

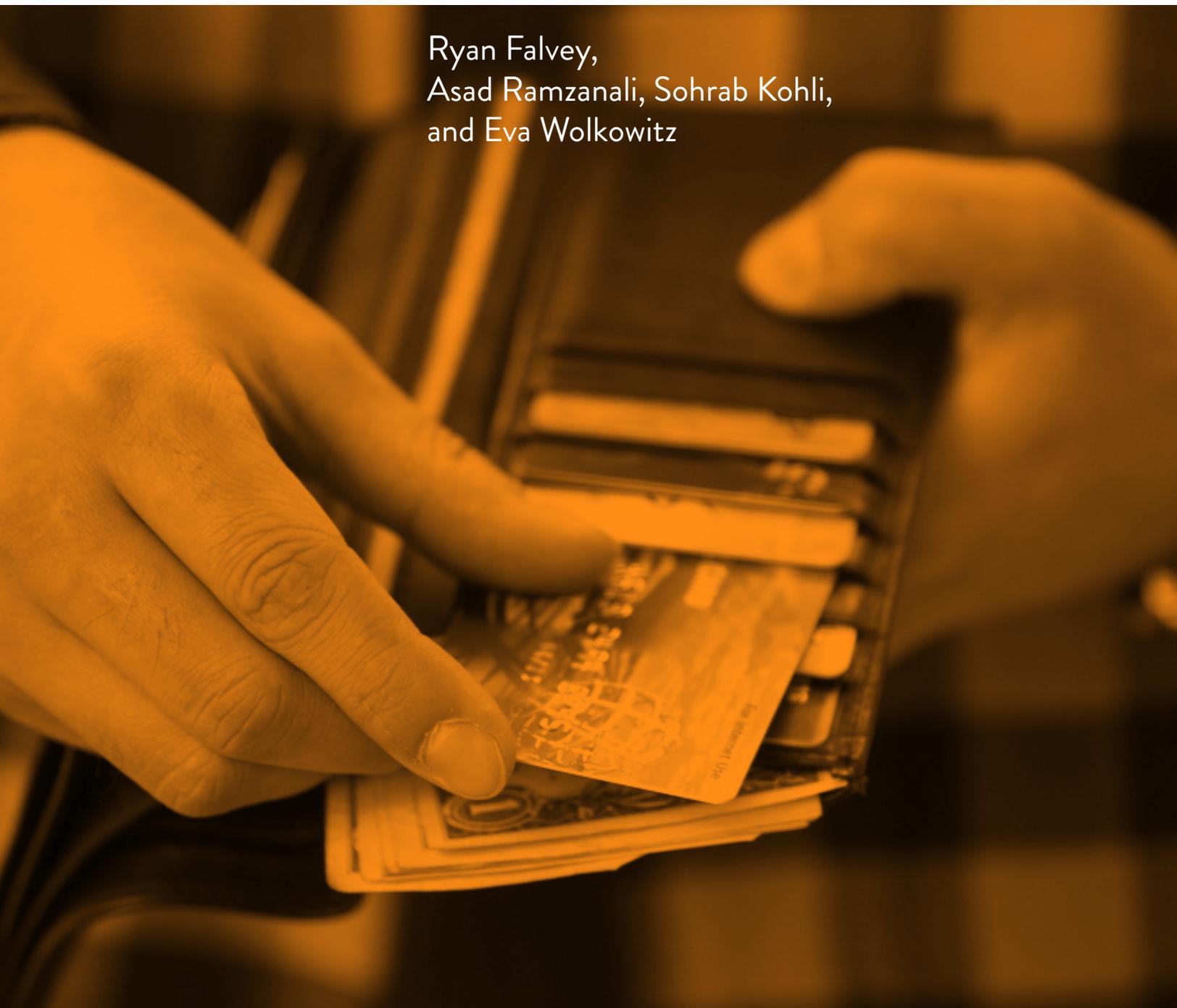


**Financial Solutions Lab**

CFSi | JPMORGAN CHASE & CO.

