Fintech IP Show 4
Fintech Changes expected in the coming 12 months

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”, you’ll hear about changes expected in the coming 12 months and our guests’ final thoughts.

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.

I hope you enjoy this episode.

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.

[00:10:53] **Hall Martin:** So what else should we know about this segment besides the regulatory and the growth rates that are going on here? It looks like a great opportunity.

[00:11:03] **Marc Michel:** What else should you know? Look, there will be, I guess, one thing I think is there will be lots of winners in this. This is a giant industry and it spans lots of different segments when you say FinTech. So we're talking about insurance tech, we're talking about payment tech, we're talking about banking tech, we're talking about lending tech, we're talking about data plays within the FinTech area like a Plaid. We're talking about crypto companies like Coinbase and Circle, payments companies like Stripe and Braintree and Adiume. Payoneer just announced that they were going to come public through a spec today. So this is a very large industry with lots of different players and lots of different ways to win, and will not be like some of the social media companies where it's winner take all.

[00:12:06] **Hall Martin:** Great. And so what changes do you expect to see in the coming 12 months, what's coming up next?

[00:12:13] **Marc Michel:** I have sort of two thoughts there, one's not so radical, I think a lot of people are following the developments of AI, and I think more and more of these products are going to start to incorporate more and more AI, machine learning, and take advantage of the data exhaust that comes from using these products and make them more personalized, more relevant to each particular customer, learn how the customer uses financial services and develop products that are more and more suited to that person. One of the trends we've seen is sort of what I call micro insurance, where you see insurance companies literally insuring just an event. So I'm going to use a Lime scooter, I'm going to insure that trip, I'm just making up an example, that kind of thing. The other thing I think you're going to see, especially as we come out of COVID, is I think you're going to see banks start to close branches very, very rapidly. COVID has taught all of us how to bank online, I literally haven't stepped foot in a bank to deposit a check in months, I do it all digitally at this point. And bank branches are very expensive. It's one of the competitive disadvantages they have against the new direct to consumer companies that don't have the cost burden of branches. So I think you're going to see banks start to really close rapidly a lot of those branches and try to get more and more of their customers just banking digitally through their platforms.

[00:14:16] **Hall Martin:** Great. in the last few minutes that we have here, what else should we cover that we haven't?

[00:14:21] **Marc Michel:** I don't know Hall. I'm all yours.

[00:14:24] **Hall Martin:** So my question is always about crypto. It's been coming for a while and it seems like it's coming faster now. It always seemed to be a little bit challenged in the FinTech space because of the regulatory, as you mentioned, and seems to be doing well in things like supply chain logistics because there's no regulatory, and it is a good fit technology wise. What's your take on crypto?

[00:14:47] **Marc Michel:** I'm no crypto expert, so I will start with that caveat, but I do see that Bitcoin, I think has started to become a legitimate store of value, even for institutional investors. And to the degree that people are worried about large government deficits, potentially having the impact of depreciating the value of the dollar, I think you're seeing more and more institutional investors use Bitcoin in particular, as a store of value and a hedge against inflation. The other big use case for crypto, and I'm separating crypto from blockchain for a moment, but cryptocurrencies is using it as an actual currency. It's been difficult to do because of the volatility in the value of the currencies, and so, there's a whole range of what are called stable coins that have been created that are tied to the dollar. They're intended to be used as actual transactional currencies. I haven't used one yet personally to transact, but I do suspect that a day will come when that happens, if there's real value to using those currencies, especially in cross border transactions, where there are frictions between changing currencies. I can see it first happening there before using _________ internal to a country. But, as I said, I'm not a crypto expert. Those are just my sort of amateur observations of the space.

[00:16:36] **Hall Martin:** Great. Well, I appreciate that, appreciate you sharing this information today. How best for listeners to get back in touch with you?

[00:16:42] **Marc Michel:** I can be reached at mm@runwayvp.com or through my LinkedIn account, which also has the same email address.

