The Intuition Finance Digest

July 2025

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Banks roll back climate commitments

Open finance runs into limitations over “super-apps”

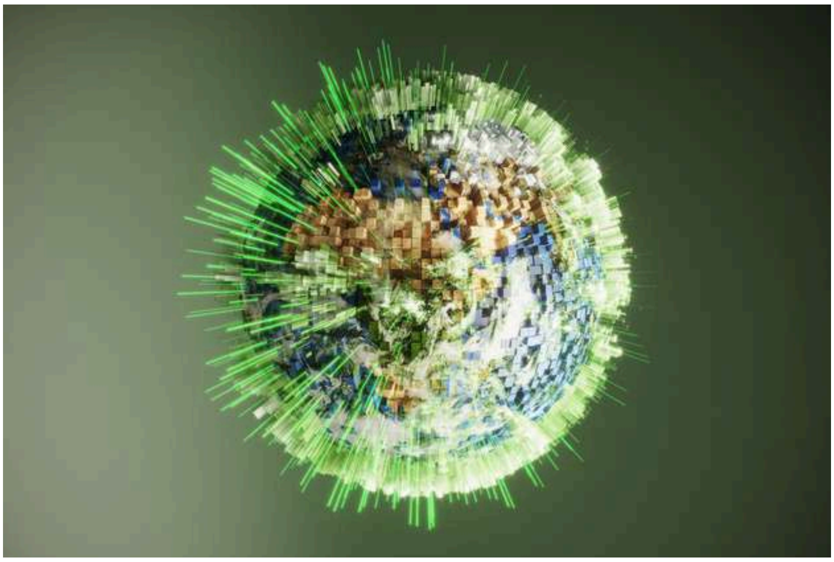
The move by BNPL provider Klarna into mobile phone services signals an ambition to build a “super app.” But while open finance holds promise, replicating Chinese platforms such as WeChat and Alipay may be a step too far.

Holding a banking license was long regarded as a privilege, granted only to a select group and protected by high regulatory and capital barriers to entry. This exclusivity helped banks achieve quasi-monopolistic positions in the financial system, with incumbents enjoying outsized scale and influence.

This environment fostered complacency – and perhaps even a sense of invincibility. Should these banks run into trouble, it was assumed that authorities would have no choice but to step in, given their size and systemic importance.

When the largest financial crisis of modern times struck in 2007–08, those implicit bailout expectations were proven correct. Authorities around the world stepped in to rescue major institutions, fearing systemic collapse.

But these interventions came at enormous economic, political, and social cost – much of which would ultimately have to be borne by a banking sector that had inflicted severe reputational damage on itself. The sweeping reforms that followed the crisis led to tighter regulation of incumbent banks, which, combined with growing public mistrust, created space for a new generation of more agile, technology-driven entrants.

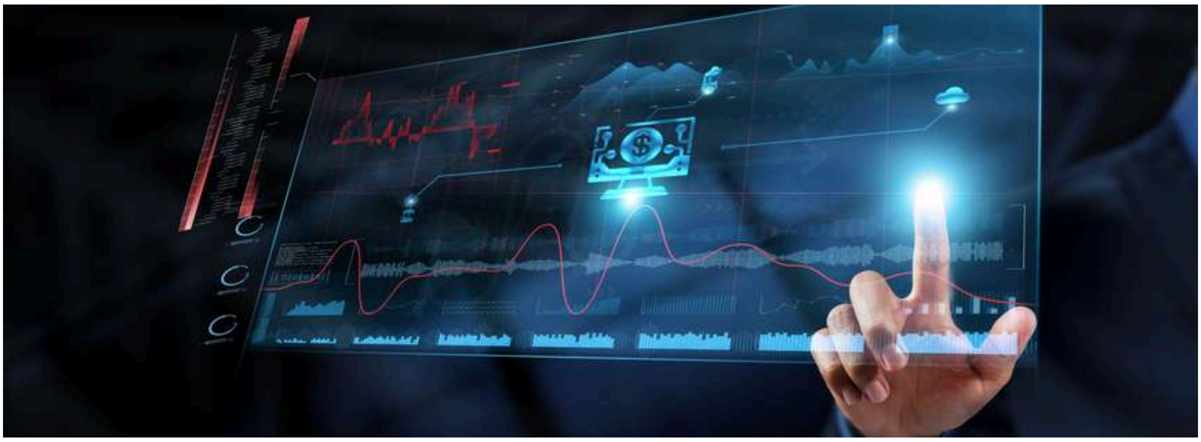


Crisis led to FinTech boom

Initially focused on payments, these new nonbank entrants – many of whom are so-called "FinTechs" – have since expanded their offerings and steadily gained ground across financial services. Their rise has been fueled by access to bank customer data under a principle known as *open banking*.

Where such data was once tightly held by banks, regulation around the world now affirms that it belongs to the customer, who may choose to share it with other providers. This sharing is enabled by application programming interfaces (APIs) – technology that allows different systems to communicate securely and efficiently. In the context of open banking, APIs offer standardized ways for third-party providers to access financial data and even initiate transactions on behalf of users.

Many of these third parties (FinTechs) have grown to rival incumbent banks. And as the scope of data-sharing has expanded, so has the vision – from open banking to open finance.



From open banking to open finance

Open banking began with account and transaction data. Open finance goes further, encompassing lending, insurance, investments, and more.

