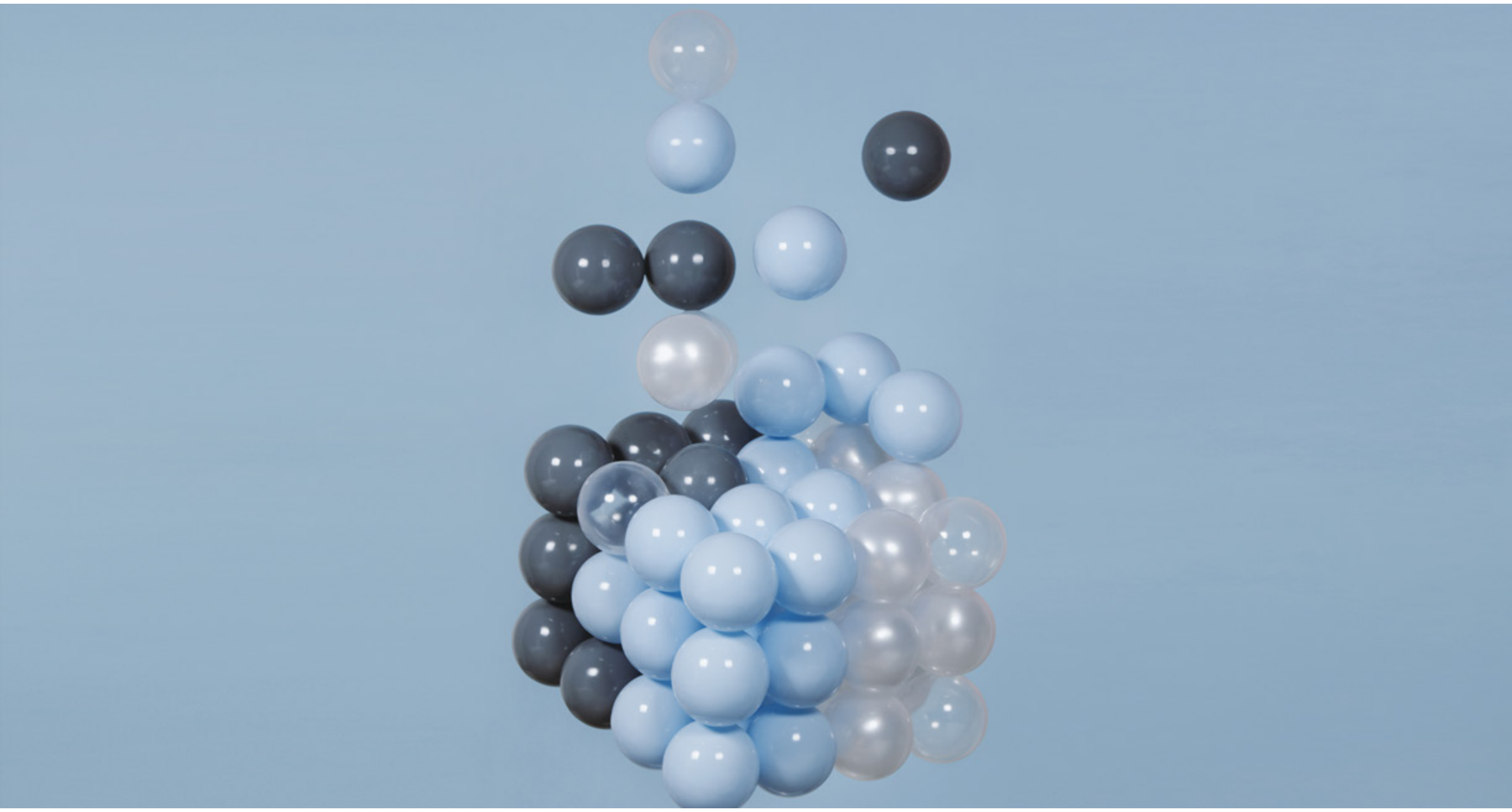
Talking Banking Matters

Taking the friction out of financial services: A conversation with Plaid COO Eric Sager

For Plaid's operating chief, the future of payments will be built on increasing transparency for both customers and the banks and fintechs seeking to serve them.



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Matt Cooke, McKinsey: From McKinsey's Banking & Securities Practice, I'm Matt Cooke, and this is *Talking Banking Matters*—new, short audio content for leaders in banking, securities, and beyond. For this second episode—taken from an occasional series from our Payments Practice on payments and fintech—our New York–based Senior Partner Vijay D'Silva spoke to Eric Sager, COO of Plaid. Here's Vijay to tell you more.