[00:16:52] **Hall Martin:** Great. Well, I appreciate you sharing this today, and I hope to have you back for a follow-up soon.

[00:16:57] **Marc Michel:** My pleasure, Hall. Thanks for having me.

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.

[00:18:30] **Hall Martin:** So you mentioned the renewal in the space and the high growth, what else should we know about this segment, what else is going on?

[00:18:38] **Matt Oguz:** In which space?

[00:18:40] **Hall Martin:** Insurtech and Fintech in general?

[00:18:44] **Matt Oguz:** So, I mean, Insurtech, I think what we're going to see is newer players come into the market. I would expect some consolidation some of the older players, I'm sure they're out there looking for newer players to acquire, I think this is a good time to be a young company in that space, innovate certain things with the dynamic elements of everything that being a young company brings, maybe including machine learning, artificial intelligence, more calculations, things that the age-old companies weren't really able to execute, because most of the older companies are really after catering to the needs of their – they are publicly traded, which most of them are, to maybe short term requests, short term pressures of quarterly earnings and things like that. So when they're busy chasing quarterly earnings and stuff, they're really not going to be able to put a lot of emphasis in terms of innovating or making a massive internal bet in a certain element of their core business that's been around for 40-50, maybe 100 years. But the newer companies aren't under that pressure, so they can innovate however way they want. So whether it's Insurtech, Fintech, I mean, we see new banks emerge, we see new, you know, you look at the stack of money, whether it's receivables or invoicing or HR or any element of a company, there's always room for something that's brand new; and something that's brand new only comes from startups, I mean, and now it should, because that's kind of how the machine of the economy here in America works, and hopefully around the world and other countries too. So without naming exactly what subvertical, what particular area is attracting a lot of interest now, I would say it's across the board. But one thing that I would pinpoint, somebody asked me a while back, they said, would you ever invest in a company if they had no element of artificial intelligence or computation, and I thought about it, and I realized that the answer is no, I would absolutely not invest in a company if they have no AI in place, trying to solve some complex equation or a calculation, of course, not. So I would always look for companies that truly implemented or are working on implementing concepts of AI and machine learning, and the things that they do, even though they could be going after an age-old industry like insurance.

[00:22:04] **Hall Martin:** Great. Do you think we'll see blockchain applications coming out in the Insurtech-Fintech space in the next 12 to 24 months?

[00:22:13] **Matt Oguz:** Yeah, I don't know about next 12-24 months, but the blockchain technology certainly has proven merits, and no one refutes that. And obviously, there's a lot of regulatory conversations and discussions around tokenization of some of those companies or their products and so forth that's out there. And I think that's very interesting to watch. And so, we will see, I mean, as you know, there are some, I mean, there's quite a bit of discussion and debate going on out there right now, particularly in terms of the regulatory environment these companies are facing. But I think if the regulators and the entrepreneurs are on the same page, and everybody recognizes and agrees that a new product which incorporates cryptography, blockchain – and by the way, concepts like cryptography or blockchain are not so new; I mean, cryptography is actually one of the easier classes in computer science, and I encourage everyone to maybe watch a few classes online; I mean, it's very interesting, and not that hard to really understand how hashing works and how cryptography is already part of our everyday lives. And so, in that regard, I think the companies without getting too exotic about what it is that they're wanting to do, if they're on the same page as regulators, of course, again, the end goal being providing the end user a more efficient, faster, and a cost effective way of anything; and for those companies, who take that route, I think they will succeed. And for the others, they might end up fighting an uphill battle, and we'll see how things shape up for all the players in that space.

[00:24:22] **Hall Martin:** Great. In the last few minutes that we have here, what else should we cover that we haven't?

