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Welcome to the Fintech One-on-One Podcast, Episode No. 317. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Peter Renton: Today on the show, I am delighted to welcome Justin Jackson, he is the VP of Product Management at Fiserv. Now, most of you know Fiserv, I'm sure, they're one of the leading technology providers in the financial services space. I wanted to get Justin on today to talk about open banking because it's something that we really haven't covered a lot here on the show and I wanted to go in-depth with someone who knows the space well so that's what we do.

We talk about how open banking is actually disrupting financial services right now, what are the opportunities it provides, both for fintechs and for banks and credit unions, we talk about the lending space, we talk about identity verification, we talk about open APIs, fintech-bank partnerships and much more. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Justin!

Justin Jackson: Thanks, Peter, how are you?

Peter: I'm great, how are you?

Justin: I'm very well, thank you,

Peter: Okay. Well, let's kick it off by giving the listeners just a little bit of background about yourself. I know you've been at Fiserv for a while, why don't you tell us a little bit about your history there and what you've done.

Justin: Going on two decades, actually, I've been at Fiserv for quite a long time, had a pretty varied career here starting in Operations and moving into Product Management. Today, I lead our Data Aggregations business so we have a data aggregation platform that we call AllData and we use that platform to implement a lot of different use cases around account verifications, identity verifications, transaction analysis, financial wellness, you name it, if it uses data aggregation, we do it. All of that really rolls up under the business that I lead. I am primarily responsible for our Product Management team, but also dotted line with some of our marketing partners, our sales partners, delivery, operations, really kind of have my hands in everything related to data aggregation here at Fiserv.

Peter: Okay. So then, let's get right into it. We're going to be talking about open banking, as I said in the intro, and maybe we can start with how you define open banking and how does Fiserv actually think about it.

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Justin: How do I define open banking, I think about open banking as being really a capability for a consumer to have access to information about their accounts, information about their transactions, their financial identity, regardless of where that data sits, it's normally inside of a financial institution, it's part of their core banking or online banking system, being able to get access to that and use that in way that a consumer desires, whether it's with that FI, another FI or even a fintech provider is ultimately what I think of as open banking.

How do we view it here at Fiserv? So, we think about open banking, we really see it as an opportunity for everybody to win, it's kind of a new development in banking over the past ten years or so, it's been growing and becoming more the norm. We've seen a lot of development globally around open banking, but the way that we see it, we see it as an opportunity. We see it as an for fintechs because they can leverage that data and those capabilities out of financial institutions so that a mutual customer can have the best experience possible or get access to a novel, new product that they haven't seen before. We see it as an opportunity for the financial institution because they can now partner-up with fintechs and bring new ideas to market without necessarily having to build everything from scratch themselves.

Peter: Right.

Justin: And then we see it as an opportunity really first and foremost and most importantly, for the consumer who can get access to the products that they want and the products that they need, regardless of which financial institution they might have chosen to do business with using information that is about them and about their accounts and transacting on these accounts at a lot of different entry points into the financial ecosystem.

Peter: Right, right, okay. So, let's sort of dig into that, I want to get your perspective on how open banking is really accelerating this disruption that we're seeing. I mean, you've got a great vantage point at Fiserv, we'd love to kind of see how is it disrupting financial services now, let's start with that.

Justin: It's doing a couple of things. I think it's allowing fintechs that are not chartered financial institutions to really come up with new ideas and new ways of doing things and testing those in the market with consumers, with a broad base of consumers that might be banking anywhere. They don't necessarily have to go to a bank or to a credit union, they could buy in to say, we want to put a product in front of your customer or your member. Instead, you get the opportunity now with entrepreneurs and engineers to come up with ideas and build those ideas and actually bring them to market and show that there is a consumer segment, there's a buyer audience out there for a particular product without the fairly high investment that might have been required in the past in a lot of cases.

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It's also creating an opportunity for financial institutions to almost use that entrepreneur landscape as kind of a third party R&D system. I can almost think about all the fintechs that are out there, all the ideas that they're coming up with and the things that they want to do in the market coming to financial institutions and saying, we'd love to do this and the FI being able to say, yeah, we can help you with that, we might make a small seed investment or we might give you access to some of our people for a little bit of time in order to do something like this or we might talk to some of our customers about piloting something with you.

It's giving the institutions a way of almost spreading their resources around and making more bets than they've been able to in the past, get access to more features, more functionality, more novel new ideas and see if they work without nearly as much risk as they've had in the past. I see that as one of the most disruptive positive changes that are coming out of open banking as you see it come to fruition, both here in the US, but then also around the world.