Vijay D'Silva, McKinsey: Most people outside the payments industry heard about Plaid in January 2020. The payments giant Visa announced that it was acquiring Plaid for $5.3 billion, in what was one of the largest fintech deals at the time. Both parties ended up pulling out of the deal a year later, mainly because of an antitrust complaint from the Department of Justice. But interest in Plaid has continued to grow since then.

My guest is Eric Sager, Plaid's chief operating officer. Eric started his career as a management consultant and, before joining Plaid, had held leadership roles at BlueVine and Square, where he was responsible for driving their growth. For this discussion, Eric spoke to us while working remotely from home, and if you listen carefully, you may well hear his young children chime in on some of these topics. I'm just kidding, of course, but it did bring home to me how Eric has managed to blend his work and personal life during the pandemic, like so many other people.

To start us off, here's Eric talking about what Plaid does.

Eric Sager, Plaid: We provide consumer permission to access financial data across a range of kinds of applications. The way that process typically works is we build integrations with financial institutions. At this point, we're integrated into 11,000-plus banks, about 18,000 financial institutions, which include investment accounts, liability accounts, et cetera.

We started in fintech, so many of our customers are the leading fintechs of the world, like Venmo, Square, Betterment, and the list goes on. But over time, we also have a lot of large institutions—a lot of banks and insurance companies—as customers, and increasingly a lot of large tech companies as well. Google—many of you have seen some of the solutions that they more recently brought to market—is powered by Plaid, as are solutions with Microsoft and many others.

First and foremost, we're a developer company—for developers, by developers. We deeply care about consumers; we care about institutions, about building the overall fintech and financial services ecosystem. But we also are very, very focused on making it incredibly easy for developers to be able to use these products securely in a way that's optimized for their experience.

We have the best-in-class coverage. We have incredibly high uptime and operating efficiencies, and then finally we're incredibly transparent with consumers, Plaid Portal being one of the key features we use to help round it out. Hopefully, that gives you a quick overview of the features and products and solutions that we have in place [and] a lot of the customers we work with.

Vijay D'Silva: In the last few years, Plaid has been focused intensely on growth. But we first have questions about customer privacy, customer control, and data quality.

Eric Sager: We've launched a product called Plaid Portal, which allows every single one of you, but also any consumer, any small business, to look at their Plaid Portal and see all the connections they've made via Plaid across the entire ecosystem. It allows people to permission and un-permission that data, so it's full control and visibility throughout the life cycle.

Privacy is crucially important for us. Like I said, we've invested heavily in making sure that consumers, at all times, can maintain visibility into the data that they're sharing, with whom they're sharing it, and that they can permission and un-permission that data as they see fit.

From that vantage point, that's a huge value-add from Plaid to the ecosystem. The alternative is what you and I—at least, I—have gone through with my passwords. I've signed up for websites—years ago, I don't even remember—and they still have my username and password for that particular website. I wish that in the early days of the internet, I would have been smarter about using a password manager, where I could just have one central place and if I wanted to, I could just pull permissions across the board, and it wouldn't proliferate in the way that it does. So we provide that same insight for consumers.

From a data perspective, we only restore and retain the data we need to power the particular use cases in question. In certain cases, that's a one-time use case, where there's not much we have to retain. In other cases, such as the transactions use case, the consumer wants us to maintain that connection over time. Your PFM [personal financial management] doesn't work if at any point in time when you open the app it doesn't have your latest data in it.

The key is around being incredibly transparent with consumers about what is being shared for the particular use case that they want to pursue. But the range of outcomes, in terms of how long and what type of data we share, is linked to what consumers want from the use case they're pursuing.

Vijay D'Silva: It's easy to see where this might be headed. Some of us call this embedded finance—the idea that consumers will find it effortless to make payments, sign up for financing, rebalance a portfolio, or pay their monthly bills automatically. For instance, in point-of-sale financing, which has been growing at 20 percent a year, merchants automatically split a purchase into multiple payments that are directly taken from a customer's account. There are still a lot of opportunities like this to reduce friction in the system.

Eric Sager: I do think there's a long-term path where it won't even simply be embedded, it will increasingly be automated. You're seeing that already with some of the saving solutions, where the savings process is automated. But I can see that developing even further and there being even more things that are ultimately truly automated.

This is one of the things I love about what we're doing. A lot of our customers, if you think about an individual or a family or a small business, trying to live their best financial life is quite challenging. Many of you, I'm sure, have a really good grasp on your finances. But I would bet that the vast majority of you are still doing things you intellectually know are suboptimal. But it's just too much friction to change. Say you have a credit card, and it's at 13 percent, and you know you should only be paying 11 percent, but you just can't be bothered to go through all the steps to do it. The reality is that to get to the best outcome, one of the vexing things about people's financial lives is it requires 100, 1,000, 10,000 small decisions over decades to lead you to a better outcome.