## **FinLab Snapshot:** Solutions to Manage Household Cash Flow

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and Eva Wolkowitz





**The Center for Financial Services Innovation (CFSI)** is the nation's authority on consumer financial health. CFSI leads a network of financial services innovators committed to building a more robust financial services marketplace with higher quality products and services. Through its Compass Principles and a lineup of proprietary research, insights and events, CFSI informs, advises, and connects members of its network to seed the innovation that will transform the financial services landscape.

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**The Financial Solutions Lab (FinLab)** is a \$30 million, five-year initiative managed by CFSI with founding partner JPMorgan Chase & Co. The Lab seeks to identify, test and bring to scale promising innovations that help Americans increase savings, improve credit, and build assets. Lab participants share a relentless focus on building products that will improve the financial health of Americans. The Lab provides capital, national partnership opportunities, industry expertise, mentorship, and cutting-edge consumer and design insights necessary to build the next generation of leading financial products and services.

To learn more, visit: [www.finlab.cfsinnovation.com](http://www.finlab.cfsinnovation.com)

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**When bills are due today and payday is still days away, millions of Americans lack the funds to bridge the gap. Over half of Americans would not be able to cover a \$400 emergency expense without selling something or borrowing money.<sup>1</sup> Instead, when mismatches in income and expenses occur or when unplanned expenses arise, many turn to higher-cost products and services.**

The Financial Solutions Lab, a \$30 million, five-year initiative managed by the Center for Financial Services Innovation (CFSI) with founding partner JPMorgan Chase & Co., launched its first competition in February 2015. The goal of this competition was to identify emerging innovations that leveraged technology to reduce the cost, time, and stress Americans face as they manage their household cash flows. 298 innovators applied.

These 298 innovators reported serving a combined 10,080,270 people. They cumulatively employ 1,946 people and raised \$178,435,421 in capital. The applicants represent 62 non-profit organizations and 236 for-profit companies from 34 states. They offer a wide variety of products and services.

Collectively, the Lab's diverse pool of applicants provides a window into the state of consumer-focused financial technology in the United States and allows CFSI to make a number of observations about the state of emerging technology intended to improve consumer financial health. The CFSI team was particularly struck by the evolution of personal financial management applications, emergent credit models, and the widespread use of prepaid products. Distribution and access to larger financial industry players continue to challenge innovators.

CFSI recognizes that the Lab's applicant pool is not representative of all financial technology solutions. This paper focuses on the dynamics that impact how innovators approach improving the financial health of American consumers.<sup>2</sup>

## Key Takeaways

- » 298 organizations applied for FinLab. Together, they serve over 10,000,000 Americans and have raised more than \$178,000,000 in capital
- » The majority of the products offered by applicants combined two or more traditional financial products into a single solution
- » There is significantly greater consumer demand for products that go beyond the informative nature of "personal financial management" and allow users to take action to improve their personal financial health
- » The nature of credit is evolving; many applicants utilize technology to enable short-term liquidity solutions that leverage personal relationships in new ways
- » Prepaid card products, and the financial institution infrastructure that underpins these products, is an important building block for many consumer financial technology solutions
- » Despite limited success to date, many innovators continue to see the employer channel as a key distribution/delivery channel for their products

## The Applicants

Applicants submitted a broad variety of products for consideration, all of which in some way impact a consumer's ability to manage their household cash flows. In order to categorize these products, CFSI broadly defined five major product types:<sup>3</sup>

**Planning:** personal financial management (PFM) tools, budgeting solutions, account aggregation and visualization services, and financial education solutions

**Credit:** personal loans or income advances

**Payments:** products that relate to transferring funds

**Savings:** methods for reserving or accumulating money

**Investing:** asset-related products (e.g. securities, retirement savings)

Fewer than half of the applicants fell solely into one of these categories. The majority offered hybrid solutions that took an innovative approach to traditional categories.

<sup>1</sup> Board of Governors of the Federal Reserve System, Report on the Economic Well-Being of U.S. Households in 2013, <http://www.federalreserve.gov/econresdata/2013-report-economic-well-being-us-households-201407.pdf>

<sup>2</sup> Statistics and figures in this paper should be viewed solely in the context of the Lab's applicant pool and not as estimates of the market as a whole.

