FinLab Snapshot:
Innovations in Helping Consumers Weather Financial Shocks

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The Center for Financial Services Innovation (CFSI) is the nation’s authority on consumer financial health. CFSI leads a network of financial services innovators committed to building a more robust financial services marketplace with higher quality products and services. Through its Compass Principles and a lineup of proprietary research, insights and events, CFSI informs, advises, and connects members of its network to seed the innovation that will transform the financial services landscape.

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The Financial Solutions Lab (FinLab) is a $30 million, five-year initiative managed by CFSI with founding partner JPMorgan Chase & Co. The Lab seeks to identify, test and bring to scale promising innovations that help Americans increase savings, improve credit, and build assets. Lab participants share a relentless focus on building products that will improve the financial health of Americans. The Lab provides capital, national partnership opportunities, industry expertise, mentorship, and cutting-edge consumer and design insights necessary to build the next generation of leading financial products and services.

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Over 100 million American households experienced a financial shock in the past year – a medical expense, interruption in income, a car repair. This type of shock will cost an average of $2,000, and fewer than six out of ten households have enough liquid savings to pay for an expense of this magnitude. A majority of those experiencing financial shocks reported that the shock made it hard for them to make ends meet. Without products to help households weather financial shocks, the effects reverberate throughout a family’s finances, often causing long-term damage.

This challenge was at the center of the second annual competition of the Financial Solutions Lab. The Lab is a $30 million, five-year initiative managed by the Center for Financial Services Innovation (CFSI) with founding partner JPMorgan Chase & Co. From late February to early April 2016, FinLab accepted applications from financial technology, or fintech companies and nonprofits with solutions that solve or attempt to solve the challenges created by the financial shocks that most American’s face.

356 organizations responded to the call for applications, 19% more than in 2015. Collectively, these applicants serve 4.2 million Americans, have raised over $420 million in external capital, and employ 2,293 people. Taken as a whole, this group provides a unique window into the state of consumer-focused financial technology in the United States and allows us to make a number of observations about the state of innovation in the space and about where the industry is headed.

One overarching theme emerges from this group: consumer fintech is maturing. This year’s applicants are building more complex products. Generally, they are more focused on targeting specific customers, and they are leveraging more sophisticated distribution models to reach those segments. On this last point, we are revisiting a trend that we identified last year – the use of the employer channel. At the time, we were skeptical of this approach. However, this year, we are seeing much more focused sales and distribution models that more closely align incentives of customers, employers and providers. Finally, we identified a number of trends on the horizon that we believe could shape the future of consumer fintech.

While we recognize that our applicant pool is not a representative sample of all consumer fintech solutions in the market, it does provide an illustrative snapshot of the market, allowing us to understand the latest innovations in improving consumer financial health for U.S. consumers. That snapshot is one of a market that is growing in size, sophistication and efficacy. Perhaps the biggest trend we see is that consumer fintech is increasingly focused on building the financial health of the consumer.

Key Takeaways

» 356 organizations applied for FinLab, a 19% increase over 2015. The typical applicant had raised $450,000 and employed 6.5 people, nearly mirroring attributes of FinLab’s applicant pool in 2015.

» Consumer fintech is maturing. Because the sheer number of fintech innovators is increasing, we are entering a phase in which entrepreneurs will have to work harder to differentiate.

» The flip side of this maturation is that many new companies are focused on narrow customer segments that have often been ignored by technology innovation. We are also seeing competition in previously neglected areas such as savings and financial health for employees.

» Some themes from our applicant pool have the potential to drastically improve consumers’ lives, but have yet to completely develop: insurance product innovation, communication platforms and the greater blockchain utility.

The Applicants

FinLab’s applicants this year represented a diverse set of organizations that employ an impressive breadth of technologies and innovations to help consumers weather financial shocks. Applicants came from 34 states and represented both for-profit startups and nonprofit providers. They represented many product categories and merged traditional silos to form new types of products. A majority had raised external capital and had begun to acquire users. The “typical” applicant had been in operation for 15 months, has a team of six people, serves 7,000 users, and had raised $450,000 in external capital.

The 320 for-profit applicants represent a 36% increase from last year. The remaining applicants are nonprofit organizations, which decreased 42% from last year. Of the 135 applicants founded in the 12 months preceding our April 2016 deadline, 95% were for-profit startups. The sharp increase in for-profit applicants reflects the increase in fintech-focused investment activity. According to a CB Insights and KPMG report, venture capitalists financed 218 deals in fintech in Q1 of 2016, which immediately preceded our application deadline.

