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Q&A: Commerce Ventures' founder sees fintech as a long-growth trend

Article

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Dan Rosen
Founder and General Partner
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At Money20/20 USA, Insider Intelligence met with **Dan Rosen**, founder and general partner for the financial-services-sector-focused VC fund **Commerce Ventures**. Rosen was one of the organizers and judges of the **America's Got Access startup pitch competition**, which focused on **financial inclusion**. Rosen offered his insights on **fintech funding cycles** (he still thinks it's in a long-term growth trend), what **the coming consolidation among fintechs** may look like, and what he learned from this year's pitch competition entries.

The following has been edited for clarity and brevity.

Insider Intelligence (II): How do you think the America's Got Access startup pitch competition went?

Dan Rosen (DR): The competitors were impressive. I thought every one of them brought that mission of financial inclusion and access. And then they tied it to their personal stories in a way that just made it touching, very real—and honestly, very difficult to figure out who to dislike.

II: How did you determine the theme of inclusion for this competition?

DR: We've been a lot more intentional in the last two-and-a-half years about doing more around financial inclusion and access. We created a fund, CV Access, whose sole mission is to

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invest in startups with that focus. Many of them have founders from underrepresented backgrounds. We knew that we could bring similarly aligned companies on the stage to present. That's why we thought about doing a pitch competition at Money20/20.

II: What was the impetus behind your concerted effort toward financial inclusion?

DR: I think that for most of us with hearts, in the middle of 2020, we all woke up a little bit. At least, that's what happened for me. But my very first investment in fintech back in 2008 was a company called PerkStreet Financial, which was trying to bring a Digital Difference Analyzer (DDA), really a rewards debit card, to the mass market. The idea was to help people earn more and save more. We've also been investors in a bunch of companies like MX Technologies, which focuses on personal financial management, and other companies whose mission is similar.

II: When you look at startups, has your criteria for investment changed compared to two or three years ago?

DR: I don't think it's markedly different. But we have started being more intentional about tracking deal flow with diverse founders and trying to improve on it.

II: Let's zoom out to the dismal state of fintech funding right now. What are your thoughts on it?

DR: I think the story is less about how far the market is down and more about whether we're getting back to the right size for the funding opportunity that really should exist.

The most interesting piece is how funding expanded so much faster than it probably should have in the natural course of things because capital was so cheap and free-flowing. It was difficult for venture capitalists and the companies they invested in not to take capital when it was offered. And then you're investing it pretty quickly because more capital wants to keep coming at you. You're investing more and you're investing it faster. It creates a feedback loop that shortens funding commitment cycles.

The market is still trying to find its way to what the normalized pace of investment will look like. I can't imagine we have a lot more to drop because there's so much institutional demand for venture. There's still a very rich and robust set of startups to invest in. Many talented founders have worked for other businesses that have raised money and scaled, and in many cases made successful exits.

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II: Do you think we're going to look back on 2021 and the first part of 2022 as an aberration in terms of how much investment went into fintech? Or do you see it eventually trending back upward to previous levels?

DR: My guess is it looks like the dot-com bubble, when venture was also expanding and there was a ridiculous acceleration. That is, if you map the 10-year period from maybe 2013, you'll see a steady upward trajectory, and then a really big spike that was unnatural. Then it drops back to that longer, positive-trending line. I think we're in a long-term growth trend.

II: Do you see signs of consolidation within fintech, like companies dropping out because it's getting more difficult to secure funding?

DR: We're still early in that process. Nine or six months ago, a friend in venture who's a fintech investor said, "We just did the math and realized we haven't had a write-off in five years." I realized we hadn't, either. That's actually not healthy. It's not how venture is supposed to operate, no matter how good you are. It's a natural part of the process that some companies don't make it.

Over the last three to six months, most companies that could hunker down did that. Those that needed a little bit more capital and had good partners raised a little bit more money. Some folks managed to raise a lot of money right before things fell. **Unit** is a classic example of that.

And some of our biggest companies that are very well-capitalized and that have become more mature, I'd say **every one of them is rethinking their level of expenses, becoming more efficient, and making sure that their money is funding them to a place of break-even, rather than a place of raising more money.** And that's a clear change in the market. Maybe they always should have been thinking that way. Our younger companies are starting to think that way, too.

Many companies are reasonably well-funded, but you'll start to see some running out of cash. They won't be able to pull together a round that funds them long enough to hit a key milestone, or at a price that is above the last round that they raised. Those companies will be looking for homes, if they aren't already. **Deals are in the works or under discussion. We'll hear more about that in the next three to six months, as well as about companies that just couldn't make it.**

Some high-profile private companies are going to face a day of reckoning. Or they'll have to do a capital raise that looks dramatically different from what they were valued at before. I

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have a lot of respect for **Klarna**, because they said: "Let's do the smart thing now, while we still can." Other companies have been avoiding this and trying to use creative structures to raise debt. Some are doing anything to avoid the substantial markdown that would occur in their next raise.

II: Are there bright spots in fintech funding that are still performing robustly?

DR: We're excited about a recent investment we made in the treasury space, **CNote**. And we're looking at the **broader credit infrastructure, like collections and servicing.** We're doing a deep dive into the servicing space. And **we continue to be excited about players who have differentiated offerings in the next-generation credit card space.** There's just a ton of opportunity for innovation there. And structurally, even banks could acquire those businesses. **The card issuer space is a valuable place for banks to be hunting.** We're hearing about a lot of large banks that are thinking about M&A and wondering if they should be buying things.

I think we're all faced with the reality that neobank models are going to be more challenging to fund. And there's a lot of questions around which banking as a service (BaaS) models are going to be durable and attain enough scale.

II: What signs should we look for that this decline in funding has leveled off?

DR: You'd definitely have to see more news about companies going out of business or being acquired. I suspect that once we've found a ceiling on where interest rates are going, that would be a good indication that we know how much capital might be pulled out of venture assets as well as the broader ecosystem.

We heard an economist speak yesterday, and it sounded like he was saying that we should reach the top by early- to mid-2024 and start seeing some rate cuts by then. If he's right, over the next six to 12 months, people will gain more confidence from seeing that rate increases are slowing and inflation is coming down. A lot of companies went public when the stocks were down like 50-plus percent. Investors in those companies are sitting on their holdings. If interest rates start to abate and, certainly, if inflation starts to come under control, I think you'll see valuation multiples increase. If they do, then more liquidity comes out of businesses and goes back to investors. And that starts the cycle again.

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