Fintech IP Show 2
What is the primary trend in this segment?
What makes for a successful company in this segment?

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

In our new Investor Perspectives series entitled "How to Solve the Fintech Problem", today you'll hear about the primary trends and what makes for a successful company in this segment.

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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Our first guest is 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. Marc, thank you for joining us again.

[00:05:54] **Hall Martin:** So what makes for a successful company in this segment?

[00:05:59] **Marc Michel:** Well, again, depends on which side of those two aisles you're on. If you're a new FinTech, I think a lot has to do with the user experience, the ease of use in which the user can transact the business. And so, those are why you've seen so many companies like Lemonade or Gaby or an Oscar be successful with their markets. They're great products, they're easy to use for the consumer.

[00:06:39] **Marc Michel:** For the ones that are serving the old guard, I think it's a little bit different, you've got to fit into their ecosystem, their technology stack and their regulatory stack that they have to deal with. And so, those companies need to be able to navigate large institutions that are slow to their decision making process, and be able to manage that effectively.

Our next guest is Matt Oguz, Chief Investment Officer at Iris Family Office and Founding Partner at Venture Science. Venture Science is a growth-stage investment firm located in San Francisco. The firm is best known for its use of quantitative decision principles such as stochastic finance and multi-factor analysis in venture capital. Matt, thank you for joining us again.

[00:09:43] **Hall Martin:** So it sounds like things are going smoking hot for the Insurtech-Fintech segment there with Lemonade and other companies. What do you see as the primary trend in those segments?

[00:09:55] **Matt Oguz:** Well, I mean, those segments, you know, they haven't been renewed. I mean, it’s similar to the highways that we ride our cars on, I mean, it was built in the 50s, and nothing has been renewed. I mean, the old model of calling your grandpa's insurance broker who, I'm sure is a wonderful fella, but today in the age of mobile devices and high speed connectivity, these companies are really capitalizing on the usage pattern of the new customers and insurance. So, for example, let's take Lemonade, as an example; I mean, they started out as selling renter's insurance. They're not insurance brokers, that's important to understand. They actually sell their own insurance products through their insurance company. So they are selling renter's insurance, they also sell homeowners insurance, and a few other products too. But what's interesting is that it's very easy to sign up and purchase your renter's insurance. And if you're a renter, especially in a city like New York City, where real estate prices are extremely high, and many, many people are renting every single day, landlords require renter's insurance. And so, I forget what that number was, but they own a significant percentage of the renter's insurance market in New York City. Now, something interesting there to understand is that, while people are saying, well, the fundamentals behind the company, the stock price versus the earnings, and then the losses, multiple's too high, and this and that, well, you really need to understand the social element of the way, I guess, this new world works, plays into products and finance and insurance. And let's put aside AI and machine learning and all that aside for just a second, but the social element plays into how these new products evolve in the marketplace and how these new companies emerge, how they grow, and what they end up becoming eventually.

So, for example, if you have such a large footprint in a city like New York City, which is also home to many hedge funds, many investment banks, most of the money in the financial system goes through New York City one way or the other, and if all of your analysts, all of your young associates are renting, it's not hard to do the math and see that, well, most of these people are going to be customers of Lemonade, and they're not going to go to Monday morning meetings or whenever they hold their meetings, whether it's hedge fund or large investment bank, and they're not going to go to those meetings and say anything negative about the company that they themselves are customers and happy customers too. And so, then that plays into, eventually, and that’s my guess, eventually into this stock price of a company like Lemonade or some of the others that are emerging in the marketplace that are friendly with the younger generation customers. And so, I see that as a big driving force, and it's something that I really try to understand more and follow these social trends that are shaping our world at a much faster pace than ever before, especially during this time of COVID when everybody's on their mobile devices more and their tablets and they're talking and they're communicating, they're asking questions.

So all that stuff's happening all the time. And so, it's pretty apparent that the companies who capitalize on being part of that conversation are listening to their customers, listening to what their _________ listening to their potential customers, what are people talking about. That’s not just a trite point of view anymore. It's what you need to do. Yes, of course, here in Silicon Valley, we do a lot of math and engineering, but the social elements are clearly on the forefront maybe than ever before. So, those are some of the things that I try to read about and follow and understand, and I think those are the things that are going to shape the future of Fintech and Insurtech and many other verticals as well.

[00:14:51] **Hall Martin:** And so, when you look at a company that you're thinking about investing in, what do you look for in that company, what's your criteria?

