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Visa’s Plaid Buy May Move Needle on Bank-Fintech Data Fight

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Visa’s planned $5.3 billion acquisition of data aggregator Plaid could be a game changer in the policy battle between banks and fintechs over access to consumers’ financial account data.

Plaid, one of a handful of companies that connect bank and other financial account data to fintech apps like Mint or Robinhood, has been at the forefront of an increasingly public battle with banks over data access, leaving many fintechs and consumers caught in the middle.

While consumers authorize the use of their bank and other account data for fintech apps, industry disputes have emerged over which types of data should be shared and how it should be accessed.

The acquisition, announced Jan. 13, could add Visa’s heft to Plaid’s data scraping practices, widely seen as the most aggressive in the industry. Conversely, Visa may look to rein in the data aggregator and try to mend fences with the banking industry.

Either way, the pairing is poised to be a powerful operator in setting consumer data sharing policy.

“This combination will enable fintechs to get open banking products up and out more quickly and safely on the combined VisaPlaid platform. It will also normalize Plaid’s sometime contentious relationships with legacy financial institutions,” said Todd Baker, a senior business, law and public policy at Columbia University’s Richman Center.

PNC Bank customers reported in recent months they were unable to use PayPal, Inc.-owned Venmo after the bank blocked Plaid’s access to accounts in a bid to boost security. Such disruptions leave consumers angry and slow the flow of real-time financial data that fintech companies rely on.

Plaid is likely to benefit from Visa’s deep relationships with conventional banks, “which should allow it to get better treatment and negotiate more effectively as part of the overall bank/Visa relationship,” Baker said.

The deal would also give Visa preferred access to Plaid’s ecosystem of thousands of fintech clients. The payments company estimates Plaid connects about 80% of the largest U.S. fintech apps, pulling in data from more than 11,000 financial services companies, according to a Jan. 13 Visa investor presentation.

The acquisition is “an important signal for everybody that data is a really critical aspect of the evolution of financial products and services aimed at consumers and businesses,” said Melissa

Koide, chief executive officer of FinRegLab, a nonprofit research group focused on data and technology in financial services.

Fintech Frenemies

Access to cash flow and other consumer financial account data is the lifeblood of thousands of startups and more established fintech companies.

“I can’t think of a single fintech out there that doesn’t use it in some form or fashion,” said Jesse Silverman, general counsel at Steady, a job and income management app for gig workers.

Plaid and other data aggregators, like Finicity and Envestnet Inc.'s Yodlee, allow startups to seamlessly use real-time account data to evaluate credit risk, suggest financial products and offer other services.

The aggregators do the work of pulling consumers’ data into an app, freeing up startup’s from developing their own data access methods or hold a customer’s bank account data, a potential cybersecurity liability in the event of a breach or data leak.

The banking industry has been pushing fintechs and aggregators to sign standardized data sharing agreements that limit the type and amount of data aggregators can obtain from their sites.

Plaid has danced an open banking two-step, signing agreements with some of the largest financial institutions, like JPMorgan Chase and Wells Fargo, while continuing to use screen scraping in a bid to obtain consumer data from smaller financial institutions.

Not every aspect of open banking is contentious. Yodlee and Finicity are increasingly pursuing data sharing agreements with financial institutions, and a financial industry consortium is working to streamline and standardize the information exchange process.

Banking groups say more work still needs to be done hashing out agreements to put guardrails on data sharing.

“For this ecosystem to move to a more secure way of doing business” via data sharing portals, “there are going to need to be a large number of agreements entered into,” said Dave Fortney, The Clearing House’s lead for product development and management.

Regulatory Hands-Off

The Consumer Financial Protection Bureau, which has authority to regulate consumer data sharing, has stood back in a bid to let industry standards evolve.

That differs markedly from the EU’s approach, which has established technical standards to facilitate open banking in Europe, with mixed results.

“Two years since their standardization requirements came into effect, compliance has lagged and is uneven across countries,” said Diego Zuluaga, policy analyst for the Center for Monetary and Financial Alternatives at the Cato Institute, a Washington-based libertarian think tank.

“America’s more bottom-up approach to standard-setting has taken longer to take off, but the hope is that adoption in practice, not just in name, will be speedier and easier,” Zuluaga said. Visa’s acquisition plans could accelerate those efforts within the industry, he said.

The acquistion could prompt the CFPB to examine the issue more closely. The agency is expected to hold a February industry symposium on open banking, but it's too soon to know if regulations will follow.

The CFPB or other regulators could be forced to step in if squabbles persist between banks and fintechs.

"Even those who would acknowledge we have this very dynamic fintech sector would say we're reaching the point where we actually do need regulators to look closely and understand how lack of definition in regulatory expectations may be having an effect on how this market is evolving," FinRegLab's Koide said.