<sup>3</sup> It is important to note that this categorization is not necessarily how the companies themselves may define their product. As will be discussed in later sections, some of these categories—planning and credit in particular—include a broad range of approaches that often defy clear definitions. As such CFSI sought to approach products from how a consumer would view them. For example, if a product advertised that it advanced funds, we put it in the credit bucket. If it advertised that it helped consumers understand their finances, we put it in planning.

These hybrid products—those that combined two or more traditional product categories—had, on average, 49% more customers despite having raised 0.4% less funding. A company from Oakland, CA, Even, is an example of a three-product hybrid. It safely stores consumer funds (a savings product), allows access to advances (a variation of a credit product), and helps consumers understand and manage their money (a planning product).

Of the applicants, 31% had a female founder.<sup>4</sup> However, among for-profit applicants, only 25% had a female founder, reflecting the well-documented challenges of gender diversity in tech. An example of one female entrepreneur making great progress in this space is Kelly Peeler. NextGenVest, the company she founded, partners with high schools across the country to deliver three-minute financial education courses via mobile devices. CFSI’s application tool did not collect information on ethnicity or race. Given our interest in promoting diverse solutions, we will seek to collect this information in future challenges.

Applicants came from across the United States. Though 38% of Lab applicants came from the San Francisco Bay Area and the New York Metropolitan Area — two national hubs of FinTech — the majority of applicants came from cities and towns spread across the country.

**Locations of Applicant Teams**

The Lab received applications from companies at various stages. The average team size for applicants was comprised of 6.5 people and the average amount of external capital raised was \$608,995.

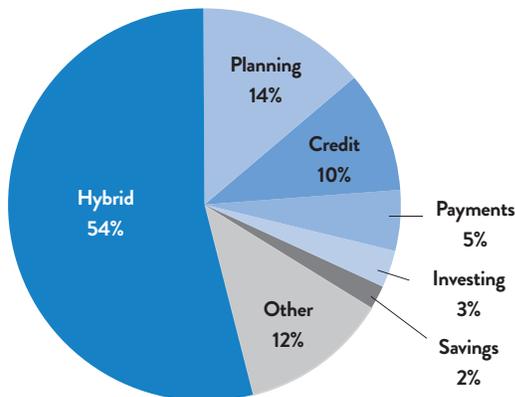
**Concentrations of Applicant Teams**



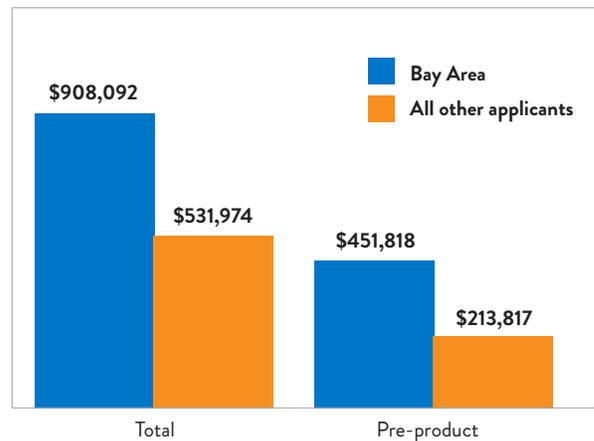
The amount of capital raised by organizations from the San Francisco Bay Area was significantly higher than other markets. Across all applicants, Bay Area organizations had raised an average of 71% more capital than organizations from outside of the Bay Area. Of the 29 applicants that had raised \$2 million or greater, more than 40% were based in the Bay Area. This Bay Area funding bias was most pronounced in the 81 pre-product companies. Bay Area pre-product applicants had raised more than double the funding of companies not located in the Bay Area.

The significant variation in capital between organizations based in the Bay Area and the rest of the country is particularly noteworthy because the difference in median number of customers is still negligibly small (275 vs 150) and median team size is identical (4). That applicants from the San Francisco Bay Area have raised more money is probably not a surprise to anyone in the technology or venture capital community, but it does serve as a reminder that there is a great deal of innovation and investment opportunity outside of the region.

