Factors Attracting Banking Investment into Fintech Start-Ups: Russian Context

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Abstract

Nowadays, financial technologies bring growth not only to the financial system of a country but also to its economy as a whole. In Russia the main demand for fintech innovation comes from banks that strive to optimize internal processes, increase financial inclusion, as well as widen the products that they offer. The aim of this paper is to determine which qualities and characteristics should a fintech start-up have in order to attract a bank as an investor. Qualitative interviews with experts of Russian financial industry, including representatives from banks, a regulatory institute, IT corporations (n=32) as well as quantitative survey of fintech start-ups (n=37) provide data for this research. One of the main preliminary findings is that most of the fintech in Russia concentrates in banks. Besides, Russian start-ups consider banks as one of the most promising future investors from which they hope to get financing. When it comes to investing in start-ups banks usually consider start-ups that are 5 or more years old and those that can offer working prototypes. This research contributes to the emerging literature on financial innovations/technologies and develops knowledge on fintech start-ups in particular.

Key Words: fintech, start-up, finance, banking, financial services

JEL Classification: C 21, O33, O52
1. Introduction

Spreading Internet connection, increasing speed of innovation development as well as active usage of mobile devices in everyday life leads to the era of financial technologies, the new period for financial industries in most of the countries around the world (Birch and Young, 1997; Mori, 2016; Mackenzie, 2015). Fintech innovations play a role of a catalyst for financial systems development especially in the emerging markets, which improves overall country’s economic growth. In Russia the main demand for fintech innovations is formed by banks that strive to optimize internal processes, increase financial inclusion, as well as widen the products that they offer. In general financial innovation might help banks increase their profits and remain leaders in the market (DeYoung et al., 2007; Beck et al. 2016)

2. Literature Review

The existing literature on fintech (Shim and Shin, 2015; Mori, 2016) and especially fintech start-ups (de Vauplane, 2015) only starts to appear and currently does not provide an in-depth analysis of these factors. However, from a practical point of view it is an important problem for many innovative companies starting their business. This is the first paper that approaches the question in the context of Russian market.

3. Methodology

3.1 Research Questions

The main research question of this paper is to determine which qualities and characteristics a fintech start-up should have in order to attract a bank as an investor.

3.2 Method and Data

Qualitative interviews with experts of Russian financial industry, including representatives from banks, a regulatory institute, IT corporations (n=32) as well as quantitative survey of fintech start-ups (n=37) provide data for this research. Methodology consists of two stages. First - qualitative analysis of interviews; second – fsQCA method to find the relationship between attracting bank as an investor and certain characteristics of the start up (e.g. stage of life, number of people in a team, specialization, etc.).

4. Results and Discussion

One of the main preliminary findings is that most of the fintech activity in Russia is concentrated in banks. Besides, Russian start-ups consider banks as one of the most promising future investors from which they hope to get financing. However, sometimes there is a gap between what a start up offers and what banks need. When it comes to investing in start-ups banks usually consider companies that are 5 or more years old and those that can offer working prototypes. Thus, start-ups that offer just an idea are usually unable to attract banks as investors and need to pay more attention to presenting the already functioning product.
5. Conclusions and Recommendations

The practical implication of this work lies in helping Russian start-ups to understand which characteristics increase their chances to get banks as investors. Start-ups can, then, pay closer attention to these characteristics and attract additional funds. From the social perspective, additional innovation that these start-ups generate can lead to the economic growth of industries as well as the economy as a whole. This research contributes to the emerging literature on financial technologies and develops knowledge on fintech start-ups in particular (e.g. Shim and Shin, 2015).

References


http://www.u.arizona.edu/~cragin/fsQCA/