Peter: Right, yeah. That's really interesting because I see....obviously, the UK were one of the first to kind of mandate it legislatively and they mandated all banks having to share data and, you know, it got off to a pretty slow and rocky start, but it's interesting that in this country there's been no legislation, but it seems to me, and I follow the UK and European banking developments pretty closely and I just feel like, from one of the things you're saying here, it seems like there's more activity happening here without government legislation is because....I mean, I presume that like the consumers driving it. Do you think banks are pretty open to it as a whole here?

Justin: We've seen kind of an attitude shift, honestly, in the past few years. If you ask me that exact same question three, four, five years ago, how do banks feel about this, how do credit unions feel, are they open to the idea of open banking, I would have said almost universally, no. (Peter laughs) They see it as their customer relationship, their data, they want to build a wall around it, keep others out, they see fintechs largely as competitors in many cases.

Today, there's been kind of a title shift in that opinion in that a lot of institutions don't look at the world that way today. A lot of institutions do see open banking as an opportunity for them now. Now, I would challenge one assertion you made where you said there's no legislation. There's one little piece of legislation, it kind of manifests oddly within the market, right and it's part of Durban, I think it was Durban...it was Dodd-Frank Section 1033, I know the section, I can't remember the exact law that it came out of, it's Section 1033 that says that banks and credit unions have a responsibility to make data about a consumer and about their account accessible for their use.

Now, it's very vaguely written, it doesn't say what does accessible really mean, right. Does it have to be electronically accessible or could we provide it on paper, it doesn't say that it has to be made available to an agent of that consumer like a fintech is coming in to activate a service versus to the consumers themselves. So, the law isn't super clear, there was a request for

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comment from the CFPB earlier this year where they asked for commentary from banks, credit unions, providers like Fiserv, fintechs, everybody who's involved in this ecosystem of how can we begin thinking about enforcement of this particular rule.

And there were a lot of comments that were made, but I think that that rule, the fact that there is legislation out there that says, hey, if you're a bank, if you're a credit union, you have a responsibility to make sure that the data's accessible to the consumers so that they can use it the way that they want to has kind of pushed in that direction, but you've also seen the business owners of these institutions start to view this as more of an opportunity for I think some of the reasons that we talked about earlier.

Peter: Right, right, okay. Thank you for that clarification there. I want to talk about identity verification because this is a really big piece. It feels like it's central to the whole, you know, open banking particularly from a consumer's perspective, because you've got to be able to identify who's using it. Everyone knows the data that's out there on the dark web for sale, but...I know you know a lot about this subject so talk about how is open banking...capabilities really assisting with identity verification today.

Justin: I mean, it's a great question, especially in the time of COVID, right. The ability to do a digital identity verification is critically important today, not asking someone to come into a branch with a social security card and a driver's license to open an account, being able to achieve that Know Your Customer requirements as a financial institution. Even if you're not a regulated FI being able to prove that someone is who they say they are, that the only accounts that they say they own are critically important today.

How does open banking help with that? A couple of ways. So, one, we know that financial institutions have that regulatory requirement of verifying identity so they're effectively vouching for you, right. If you've opened an account at a particular institution, you've proven that you are who you say you are. And now, as an outside provider to the same customer, I can, to a certain extent, rely on that bank or that credit union's processes that they've used to verify identity. I've got access through open banking, to the name of an account owner, to their address, to their date of birth or if I can, at least, provide in that information and ask the institution, does it match up, is this consistent with what you have on this customer relationship.

Being able to do that through an open banking mechanism allows me, as a third party provider, to say, okay, this customer, I know they are who they say they are. And when you layer in security controls that exist at these institutions, things like device validation and IP geo-location and geo-fencing and the fraud monitoring that they're doing to make sure that a customer only has access to an account, if they actually match the patterns that we expect from that particular relationship, you start to see that there's a certain reliance you can place on the institution to help you verify identity as a new provider for that beyond simple physical interactions.

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There's also the triangulation aspect, right. If I can triangulate data from a financial institution, but I can also add-in information from a credit report or I can add-in information from the customer's own behavior with my systems that I've seen in the past or with other providers, I can start to pull together multiple distinct data elements and combine that picture to say, I've got consistency across multiple data sets, a consistency across multiple front ends. It's much more difficult for a fraudster to compromise an entire suite of surrounding services and providers in someone's life.

They might get access on the dark web and know your date of birth and your social security number, but if they don't have information about you that is not tied to those, they don't have information about property records, by way of example, or information about past addresses or something like that, being able to triangulate these data sources ultimately gives you a much more effective way to say, I'm confident in the identity of this person. Open banking is adding one more data source that we can use in those triangulations.