**Applicants By Product Type**

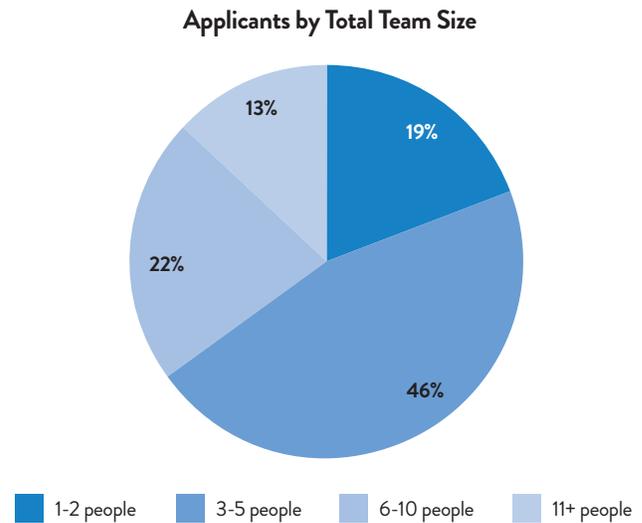
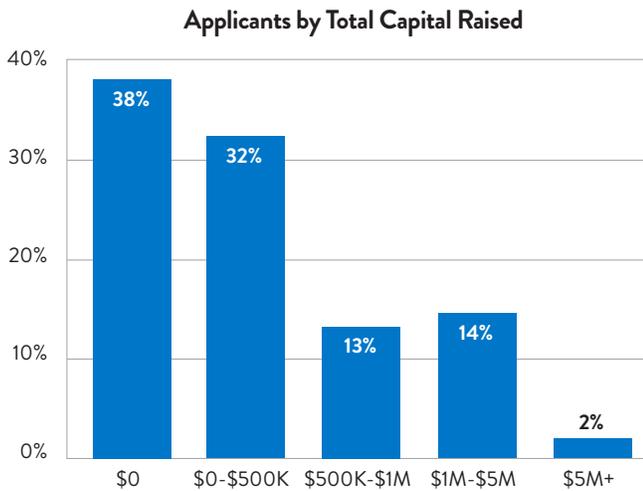


**Capital Raised by Location**



<sup>4</sup> Lab applicants listed an average of 1.7 people as primary contacts on their application. CFSI did not ask for applicants’ genders as part of the application process. Instead, we used a tool to ascertain the probability that

a given first name is male or female by referencing large datasets derived from social networks.



Another large source of innovation outside of the venture capital-backed startup community exists within the non-profit sector. Although many non-profit applicants presented earlier stage ideas or proposals than their for-profit counterparts, it's worth noting the significant numbers of people that non-profits already serve. Across the applicant pool, the 62 non-profits reported serving 7,716,309 people, compared to the for-profit applicants serving 2,363,961 people. Whether through innovations that non-profits themselves develop, or that they offer through partnerships, non-profits remain an interesting channel to reach underserved consumers.

One theme that united many of the Lab applicants was their motivation for applying for the Lab: 72% of Lab applicants stated that one of their primary goals for joining the Lab was to gain access to partnership opportunities with all types of institutions across the financial services industry. The desire for additional capital was the second most common reason for joining the Lab, followed by networking opportunities, connections to mentors and opportunities to gain an improved knowledge of financial services. The CFSI team was pleased that so many of the applicants saw significant value in the non-financial resources available through the Financial Solutions Lab.

Finally, nearly half of the applicant pool reported that they track impact metrics that are aligned with improved consumer financial health, such as savings rates, interest and expense reductions, and credit score improvements, to measure their effectiveness. Although it is likely that many of these companies may not be tracking outcomes in a systematic or consistent manner, CFSI was pleased to see that many entrepreneurs recognize the importance of being able to align their products with the interests of their users.

The breadth and quality of applicants for the Lab demonstrated a deep reservoir of technical talent, business acumen, and commitment to impact. It also demonstrated that entrepreneurs and non-profit innovators are developing increasingly sophisticated approaches to help consumers manage their household finances. The following sections of this brief highlight observations from the application pool that CFSI believes will be of particular interest to our Network and the broader financial services industry.

## From Personal Financial Management to Personal Financial Health

Financial planning solutions made up the largest category of applicants to the Lab—14% of the applicants submitted products solely designed to help consumers better plan, understand, or manage finances. This group of applicants includes personal financial management tools, budgeting solutions, account aggregation and visualization services, and financial education solutions.