[00:24:29] **Matt Oguz:** Well, all eyes are on, I guess, the progression of COVID around the world, and I think that's important. But one thing during the time of COVID that emerges is obviously life sciences, and so, it's a space that we have some exposure to, but I'm very passionate about life sciences in general. And I think in the world, let me just take a few minutes to really say that, in this world, diseases like heart disease, cancer, diabetes, we really need to go after them much, much harder than maybe we had in the past. I mean, no discredit to the millions of scientists already working on those fronts, but, we as mankind, we have to do a better job in tackling those problems now that we fought so hard to try to overcome the Novel Coronavirus. We should apply the same ferocity, the same aggressive approach to all the other nuisance, I call them nuisance diseases, because it could hit anyone anytime, and it does and it did. Go after that. So, over the next 10 years, Hall, putting Fintech, Insurtech, all those things aside, I really hope that we overcome these diseases that are hurting everyone with newer diagnostic tools, newer medicine, hopefully faster approval paths, newer technologies – the RNA technology is a new technology that's been approved for the vaccine. One wonders what else is out there that we can use, and if there's things out there, why are we not using them yet? So I think that's what I would like to kind of wrap it up with, kind of bring it back home to everyone's kind of state of concern, which is health. And I think, as we have fun, I guess, with the stock markets and the Reddits and so forth, let us not forget that health comes first and foremost. So with that, I just want to say thank you again for having me on your program, and I wish everybody a happy and healthy rest of the year, and looking forward to getting back with you soon.

[00:27:02] **Hall Martin:** Great. Well, thanks for joining us, and hope to have you back for a follow-up soon.

[00:27:07] **Matt Oguz:** Thank you Hall. It's been a pleasure.

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.

[00:10:18] **Hall Martin**: So what else should we know about this segment?

[00:10:21] **Joshua Siegel:** The segment is very active. There's a lot of money in the segment _________. There's a lot of dry powder, there's a lot of money in this segment. People are taking a lot of investment, people are writing big checks. There are going to be a lot of people out there that are going to attack this space. I would say for any startup that's looking to attack, make sure you're well-funded, you're going to have a lot of competition in the space.

[00:10:52] **Hall Martin:** And so what changes do you see coming up in the next 12 months?

[00:10:57] **Joshua Siegel:** I would say that you're going to see companies going public that otherwise would have taken longer to go public. So there will be companies going _________. There will be companies that are going to do traditional IPO. There will be companies doing a direct listing, and that's going to happen. That is going to create a situation where any of these companies that now have a public currency, they're going to buy other companies. So there will be a lot of M&A activity as well, which we're very excited for, and I think with that liquidity, you're going to have employees, and a lot of these other Insurtech companies go out and start even more companies. So there's going to be a lot of activity in the space, new companies starting up and certainly exits.

[00:11:39] **Hall Martin:** Well, in the last few minutes that we have here, what else should we cover that we haven't?

[00:11:44] **Joshua Siegel:** I think the big thing to cover is really the migration of talent, Insurtech has traditionally been a very San Francisco and New York area, there's been some stuff out of Chicago as well. But now with people moving all over the place, you're going to have Insurtech companies, Fintech companies popping up all over the place. The good news about that, and the interesting thing that people haven't really talked about yet is a lot of the insurance space has been dominated by the laws of New York, that's sort of just been what has been really happening, because the Department of Finance in New York regulates a lot of financial services activity in the United States. That is going to change as people leave New York and come to states like Texas and Florida, where the laws are really kind of up in the air, and the regulators that are in those states want to attract talent, they want to challenge the status quo, and they want to do different things. So I think you're going to find, as we go on, a lot of rules are going to be rewritten in states that before didn't have much say in the matter, and now will have a lot of say in the matter.

[00:12:53] **Hall Martin:** Well, I want to thank you for taking time to join us today and hope to have you back for a follow-up soon.

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.

[00:23:24] **Hall Martin:** And so, what else should we know about the Fintech segment that we haven't covered so far?