The drop in nonprofits in our applicant pool is partly due to the fact that nonprofit financial services providers are not being created at the same rate as startups in today’s fintech climate.

Despite this we continue to see critical customer-focused innovation in the nonprofit sector, a dynamic that we are actively seeking to support. Nonprofit providers play an important role in the financial services ecosystem and can serve as a test bed of innovations in products and distribution models.

Our applicants are spread across many product categories. Applicants were asked to identify which of the following categories describe their product: credit, insurance, investing, payments, planning, savings, and other. Nearly half of applicants self-identified as “savings” products, double the portion of savings applicants last year. We also saw large increases in credit, payments, investing and insurance. Planning tools – like budgeting apps and education tools – decreased significantly from nearly half of applicants last year to about a third this year.

Six out of every 10 of applicants identified with more than one category, which is an increase of 5% from last year. A good example of a cross-category product is 2016 FinLab winner WiseBanyan (New York, NY).

At its surface, the product is an investment tool: users engage with the product to build wealth through investing. Since many of Wise Banyan’s customers are utilizing the product to plan for future expenses – and saving to achieve them – they are classified as a “savings” and “planning” tool in our categorization.

Even though just 24% were repeat applicants, the type of organization that applied to the Lab this year is quite similar to the type that applied last year. The average team size remained 6.5. The total amount of capital raised by our applicants (adjusted for high-end outliers) was $447,324, just 4% more than last year. This reflects a consistency in our desire to attract as many early-stage companies to our application as possible.
Geographically, our applicant pool included companies from 34 states. Only 20% of applicants are based in the San Francisco Bay Area and 17% are in Greater New York City, a nearly identical distribution to our applicants last year. This shows that early-stage fintech innovation is not constrained to just the coasts. However, of the combined 18 organizations across two cohorts of FinLab, only two have been based outside of the Bay Area or New York City: Prism (Bellevue, WA), and Albert (Los Angeles, CA). Though not a requirement for success, the startup ecosystems in San Francisco and New York seem to produce a significant portion of high-quality consumer fintech companies.

The driver of this could be access to capital: startups based in the Bay Area raised 2.7 times the average amount raised by applicants not in the Bay Area, although they had only 30% more users. That premium jumps to 3.3 times for startups that are pre-product, or have no users. This Bay Area premium is more pronounced than it was last year when the multiples were 1.7 times for startups overall and 2.0 times for pre-product companies.

The remainder of this report focuses on subjective trends we observed in our applicant pool that have larger implications about the state of consumer financial services innovation in the U.S.

Trend #1: Products Are More Complex

This year, we saw a sharp increase in the number of entrepreneurs working on products subject to complex regulatory oversight, more involved partnership arrangements, and significant capital requirements – examples include instant-approval lines of credit, loan servicing, disability insurance, medical billing, cross-border bill pay and tax services. What makes some of these consumer problems complicated is exactly what is drawing sophisticated entrepreneurs to them: they address problems that incumbents have failed to solve.

An indication of this trend is the shift in product categories between last year’s applicants and this year’s. A large part of applicant distribution shifted away from planning tools, toward more complex categories like credit, insurance, and payments. The number of companies that identify as falling into only the planning category fell from 40 applicants last year to just nine organizations this year. The more basic budgeting apps and personal financial management (PFM) tools that used to make up a large portion of the consumer fintech space are evolving to more advanced, multi-faceted tools that help consumers plan while enabling users to take action.

2 This statistic can be interpreted in multiple ways and likely has multiple factors. Our applicant pool does not give us enough data to draw inferences about why Bay Area companies are being funding at higher rates. For more information about this topic, see Steve Case’s VC Bus Tour Looks To Fund Startups In Overlooked Cities (Fast Company, August 2015).
An example of this shift is 2016 FinLab company Albert (Los Angeles, CA), which gives users a financial health score and allows them to take action to improve that score. This service has a built-in savings tool and allows users to apply for credit through partners without leaving the app. Albert is aiming to be the one-stop shop for the consumer’s financial life, but doing so has taken hard work. Even before launching, the Albert team had to set up the categorization and budgeting functionality that most PFM apps use, find a banking partner to host savings accounts for users, and find partner products to which they can refer Albert users.

Our applicant pool also included an increase in “hybrid” products that can be classified in more than one category, though consumers may still see them as an integrated solution. One example of this is Saldo.MX (San Jose, CA), which enables U.S. consumers to pay bills for relatives in Mexico and offers the U.S. consumers the chance to be a secondary beneficiary on a micro life-insurance plan in Mexico, all managed on blockchain. While complex, this product hits on multiple key pain points felt by underserved consumers—cross-border payments and access to life insurance.

