Understanding the Complexities of the Financial Services Market is Key for Venture Capitalists

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In late 2017, Victor Basta at TechCrunch noted an implosion in early-stage venture capital funding. Since 2014, the number of annual VC rounds in technology companies worldwide has nearly halved, falling from 19,000 to 10,000. Over that same period the drop in overall VC funding was not nearly as sharp, however, indicating that VCs are concentrating their investments into fewer later-stage companies.

Global VC financing volume and value in technology companies

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1"There’s an implosion of early-stage VC funding, and no one’s talking about it," TechCrunch, Victor Basta, Nov 30, 2017

A deeper dive into the data points to a sharp fall in early- and seed-stage rounds. Analysts note much of this slowdown has occurred in application software and SaaS (Software as a Service) investments. FinTech investing declined over that period by about 10%, not nearly as dramatically as in application software and SaaS deals.

When TTV began investing its third fund in 2011,

we focused on the enormity of opportunities in transforming pain points within financial services. Soon afterward, many other VC investors jumped in and began funding companies they felt would replace the incumbents. The investment pace went from $2.6 billion in 461 companies in 2012 to $16.6 billion invested in 1,128 companies in 2017. This can be attributed to investors new to FinTech that wanted to avoid missing out on the massive disruption. In hindsight, too many companies raised “concept” money and many failed to appreciate the complexity of financial services, and the value of relationships with the incumbents.

Behavior in the space has rationalized and FinTech innovators are recognizing the quickest path to scale is through partnering with the incumbents.

Partnering with FinTech companies was up from 32% in 2016 to 45% in 2017 on average.2 There remain significant investment opportunities in the FinTech space. However, the successful entrepreneurs and investors should appreciate the complexities of the financial services market and consider a model that incorporates partnerships with the existing financial services providers. Georgia, with its robust FinTech ecosystem, is well positioned to continue as a center for innovation in the FinTech space.

Global financing volume into technology

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2PwC Global FinTech Report 2017