Forget Fintech Originators, the 'Enablers' Are Here

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Most of the public discussion about fintech innovation and investing over the past year has focused on "disruptor" companies that have raised enormous sums from the venture capital community with a promise to deliver revolutionary changes in relatively unsexy areas like payments, banking, investment and insurance. That is why we can all be forgiven for sometimes thinking that fintech is entirely about these blockchain, marketplace lending and digital investment startups.

But the recent 2015 "Fintech 100" report on leading innovators, by KPMG and H2 Ventures, tells a different story. A review of the firms leading the fintech transformation reveals not just companies attempting to leapfrog incumbents with alternative digital products and delivery channels, but many new ventures whose goal is to incorporate the benefits of the digital age into the incumbent financial services ecosystem. Indeed, in 2016 the industry narrative will increasingly be about these fintech "enablers" — companies that are dedicated to helping financial services incumbents close the digital gap and hold on to key customers. And if you are looking for fintech investment opportunities, these enablers may be your best bet for 2016 and beyond.

Here are just some examples of Fintech 100 companies that merit the enabler label. The U.K.-based Bankable allows financial services companies to provide cutting-edge multicurrency digital services to companies, including virtual currency services, plastic cards, e-wallets and mobile payments through multiple digital channels. Payrange, in Portland, Ore., allows mobile and card payments to be accepted by millions of "old technology" vending and laundry machines around the world. Personetics, based in Israel, enables banks around the world to deliver personalized customer experiences across all digital channels.

These fast-growing companies are in the business of using technology to help incumbent financial services players compete effectively in the digital customer wars. And these early leaders are being followed by dozens of new fintech companies with similar goals. Why are fintech enablers rising so fast? It is because banks have woken up to the new competitive reality and are making up for lost time. Eight years after the 2008 crisis, incumbents in financial services finally have enough operational and managerial bandwidth to focus on the digital future of their businesses, after years spent complying with new regulatory mandates, cutting costs, dealing with credit and compliance problems and resolving litigation.

The incumbents must act quickly because their main advantage — ownership of customers and customer data — is under threat. They know that the only way to keep customers from defecting to disruptive alternatives is to quickly provide great digital experiences comparable to what is available in other parts of the tech economy. Most important, banks realize that they can't do it by themselves. For reasons of size, culture and regulation, the industry incumbents will never have the in-house technology expertise, bias toward speed and innovation mindset needed to create products and experiences comparable to those coming out of Silicon Valley and other global tech centers.

But they can buy that expertise and mindset from the new class of fintech enablers. Enablers exist to provide all the benefits of Silicon Valley — speed, technology and culture — to the development of digital solutions that support, not supplant, the current financial services ecosystem. Their business model is collaboration. So it's no wonder that incumbents are supporting these companies with both capital and contracts. The well-documented surge in digital innovation efforts and investments by established financial players like BBVA, Axa, Visa, Capital One, Santander and Goldman Sachs is evidence that the development a new generation of fintech enablers is an industry priority.

The impact of this shift in focus may be most clearly seen in disruptors that appear to be pivoting toward enabler status. OnDeck Capital's recent linkup with JPMorgan Chase to partner on small-business lending suggests that the alternative lender's future may be brighter as a technology provider to banks than as a freestanding finance company subject to the vagaries of economic, credit, liquidity and regulatory cycles.

OnDeck's pivot suggests that the best enablers — those that become indispensible parts of the current ecosystem — can look forward to a long life, even as some promising new disruptors fade from view.

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