Peter: So, what about actually lending money, let's talk about lending for a moment. How is open banking helping lenders?

Justin: I think there's a lot of places that open banking can help lenders. So, we talked about identity verification, right, and knowing that the person that you're disbursing a loan to is actually who they say they are. That idea of risk reduction is a good one, thinking about the early applicant process and the early on-boarding process, but then serving the user once you've decided to make that loan, once you've brought them kind of into the fold of your business, there are things that open banking can allow you to do to provide for a better borrower experience.

For example, automating the repayment experience. You can use tools through open banking to do things like say, okay, I'm making a loan to you, it's a term loan, I've got a certain period of repayment, a certain payment amount, would you, as a borrower, like to set up an automated repayment plan right now by telling me where you bank and allowing me access to your account, if so, I'll set up that repayment plan. Open banking can actually allow you, as a lender, to then go in and pull out account credentials, pull out payment credentials, set up that automated transaction without ever asking the user what's your account number, what's your routing number so I can process these transactions.

From a user experience perspective, if I'm applying for a loan as a borrower, being able to set all of that up at one time at the very beginning and knowing that it's all there and it's just going to work without having to find the checkbook that I don't know where it's at, a lot of accounts don't issue that anymore right now, being able to track down that information that I typically don't have to have, improving that user experience through the use of open banking tools is what they want.

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One thing that we've seen one of our partners doing recently is actually using open banking tools to enable underwriting on thin credit files consumers, consumers who have never had a loan before, but maybe they've got a bank account, they've had that bank account for five, six, seven years, you look at their transaction history. You can look at patterns in deposits, where are those deposits coming from, when are they coming in, what's the level of variability in those deposits. You can use that to feed into risk decisioning and underwriting decisions and, actually, it enables you, as a lender, to provide access to financial tools like loans that might now otherwise have been available for the consumer so you're opening up financial access which is another thing that we're seeing a lot of our partners look to try and do.

How can I achieve broader access to financial tools that has been available in the past and, you know, address that under-banked or under-served population through some of these capabilities. I think, all in all, it's a series of positives, it's really just a matter of thinking about how can we use the data and how can we improve the experience for borrowers in today's world.

Peter: Right, yeah. The fintech lenders certainly have been at the forefront. I know there are several fintech lenders, just today, that are using what they call Cash flow Underwriting which is diving into the bank account as you just mentioned. I'd like to get your sense of how the banks and credit unions that you're working with, how are they reacting to the I wouldn't say dominance, but certainly the fintech lenders have made quite a name for themselves in the digital space for people who can now get a loan on their phones, certainly online, they've been able to do that for more than a decade, what are you seeing around like data sharing, data access when it comes to the banks and credit unions?

Justin: So, we're seeing more banks and credit unions asking us how can we enable that and I don't want to limit that just to fintech lenders. But, we're seeing more and more banks and credit unions asking us, how can I enable the sharing of data, the access to data so that my customers, my members can use these third party tools. We recently had one large important partner of Fiserv come to us and say, I've got customers who are talking to me about trying to set up accounts at online brokerages or set up accounts at various online P2P services and they're not able to link my accounts in that process. They end up in this really kind of legacy trial deposit process where micro deposits via ACH are made and they have to confirm the amounts before they can do anything and it takes them three business days. now that doesn't feel right.

You know, we've all had the experience of being able to select our bank from a list and key-in my user name and password and I'm up and running, ready to go in session in a matter of seconds. Knowing someone that you've got to wait days when they work with a pretty large institution doesn't really work out well. So what we've seen is that more of our partners are coming to us saying, how can I do this, how can I enable the sharing of data and provide access to my data. And so, we, at Fiserv, we're making investments on exactly that front, we're

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launching our fintech marketplace which provides a mechanism for fintechs and banks and credit unions to partner together to bring products to market.

We're launching our developers studio which enables developers to actually build fintech applications on top of APIs into Fiserv systems. We've got our AllData platform, it enables access to data from 18,000 different data sources across the country, both Fiserv banks and credit unions and non-Fiserv banks and credit unions, even billers, insurance companies, brokerages, you name it, we've got access to it.

So really, what we're trying to do is respond to that market demand that we've heard from our partners and really just from the industry as a whole to open access to that data, provide access to that data. We believe that, ultimately, that enables innovation, it enables a better experience for the consumer and like I said earlier, right, it's a "win win win" situation for the fintech, the bank and the consumer at the end of the day.

Peter: So, can we just dig into that marketplace you just mentioned. Is it pretty broad, as far as the types of offerings you have there, is it mainly lending-focused, I mean, what is going on in that marketplace?

