



University of Exeter
Business School

BEEM062 Assignment Part A

Advanced Financial Technology

Plaid Business Report



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1.0 Preface

This report lays out a comprehensive analysis of Plaid, a leading FinTech company which is known for its pioneering role in open banking solutions that secure and simplify interactions between financial applications and banks. It examines Plaid's technological innovations and the areas in which it is disrupting traditional financial services while also looking at how Plaid has improved financial access. By providing strategic recommendations aimed at highlighting opportunities for Plaid while also addressing potential threat areas this report offers detailed justifications for each strategic recommendation and offers mitigation strategies for any identified threats.

2.0 General Background

History of the firm

Plaid is a FinTech company that specialises in open banking and finance by providing a means of communication between financial service apps and banks (CNBC, 2020).

Established in 2013 by Zach Perret and William Hockey (Plaid, 2024a), Plaid was founded with the vision of simplifying how consumers and businesses interact with financial data.

Plaid provides a data network that is used to address the inefficiencies in accessing bank data for various financial services, which initially consumed a significant portion of their development efforts (Gabriele, 2023). Plaid's service ensures that financial sites are unable to access all your banking data but only the specific data which you have allowed them access to (Miller, 2024). With a network that covers 12,000 financial institutions across the US, UK and Europe Plaid has become a world leading open banking platform that millions of people rely on (Open Banking, 2024).

2.1 Areas of disruption

Plaid's breakthrough technology dramatically reshaped and disrupted the world of financial services by providing a real-time connection to almost every bank and credit union in the US (Renton, 2024). By providing this safe and efficient gateway for financial data, Plaid has both simplified and accelerated the process of financial decision making for people all over the world. Plaid has accelerated the process of financial decision making everywhere it operates.

Popularising Financial Access

The role that Plaid has played in increasing access to financial services cannot be downplayed. As of March 2024, Plaid has 100 million users across 17 countries, additionally they have increased their product offering to provide solutions across various other areas such as fraud, compliance, and credit underwriting. (Bello, 2024). By providing these solutions, Plaid is putting people at the centre of their innovation and by doing so, are increasing accessibility. This increase in accessibility is crucial for groups of people who may have previously been excluded from the financial system because of barriers such as low income or banking history. This democratisation of financial services is an example of how FinTech has the potential to include more people in the financial system than ever before (Hernández, 2024).

Pushing Financial innovation

By reducing the complexities that come with financial data integration, Plaid's API has encouraged innovation across the FinTech sector (Aishwarya, 2024). Plaid acts as a middleman between established banks and start-ups allowing for new firms to focus on improving their technology and providing new and innovative services (Genig, 2018). By having this freedom there has been a surge in both the variety and number of financial applications that are available, significantly increasing consumer choices. Plaid's innovations have helped shape a FinTech ecosystem where fintech companies, banks and consumers are connected, supporting a variety of financial services (Sullivan, 2024). Additionally, Plaid has been in improving open banking standards by allowing customers to securely own and share their financial data which ultimately fosters further innovation and competition (Renton, 2024). As a result of accurate data sharing enabled by Plaid, FinTech firms can offer tailored financial products that are able to meet the everchanging needs of consumers (Muhn, 2023). Ultimately, these developments demonstrate Plaid's role in driving innovation and disrupting the financial world.

Financial Security

Plaid has greatly improved financial security across the finance sector by acting as an intermediary that allows for minimal exposure of sensitive financial data between applications and banks. Plaid makes use of an advanced system that uses AES 256-bit encryption and transport layer security to protect valuable data (Mantis Funding, 2024). This

step is extremely important for protecting against financial fraud and gaining trust from partners. Additionally, the use of multifactor authentication provides an added layer of security that help Plaid comply with industry standards (Rosza, 2022).

Building on this, Plaid's approach to data privacy is extensive and is facilitated through features that allows for users to manage who has access to their data. Plaid's security protocols involve ensuring that their systems constantly have the edge to counter new threats, this is achieved using regular updates and audits (Plaid, 2024b). By doing this, Plaid has improved transparency and security of transactions. Their commitment to financial security can be seen in the role they are playing in initiatives in open banking that actively promote safe and efficient data sharing. This role demonstrates clearly that Plaid is pushing for positive change in how financial services protect and manage data (Reich, 2022)

3.0 Recommendations

3.1 Strategic opportunities with justifications

Opportunity: Plaid should consider branching into Insurtech. Insurtech is the use of technological innovations to make insurance models more efficient, much like FinTech it leverages modern solutions that can revolutionize an otherwise traditional industry (Hargrave, 2019).