[00:23:35] **Victor Orlovskiy:** Well, I think that Fintech segment is huge. It's like trillions of dollars, and margins are high. So huge, huge markets and large margins make it very expensive for startups to play in this area. And we see that even big players like Google were not successful, for example, launching Google Wallet, right? This was a big effort by Google, and they didn't succeed. Why they didn't succeed? Because they don't know exactly the secrets which Fintech operates with, right? So you just need to correct those secrets, and even Google couldn't do it sometimes, so it's really hard to correct those secrets. So I think that what you should know on the way to Fintech that there are a hell of a lot of different obstacles and secrets on this, like, way of startup to get through from being a small one to being a giant one. So Chime is a good example. Chime was approaching – Chime founders were not successful at raising their first rounds of investments, right? They went to all big firms, all very profound Fintech firms, I don't want to name them but I think that all know them, and none of them have put money into Chime, none of them. So Chime is a great success, but investors who invested early enough in this company were not regular Fintech investors, because regular Fintech investors decided not to invest, though the team was great. Why? Because nobody could have thought of their very simple business model, what they do is debit cards and overdraft to work at scale. And they have proven that this very simple business model, debit cards and overdraft, could be scaled out to those numbers we see now, hundreds of million dollars in revenue, and what's that like, $20 plus billion in market capitalization.

[00:25:47] **Hall Martin:** Great. And so what changes do you expect to see in the coming 12 months in the Fintech segment, what's coming up next?

[00:25:55] **Victor Orlovskiy:** Well, I think that 12 months is too little to really see any changes. I think that Chime and _________ will probably go public in the near future, maybe not next 12 months but in the next 18 months or so. So we see that a firm went public, I think that _________ go public at some point in time and, I mean, this _________ buy now pay later projects out of Europe. So I think that they – I mean, this will just be rather successful IPOs. So I think that long term we will see a lot of failures in the UK Fintech market, companies like Revolut, Monzo, Monese, many others, they are really great companies but there are too many of them now and competition is high. So I think that there will be very few companies out of UK, the neobanks that will succeed to scale out and sustain their businesses, but many Fintech companies, especially in UK, will probably soft land in some way. So what we don't see also on the market is that large players like incumbent players and legacy players or largest banks in Europe or largest banks in US, they are not buying Fintech companies. So what we see, Visa and MasterCard are aggressively buying. Payment card companies PayPal and others are aggressively buying startups. We don't see legacy banks buying startups. So we don't see this like, I mean, this kind of activities on the market, at scale _________. So there are two ways, right? I mean, either like legacy banks are going to start buying more aggressively or legacy banks will try to catch up on innovation without buying this new place. So I don't know which way they will follow. But I hope for venture investors it would be a good exit, a good outcome if these legacy banks will start buying final, will be more aggressive, because this will allow more straightforward exits through M&A. But I think that there are many reasons why banks could not buy startups. First is, regulatory reasons. So banks are heavily regulated entities, and it's not easy for them to buy startups, because they have to get an approval from regulator, they see what's happening, for example, Visa hasn't gotten approval to buy Plaid, and this deal was revoked.

So I think that banks are so heavily regulated entities that they will think like twice before buying something. Moreover, I don't think that Wall Street is going to officiate them buying startups. So PayPal may just buy a startup or Amazon may buy a startup and add value. So if you just add $200 billion market cap when you buy a billion-dollar company and you start with like $240 billion, I mean, next day, trading next day, you added a lot of value, because you only spent a billion and then what _________. So I don't think that banks think that way, right? They don't think that their market cap will become stronger if they buy another startup. And all these obstacles would prevent them from buying aggressively. So I think that we will not see a lot of banks, especially US banks and European banks start buying startups from the market, Fintech startups from market. So I think that they will try to catch up and innovate from inside.

[00:30:14] **Hall Martin:** Well, in the last few minutes that we have here, what else should we cover that we haven't?

