Fintech and the Fear of Froth

January 21, 2016 at 1:00 AM EST

For more than half a decade, a seemingly irresistible momentum has been building around the idea that finance and technology are converging at a historical inflection point, a combination of business transformation and competitive disruption that has come to be labeled fintech. With annual investments in product development and entrepreneurial ventures now well into double-digit billions of dollars — and climbing — a 2000-style crash apparently isn't in the offing.

However, if fintech is booming, then it is not immune to cyclical decline. Any investment, whether in a strategic initiative or a start-up, carries risk. But might there be more secular, or macro, forces that could wreak havoc on fintech as a whole? Or, to spin it more positively, what will it take to ensure this emerging sector's longer-term sustainability?

There may be no better barometer of the fintech climate than what the money people are saying. The venture capitalists, investment bankers and others spotlighted last November in *Institutional Investor*'s inaugural Fintech Finance 35 ranking were unanimously enthusiastic and optimistic — but with murmurs of concern about too much froth.

Alan Freudenstein, co-head of the Credit Suisse NEXT Fund, observed that some deals were "pushing prices to ridiculous levels." Hans Morris, managing partner of Nyca Partners, cited overvaluations as a reason to be cautious about the blockchain boomlet.

Reacting to the mid-November announcement that Japanese e-commerce giant Rakuten had become the umpteenth corporation to launch a fintech investment strategy, Michael Maxworthy, a partner at M&A boutique Marlin & Associates, mused, "When will the madness end?"

In another everybody's-doing-it example, Chicago is the latest major city to aspire to be a "fintech hub," one of the local business community's ChicagoNext initiatives.

Everyone wants a piece of fintech, but what exactly is it? The challenges and risks may lie in the fact that the concept is vague and undifferentiated. Some observers are taking a step back to define — or redefine — fintech. It is not one thing.

The basic premise is dialectic — a collision of old and new, incumbents and upstarts, legacy and disruption — along with a growing consensus that the opposites can profitably coexist.

Banks and other diversified financial institutions still have advantages in terms of customer databases and operational scale, but their lack of “fintech DNA” and “gaps in execution” leave them vulnerable to newer, agile, less regulated companies that are “digital first and can do one thing, but smarter,” says Senthil Kumar, vice president of marketing at Oracle Financial Services.

Original article – http://www.institutionalinvestor.com/blogarticle/3522517/blog/fintech-and-the-fear-of-froth.html?ArticleID=3522517 - /.VqZFFVN96EI