

Fintech Investor Perspectives

Show 1

Growth in the Fintech Segment

In our new Investor Perspectives series entitled “How to Solve the Fintech Problem”, today you’ll hear about the growth in the segment.

This is Investor Perspectives, I’m the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

As the COVID pandemic passes we emerge into a new world. The fintech space is now undergoing tremendous change across the U.S. Every business is now a fintech business. We have investors and startup founders describe the shift from a centralized to a decentralized fintech market.

Our guests are:

1. [Marc Michel](#), Partner & Founder, [Runway Venture Partners](#)
2. [Matt Oguz](#), Chief Investment Officer, [Iris Family Office](#) and Founding Partner at [Venture Science](#)
3. [Joshua B. Siegel](#), General Partner, [Acronym Venture Capital](#)
4. [Victor Orlovskiy](#), General Partner, [Fort Ross Ventures](#)
5. [Matt Murphy](#), General Partner, [Montage Ventures](#)

I hope you enjoy this episode.

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Music courtesy of [Bensound](#).

Our first guest is Marc Michel, Partner & Founder at Runway Venture Partners. Marc, thank you for joining us.

[00:01:56] **Hall Martin:** Hello, this is Investor Perspectives. I'm the host of Investor Connect, Hall T. Martin, where we connect startups and investors for funding. Today, we have joining us again, Marc Michel, partner and founder at Runway Venture Partners. Runway Venture Partners is a New York City based early stage venture capital firm, focused on investing in post product market fit SaaS and software enabled businesses. Runway invests in companies that put seed capital to good use and demonstrate visionary and entrepreneurial leadership, clear product market fit and strong growth rates. The goal is to back industry leaders and help build them into giant companies starting with the _____ injection of capital to steepen their growth trajectory, they prefer to lead rounds of \$2 to \$3 million with investment up to 1 million. Marc, thank you for joining us.

[00:02:44] **Marc Michel:** Thanks for having me back again, Hall.

[00:02:47] **Hall Martin:** So can you give us an update about your work and what you're doing these days?

[00:02:52] **Marc Michel:** Well, we continue to invest in post product market fit B2B SaaS companies. That's our exclusive focus of what we do. And, as you said, we tend to come in pre the big A rounds into companies that have demonstrated that they use their initial seed injection, and put that to good use, are starting to scale the business, but still need another 12 to 18 months of Runway to get to the big Series A rounds that we see in today's marketplace. So we did, I think, three deals last year, we're about to close one very shortly, happens to be in, you know, it would be a crossover, part FinTech, part operating tech kind of company that happens to be an operating system for membership organizations. The FinTech piece of it is that they do all their billing and payments on the platform.

[00:03:59] **Hall Martin:** So let's talk about the growth in InsureTech and FinTech. What do you see going on there?

[00:04:06] **Marc Michel:** Well, it's been explosive, there's no doubt. There's been a ton of investment in FinTech and InsureTech. To be sure, I see tremendous appetite from the venture community and the public markets today for this category of company. And what's going on there is fundamentally the digitization of these services, just like everything else in our world today, everything is being digitized in financial services, because they're not handling a physical product are perfectly suited to this digitization trend. They're fundamentally just moving bits and bytes around. So the growth continues. And from my perspective, I think we're seeing sort of two types of FinTech companies. I would call new Fintechs that are going direct to the consumer, and are going head to head with the old guard financial services companies. So that's number one. And then the second, more where we tend to invest is in Fintechs that are trying to enable the old guard to compete more effectively and bring a digital experience to their customers. They're both trying to do the same thing at the end of the day. They're both trying to remove frictions to transacting business.

Our next guest is Matt Oguz, Chief Investment Officer at Iris Family Office and Founding Partner at Venture Science. Matt, thank you for joining us again.

[00:05:10] **Matt Oguz:** Thank you for having me, Hall.

[00:05:12] **Hall Martin:** Can you tell us a little bit about your work that you're doing today, and how's it going?