[00:30:20] **Victor Orlovskiy:** Well, I think that's every company now, every company in almost every space tries to become a Fintech company. Technology companies try to become Fintech companies. Transport companies try to become Fintech companies. Logistics companies try to become Fintech companies, because Fintech is infrastructure and everybody's paying, _________ out some fees, right? We see now Walmart is trying to become a payment tech, a

Fintech company. They just founded a JV with Ribbit Capital. Ribbit Capital _________ one of the most renowned Fintech venture funds on the planet. So they started a company in Fintech space. So everybody wants to get into this Fintech space, not only startups. So I think that that's a trend, global trend, so a Fintech will just be disintegrated from that perspective. So it will just be much less visible, much more diversified and disintegrated infrastructure than any other infrastructure on the planet because every company will just become a Fintech company in some way. And banks will probably keep going with credits, keep going with lending and risk management. But the rest will slowly but steadily go away from banking hands. So I think that's an important trend to follow.

[00:31:56] **Hall Martin:** I want to thank you for taking time to join us today, and hope to have you back for a follow-up soon.

[00:32:01] **Victor Orlovskiy:** Thank you Hall, it was really great to speak with you.

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.

[00:16:30] **Hall Martin:** So what else should we know about this segment?

[00:16:33] **Matt Murphy:** So I'd say this is really a transformational time in Fintech. And what's interesting is I talk to my investors, which are limited partners, whether it's family offices, or fund of funds, or endowments or pension funds, looking into the space, it feels like Fintech has already had a lion's share of innovation. And it's an obvious question to ask, where else is their innovation, and I'd say, globally, there's plenty of room. We're very interested in LATAM and Brazil, specifically in Mexico, where I'd argue that the financial innovation is in the early days. It's really in kind of the phase one that I outlined before, where it's solving kind of liquidity gaps. And then from there, we'll see phase two rollout of core products innovation, and I think Brazil and Mexico and LATAM are actually going to speed up the innovation cycle, because the core fundamental platform, companies like Plaid that enable you to access an account or even make real time transfer – TransferWise is another one, that core fundamental platform is established. So building a Fintech company now has gotten, I don't want to say, easy, but dramatically easier than what it once was. Back in the late 90s, we were building E-trade, you can set up a website _________ leveraging AWS and start to tap into these infrastructure layer plays, and really launch a Fintech company, in at least half the time, if not a third of the time of what it once was. And so, all of that innovation is very exciting, but honestly, this next phase that we talked about earlier, this embedded finance phase, where Fintech is expanding outside of a business model into really a _________ feature set that any company can integrate into their customer experience is really a fundamental movement forward that we're incredibly excited about and are always looking to meet smart entrepreneurs that share that excitement and want to bring innovation into this new space.

[00:18:47] **Hall Martin:** What changes do you expect to see in the coming 12 months?

[00:18:50] **Matt Murphy:** So, like I mentioned before, a lot of strategics, large insurers, large banks are investing into the Fintech space. We see that as really a fundamental step up progression in here, because with those checks also come pilot programs, either rolling the Fintech products into the experience of the large institutions or launching brand new product sets in a partnership between the institution and the Fintech. So I see that as a very exciting movement forward. I'd say other areas, obviously, SPACs are quite fascinating right now. And in providing a new form of, I don't want to say, liquidity; I'd say it's almost additional financing for a lot of these companies, that is maybe less dilutive than what we're seeing in the private markets, and a lot of the companies in our portfolio that are exploring SPACs are really almost skipping a round of financing. So instead of going to the private market and raising their series E or F, they're jumping into the SPAC market, and doing a reverse merger to become a public entity, and bypassing one of those rounds, those private rounds all together. Now, it's important to become a public entity, that you are ready to become a public entity, and so audited financials, of course, are critical. Obviously, accurately predicting your future revenue streams to a science is important. But really, is the company big enough to play in the public markets and get retail and institutional investors excited about business? So, I'd say Fintech is an area that is primed for a lot of SPAC mergers to occur, and I think we're just starting to see it scratch the surface. So if I went out with a SPAC IPOE with Chamath and Adam Bain, that's a large one. Obviously, Hippo is going out with RTP that we've seen. MoneyLion, one of our portfolio companies is in conversations publicly with FUSE, which is another SPAC and we're just scratching the surface here.