Perhaps the most difficult feat in fintech is innovating on the basics of consumer finance: simple banking services like transaction accounts. Two FinLab applicants are accredited credit unions, one applicant is planning on acquiring a small bank, and two applicants are planning on applying for a bank charter. De novo bank charters are exceedingly rare. While only three new banks have been chartered in the U.S. since 2010, regulators’ indications suggest that startup banks may become more common in the near future.

While not itself a bank, 2016 FinLab winner Bee (New York, NY) is making financial services through the phone more accessible to low-and-moderate income consumers. Bee, with its issuing bank, provides an alternative to a checking and savings account built on principles of accessibility, safety, and fairness. Bee works to expand access by supporting the opening of accounts at pop-up stands; validating customer IDs on the spot; and tailoring elegant and simple products for specific needs of the low-and-moderate income. And Bee designs its products with fairness in mind, fostering a company culture centered around the customer.

The best companies need to be able to meet the consumer demand for products that are increasingly complex yet presented in a way that engages users and builds trust. To bring these products to market, increasing numbers of entrepreneurs are focusing on populations who have needs that are not being met by incumbent financial services providers.

**Trend #2: Underserved Segments Are In Focus**

Innovators often aim their products at groups where incumbent technology fails. One underserved segment that has received significant media attention is millennials. The millennial generation is the biggest in U.S. history and has tremendous potential to drastically impact the economy. Yet a quarter of 25-34 year old Americans are underbanked, according to the Federal Deposit Insurance Corporation. A staggering 26% of our applicants focused on millennials as potential customers. Examples of companies targeting millennials are previously mentioned 2016 FinLab winners Albert and WiseBanyan.

Perhaps more noteworthy, is that many strong companies are focused on narrow customer segments that—unlike millennials—are often ignored by tech innovation. These tools are not just targeting the broad improvement of financial health but they are specifically aimed helping those consumer that have experienced few innovations designed for their needs and contexts.

One group receiving attention from fintech innovators is ethnic or racial minorities. Nicole Sanchez, CEO of eCreditHero (New York, NY), a company that helps consumers dispute issues on their credit reports, says, “Our initial target customer is black millennial women. Our product works for anyone, but our messaging attracts this segment because we know how to talk to them in a way that resonates. That’s why we’ve built such a strong community with our users.” Another example is MoneyMio (San Francisco, CA), a bilingual website empowering U.S. Latinos with personal finance education. Their users can learn with culturally relevant and bilingual articles on personal finance. In addition, MoneyMio provides comparison tools for credit cards and personals loans allowing users to save on interest and lower use of higher cost alternative lending products.
The focus is not just on racial minorities. For example, fintech startup Golden (San Francisco, CA) focuses specifically on American seniors. The company targets 40- to 50-year-olds with the intent of persuading them to use Golden as a tool for their parents. Golden provides a free financial health checkup, credit report, bill pay and financial checklist as well as aggregating all of the parent’s accounts online onto one dashboard, among other features. Nearly half of the elderly population in the United States is considered economically vulnerable. This is not just an issue for the elderly. Care for an aging population often involves adult children and other family members. This is a stressful, time-consuming and often expensive responsibility for which many are not prepared.

These targeted tools have the opportunity to be transformative to the lives of the underserved. Technology can help bridge the gap between these consumers and financial health by connecting them directly with high-quality tools that will best serve their needs.

**Trend #3: Employers Can Provide Scale**

In last year’s FinLab Snapshot we noted that many innovators were seeking to access large groups of consumers through employers but that these innovators may face challenges in gaining traction with employers. Despite that observation, some of this year’s applicants are indeed seeing traction with employers, selling their product directly to companies as a potential employee benefit, or reaching companies by integrating with human resources tools – like payroll systems and benefits portals. Part of this shift is an increase in supply – this year’s applicant pool included more startups with innovative products and sophisticated management teams considering the employer-channel as their primary distribution strategy.

There is also an increase in demand from companies to offer benefits focused on employees’ financial well-being. According to a recent survey by benefits administrator Aon Hewitt, 56% of employers indicate that “they are very likely to add tools, services or communications to expand their financial well-being focus” beyond retirement benefits, a number that has been increasing over the last couple of years.

Employers are actively seeking solutions and fintech innovators are seeing employers as a strategy to scale. We saw a diversity of products that are distributing through employers, such as employer-subsidized loans, payroll-integrated bill pay, financial coaching and rainy day savings with an employer-match. Many of these solutions seem simple but have the potential to make a tremendous difference in employee financial health.