Justin: We're really in early stages of launching that. There's a gentleman here at Fiserv, Sunil Sachdev, we've got some conversation about that I think there's a video out on YouTube, a recording of Sunil talking about it, but the fintech marketplace ultimately, the goal of that is to say, if you're a Fiserv partner, whether on the fintech side or the bank and credit union side, and you want access to the other side of the table, let's make that possible.

Let's look at fintechs and think about how could we get your product in front of Fiserv banks and credit unions for deployment into their customer base. So, maybe you've built a financial wellness app as a fintech and you believe that that app has value for customers of various banks and credit unions, how can we help you get into that digital stack with those banks and credit unions. That's ultimately the goal of the marketplace. That way the bank can take advantage and get access to products that maybe Fiserv would love to build, but we haven't been able to yet and there's other providers out there that are doing so and we can help fintechs by giving them a distribution channel into that banking infrastructure that we run so much of within the US.

Peter: Right, right, okay. So, I want to talk about open APIs because I was actually watching a presentation just earlier this week that really talked about how this is the way of the future, open source everything, you know, what's your view on that and do you feel like open APIs is the way of the future here?

Justin: Are open APIs the way of the future? Yes, but the future's a really long horizon, right. (Peter laughs) The biggest banks in the country are pushing really quickly into the space and it's

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great to see. We see really big logos that have published open APIs give access to reams of data about a customer's account and about that customer and you can see their transactions, you can see ownership information and you could see contact information for the consumer all giving the consumer's consent. That's a really important piece of this, right, you can't access the data unless the consumer has specifically said, I want this fintech, I want this third party provider to be able to have access to that data.

Big banks have made a charge into that space and that's great to see. Providers like Fiserv are making a charge into the space, we've built a product called AllData Connect that enables visibility to where data has been shared and manages consent and things like that for some smaller institutions. The reality of the market today is that many smaller institutions haven't yet deployed open APIs and so there's a need for access to data.

You never want to tell a consumer, while you're not banking at one of the top ten retail institutions in the country and so your account can't be used on our service. That drives a need for continued access to data through other mechanisms, the legacy mechanisms, whether it's screen scraping which is almost a four-letter word in this industry in a lot of cases, but it provides access to thousands of FIs that otherwise wouldn't be served right now or legacy specs like the OFX specification that's used for kind of activity to a lot of data or internal custom web services.

What we have found with our aggregation business and AllData is that what's really important is providing the broadest access possible and making sure that we can do so flexibly. Whatever the bank needs to support, whether it's that open API that say Bank of America has in market and available and accessible or it's an OFX connection or it's screen scraping is what we've got to support for certain institutions. Whatever that mechanism is, make sure that we've got access and then provide a normalized end-point for the fintech to access that data such that regardless of where their customer banks, they're actually able to get to it and use it.

I think, two, it's probably important to point out, the APIs even when they are 100% available within the banking industry, there's other data that sits outside of banking that will not necessarily be served by those APIs. So, this gets kind of far outside of lending, but think about, for example, financial wellness apps, we all want to understand our finances, where we spend our money, what our retirement's going to look like and do planning for college savings and things like that. You could envision a world where a financial wellness app becomes an overall life wellness app in the future and maybe that life wellness app starts to bring in things like what does your carbon footprint look like, what's your impact on the environment and it starts to want to have access to data like how many gallons of water did your household use last month or how many kilowatt hours of electricity or what is your thermostat set at everyday so we can understand what you're doing and what the climate is in your home.

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Some of these data points are available via API today, that thermostat data, you can go out to ecobee and you could pull it down via an open API and pull that into any app you want, that's great. The water company probably doesn't publish the same depth of data, your electric company, they might or they might not. Tools like screen scraping are going to be necessary for a long time for us to continue kind of pushing the envelope about what data is accessible and available and useable so that if we go back to that fintech, it's creating those novel experiences and coming up with those great ideas that we're enabling them with the data that they need to bring those ideas to fruition and see, do they resonate with the consumers, is that what today's consumers want access to.

Peter: Right, right. You know, you work with a number of different banks and credit unions of a large variety of sizes....I'm talking about fintech partnerships, I mean, is it.....are fintech partnerships, banks partnering with a fintech, is that really the best way forward for banks of all sizes or there are certain parameters where these types of banks should be the ones looking for fintech partnerships? What have you seen when you're looking at the market?

Justin: Yeah, it's a great question. So, it's actually a question that we posed to an industry group that we pulled together a couple of times a year where executives from various banks and credit unions are part of being almost like a focus group. We talked about exactly this question, when do you guys want to partner with fintechs and what we found is there's not any sort of stratification as to size of institution that says smaller institutions should or shouldn't, bigger institutions should or shouldn't, that didn't really come up.