[00:21:10] **Hall Martin:** Well, in the last few minutes that we have here, what else should we cover that we haven't?

[00:21:15] **Matt Murphy:** Crypto's another fascinating space that's getting a lot of attention these days from large institutions, from startups. I think Jack Dorsey at Square just bought another 170 million I think of crypto. Elon Musk bought a billion and a half via Tesla on crypto. But you're seeing a lot of the large banks also jump into crypto and add that as a core component in their financial portfolio. It's interesting, crypto, I've had exposure in since probably 2011 when I was working closely with a gentleman by the name of Wenceslao Casares and _________ who were very, very early in the crypto, I'll call it, experiment at that point in time and became just avid champions of crypto currency and blockchain as a core fundamental innovation in the financial technology space, but also the broader landscape when it comes to blockchain. And so, I was able to get really just an early appreciation and understanding of crypto back in 2011. It's obviously taking time, I think in the last six months alone we've seen a massive appreciation and adoption of Bitcoin as a core currency. But there's other interesting cryptocurrencies Ethereum or Litecoin or Dogecoin, or what have you, we've seen a lot of interesting stuff. But I do fundamentally believe that blockchain is a core fundamental innovation, especially at the database layer for movement of data, not just financial currency, but data for a company. Ethereum is a fundamental innovation on contracts as well, digital contracts, transferring of those, storing of those, logging of those. And you can start to see, as you let your mind run, how those core innovations can completely innovate existing sectors that may not have had much innovation. Like, look in the real estate area, where title insurance policies and escrow and deeds could all be stored and generated on the blockchain, which would remove paper filing systems that are archaic and should be archaic as is the fax machine, and we've since transformed from there. So I think we're just in the early days. But one of the core things that has been fundamental in the space is really getting a certain level of stability in the cryptocurrency space. It was hard for me to say the word stability when the currency has fallen 15% just literally in the last few days, but the fact that Bitcoin is holding it 49 to $50,000 a coin, where, when I was introduced to it, it was around like 37 I think or 60 a coin, and that wasn't that long ago, it was just a decade. And crypto has really held steady, purely based on limited supply, more use cases, more adoption coming in from large players that are investing billions of dollars into the currency. I mean, Bitcoin is worth over a trillion dollars these days. I mean, that's a massive, massive core asset from an asset class perspective. So I'm very excited about it. At Montage, we've made a couple bets in blockchain and cryptocurrency. We're not actively deploying large amounts of capital there, but we are looking for smart entrepreneurs that are rethinking the areas that we invest in, leveraging that asset class. So it is fascinating to me.

[00:25:15] **Hall Martin:** So what's the best way for listeners to get back in touch with you?

[00:25:19] **Matt Murphy:** They can DM me on Twitter @MJMReport, or they can send me an email at murphy@montageventures.com, always happy to hear from passionate entrepreneurs. One of the things we love best are outsiders to the industry, but insiders to the problem, or they've actually experienced the pain point firsthand, which is driving their passion for innovation and the journey. Being an entrepreneur is not an easy journey. It’s probably one of the most lonely, time consuming emotional journeys that you can ever go on as a founder, speaking from experience. But it's also one of the most rewarding. When you sell your first service or product to a customer and you start to scale and you build a team that are passionate about what you set out to achieve, so it's an incredibly exciting time to be an entrepreneur, and we love to meet with those passionate folks and see if we're the right folks to help them out.

[00:26:23] **Hall Martin:** I want to thank you for joining us today and hope to have you back for a follow-up soon.

[00:26:28] **Matt Murphy:** That'd be great. I appreciate it.