Justification: With the experience that Plaid has across the FinTech space, expanding into this area would be a step forward for the firm. Plaid already makes use of machine learning and AI to help power real-time income verification (Yao et al., 2023), similarly the Insurtech sector is ready for a big transformation using these technologies. While the Insurtech sector is already seeing some use of these technologies, the sector is ready for them to be used in new ways, Clere (2023) believes that it is just the beginning for AI and ML in insurance showing that Plaid can step in and continue their innovative streak in this area.

Opportunity: Plaid should expand its operations into emerging markets such as Asia and Latin America where there are some of the fastest growing economies in the world (Lu, 2024) and an increasing demand for digital banking services.

Justification: Asia and Latin America have displayed significant levels of economic growth in recent years. Paired with a significant level of growth in digital financial services which has been driven by a shift from traditional banking to digital platforms (Dahl et al., 2020). The adoption of open banking in Asia will require a great deal of technological transformation for firms that are starting off in Asia (Deloitte APAC, 2024), Plaid has access to the necessary technology to be able to have a competitive advantage in the region. However, there is a large cultural difference between Plaid's current operational areas which may pose a challenge when setting up initially. Similarly, Latin America presents a good opportunity for Plaid, with Bastidas (2020) finding that there is potential for data monetisation through APIs and partnerships with FinTech firms in the region.

3.2 Threats facing Plaid

Threat: Regulatory Compliance - operating in an increasingly complex global regulatory system that changes regularly.

Mitigation: Further develop a regulatory technology tool that is designed to help Plaid, and its clients navigate the constantly changing financial regulation environment.

Justification: RegTech consists of a group of companies that make use of cloud computing technology to aid with compliance of regulations, doing this is cost effective and efficient (Estevez, 2020). A dedicated RegTech solution for Plaid would greatly benefit them as it would streamline the processes, this technology enables the organisation to proactively manage compliance obligations therefore reducing risks and operational costs that are often associated with maintaining regulation standards (StartUs Insights, 2024). This technology is also growing in importance as with the increasing complexity of the finance industry and with the stakes being higher than ever, robust financial crime technology and solutions are needed (Grinberg, 2024). Plaid has already taken a step in this direction having acquired the RegTech company "Cognito" (Ingham, 2022), by doing this, Plaid to continue to put themselves in a position to stay on top of regulations

Threat: Data Security and privacy – Address the increase in risk of data breaches and cyber-attacks.

Mitigation: Continue to invest into advanced cybersecurity solutions such as real-time intrusion systems (Miller, 2022) and predictive threat models (Kost, 2023).

Justification: As data breaches become more common, improving cybersecurity measures is the most critical step in protecting user data and maintaining user trust. By investing into automated detection, abnormal behaviour can be detected and can alert security teams in good time to prevent any incoming cyberattacks and thus prevent a data breach and loss of trust (Raquel, 2023). Investing into a real time intrusion system would also be a wise decision as other organisations are already implementing this technology with IBM recently announcing a new AI powered threat detection and response system which will be able to deal with up to 85% of threat alerts (IBM, 2023).

The strategic recommendations that have been highlighted present Plaid with opportunities to both solidify its role as a leader in the FinTech scene and expand its market presence. Additionally, the threats that have been outlined will provide Plaid with a means of staying compliant and secure in an increasingly difficult digital environment.

4.0 Summary and conclusion

By impacting millions of users worldwide, Plaid has helped revolutionise the FinTech world by simplifying interactions between banks and financial applications. Its innovative API provides accessibility and ensures a high security standard which has increased trust across its userbase. Recommendations for Plaid include expanding into Insurtech and new emerging markets while also addressing threats that loom such as cybersecurity and changing financial regulations. Implementing these strategies will ultimately require careful planning and execution but will yield great reward, whether it be increased market share and improved customer trust to staying ahead of cybercrime and regulation changes. Embracing these strategies will enable Plaid to continue its current trajectory of innovation and maintain its leadership in the FinTech industry.

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