The Evolving FinTech Scene

Key themes in the FinTech Ecosystem

May 2, 2016

Last week I attended the sold-out Empire Startups FinTech conference in NYC. From the moment I walked in I realized this was not your typical stop on the conference circuit.

The venue was Webster Hall – a downtown nightclub venue repurposed for the event. More than one panelist commented that the last time they had been there had been under very different circumstances. Panelists and presenters stood on the main stage, more used to rock bands and DJ's and sponsors set up desks on the mezzanine. Lunch was a choice of grilled cheese sandwiches or PB&J – the ultimate MVP of lunch – and the bar opened at 3pm while panels and demos were still going on.

The panels included more general discussions such as raising money, accelerating growth and understanding the legal landscape and focused on specific segments such as wealth management, mobile finance, insurance startups, and real estate investing. Despite the diversity of topics, a number of key themes stood out:

Venture Capital
I heard VC firms being referred to as the life-blood of startups, and one VC referred to his industry as 'the tallest dwarf in the room' – i.e., the part of finance everyone likes the best due to their role in fostering innovation and developing exciting new products and markets.

Just about every VC at the event spoke about the importance of team. The team at the startup – the first twenty to thirty minutes of every funding round is spent discussing the team dynamics before even talking about the quality of the business model or valuation. The VC-Startup relationship is like a marriage; it is important to make the right choice as they will be working with you for a long time. I have heard of other VC firms holding weekly 'therapy' sessions with their portfolio companies.

Banks
The general theme was that the dialog in the FinTech scene had gone from disrupting banks to collaboration. Banks are not going away. They are and always have been an essential part of our markets and economy. Additionally banks are well experienced in operating in a heavily regulated environment (unlike FinTechs) and have wide distribution networks. Historically banks have demonstrated a lack of willingness to innovate and disrupt their current way of doing business. However that may be changing with many banks now operating corporate VC arms, accelerators/incubators and innovation hubs – here banks identify promising startups, provide funding, resources and advice and ultimately spin them out to compete with the banks.

Regulation

By far the most prevalent theme was regulation. Regulation is what makes FinTech startups different from any other kind of tech startup. The Uber or Airbnb approach is not possible in this industry. The advice for FinTech startups is to seek permission first not ask for approval later. If you break financial securities laws, however inadvertently, you could be looking at significant fines as companies like Zenefits and Ripple have discovered to their cost.

Legal and regulatory compliance costs need to be factored into business models and entrepreneurs were advised to engage early with regulators, discuss their business model and solicit feedback – do not just knock on a regulators door when you want something as that does not go down well. London was cited as a model for encouraging FinTech entrepreneurship with the FCA (the UK Financial Conduct Authority) having created its “regulatory sandbox”. Startups can apply to the sandbox where they will get to develop their product in conjunction with regulators without immediately being subject to the full weight of financial services regulations.

Data

A unifying trait among all FinTech startups is their ability to collect, manage, analyze and present data. This could be online lending platforms, who use different data sets to measure credit worthiness, or robo-advisors who collect data from their customers, develop strategies and present this to their customers in a transparent easy way. One entrepreneur spoke about how his company was creating property management tools to allow real estate investors a high degree of transparency into their investments and to benchmark themselves against other investors – in this case his main competition was Excel spreadsheets.

A presenter from Thomson Reuters discussed how his company had created a ‘FinTech sandbox’ to foster innovation. For a period of time they give free access to market data (which can be prohibitively expensive for some startups) and allow them to develop products and then if they are market worthy they can help with distribution to their client base via an open ‘app studio.’

Engagement

In a way it is all about engagement – we were all attending the conference so that we could engage with startups, banks, VC firms and each other. For startups, engagement is an essential ingredient to success: first and foremost, the founding team must engage with each other, balance each other and focus on the vision. Engagement with VCs, with regulators, with banks and with customers is a crucial element to success.

FinTech is arguably the most exciting part of finance, and whenever I go to meetups and conferences like this I am always impressed by the energy, the smarts and the ideas. For every FinTech company that makes it to a unicorn valuation, there are hundreds in the wings trying to emulate them. Whatever their fate, the process of creative destruction is a tremendous thing to observe.

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