One company selling directly to employers is SimpleFi (Palo Alto, CA). Employers partner with SimpleFi to add a customized employee wellness program managed by SimpleFi to the employer’s existing benefits package for employees. One part of SimpleFi’s value proposition for employers is that employees’ productivity drops when they experience financial shocks. It is in everyone’s best interest to have a plan in place to mitigate those shocks. SimpleFi approaches this by having employers subsidize the cost of an employee loan so the employee does not have to dip into their retirement savings or use high cost alternatives to mitigate a shock. This is important because the most harmful effects of financial shocks are those that force consumers to damage their long-term financial health.

**Increasing Interest in Employees’ Financial Health**

Employers that are “very likely” to focus on employee financial well-being in 2016

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<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
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<td>30%</td>
<td>46%</td>
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Source: Aon Hewitt, 2016 Hot Topics in Retirement and Financial Well-Being

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Another example of an innovator integrated with payroll providers is FlexWage (Mountainside, NJ).

FlexWage’s WageBank product offers consumers access to their accrued but unpaid wages between pay cycles on prepaid debit cards. This is a particularly powerful tool for those consumers in lower and middle income jobs. By getting access to accrued wages, employees can better manage spikes and dips in their cash flows and respond to financial shocks as they come up, which enables them to avoid high cost bank overdraft fees and short term lending. FlexWage is directly integrated into several payroll and HR management systems tools, like payroll provider ADP, giving FlexWage access to a significant number of employers.

Employers are in a powerful position to directly impact the well-being of their employees and the maturing fintech industry is providing them with ability to do that through innovations that are easy to implement but hugely impactful. We are optimistic that this interest by employers in employee financial wellness will lead to continued investment in tools and resources to improve employee financial health.

Trends On The Horizon

While our applicant pool helps point to the conclusion that in many ways consumer fintech is maturing, we also found three particular trends that point to where fintech may be headed: insurance product innovation, communication platforms and the greater blockchain utility. These ideas have the potential to drastically improve consumers’ lives, but have yet to completely develop.

Insurance is the one area of fintech that most goes counter to our conclusion that fintech innovation is maturing. While many ecosystem players have written about “InsurTech” being the next wave of innovation in fintech, the applicants we saw suggest that InsurTech is still in its toddler phase. Nearly all of our insurance applicants were pre-product. Insurance remains a consumer pain point worth solving and represents a large enough part of the economy for innovators to pay attention. We will be watching the InsurTech space closely and hope to see more innovation in this area.

Nearly 10% of our applicants use messaging of one sort or another to communicate with consumers. Some of these are aiming to be true “chatbots” that leverage the latest artificial intelligence and machine learning techniques to help consumers interact with their finances via SMS, Slack, Facebook Messenger and custom messaging features within apps. Like others in technology, we are watching this trend with interest. This new interface brings many potential user experience benefits, though some of these companies may face the same inherent business model issues many personal financial management tools have experienced.

While messaging may represent a new way of connecting with customers, blockchain is increasingly being leveraged to manage information. The number of applicants that leverage blockchain more than doubled from last year to 20, still just 6% of applicants. Nearly all of these applicants are still developing product or have yet to see large growth. Last year, several applicants put bitcoin at the center of their operations – and went so far as to include “bit” as a prefix or “coin” as a suffix to their company name. This year, we saw a number of applicants using blockchain in ways more naturally woven into their operations as a technological means to solving problems. Blockchain is being leveraged for cross-border currency conversions, complicated asset trading, record-keeping, and accounting reconciliations. As this trend continues, we are excited for additional use-cases in which blockchain is leveraged as an important enabling technology.

Overall, this year’s applicant pool helps us conclude that fintech is maturing and that a number of emerging ideas have the potential to drastically improve consumers’ lives. We are most excited about the increase in the number of innovators focused on improving financial health for Americans, which is the core of CFSI’s mission.

As we transition to the third year of the Lab, we are pleased to see the growth in quantity and quality of early-stage innovators seeking to positively impact consumers. It is encouraging that so many innovators share in our view that innovation in finance can be a force for good in people’s lives. At the same time, a majority of American consumers continue to struggle with financial health. To help solve these challenges, we are hopeful that we will see even more innovators entering this space in the coming years.

We will be actively seeking applicants for our third challenge in early 2017. If you’re an innovator in this space, get in touch by emailing finlab@cfsinnovation.com.

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Gutman, Aliza et al. Understanding and Improving Consumer Financial Health in America. Center for Financial Services Innovation