Fintechs that create the greatest value will use disruptive capital

Smart capital is a well known in investment and startup ecosystems. When a founder takes smart capital they are not just taking money. They are betting that the investor is sophisticated and offers other advantages like knowledge and opportunities. In fact the hottest startups spend more time evaluating possible advantages of interested investors for their specific business models than negotiating term sheets.

Smart capital is top of mind with Fintech CEO's too. The Fintech space is on fire. The year 2017 saw record investment globally in Fintech of over USD 27 billion. Just the first half of 2018 handily beat that with over USD 41B invested into Fintechs. Fintechs with potential are not short of investors and look for smart money. This is good, but Fintechs that create the greatest value will go beyond even smart capital. They will raise disruptive capital.

Banking has never been just another sector. Banks are of systemic importance to the economy. If any normal large firm fails it has minor impact in the overall scheme of things. If a bank fails the external consequences are considerable and can cause local or regional contagion. This is why governments treat banks singularly, and the sector is heavily regulated.

Disruptive capital investors are similarly unique because they bring capability, beyond access and mentorship of smart capital, suited to this complex sector. Other sectors of the economy reach a melting point and startups can upend them. Retail, entertainment, transportation, and hospitality are clear examples. However banking finds itself in artificial stasis because of its unique regulated status. Private equity and Venture Capital firms employing disruptive capital can be the intermediaries who are actually acting as the cultural bridge, a risk bridge, and an innovation bridge between banks and Fintech players.

Disruptive capital ensures that Fintechs unaware of the subtleties of risk manage that into their business models so they can scale and generate proportionate value. It assures that the breadth and reach of banks combines with the agility and experimentation of startups for maximum benefit to both. It involves the regulator where needed and mutually defines conditions of victory that spreads gains to all players. Disruptive capital is not limited to startup funding. When applied to financial services players investing in digital only banks it creates rules of engagement with relevant Fintechs so that the culture of banks does not get in the way of digital success. This is especially critical in GCC where investment funds are at a nascent stage of building this capability. The danger is that without this mindset investors, Fintechs and regulators will be unable to extract maximum value from this region but Fintech leaders drop shipping in from other regions will.
If you are a Fintech go beyond smart capital and look for disruptive capital.