[00:15:01] **Matt Oguz:** Well, I mean, we're quite mathematical and calculated in terms of what we look for, and outspoken about that as well. We evaluate companies across some 40-50 different subcategories or dimensions, each of which we associate a different weight, because every attribute of a company has a different weight. And it's really up to the individual or up to the firm to kind of decide what those weights are. But for us, the discussion is really around the value of each dimension, each weight, I mean, for example, let's take the immediate addressable market. So I'm looking at two companies, one of them is in a $10 billion market, the other ones in it in $150 billion dollar market. If everything else being equal, the company going after the bigger market is probably going to have a better return for me. But how much better? How important is that when I start bringing in other factors of that particular company? So that's kind of what we do on an ongoing basis, looking at market size as far as startups are concerned obviously. The state of the product is very important, is it still during design or is it rolled out yet, what's the early traction, as well as some of the other factors as the tenure, the previous experience of the founders – if they had previous exits that gives a little bit additional maybe a boost to their score, so to say, but it's not a binary thing, so don't get me wrong. I mean, most of the parameters aren't binary, although you can introduce some binary decision points as well. So, for example, you might introduce a binary decision point and say if it has anything to do with this particular subvertical, then I'm not interested in that, because I already have exposure or for any other reasons.

So you can introduce some of those binary elements, but generally, it's having kind of a model, kind of a template, kind of a structure that evolves, that grows with you as you're investing. And for us, we try to pick verticals that are kind of uncorrelated. Remember, we invest on a deal by deal basis, and so, we try to pick verticals that are kind of uncorrelated, not five fintech companies at a time or something like that. So the last investment we've done was we invested in a company called Oxbotica out of Oxford University. They're in London, they're in the autonomous vehicle space, very excited about that company, co-invested with BP, the Petroleum Company and Tencent and a number of others. So from, as you can see, I'm able to move from Insurtech to autonomy. I'm able to move from _________ to Ag Tech and things like that. But that's just a structure that I've adopted. It's kind of what works for me. As far as other investors are concerned, everybody would have to just decide kind of what works for them.

Our next guest is Joshua Siegel, General Partner at Acronym Venture Capital. Acronym Venture Capital invests in unconventional funding rounds in NYC and rising markets with a preference for first-time and diverse founders. They are an opportunistic fund investing into late seed and Series-A rounds of enterprise SaaS and Omni-channel consumer brands that have achieved at least $1m in ARR. Joshua, thank you for joining us again.

[00:06:32] **Hall Martin:** And so, what do you see as the primary trend in this segment these days?

[00:06:37] **Joshua Siegel:** Two main trends that I'm really seeing is customer acquisition, and the reduction in fraud. So within customer acquisition, a lot of it has to do is not only acquiring the customer online, but closing them and servicing them. So with the digital implementation of stuff, you can really find a customer much easier, much faster, you can close them much easier and much faster, collect their premiums, and then you can service them online. So rather than sifting through policies and sitting with somebody or just attending seminars or whatever it is, you can acquire a customer that much faster. Right? On the other side of the coin is determining fraud and weeding fraud out, because at the end of the day, an insurance company collects premiums, then they got to pay them out, whatever is left over is what they use to invest. So if you can lower the fraud, you're going to have a much, much better book, and that's really, really important.

[00:07:33] **Hall Martin:** Great. And so what makes for a successful company in these segments in today's market?

[00:07:38] **Joshua Siegel:** I would say really understanding your customer, lowering the sales cycle. So the challenges with a lot of the Insurtech startups is they're not really insurance companies, right? They're marketing companies that have a reinsurer behind them. So they're selling another policy. So they have to get that sales cycle for either a consumer or a business really, really short and really tight on the cost to make sure that they are generating positive unit economics. So that's absolutely critical for what's going on. They can't miss spend money. They got to be really, really focused on how they're spending stuff, so they can have a profitable company. Otherwise, they're just a marketing agency, and eventually, they're going to go bust.

Our next guest is Victor Orlovskiy, General Partner at Fort Ross Ventures. Fort Ross Ventures brings together Silicon Valley venture expertise with an extensive network of relationships in the U.S., Israel, and Eastern Europe. Along with their LPs and strategic partners, they actively help accelerate success for their portfolio companies. Fort Ross's two funds combined have a total of $345 million assets under management. Victor, thank you for joining us again.

[00:12:52] **Hall Martin:** So you talked a lot better several trends there, but what do you think is the primary trend we'll see over the next five years in the Fintech sector, is it social or what else might be happening?

Victor Orlovskiy: Well, I think that there are two trends _________ anticipate I think first social aspect is definitely going to like change banking face and how banks is done internally. And I think that second thing is basically blockchain, blockchain as an infrastructure built for payments, built for trade finance, built for trusted identities. I think that banking now is suffering from having a no way to really recognize, identify customers across the globe, and I think that blockchain identity and blockchain payments will evolve towards this new infrastructure in banking, in payments, in particular. That will streamline everything in banking and we will see new players in this blockchain infrastructure space in financial services area.

[00:14:07] **Hall Martin:** So what makes for a successful company in say the blockchain sector, what will distinguish them from the ones that don't make it?