Banks and other financial institutions may also grant third parties access to internal processes such as account opening, credit underwriting, and risk management. This has enabled models like banking-as-a-service (BaaS) and payments-as-a-service (PaaS), where third parties operate on top of a licensed institution's infrastructure.

Open finance promises a broader, more personalized range of services – easier provider switching, embedded finance, BNPL (buy now, pay later), cash flow-based lending, better credit scoring, and even automated tax filing.

A case in point is Klarna, the Swedish FinTech that recently launched mobile phone plans in the United States. Klarna started as one of the early BNPL providers – a model that helped erode the profitability of credit cards, once a mainstay of retail banking. Now, it aims to evolve into a full-service super app, in line with the open finance vision.

In China, super apps like Alipay and WeChat are deeply embedded in everyday life, handling everything from payments to messaging to online shopping.

Obstacles to super-app development in West

But while super apps have thrived in Asia, they face steeper challenges in Europe and the US.

For one, stricter data privacy regulations such as Europe's GDPR or California's CCPA limit data sharing, while competition rules limit platform dominance. Privacy laws enforce principles like data minimization, user consent, and the right to portability and deletion. Combined with antitrust enforcement, they hinder the development of multi-sector platforms.

Cultural differences are also significant. Western consumers are generally more wary of a single app having access to all aspects of their lives.

Then there's the role of legacy infrastructure. In China, super apps emerged in part because they could leapfrog underdeveloped banking and card systems. In contrast, Europe and the US already have mature financial and payments networks.

Finally, FinTechs in the West face more rigorous regulation. In many jurisdictions – particularly in Europe – they are treated as full financial institutions. That means expanding into services like lending or payments typically requires a full banking license, with all the compliance burdens that entails.

***Intuition Know-How* has several tutorials relevant to the content of this article:**

- *Banks & Banking*
- *Business of Consumer (Retail) Banking*
- *Banking Regulation – An Introduction*
- *Financial Inclusion – An Introduction*
- *FinTech – An Introduction*
- *APIs*
- *Digital Banking – An Introduction*
- *Open Banking & Open Finance*
- *BaaS & BaaP*
- *Embedded Finance*

Banks roll back climate commitments

ESG appears to be retreating, with banks having increased their fossil fuel financing in 2024, just as climate change poses growing threats to the insurance industry and raises questions about financial stability.

A new report, *Banking on Climate Chaos*, by a nonprofit group finds that despite previous commitments to "net zero" and other climate goals, global banks significantly scaled back those pledges in 2024 and substantially increased fossil fuel financing.

Key findings in the report include:

- The 65 largest banks worldwide committed USD 869 billion to companies involved in fossil fuels in 2024.
- Of that, USD 429 billion went to companies expanding fossil fuel production and infrastructure.
- Over two-thirds of these banks (45 out of 65) increased fossil fuel financing from 2023 to 2024, with 48 banks boosting financing specifically for fossil fuel expansion.

Banks argue they must continue financing fossil fuel companies to support their transition away from fossil fuels. However, the report counters that this justification only holds if the company has a credible transition plan that includes winding down production.

Independent analyses show that oil and gas majors' transition plans are "not credibly aligned" with 1.5˚C pathways. Therefore, financing companies expanding fossil fuel infrastructure cannot be considered "transition finance."

Banks exit Net Zero Alliance

The report also highlights what it calls the "collapse" of the Net Zero Banking Alliance (NZBA). Launched in 2021 with UN backing, the NZBA aimed to align bank lending and underwriting portfolios with net zero carbon emissions by 2050, limiting temperature increases to 1.5˚C above pre-industrial levels.

However, earlier this year, all US, Canadian, and Japanese banks exited the alliance. Now, less than half of the banks covered in the report (30 out of 65) remain members. The NZBA subsequently softened its climate target to "well below 2 degrees."

Accordingly, the report urges banking regulators, supervisors, and policymakers to implement measures that align financial activities with climate goals – a step it considers crucial for financial stability amid the worsening climate emergency.

Insurance viability threatens financial stability

This call comes amid growing concerns over climate change's impact on the insurance industry's viability and the wider implications for financial stability.

In January, the Financial Stability Board (FSB) announced it is coordinating international efforts to address climate-related financial risks. It noted that these risks are global and will affect all entities, sectors, and economies. Extreme climate events, as well as a disorderly transition to a low-carbon economy, could destabilize the financial system, according to the FSB.

The FSB highlights growing evidence that insurance is becoming more expensive – and in some cases, unavailable. Rising risk premia could trigger falling asset prices in the short term.

Günther Thallinger, former senior executive at insurance giant Allianz, echoed these concerns, warning that *"entire regions are becoming uninsurable,"* posing a systemic risk that threatens the financial sector's foundation.

"If insurance is no longer available, other financial services become unavailable too," he said. *"Houses that cannot be insured cannot be mortgaged. No bank will issue loans for uninsurable property. Credit markets freeze. This is a climate-induced credit crunch."*

***Intuition Know-How* has several tutorials relevant to the content of this article:**

- *ESG – An Introduction*
- *ESG Factors*
- *Sustainability & Sustainable Development*
- *Net Zero*
- *Climate Change – Physical Risks*
- *Climate Change – Transition Risks*
- *Decarbonization*
- *ESG Risk – An Introduction*
- *Climate Risk – An Introduction*
- *Climate Risk – Measurement*
- *Climate Risk – Management*
- *Business of Insurance*