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PERSPECTIVES ON

The Evolution of FinTech

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This article presents key takeaways from a fireside chat at Bridge Forum 2019 CEO Summit, where we heard from Keith Rabois, General Partner, Founders Fund on the future of FinTech. The session was moderated by Jeremy Kranz, Co-Head of GIC's Technology Investment Group. Bridge Forum is a unique experience co-created by GIC and the Singapore Economic Development Board (EDB) to guide businesses through technology disruption.

In the US, banks arguably do not have strong brand affinity with their consumers. Most customers would have some unaddressed pain points with them. As a result, converting this customer unhappiness into happiness has become a major opportunity for FinTech start-ups. But what are some of the other qualities that would make for successful firms?

THE FUTURE IS MOBILE

The banking industry's future is mobile. Beyond that, there are not many macro trends you can just tap into. It is more a matter of bringing many of fragmented innovations to bear. It is a matter of taking advantage of data to serve customers better, and asking questions about using data better, stitching innovations together better, and turning customer disappointment into loyalty.

For young companies, it can be easy to overdo innovation. Most of the start-ups that receive venture capital today are not going to work or change the financial services industry. The ability to be both contrarian and right simultaneously is rare. Yet, a few have ventured and succeeded. There is a lot of innovation in a handful of companies, including Square, Stripe, and Shopify, which has led to success.

TOLERATING FAILURE FOR SUCCESS

If the CEO of a traditional bank walked into a successful FinTech today, what would they see that their own company needs to do differently? Three things would stand out: *(1) a willingness to experiment, (2) a focus on the customer relationship; and (3) – the most important of them all – a tolerance for failure.*

The future of consumer banking and the future of banking itself are one and the same. A few of the most successful companies have created mechanisms to enable such innovation. One example is Square, where the product team is protected from criticism from the CEO. While this was initially met with opposition, the idea eventually blossomed. One of its projects, the Square Wallet, failed but the company quickly moved on to a cash app. It was this tolerance for failure that allowed the company to experiment and eventually find the ideal formula. Banks will do well to learn from this as the general sentiment is that they have not been able to catch or act on market signals early or quickly enough.

NEW FRONTIERS

Today, the conventional wisdom is that there is not one trendy platform that will transform an industry. What this narrative neglects is the widespread opportunity to tap into different technologies, to create meaningful innovation and experiences for consumers, even if they are not visible to the naked eye.

Take satellites for example, which today orbit at a fraction of their previous costs, and the role robotics plays in many organizations. Place this alongside machine learning and AI, and an entire universe of opportunities in autonomous driving, manufacturing, and logistics springs to life.

While AI today receives a significant amount of VC funding, it also creates potential pitfalls for young companies. Many start-ups today make the mistake of pitching themselves as AI companies without explaining how the technology strengthens their offering. As the panel shares, AI companies who lead the industry are the ones where the inputs and the outputs of using AI are clear, where an economic transformation or an accuracy improvement can be clearly demonstrated. One example is Opendoor, which uses AI for its core operations – customers care little for the AI technicalities, but significantly for the instant liquidity it provides for real estate sellers.

THE FUTURE OF VENTURE CAPITAL

Moving on to how the VC space will evolve, the panel suggested that the most logical change would be decoupling advice and mentorship from capital. There is no inherent reason that the ability to counsel and be of service to an entrepreneur needs to be bundled with capital. What will be important will be one's ability to unearth raw – and often young – talent and turning them into stars. In many ways, this is key to building truly strong companies and where start-ups may have an edge over more established, larger companies, who will be looking for different qualities. While the Valley often focuses on products and technology, success ultimately boils down to team and talent.

After all, the team you build is the company you build.