An additional 38% of applicants incorporated a planning component into a different type of solution. An example of this is Prism of Bellevue, WA. Prism is a bill pay solution that also helps users visualize future cash flow. Another example, Qapital, a company that started in Sweden and now serves U.S. consumers, allows users to save money for specific goals while still being able to see all of their account balances in one place. This distinction between products that are primarily planning tools and those that incorporate a planning component into another product illuminated a stark difference in scale.

For-profit applicants that went beyond solely planning features had over 16 times the average number of users, six times the average capital raised, yet only a 34% larger average team size. It appears that both consumers and investors are looking for products that go beyond the informative nature of personal financial management tools and help people take the necessary actions to improve their personal financial health.

## The Nature of Credit is Evolving

The diversity of ways that entrepreneurs are extending credit was one of our most interesting observations. The Lab received a number of applications from providers that extend funds to consumers outside of the traditional interest-based revenue model. These products often rely on social relationships to extend credit to consumers who may otherwise have few options.

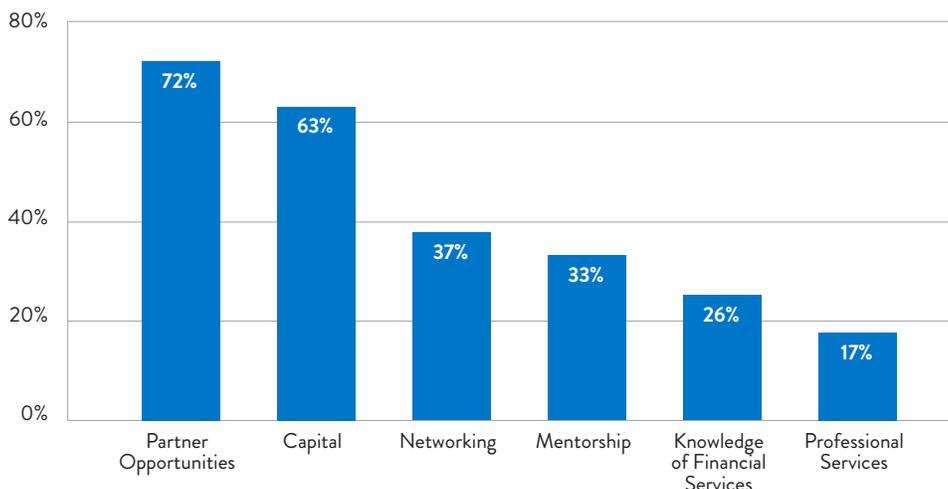
Both rotating savings and credit associations (ROSCAs) and accumulating savings and credit associations (ASCAs) leverage a group lending model in which one member receives funds raised by a collective group, then pays them back in regular installments.<sup>5</sup> Because these products are often interest-free and charge only origination or service fees, they are often not considered to be loans. The Lab received seven applications from organizations that offer group savings products. Puddle of San Francisco and eMoneyPool of Phoenix are examples of these types of solutions.

In addition to the organizations offering these innovative credit products, a number of them offer paycheck advances to help consumers smooth lumpy or unpredictable incomes. These businesses are often supported by revenue models that are not connected to the amount of funds advanced. For example, PayActiv of San Jose, CA allows users to receive up to half of their earned income in advance of the next scheduled payday for a \$5 fee. Meanwhile, ActiveHours of Palo Alto, CA offers a product with no required service fee, simply asking its users to pay what they wish. This innovation area will continue to be one to watch.

## Products Are More Often Built on Prepaid than Block Chain

The Lab received dozens of applications from companies that were leveraging prepaid cards and prepaid infrastructure to offer products or services that went far beyond the traditional use case of stored value cards. These include virtual accounts that couple a prepaid card with sophisticated mobile design and bill-payment functionality to create an experience that is nearly identical to what is offered by banks. Of the 21 virtual account products among the Lab's applicants, a significant number are leveraging prepaid infrastructure to bring their product to market. Nearly all were launched in the last two years.

Applicants by Motivations for Joining Lab



<sup>5</sup> In a ROSCA, for example, six members would contribute a set amount once a month. Each month, a different member of the ROSCA receives a lump payment. At the end of the six months, each member of the ROSCA would

have put in the amount they'd received. In an ASCA, all the members contribute at the beginning, with loans taken and paid back on an as-needed basis.

