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MINDING THE GAP / FUNDING THE FINTECH PIONEERS

Funding the FinTech Pioneers

June 30, 2014 by Eugene Grygo



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Some say that the regulatory overhaul after the Great Recession has put financial technology innovation (and financial instrument creation) in limbo. However, the FinTech Innovation Lab is clearly working very hard to counter that trend.

The Lab held its Demo Day in New York last week and spotlighted among other new ideas a credit risk solution that applies algorithms to counterparty exposures and a data analytics system that accesses billions of public records to help firms make trading and other decisions requiring lots of key data.

Created by consultancy and outsourcer Accenture and the Partnership Fund for New York City, the FinTech

Innovation Lab fosters entrepreneurs that push forward IT development for a variety of financial services firms from those involved in institutional trading to consumer-oriented banking. (By the way, Accenture established the FinTech Innovation Lab London in 2012 and the FinTech Innovation Lab Asia-Pacific in Hong Kong this year.)

The \$110 million investment arm of the Partnership for New York City is overseen by a board of directors co-chaired by Richard M. Cashin, managing partner of One Equity Partners, and Charles “Chip” Kaye, co-president of Warburg Pincus. Maria Gotsch serves as president and CEO of the Partnership fund.

The Lab also relies upon “three distinguished executives-in-residence”: Andy Brown, former group chief technology officer at UBS; Cristóbal Conde, former CEO of SunGard; and, Dr. David Mordecai, visiting scholar at New York University’s Courant Institute of Mathematical Sciences.



Those companies lucky enough to get into the 12-week program receive mentoring, expertise on product and business development and access to senior financial industry, technology and venture capital executives, say Lab officials.

Chief technology officers from 15 major firms that support the Lab selected the current set of six participants: LMRKTS, which is pioneering the credit risk algorithm; Enigma, the data analysis vendor; Kasisto, maker of the Kasisto Conversational AI Platform that integrates virtual personal assistants with mobile applications; pymetrics, which combines neuroscience and big data for job-matching; RevolutionCredit, a business-to-business, credit data platform that mixes behavioral data and “gamified” financial education “to assess consumer credit worthiness, improve customer acquisition and retention, and decrease loan losses;” and Standard Treasury, which “builds, maintains, and supports white-labeled and co-branded developer platforms” for banks across the globe.

Targeting over-the-counter derivatives, the platform from LMRKTS looks promising for institutional markets. The system purports to help firms “report, reconcile and reduce counterparty credit risk across a variety of asset classes,” say company officials. The LMRKTS system is intended to help financial institutions net existing derivatives exposures via algorithms that suggest shifts in counterparty exposures “when institutions are both long and short,” officials say. The algorithmic approach is intended to help firms reduce counterparty risk and related capital charges and can be employed as a central platform for minimizing systemic risk.

Another entrepreneur, Enigma is tackling truly big data by allowing access to “thousands of disparate sources of public data on companies, people, and locations.” The company says its wares can compile “tens of billions of records from sources as diverse as SEC filings, government spending contracts, and asset-ownership records.” But the company gathers and indexes the data so firms can exploit for “underwriting, prospecting and trading.” The company says that financial services firms can use Enigma as a supplement to proprietary databases.

The Lab participants get a chance to interact with some heavy hitters as the firms supporting the Lab include: Ally Financial, American Express, Bank of America, Barclays, Capital One, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, Guardian Life, JPMorgan Chase, Morgan Stanley, New York Life, State Street Corporation and UBS.

They also get on the radar of top venture capital firms such as Bain Capital Ventures, Contour Venture Partners, Rho Ventures, RRE Ventures and Warburg Pincus.

Advances in financial technology may be lagging compared to the go-go years of the nineties and the early 2000’s, but it’s clear from this effort and the response it gets from Wall Street that the need for innovation has not died.