Putting the 'fin' back in fintech

These are trying times for fintech investors as they try to capitalise on the size and scale of the opportunity, says Sameer Chishty of Streeton Partners.

On the one hand there is an abundance of opportunity in fintech.

Some of the trends supporting this include: incumbent financial services players still have not been able to develop strong loyalty or advocacy from their customers; there is plentiful private and institutional venture capital seeking yield in a low-return environment; talent continues rushing towards entrepreneurship; there is a lot of availability of advanced technology and bandwidth available at a fraction of what it cost merely a few years ago; technological leaps are being made with distributed ledger technology and artificial intelligence (AI); and there is a secular globalisation of working teams with cheap communications capabilities.

According to Sameer Chishty, founder and chief executive officer of Streeton Partners, several entrepreneurs, backed by venture capital investors, seized the opportunity to develop innovative businesses that quickly shot to fame and fortune. He counts over two dozen fintech start-ups becoming 'unicorns' – private tech companies valued at over USD1 billion. These include: Ant Financial (payments); LuFax (peer-to-peer lending); Stripe (payments); SoFi (student lending);

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SAMEER CHISHTY
Streeton Partners

Oscar (health insurance); TransferWise (international money transfer); and Kabbage (small business lending).

"Even non-unicorn fintech start-ups have brought change to long-established financial services sectors," adds Chishty, "and are highly-valued for disrupting existing value chains while delivering tremendous customer value."

For example, Wealthfront uses AI and robotics for more efficient personal investing; Trov allows consumers to instantly insure their personal belongings using a smartphone's camera; and Zhong An is China's first online-only insurer.

However, venture-backed fintech investment has been fluctuating. It declined for three straight quarters, according to KPMG. In Q3 2016, for instance, it attracted USD2.4 billion, putting it back to the levels of Q4 2015.

And although fintech investment recovered by Q2 2017, it was driven by heavy concentration in a handful of Asian private companies. "China still has 'fintech fever' and corporate venture capital has continuously been putting money in the sector," says Chishty.

GETTING BACK ON TRACK

The main reasons for the overall decline in venture investments to fintech, have been the growing disillusionment with the recent batch of fintech investments, as well as investor uncertainty as to what will be successful in the next batches.

"As venture builders and investors, we see many start-ups around the world," says Chishty. "Based on our experience, we are sharing our fintech investment insights. We believe this is a good time to re-visit and challenge what makes for a successful fintech start-up."

First of all, he says the fundamental 'laws of business' have not changed.

According to CB Insights, for instance, the top nine reasons that tech start-ups fail have little or nothing to do with the technology – but are related to people and strategy.

Chishty explains that these consist of: no market need; ran out of cash; not the right team; got out-competed; pricing or cost issues; poor product delivery; lack of business model; poor marketing; and ignoring the voice of the customer.

According to research by Harvard Business School, meanwhile, the top nine reasons start-ups succeed have everything to with people, strategy and execution. These are: founders driven by

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Finding the next fintech opportunity

Chishty believes believing in several macro opportunities in Asia:

- *The strong need for growth capital, especially in Series A and B stages*
- *Chinese fintech companies expanding outside China, and serving the great wealthy Chinese diaspora globally*
- *Solving the many needs of the massive 'sandwich' generation in Asia – the new middle class, often newly urbanised, which is seeking a better life for themselves, building a better future for their children, all the while taking care of their aging parents, especially in Indonesia, India and Pakistan*
- *Customer 'life moments': picking and 'owning' one of the specific moments across a customer's 'circle of life' – which generates economic value and, if done right, leads to lasting loyalty. These include the need to protect, borrow, save, invest for home ownership, education, child(ren)'s marriage(s), and their own retirement*
- *Under-served segments: the rise of women as decision-makers and wealth owners; small business-owners in Asia; and the high-earners-not-rich-yet (aka HENRYs)*
- *B2B start-ups: helping incumbent financial institutions reduce costs and complexity, or increase customer experience and engagement*

impact and passion; founder commitment to stay the course; willingness to adjust while not constantly adjusting; patience and persistence; willingness to observe, listen and learn; developing the right mentoring relationships; leadership with general business and domain/sector knowledge; implementing 'lean start-up' principles; and balance of technical and business know-how.

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Exacerbating the challenge, Chishty says that in Asia there are very few repeat entrepreneurs.

"We therefore spend a lot of time ensuring our fintech companies are focused on value creation," he explains, "collaboratively solving problems with them, actively mentoring and coaching our (mostly first-time) founders during our involvement with them, which clearly goes far beyond just writing a cheque."

GOT WHAT IT TAKES?

Once he thinks the founding team is high quality, and that the space they are trying to address presents meaningful opportunity, he looks to engage in some of the more non-obvious questions with them.

These include:

1. Is the problem you are trying to solve big enough? Will it remain that way?

2. What's the customer WIIFM ('what's in it for me') in terms of value, convenience, recognition, experience, capability and simplification?

3. What's your Warren Buffett's Moat – how are you creating sustainable competitive advantage? What is your unique position in the fintech ecosystem, and why will that be worth something? With whom will you collaborate to improve your mutual positions?

4. Are you 'better' or 'different' – is it an improvement to something that exists by being better, faster, cheaper and easier, or is it a whole new way of doing something? Why will it work?

5. Borrowing from Peter Thiel, are you going from Zero to One (starting something brand new, for the first time, or going from One to N (taking an existing idea to a new sector or market), and how exactly will you do that in a unique manner?

6. What is your path to sales / how will you get Dollar One in the door? And how will you, in a scalable manner, make customers aware of your product, drive traffic, acquire customers, onboard them, serve them and turn them into loyal advocates of your products and services?

7. What will your unit economics look like, especially customer acquisition costs (CAC) and end-to-end costs as you scale?

8. Most importantly – and this is where Chishty spends a lot of time – through the above discussions he understands the founders, leadership, team and culture. What are the decision-making principles and processes? What is valued / what is rewarded?

9. Do the founders own enough of the company for them to make this their life's work? If not, then leave and go do something else!

10. Finally, how and when do you exit to create attractive investor returns?

These insights take a lot more to generate and apply than just a couple of hurried 'coffee-pitch' meetings or a pre-packaged, rehearsed snapshot at some accelerator's demo day.

"There will continue to be an abundance of opportunity in Asia fintech," adds Chishty. "To succeed as investors, we will need to ask better questions and assist entrepreneurs in retooling their business models to achieve their full potential." ■