The Lab also saw applications from products that leveraged prepaid infrastructure to help consumers manage their money, save or pay certain bills. Red Giant of Palo Alto, CA leverages a mobile application linked to a prepaid card to help consumers better manage their finances by limiting impulse purchases while offering greater transaction security. Doorways to Dreams Fund (D2D), a Boston-based non-profit, offers SavingsQuest, a gamified experience to drive savings behavior among prepaid customers, leveraging a savings pocket on a prepaid card.

Meanwhile, despite the excitement of many investors and entrepreneurs around the potential of cryptocurrencies and the block chain to support the development of new low-cost consumer products, the Lab received only eight applications from organizations that leveraged elements of this technology.<sup>6</sup> The majority of these applicants were focused on facilitating cross-border payments, a use case for which cryptocurrencies seem to have some cost and speed advantages over traditional solutions. The other applicants offered bitcoin wallets or exchange models, which tended to have limited direct impact on consumer financial health. While this technology is still in its early days, it is clear that more innovators will need to experiment in this market before the potential benefits for consumers manifest themselves.

## The Path to the Consumer is Through the Paycheck

Several applicants are developing workplace solutions for employees to access their paychecks, utilize financial products such as small loans, or manage and plan for their financial needs. Although few companies have been able to demonstrate traction in selling through employers, dozens of applicants described the employer channel as a key distribution and sales channel.

This model may represent a rapid method of reaching more consumers, but it requires two different sales cycles: first to the employer and then to the employees, a step that is often controlled by the employers. Navigating this cycle has proven to be challenging for many early stage organizations as employers often require proof that an innovation is effective before they roll it out to their employees, and even then typically have limited incentive to encourage enrollment. One innovative approach to solving this problem was offered by DoubleNetPay, an Atlanta-based company. By integrating with prominent payroll provider ADP, DoubleNetPay is able to serve as a user-directed manager of paychecks, allowing consumers to schedule payments around their paycheck cycles and deduct planned fixed expenses ahead of time. By pulling fixed expenses out, consumers can focus on managing their discretionary spending.

Reflecting the growing awareness of the “1099 economy” or independent contractor population, four applicants are developing products that focus on the unique income and tax needs of freelancers. Fluid Financial of Oakland, CA, helps freelancers and contractors manage their cash-flows, allowing them to be paid on demand or on a schedule that aligns with their own expenses. Painless1099, a company from Richmond, VA focuses on helping contractors manage their tax liability and preventing them from painful end of year tax bills by estimating and withholding funds for contractors’ quarterly taxes, leaving “safe to spend” funds. The evolving nature of work and the employer relationship is one that CFSI will continue to monitor. Certainly, there is no shortage of organizations and entrepreneurs who view this space as ripe for innovation.

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<sup>6</sup> **Cryptocurrencies** are digital forms of currency usually managed in a decentralized way and not backed by governments or central banks. Bitcoin is the most well known cryptocurrency. **Block chain** is a database technology that maintains records by allowing the distributed nodes of a network to reach consensus on the accuracy of a transaction. All bitcoin transactions are recorded on a public ledger built on block chain technology.

## Conclusion

The Lab's first competition highlights a landscape of early-stage organizations developing solutions to address American's cash flow challenges. This applicant pool revealed a number of data points that CFSI will continue to monitor as financial technology and the markets for their applications mature.

One theme ran across the 298 applicants of the first FinLab challenge: consumers respond to products and services that make their lives easier and that align their interests with the interests of the provider. Products that took an active role in users' financial lives — going beyond informing to actioning — saw significantly higher user numbers than products that did not. Meanwhile new approaches to extend consumers' liquidity and work through employers have the potential to create lower-cost models that better align products with consumer needs. As in other industries, technology is creating opportunities for innovators in financial services to significantly improve the product experience for consumers through better designed products and lower costs.

CFSI believes that those organizations that put their users' financial health at the center of product experiences will drive the financial services industry forward. We look forward to being engaged in this evolution and we invite you, as a member of our community, to stay engaged with the Lab and our progress.