[00:05:18] **Matt Oguz:** Well, as you all know, markets are hot these days, interest rates being low and money supply is all time high, here in the US, and also around the world. There's about \$100 trillion looking for what they call chasing yield in Wall Street. And today, I read about a bond fund, which, as you know, bonds are interest bearing products, but they are putting together bonds that are tied to equities. So I've heard about some bond hedge funds doing a lot of equity trading. So equities are in very high demand, obviously with Apple having exceeded \$2 trillion of value; others following suit like Microsoft, Amazon, Google. There's definitely very high level of interest in the market from a fundamental point of view; and also, I guess, from a more of a social element of it, as we all have followed, what has happened on WallStreetBets on Reddit and GameStop, and things like that. And so, with such high activity in the equities general, obviously, that spills over to all sorts of things, and GameStop was certainly one of the more interesting things that I've seen in my tenure in finance. So we'll see how the rest of the year progresses. But for us, we are private investors, meaning that we invest in private companies, not really a venture fund, and not really a private equity fund either. We do deals on a single deal basis, so we kind of pick and choose which sector we want to go after, and typically go after the number one or number two, and best to breed in that sector, and do about three or four investments a year. So, for us, things have been also very busy, because the companies that we're looking at, they are part of the funnel that feeds into the public markets. And so, the space we're in, obviously, these deals take some time to come together and take some time to progress and get to the finish line, not like just a click of a button to buy equities. But that makes it more interesting, more fun for me. As you know, most recently, we were earlier investors in a company called Lemonade, and we watched that company go public and the stock price rose very, very, very hot; and we don't have any stake in the company anymore, we've exited out of our position. But that was also, in my mind, a best of breed company in an age-old industry, and by the way, I'm still a big fan of Lemonade and a customer as well at the same time. And so, it'll be interesting to see how that company progresses as well as maybe some of the newcomers into this space. The conversation around Defy and cryptocurrencies and all that's kind of renewed as well. So as far as insurance and finance is concerned, we see some renewed interest. We also see a lot of money being poured into startups and companies in that space, whether it's payments, a firm's IPO was also a big success, as you all have followed. And so, the years going by fast, first and foremost, hopefully, we get the vaccine rolled out as fast as possible, so that we will be able to go on about our lives with a little bit more confidence, more or less there.

Our next guest is Joshua B. Siegel, General Partner at Acronym Venture Capital. Joshua, thank you for joining us.

[00:04:38] **Joshua Siegel:** Thank you Hall, good to be here.

[00:04:40] **Hall Martin:** So tell us more about your work and what you do.

[00:04:43] **Joshua Siegel:** So I guess, it's hard to differentiate when you're a venture capitalist because everyone thinks we're the evil big money guys, but we're actually really nice and friendly. So basically, for a living, I write checks to really talented founders from all over the world. The big differentiator for us though is that we help the founders generate revenue, that's really what our special talent is for being a VC. Anyone can write the check, anyone can help you find talent, recruit talent, give you good governance, tell you how to run things, give you opportunities, give some superpower. But the biggest thing that founders really need and companies really need is revenue generation opportunities, and that's what we do for all of our companies.

[00:05:34] **Hall Martin:** Well, that's great. Let's talk about the Insurtech-Fintech segment, it's been doing well recently, but what can you tell us about the growth rates in those segments?

[00:05:43] **Joshua Siegel:** Well, you can't look at it as just a growth rate on a percentage basis. The growth is really more than doubling year over year, in some cases, quadrupling. And Insurtech and Fintech really go hand in hand, they're really joined at the hip. There are a lot of insurance aspects that are within the Fintech space, and there are a lot of Fintechs that are providing an insurance product as well, other _____ other products that sort of loop in Insurtech. I think it's a very important element of the ecosystem, because insurance companies which are these billion dollar behemoth, really need to find a way to differentiate themselves and add new products, acquire customers, lower fraud, and use the capital that are on their balance sheet to the benefit of their policyholders.

Our next guest is Victor Orlovskiy, General Partner at Fort Ross Ventures. Victor, thank you for joining us.

[00:06:52] **Victor Orlovskiy:** Thank you very much Hall, nice to be here.

[00:06:54] **Hall Martin:** So can you tell us more about your work and what you do?

[00:06:58] **Victor Orlovskiy:** Absolutely, yes. Six years ago, I decided to change my technology career which I made mostly in Central and Eastern Europe, and I was almost, my entire career in banking and technology. I started as a software developer and ended up managing at a firm with more than 25000 people in technology. So I was Chief Technology Officer, and well, some people say that Chief Information Officer stands for career is over rather than just Chief Information...

[00:07:41] **Hall Martin:** Great.

[00:07:41] **Victor Orlovskiy:** That's what made me not like, I mean, thinking of my new staff, new career. So I started _____ in terms of venture _____ and finally I decided moving to Silicon Valley. So we opened _____ offices in Israel, and we are helping our startups whom we manage and invest into. We are helping them to build their business connections in Central and Eastern Europe _____ and Russia. So we have really vast connections in this region. So we are helping with two different things. So we are helping to get to this market and start selling to this market, whether you are a consumer business or you are a corporate, you are SaaS enterprise, there are more than 10 million corporates there and more than 250 million consumers in this region. And we have connections to largest companies in this region, so largest telco companies, largest retail companies, largest metals and mining firms, largest banks, largest streaming companies and stuff like this. So we are helping to build these

connections and helping companies to start selling and deploying their products and services in this region. What else we're helping with is we are helping with finding the right talent, because this region is famous for really huge awesome pool of very talented people, right, especially in technology space, in computer science, in AI and machine learning, computer vision. So I founded a company in Russia which grew from zero to 14000 people in technology, and I know where to find and where to grab this brilliant people out of this region and we are helping _____ startups to staff their most sophisticated positions, most complex positions with people from Central and Eastern Europe. And we are doing it at scale, so we may grab hundreds of people _____.

