VENTURE CAPITAL

Why investors aren't interested in new consumer fintech anymore

- Most consumer-facing fintech effectively provides new interfaces for the same old functions
- The best fintech bets are the ones that help existing financial institutions innovate, VCs agree

TANAYA MACHEEL | JANUARY 03, 2018

Investors are cooling on consumer-facing fintech. Ask a VC about strategy or what areas are most exciting in the year ahead, you'll hear about improving the existing, outdated financial system with all its inefficiencies and inadequacies, rather than introducing ways for people to manage their money. The revolution will need to wait.

"The largest category of successful fintech are the ones that are helping the banks get there," Patricia Kemp, a partner at Oak HC/FT, said when asked about the prospects for consumer-facing fintech this year. "We'd be unlikely to invest in a fintech company that's going to compete against them… that's a harder round."

Venture capital has traditionally been systems-and-software oriented but underwent a more consumer-focused shift with the advent of e-commerce and social networks. But front-end innovation can't be sustained without innovation on the back-end too.

That's not to say companies building solutions for consumers can't win, Kemp specified. Typically, existing financial institutions already have brands, goodwill, a large customer base — it already presents a big, long sales process, she said. But with a standalone personal financial management or trading app, someone has to build it, acquire it, maintain it, determine its lifetime value.

"It's just different economics and proposition, it doesn't mean they're not going to be winners," Kemp said.

A new user interface is nice, but what desperately needs disruption in financial services is the plumbing. At the speed other companies in other industries are playing, it won't be long before a pretty, smooth-running app doesn't satisfy the customers; they'll start to expect actual services, like moving money or approving a loan, to run faster. They'll probably be doing those things with Amazon while banks catch up.

"Financial services is a difficult category in which to create new products," Diane Morais, president of consumer and commercial banking products at Ally Bank, told Tearsheet last month. "There's not a lot of innovation that happens in the product."

And for all the hype and headlines around investment in fintech companies, it's not really clear how much people actually use them. Few consumer fintech companies have reached more than a million users and at the same time, legacy institutions are now bringing fintech companies in as vendors or acquiring them altogether.

"Direct to consumer fintech ideas outside of Venmo haven't been blockbuster hits," a venture capitalist told Tearsheet last year. "Those second, third and fourth spots are what consumers at least find very interesting. But by and large all these ideas being talked about, I don't see people using them."

Robin Hood, Acorns, Digit and Venmo are the standouts with the most usage, he said. And Digit, the savings app, witnessed a customer revolt when it began charging a monthly fee.

Most other consumer-facing fintech effectively provides new interfaces for the same old functions, said Rebecca Lynn, Canvas Partners' cofounder and general partner, at a conference last summer.

"These big banks pay billions of dollars on essentially body shops," Lynn said, suggesting that spend can be as high as $6 billion on the front end. "That's just not sustainable as the fraud gets more intense."

Maia Heymann, founder and general partner at Converge Venture Partners, said she and co-founder Nilanjana Bhowmik are heavily focused on early-stage business-to-business technology companies. For them, fintech is a focus, though it's not a lens through which they look at potential investments.

"We look for the technologies that are going to disrupt today's incumbents… Investments that bring high efficiency and high productivity to the businesses they serve," she said. "They keep business globally competitive and solving their most pressing needs."

"Series A" rounds have morphed with the advent of seed funding, Heymann said, specifying that Converge is focused on "classic" Series A deals: it's leading or co-leading its deals, buying "meaningful" ownership in its portfolio companies, taking board seats and generally aims to be very hands on in turning a product into a company.

With the advent of things like crowdfunding, angel capital, seed funds — there are even “pre-seed” funds now — super angels, and micro VC funds there has been a resurgence of technology startups in the last couple years, particularly in the B2B space where Converge is so focused, Heymann said.

“It’s fabulous but that next round of capital is where we see exciting opportunity,” she said. “So many of the venture funds that used to do that have raised bigger and bigger funds and are looking to deploy bigger and bigger investments. Sometimes, a company shouldn’t take $20 million in its Series A round.”

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‘You have to know what’s coming’: Inside Oak HC/FT’s approach to investing

- Creating a company has become easier and faster with technology, giving way for more and sometimes better ideas to be realized
- The most successful parts of fintech are the ones helping the existing banks, not creating new solutions

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VENTURE CAPITAL

‘The market is really crowded’: Anthemis Group’s Jillian Williams on tough times for personal finance apps

- Personal finance management is probably the most well-known part of consumer fintech, but many platforms are having trouble monetizing their product offerings
- As the market for PFM becomes more competitive and banks take on more PFM capabilities, the pressure will fall on third-party PFM apps to provide a differentiated offering for the customer

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VENTURE CAPITAL

Beyond chatbots, banks are now investing in ‘brains’ behind them

- Kasisto, a company that's behind a conversational AI platform for banking, just confirmed a Series B investment of $17 million
- The investment in Kasisto's AI platform is symptomatic of how discussion around customer communications has evolved beyond chatbots to what underlies them

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VENTURE CAPITAL

VCs are cooling on robo-advisers

- As incumbents encroached on the robo space, opportunities for venture capital funding have become more scarce
- Some startups are looking to funding models beyond venture capital, including strategic investments from legacy companies