What really came up in the conversation was how core is what the fintech is doing to the business of the institution. So, for example, we had some execs that were part of that conversation and said you know, small business is something that is important to a lot of banks, it's not tremendously important to us, we don't invest a ton in it, but we do have some small business customers. In that sort of a situation, that institution is looking and saying, who's out there building products for small businesses, what fintechs are focused on that space that maybe I could partner up with and I could serve my small business customers.

I know that they're not my strategic North Star, but I still want to deliver products and services and capabilities that make them happy as customers and satisfy the needs that they have. In those cases, partnering up with that fintech to say, let's bring your product into our space so that we've got access to the things that our customers need, that makes a lot of sense. In a case where a bank's entirely centered on small business and that's their entire strategy, the idea of taking a third party and kind of outsourcing execution on that strategy to that third party doesn't really resonate as well.

So, what we found is it's not about size, it's really about where does the need sit within the overall strategic framework of the institution. Is it something that's part of their core, if so, they want to do it themselves. If it's not, then it's something where they want a partnership and

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they're looking for providers like Fiserv and others to help them understand who are these target partners.

Peter: Right, right, that makes sense. So, let's talk about the consumer, you've mentioned this several times already in this conversation, consumer expectations are certainly changing, particularly with the younger generation, and they want their financial institution to, you know, understand them, to sort of even anticipate what they want. I mean, how is open banking helping there?

Justin: The way that I think it's helping the most there is it's allowing the development of experiences to do exactly that. It's allowing fintechs to bring to market a set of capabilities that really build on data and understand what's happening with the consumer, make recommendations of products, make recommendations of how to more effectively save or bills that they could save money on by switching to a particular provider from the current provider, it's allowing the development of experiences that match today's consumer needs.

Today's consumer doesn't want to sign into banking and see a list of transactions, they want to know what's likely upcoming, am I going to have a balance that can support those upcoming transactions, am I going to have excess money that I should be moving into savings or into an investment account or should I be pulling money out so that I don't overdraw my account. Expect that we, as financial institutions, really understand what does their financial picture look like and open banking is allowing the development of experiences on top of that banking experience that provide exactly that insight.

Interestingly, we at Fiserv participate in an industry collaborative with a group called Stone Mantle. We studied how do consumers react to the idea of sharing information about their banking accounts, this exact question of what's today's expectation and about 51% of the consumers came back and said, you know, if you could help me better understand my overall financial picture and save me time, save me stress in how I manage that, I'd share access to all of my accounts. This was just a very blanket statement, it's very kind of vague and open-ended, but it tells you what today's consumers are asking for, why there's so much success in the fintech space of building those kind of financial wellness and planning applications to match these expectations.

Peter: Right, right. So, we're running out of time, maybe we could close with this last question. Listening to what you're talking about, I feel like it's really exciting time, a time of change and opportunity so when you look out into the future, what role do you think open banking will play in the future of banking?

Justin: To a certain extent, force some institutions to up their game on some of the capabilities they can provide. It's also going to open up the landscape of those institutions to provide more new, novel, interesting capabilities than they have in the past. It's going to give more control to

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consumers about where their data sits, how their data is used and who they use as service providers related to their finances.

Ultimately, I think that the role that open banking is going to play, as we go forward, it's a little bit cliché because it's right in the name, but it's going to open up that ecosystem, right. It's going to tear down walls that existed in the past around who consumers can use, how they can use those providers, what they can do with their money and with their data and enable a lot of things that we haven't been able to do in the past, whether we're a fintech, a bank or a consumer. I think it's going to be a good thing, all in all, I think that's what we see on the wall and I think our institutions tend to agree with that attitude shift that we're seeing take place. I'm really excited to see what develops within the next couple of years,

Peter: Me too, me too. We'll have to leave it there, Justin, really appreciate you coming on the show today.

Justin: Absolutely. Thanks for the time today, Peter, have a great one.

Peter: See you.

You know, the big takeaway for me here is that, as Justin was saying, in many ways the technology is here today to really I think radically improve, radically change the user experience when it comes to how consumers and small businesses, for that matter, how they interface with their banks and with financial institutions, in general. But, I would argue that we're seeing some decent progress here, but I don't think it's been game changing yet, but I think based on everything Justin's saying there, I really feel like we are about to see, you know, a Cambrian explosion of innovation when it comes to what consumers can do with their data and how it's going to maybe improve their lives and I'm excited to see what comes out of all these open banking initiatives.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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