As long as there's friction, as long as those things still require people to do any type of work themselves, a lot of folks simply aren't going to do it. But it changes if you have the data, if you have the infrastructure in place to be able to automate some of these things in the same way that a lot of the biggest companies in the world do. A lot of their strategies around minimizing the cost of capital and so forth are heavily automated already. If you do that for small businesses, if you do that for consumers, it completely changes the game.

Suddenly, I as a consumer don't have to do anything. Maybe all I get from Google—or from Amazon or from Apple or whoever—is a notification that the company has taken an action on my behalf that helps reduce my cost of capital. Maybe they moved a $1,000 credit card balance from 15 percent to another card at 13 percent. It's already done, and I have 24 or 48 hours to say, "You know what? Actually, I don't want to do it for some reason; please reverse it."

It's completely flipping the experience on its head and creating an environment where, as a consumer, I no longer have to worry about it. I can focus on the things I want to do, knowing at the same time that I'm not being taken advantage of—that my financial life is being managed in a way that is ultimately good for me and my family or, if I'm a business owner, my business.

Vijay D'Silva: During the [first year of the] pandemic, digital commerce grew rapidly. We saw as much change in the first four months of the pandemic as we saw in the previous decade. Plaid grew its customer base by 60 percent last year and grew its number of employees by 40 percent. This year, it expects to double that again. But at a time when many companies are struggling to hire, I asked Eric how he thinks about still being able to grow while maintaining quality and control.

Eric Sager: First and foremost, when you set out to build something like we're trying to build at Plaid, a genuine motivation for our team is to build an ecosystem that ultimately has an impact, not just in the US but around the world, in terms of what it can do for consumers and for developers and for institutions. From that vantage point, the bigger you get, the more of a positive impact we think we can have, so it's incredibly motivating.

From a growing-the-team perspective, it certainly comes with challenges. But like anything else, at the end of the day, it comes down to finding the right people, particularly the right senior people. So much of it is about bringing on the right people. The folks that have seen it before can help you look around corners, but even just making the right hire, like our general counsel, or making the right hire for somebody to lead our financial access relationships, or making the right hire for somebody to lead our product marketing efforts. We brought so many fantastic people into the business that have done this at massive scale but still have the DNA of somebody who wants to build something. That's what makes the difference, and then building a great team around that. We've been lucky in that we have a lot of folks who want to work at Plaid.

Vijay D'Silva: Growing in the US is one thing, but after a certain point, I feel that growth for many firms will inevitably need to come from international markets. As many tech firms have found, this is easier said than done. Some large tech firms still run most of their development in a few hubs like in Silicon Valley. What's left in the local markets is mostly sales and regulator management. I asked Eric how he balances what to centralize and what to keep local in each market.

Eric Sager: When it comes to how we engage with specific geographies, we tend to have full stack teams in place in those geos. I think in the early days, that's incredibly important. I used to say at Square, "If you sent me into a country and you told me all my engineers are in the US but you want me to build a business in Germany, I don't think that's going to work." It's just not going to happen. If you want me to make Germany a success, I need a full stack team in Germany to be able to pull that off. I think that's true for any geography. So that's how we build our international teams.

They [international teams] have certainly support from our global teams, but they have full autonomy to prioritize their own local road maps as they see fit on top of that. And they have the capabilities and resources needed to be able to do that.

When it comes to new products, our approach is very similar. We have a series of bets. We have some things that are very much in the exploratory phase, where we're dedicating two or three people to it. But once we decide to invest in something, we absolutely create full stack teams that are fully integrated, that can move just as nimbly as any start-up in that space could, with the added advantage of, again, being able to tap into the core.

I think we've now done that successfully multiple times with products we've subsequently taken into general availability at Plaid as well. We have an incredibly exciting set of new products that we continue to work on behind the scenes as well.

Vijay D'Silva: In addition to new geographies, I also talked to Eric about expanding into new segments of customers. He told me that Plaid is now working with many of the large banks. I asked him what's in it for them, since Plaid still helps its fintech customers compete with those banks. His answer reminded me of the rationale for when modern credit bureaus first emerged in the 1960s. Back then, better consumer information from getting different banks to combine data on the same customer allowed them all to lend more confidently. In turn, this helped feed the growth in the economy and led to new regulations like the Fair Credit [Reporting] Act. Similar to credit bureaus, according to Eric, the more Plaid's banking customers are able to learn about their own customers from Plaid, the better they will be able to extend credit and detect fraud.