[00:10:08] **Hall Martin:** Great. Well, so let's talk about the Fintech segment. What kind of growth are you seeing there in Fintech at this moment?

[00:10:17] **Victor Orlovskiy:** Well, I think that Fintech is emerging from just pure neobanks. That sounds like little bit of diversification and little bit of, like, bits and pieces of everything what may just differ them from other players. So if you look into what say Tinkoff Bank is offering in Russia, or Revolut is offering in Europe, you wouldn't find really too many differences from incumbents, right? You wouldn't find too many differences in their products and services say from Barclays. Yes, they do things a little bit faster, a little bit cheaper, a little bit better, and this little bit and a little bit and a little bit of everything creates this unique experience, UI/UX experience. So we always argue, I mean, what else can these new players bring into the market. I mean, can they bring a real disruption or they will just bring bits and pieces of everything, but they will just stay with whatever products and services being sold by legacy players? So I think that Fintech evolves to a completely different kind of landscape. So banking is becoming a lot more social, and especially, trading is becoming a lot more social. We are investors in a company called eToro, and eToro is a pioneer of a social trading platform, a company out of Israel. And I think that the entire banking, I mean, some people call it gamification, but this is not about gamification. This is about using a social crowd, using a social platform to build your banking expertise and your bank experience. And that was happening from the banking market now. So second thing I would add to this is all sorts of infrastructure projects in banking, companies like _____, companies like Finicity, banking as a service, that really is growing really, really quite tremendously almost in every region. Companies like _____ that builds infrastructure in _____. I think that these are new players that really break through the market and bring a lot of innovation to the market, to the Fintech market.

Our final guest is Matt Murphy, General Partner at Montage Ventures. Matt, thank you for joining us.

[00:04:00] **Matt Murphy:** Thanks for having me, Hall. I'm excited.

[00:04:02] **Hall Martin:** So tell us more about your work and what you do.

[00:04:05] **Matt Murphy:** Definitely. So I'm a partner at Montage Ventures, which is an early stage venture capital fund, which means we invest in seed and series A rounds. We're based out in Menlo Park, California, investing out of our second fund, and soon to be third fund. We have a deep focus on financial technology as one of our core sectors that we deploy capital into. We also invest in consumer health products as well as high margin daily use consumer products, but within Fintech, we've made about, I want to say, 30 investments over the last seven years, anywhere from backing companies in the lending space to banking, asset management, investing, insurance, real estate, pretty much across the board.

[00:04:52] **Hall Martin:** Well, let's talk about the growth in the Fintech segment, lots going on in that space. Can you break it down for us?

[00:04:58] **Matt Murphy:** Definitely. So it's been growing exponentially, and it's interesting, as I look back in my career, I started my career in 2000 when I was at E-trade, which was really one of the first broker dealers, and their innovation was taking trading from a telephone based platform to the internet in the late 90s, so it was fascinating. But I would argue that Fintech really began back then, because E-trade was taking a traditional industry of a broker dealer, managing assets, providing trading capabilities, and from there, took it from an offline world into the online world. Fintech has since, blew up in a good way. I was looking at some of the stats, and in 2020, there was almost 42 billion raised in global Fintech funding. And I would argue that 2021 is going to be an even bigger year, especially with all the _____ capital that's coming to this market. There's just a massive influx of capital in Fintech. The beautiful part about Fintech is these companies know how to make money. So when they start to give you gross margins or unit economics or LTV, it is really based on providing value to their clients that they do monetize. So it's a massive space, I'd say one of the other trends that's happening right now, that's accelerated growth, is that we've really reached a major turning point where the banking and financial services companies in the past were concerned with partnering up with Fintech companies, now we've seen a complete change where the amount of banks that are leading funding rounds in Fintech startups is surprising. But then the amount of banks that are actually partnering up and deploying capital as well as resources or launching proprietary programs with these Fintech startups is also quite interesting. We're seeing that on the insurance side as well that a lot of insurers are realizing the core asset class that they have, and how that can be applied into the Fintechs to really add value. The banks are doing it with sponsor banks and enabling Fintechs to tap into their banking charters, but we see it from a lending perspective as well where large banking institutions are providing the lending capital to these Fintech companies. And I would say, this has really resulted in some major unicorns in the space, right? Stripe at over 100 billion – 115 billion from a market cap perspective, which is interesting if you compare that to Square which is a publicly traded payments company and mobile wallet company, their current market cap's 108 billion. They've since fallen about 15% in the last couple of days. It was at 125 before. But that's fascinating to see that these private Fintech companies are warranting similar valuations to large public entities that obviously were previously Fintech companies as well. But Coinbase is over 100 billion. Robinhood, 40 billion valuation in the private markets. Chime and Plaid are both at about 15 billion each. So these are major companies that are getting created that are really transforming the financial ecosystem for the benefits of consumers as well as businesses. So this is a global trend that we're seeing that we're very bullish on to continue and even strengthen.