



EXPERT INTERVIEW

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# Open Banking entrepreneur on Klarna's TAM expansion opportunities

## TEAM

Jan-Erik Asplund

Co-Founder

[jan@sacra.com](mailto:jan@sacra.com)

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By **Nan Wang**



## Background

## Interview

**Klarna is building an Open Banking platform. What are the big future TAM expansion opportunities for Klarna in this area?**

There are various ways in which Klarna can leverage it. Klarna can leverage it from a processing payments perspective, so they don't have to rely on Visa or MasterCard for payments.

Klarna can leverage it from a data underwriting perspective. Potentially they can leverage it from a KYC point of view. They have to do various KYC checks of these consumers who they lend money to because consumer financing is more regulated than business finance. Even business finance that you need KYCs so Open Banking can help them across those various pillars.

Open Banking is going to create huge changes in payments. Right now, because it's a little bit new and only works really well in the UK; whereas that Visa and MasterCard work in 82 different countries.

I think wherever Klarna gets into open banking, it's probably going to be more about noise at the beginning, because the business model is not going to suddenly change.



They could use it for the underwriting. So the data is great, but they're not really taking much risk anymore on the consumers. They've managed to shift that risk to the suppliers. So they don't need to have the most incredible data underwriting algorithm.

They've got these like good algorithms and years of experience, i.e. they say to these companies like, okay, fine, you're going to make less profit per transaction through Klarna, but you're going to have more transactions to exonerate.

I think Klarna increases sales, but it's dangerous because sales are flattering for the company, but the profit margins aren't great. Because they are paying Klarna these additional fees. There's that dangerous thing with Klarna is you're encouraging the top-line figure to look really attractive. Maybe that helps when you're going for VC financing, but it doesn't help so much with the bottom line profitability.

**Even when people use Klarna, Klarna pays a MasterCard or Visa processing fee. With open banking, Klarna will connect directly with bank accounts. How do you think about that?**

In the long term, this could be beneficial for them. Open Banking is growing and doubling every year. In terms of what value can Klarna capture, it would be savings on payment processing fees.

**There are many API providers in Europe—at least 15 well-funded Series A or beyond companies—building for Open Banking. At some point, a lot of the value will accrue to consumers. How do you think about which companies will succeed and get the most adoption with their API solutions?**

Payments are a fragmented space. There are lots of players in it. It's not dictated by monopoly. I think open banking is super exciting. And it's got 15 years of innovation in front of it, but it's not immediately going to disintermediate Visa and MasterCard.

Right now Open Banking really only works in the UK. So if you're an international retailer, you don't want to create this small plug-in for the UK because you don't want payment gateways for each country. Every gateway is offering one



solution for every country. So it's going to take a while I think, before B2C being replaced by open banking. I think we're really at super early stages in these companies, investors shouldn't expect tangible results for quite a few years. It's super exciting. It's a brand new sort of technology. I'm not sure really how it's going to play out or what it's going to play out. And it's not just in the UK or in Europe. It's going all over the world right now. This concept of integrating with people's bank accounts.

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