[00:14:15] **Victor Orlovskiy:** Well, watching ourselves numerous different problems. First it solves the problem of identity, right? I mean, if you have originated a contract or you have originated a transaction, so on one hand, it's anonymous transaction, on another account you could not replace an originator or fake originator. Right? I mean, whoever was in this transaction will just be recorded and will start this transaction forever, right? So you could not reverse back, reverse engineer this transaction, you could not reverse engineer anything steps or any actions being taken. So I think that that is a great thing in overall financial services industry, when you know exactly how transaction was originated, whom it was originated from, I mean, all the smart contracts that would enable enormous efficiency in trade finance, in factoring, in assets management. So it will also at some point in time, when this technology will evolve and will become cheaper, blockchain as such could tremendously improve the cost efficiency of payment transactions overall. So it will kill this identity issues, it will kill trust issues. I mean, there will be like a single trusted identity platform. And on another hand, it will certainly bring a lot more efficient payments and construction to payments. So on both sides, this what makes unit economics in financial services overall. Credit risk management will become a lot easier with blockchain. And another sign of it, if you know a company called Figure, so Figure is launching their blockchain platform called Provenance. And I think that these are the early signs of how these assets are going to be traded. So another big thing in financial services area is tokenization of assets. I think that a lot of tokenization of assets, especially fixed income and equity, especially publicly traded equity and fixed income, will also help to decentralize stock exchange. Right? So exchange will not be central any longer, I mean, when this tokenization is going to take place. So it will enable completely different stock exchange reality. So stocks will just work great with blockchain _________ in completely different way. And it will also improve speed, quality and efficiency of transactions.

Our final guest is Matt Murphy, General Partner at Montage Ventures. Montage Ventures is a venture capital firm actively investing in financial services, e-commerce, marketplaces, and healthcare startups. Matt, thank you for joining us again.

[00:08:31] **Hall Martin:** So what do you think the primary trend will be coming up?

[00:08:35] **Matt Murphy:** So I always like to look back at kind of what the previous trends were to figure out where it's moving forward. As we look back to kind of phase one of the Fintech revolution, and we're not going to go as far back as E-trade, because that was really the internet, as the tracking factor, but really looking at kind of the lending space, there was a large lending boom with companies like LendingClub or an OnDeck that really was around access to capital, both for consumers as well as small businesses or even medium sized companies that a lot of the banks post-2008 really tightened up their lending strings, and so made it hard for consumers or SMBs to access typical loans that they had needed to run their business or needed to make ends meet in their life. And so, the startups really came in and took advantage of that trend and built some large lending platforms that we've seen today. I'd say kind of the next phase after that was really core product innovation. So that's the likes of your Chime banks coming in and innovating the core kind of banking stack or Robinhood, innovating the core brokerage stack. And so the core product innovation, we've also seen in the insurance space, where companies are coming in like a Hippo and rethinking the core components of the insurance policy for your home to make sure that it's relevant today versus actuarial tables that could be 30 or 40 years old. Where is that moving? The next area that we're very excited about is really this concept called embedded finance. So this is lending as a service, banking as a service, anything as a service in the Fintech space. But really, what that means is Fintech is moving, is progressing from purely a business model into now a way of monetizing your customer base, outside of the core Fintech landscape. Do you have a question?

[00:10:46] **Hall Martin:** No, I’ve heard that phrase, every company is now a Fintech company. So...

[00:10:51] **Matt Murphy:** Yeah, Andreessen Horowitz came out with the idea of software is eating the world. I'd argue now Fintech is eating the world going forward. But what's interesting to kind of break this trend down further, as you look at communities or just even various platforms that didn't charge customers for access, so in the 2000s, that was really all about monetizing via ads. The 2010s the companies _________ built in that decade really about monetizing their users via their data. So hence Facebook to Robinhood, which is monetizing on data. We believe the 2020s are really going to be about monetizing your customers via financial products. And so that could vary from Apple launching a credit card in partnership with Goldman Sachs. It's interesting, the core technologies being used there was actually from one of our portfolio companies called _________ which Goldman purchased and then enabled the core technology for the Apple Card. But you're even seeing Walmart roll out financial services. Obviously, Amazon has financial services. Those are the large players. But this is going to scale down to a variety of different companies that want to give their customers quicker access to the cash that's being earned like Etsy, for example. If you're earning money in the marketplace or eBay, why not put that money directly into a bank account, and then link a card product so the money could get spent? So this core idea of embedded financial services, we think, is kind of the next trend, and right now we're at an interesting point where the core fundamental layer to enable that as a technology is really getting established today, and it's in partnership with the financial institutions, and the startups to enable this as the next trend.

[00:12:49] **Hall Martin:** So what makes for a successful company in this segment today?

[00:12:53] **Matt Murphy:** So I'd say this is kind of core, like, why should you sell, why should you start a company. It really comes down to is there a real fundamental problem, a customer need that you are going to solve with your product or technology in a large enough market to really matter. If your market is a billion dollars, it's okay. But even if you get 10% of that space, which is very hard to achieve, you're still only a $100 million business. Whereas, if you're going after a 50 billion, 500 billion, trillion dollar space, like, in the real estate segment, it's actually a trillion dollar market that folks are going after and tackling. And then you need to really – you need to bring an innovative product to that market to get consumer adoption and traction. And so, I'd say that combination can really help create a great company, but at the end of the day, you need a great founder, a great team that is incredibly passionate and will work nonstop and drive innovation through to really create magic in a bottle, which is what you're looking for.