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3 Reasons Fintech Is Failing

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I write about my journey as a first-time CEO and startup founder. FULL BIO

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When it comes to Fintech, it appears as though the bloom is finally coming off the rose. Once the hottest sector around, fintech has seen its fair share of failures and struggles as of late.

Credit: Unsplash, Vitaly

Everyone from online lenders to bank technology companies has experienced elongated fund-raising cycles, missed targets, and mounting losses.

Right now, the pain is most acute in the online lending space, with industry juggernauts like OnDeck, Lending Club, and CAN Capital seeing depressed stock prices or worse.

Two years ago, I wrote about the potential pitfalls facing online lenders; now, I'm convinced that the contagion that plagued that space is beginning to spread to other aspects of the fintech sector.

While fears of a popping fintech bubble are justified, there is good news. It is by no means too late for the sector to pivot. The first step in saving the industry is to understand why it is failing.

Reason #1: There is a fundamental strategic contradiction between tech and finance

Almost a year ago, renowned investor J. Christopher Flowers remarked to the Wall Street Journal that "fintech" will mostly end in tears for entrepreneurs.

His rationale was that there is a fundamental strategic contradiction between technology and finance. According to Mr. Flowers, “the tech idea that you must get big fast and dominate a sector” is at odds with the slow-moving nature of finance, and lending in particular.

As the CEO of a fintech company, BodeTree, I’ve seen Mr. Flowers’ observations play out in the market firsthand. The conflict is a direct result of how fintech companies are funded.

Investors of all kinds, from traditional venture groups to angel investors, are accustomed to the modern tech growth curve. Most funds, either institutional or private, have a three to five-year investment horizon.

This means that investors inject capital into a business with the expectation of realizing a return on that capital within that investment horizon.

The problem here, of course, is that finance is a very slow-moving sector. Whether you’re selling bank technology, small-business solutions, or acting as a lender, it takes time to break into the market.

Unfortunately, fintech companies (and online lenders in particular) often receive pressure from both existing and potential investors to demonstrate so-called “hockey stick” growth. This, in turn, leads to short-term thinking on behalf of the fintech company, which brings us to the second reason for the industry’s woes.

Reason #2 Market realities encourage short-term thinking

If you engage with online lenders like Lending Club or OnDeck, you’d think that they were data companies first, and lenders second. This is to be expected because it is through data that these companies have the potential to disrupt.

Unfortunately, the realities of the market and the demands of investors force these organizations to abandon data and technology in favor of traditional sales techniques. After all, growth is the only thing that matters.

This growth-at-all-costs mentality is incredibly damaging for the industry. When fintech companies start using their investment dollars not for innovation, but for quick growth, problems can arise.

One need only look at Google AdWords prices to see what I mean. Over the past few years, the price per click (PPC) for keywords such as “small business loans” have

risen to nearly $100 per click in some instances.

As competition increases, fintech organizations begin making riskier and riskier decisions. For companies like mine, it could mean accepting clients and deals that aren't an ideal fit for our product. For online lenders, it means riskier and less desirable loans.

As Mr. Flowers notes, the only path to sustainable growth is to work with incumbents in the industry. This, unfortunately, has its own unique set of challenges, which brings us to our third reason for the industry's current struggles.

Reason #3: Incumbents in the market are powerful and resistant to change

I spend most of my days at BodeTree working with banks and other incumbent financial institutions. While every institution has its own set of values and goals, most have one thing in common: they hate change.

Incumbents in the finance sector are incredibly powerful and complacent. Most don't fear fintech companies looking to take their business because, frankly, not a single one poses a real threat at this time.

Banking, and Financial Services in general is highly regulated and therefore inherently conservative. It's the one industry I can think of where a commitment to innovation and decisive action is detrimental to a career.

The common wisdom amongst bankers is that keeping one's head down and maintaining the status quo is the path to long-term success.

This means that fintech companies that choose to pursue measured, sustainable growth by working with these incumbents are in for a long sales cycle. For BodeTree, that means that a typical deal can take 12 - 18 months to come to fruition.

Now, my team and I have worked hard to reduce this cycle, but even now the fastest we've ever seen a bank move is six months from introduction to contract. This lengthy sales cycle makes it difficult to raise capital and gain visible traction.

While the situation may seem bleak, there is still ample for fintech to find success. I'm not calling for the death of fintech, by any means.

I firmly believe in the future of the space; If I didn't, I certainly wouldn't pour my heart and soul into running a fintech company. Still, it is important to have a sober view of the market and find creative solutions to the challenges we face.

My next article will outline the four steps that emerging fintech companies should take in order to survive.

Chris Myers is the Cofounder and CEO of BodeTree and the author of Enlightened Entrepreneurship.