Eric Sager: I think our partnerships with institutions have been evolving over the life of Plaid. Obviously, very recently, you've seen a lot of the data access agreements we've signed with the vast majority of large institutions in the US. In Europe, the migration to open banking has opened up access in a way.

Our fundamental belief at the end of the day is that it's the consumer's data, so the consumer should have the choice to share that data for the use cases they want to pursue, as opposed to it being the bank's data. It ultimately has to be in the best interest of the consumer. That said, the institutions are a crucial part of the overall ecosystem. I think of it as a kind of a three-sided ecosystem that has consumers, developers, and then the institutions.

Like I said earlier, many of the institutions now are also customers. They're both developers-slash-customers, as we call them, and housing a lot of the data that consumers want to access. From that vantage point, they're seeing the advantages firsthand.

By integrating into Plaid, they get insight into what's happening at other institutions, but even more crucially now, they're also getting insight into what's happening in a lot of the fintechs. If I'm a large bank and have a large wealth advisory, it's increasingly difficult for my wealth advisers to be credible if they don't have insight into what a client is doing at Coinbase, Robinhood, Weibo, or any of the other fintechs that are now increasingly playing in that space. So, as they see the benefits of that ecosystem and of that approach, they're much more likely to want to share as well. The second piece is that the large institutions have the brand, the customers, and in many cases, the DDA [demand deposit accounts] that are still at the heart of this. By permissioning and by participating in the ecosystem in a more proactive way, they solidify their core accounts' position in it.

The reality is, I think for many consumers, if you have a bank account and you can't connect that bank account to Venmo and you can't connect that bank account to Square or to Acorns and all the other apps you want to use, how long do you think you're going to stay with that bank? It's the new reality: consumers will increasingly leave the banks that are making it difficult for them to be able to connect their accounts. But on the flip side, the banks that are aggressively moving forward with integrating those accounts seamlessly into these other solutions can be competitive in a way they weren't able to before, while still retaining that core account relationship at the center and increasingly building their own digital financial solutions around it.

There are so many use cases where consumers increasingly expect a financial services experience to be at least tightly integrated, if not fully embedded. It provides significant benefits to the companies as well. It's another way to monetize. It's a totally different business model for many of these players. You could potentially offer your core products for free or at a discount, because you're monetizing it through the integration of financial services.

Again, it increases and improves the customer experience. Time and time again, when seamlessly integrated, we see NPS go up for consumers. We see consumer retention go up for the apps that are doing that. So I think that will only continue.

Vijay D'Silva: When the COVID-19 pandemic started 18 months ago, Plaid, like most firms, had to move quickly and is still operating remotely. Today, Eric and his colleagues are looking at different ways to establish new patterns of working. On the one hand, there's the flexibility of working from home. But on the other, many firms miss the mentorship and energy of being in person with colleagues.

Eric Sager: We're incredibly lucky as a business that something like COVID-19 doesn't really disrupt our operations day to day. We're a cloud-based business, and as such, I think we were well prepared for the world we all live in now.

The second big piece is always that it's about our employees and making sure that people can return to work safely. There's no way we're going to take any type of risks on that front at all. That said, there's also a lot we learned from this mobile-first experience, and ultimately, I don't think we're going to go back to where we're asking people to come back to the office five days a week. We'll most certainly live in a flexible future at work, where we'll have people come back two or three days out of the week, and we'll give them the option to work wherever they choose on the other days. Except for our teams that are fully remote, I don't think we're going to just move everybody to remote work. A lot what happens in companies is serendipitous.

Vijay D'Silva: As Eric talks about Plaid, one is reminded of how much further the banking system needs to go. Payments is a $750 billion industry, and while it is growing faster than banking overall, the industry is still very fragmented. Consumers often have to make trade-offs between convenience, privacy, and security when working with their financial institutions. The emergence of APIs makes it easy for financial institutions to provide all three benefits at the same time.

Meanwhile, the [M&A] activity in the market has shown no signs of slowing down. On June 24 this year, Visa announced plans to acquire the Swedish firm Tink for over $2 billion. Much like Plaid, Tink offers a single API to access bank accounts, this time in Europe.

Meanwhile, Plaid had a new round of funding in April raising another $425 million. With this level of cash on hand, and plans to double its workforce this year, it will be really interesting to see where the company goes.

Matt Cooke: It's Matt Cooke here again. On behalf of McKinsey's Banking & Securities Practice, thanks for listening to *Talking Banking Matters* today. We've got a series of conversations planned, so we look forward to you retaking your front-row seat to listen as more industry leaders from the world of fintech, banking, and digital talk about their work shaping the future of this industry. But for now, wherever you are today, thanks again for listening.

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