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More money, more startups: Once-closed financial industry makes a place for independent entrepreneurs

by Jeff John Roberts Sep. 26, 2014 - 9:38 AM PDT

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Financial startups don't have the cachet of a Tinder or Uber: instead of promising easy hookups or a revolution in urban transportation, they focus on mundane issues like credit scores. But they are having a moment in the sun all the same.

Thanks to technology and a new ecosystem that provides unprecedented access to the traditional lords of finance, so-called "fin-tech" is emerging in New York and elsewhere as its own class of startup scene — though it often looks little like the culture of Silicon Valley.

Big banks and outside entrepreneurs

The two-day Finovate event in New York this week saw dozens of fin-tech startups and entrepreneurs talking up their ideas for applying tech to a host of everyday financial operations: opening accounts, checking credit scores, serving risky borrowers and so on.

The scene was notable in large part because, a decade ago, startups focused on the financial sector barely existed.

"In the past, technical innovation always took place within incumbent firms and large financial services like Goldman Sachs. Now, way more entrepreneurs are drawn to the sector," Matthew Harris of Bain Capital told me.

Some of the entrepreneurs have been helped along by new fin-tech "incubators," which provide guidance and a path to pitch their products to Wall Street. Meanwhile, as a recent Accenture report noted, banks are launching VC funds of their own to search for innovation, and to ensure their executives stay exposed to up-and-coming ideas.

While there are fin-tech firms based in Silicon Valley, many are drawn to New York because it's the center of the financial industry. Others are popping up in places like St. Louis that have vibrant regional banking sectors. One of Finovate's Best in Show winners, for example, was Kansas-based "blooom" – a service that offers easy graphic interfaces to help employees parse their companies' complicated 401K plans. "We aren't silicon valley start-up kids with shiny new degrees and no experience," reads a blurb on blooom's website.

Finovate attendees also included MaxMyInterest, which flags savings accounts where consumers can eke out more interest, and other companies that provide automated solutions for consumers to navigate the financial sector. (Forbes has a list of other examples here).

"Many firms are not that disruptive. They often build on top of existing infrastructure to improve back-end services," said Artur Lapinsch, an ad-tech veteran who recently joined a new financial startup called FinReach. He said the fin-tech scene is unique because "from an M&A perspective, there's way more candidates to acquire you."

Not all fin-tech entrepreneurs, of course, are looking to an acquisition or becoming a part of the existing financial industry. Some have created truly disruptive consumer-facing companies like Kabbage and Lending Club, which use alternate credit metrics and investment sources to change how people borrow and lend money.

(You could also count Coin and other players in the suddenly hot payment and wallet sector as fin-tech, or those tied to virtual currency — though, perhaps significantly, there were no bitcoin companies at Finnovate).

From "fringe" to fashionable

Even as startups bring new products to their doors, the old guard of the financial sector is taking steps to encourage innovative outsiders. MasterCard, for instance, has opened APIs related to its rewards programs to encourage people to tinker.

According to Chris Guiney, a MasterCard executive who attended the New York event, the pitches he hears from entrepreneurs often let the company act on ideas it has not had the time to execute internally.

So who exactly are the people launching fin-tech startups? According to Matthews of Bain Capital, most are not college-age whiz kids, but instead "early and mid-career folks" who believe that their efforts will be more rewarded outside of big banks.

Matthew added that the financial crisis has, paradoxically, been good for the banking sector because it spurred big companies to seek out innovation, while creating a new class of financial professionals who wanted to work outside of Wall Street.

"Going back 10 years, few people did it. It was less than one percent of the venture industry. The sector used to be fringe. Now, closer to percent of VC firms will look at fin-tech deals."

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