EBay founder's new venture fund seeks fintechs with social conscience

By **Penny Crosman**

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The Omidyar Network — a venture capital fund started by Pierre Omidyar, the founder of eBay, and his wife, Pam — recently spun off the portion of its portfolio devoted to financial-inclusion businesses.

This new venture firm, called Flourish, will focus solely on backing fintech entrepreneurs whose innovations are helping people take advantage of economic opportunity and achieve financial health. It launches with an existing $200 million portfolio of startups that in the U.S. includes Chime, Aspiration, United Income and Propel. Flourish also says it will have another $300 million to invest over the next five years.

Tilman Ehrbeck, managing partner of the new venture capital firm, shared the logic behind the spinoff and how he finds fintech startups that have a social mission, yet are also moneymakers. The following conversation was edited for length and clarity.

"The world has changed over the last 10 years," says Tilman Ehrbeck, managing partner of Flourish. "There’s this recognition that economic growth and tech-driven change don’t automatically solve all the problems; we need to be purpose-driven and mission-oriented."

What was the purpose of spinning out the Financial Inclusion Initiative at the Omidyar Network into a separate entity?

TILMAN EHRBECK: We built a portfolio of sector expertise as a team over the last 10 years. Pierre [Omidyar] felt we had great momentum and wanted us to double down. It's an affirmation of the work we have been doing. That's the internal reason. Externally we feel the world has changed over the last 10 years. There's this recognition that economic growth and tech-driven change don't automatically solve all the problems; we need to be purpose-driven and mission-oriented. With both the internal momentum we have built and external opportunity and need, we felt that spinning out would help us. We want to be more like our entrepreneurs ourselves — risk-taking, agile, nimble — all these types of things that Pierre appreciates and values.

We back entrepreneurs who share our view of what the world could look like, and innovations that help people improve their financial health to prosperity.

What is your view of what the world could look like?

We would love to see a retail financial system that's characterized by a few things. The first is products and services that help people address their real-life needs, very customer-centric, customer-oriented. We think that can be done better when you operate in a digitally native environment with low cost that allows you to tailor solutions to the individual.

I can give you an example that might resonate. We have invested in a robo adviser from the asset management firm United Income. They recognized that if you retire in the U.S. today, or if you're near retirement, that's a challenging situation because you need to decide when to apply for Social Security, whether you do it at the minimum age and whether you wait until you're 70. Also, how do you sequence relative to your spouse, how do you draw down your 401(k) — maybe you still have a small defined-benefit plan from the good old days. You might have an annuity. All of this is happening in a time of change. So United Income optimizes for you how you should de-accumulate in retirement and optimize the de-accumulation so that it's tax-efficient and your money lasts and you can achieve your goals for retirement. It's [artificial-intelligence]-driven and individualized, and at the end of the process, the company gives its customers a set of actionable advice and a unified income — a check that resembles what they used to get when they were employed before retirement. Hence the name of the company, United Income.

When you are evaluating these companies, are you looking for high returns and unicorns? Or are you looking for results that could be measured in the financial well-being of the users?

We want to see both. We believe that financial services has to be delivered in a profitable and capital accumulating way, otherwise they can't scale to the degree they have to scale. You can't subsidize retail financial services delivery. As a matter of philosophical belief, we want our portfolio companies to be very successful financially because that proves they deliver real value to their customers and that they could scale. To know specifically how they benefit customers, we ask, what is the savings or benefit we generate on behalf of our customers? We only want to invest in companies that have this dual objective: they want to do right by their customers and they can demonstrate they're doing so and that's part of their value proposition, their go-to-market strategy. As a result of doing right by the customer and being able to tell their story, they will also be financially successful.

We invested in Chime; they just announced their most recent fundraising round [a $200 million Series D] and their $1.5 billion valuation. They happen to be a unicorn. But we are excited about them because they've created a new value proposition, which is a totally free checking account that has no hidden fees, no overdraft charges, and that helps their customers manage their day-to-day cash flow expenses better, and helps them save by using nudges, by setting up certain accounts for savings. The objective is to use the confluence of behavioral insights and machine learning to create superior value.

Are you hoping for relatively quick exits, or would you nurture these companies longer than normal because of their idealistic missions?

That depends a bit on the market. We are willing to provide patient capital, in particular in an emerging market that might well need nurturing, because it’s more difficult to find exit opportunities. In a more mature market such as the U.S., we don’t think that is necessary.

Is there anything else that you think makes Flourish significantly different from other venture capital firms?

We are structurally different. We are not a typical fund. We are an evergreen fund with permanent capital; that’s because we are funded solely by Pam and Pierre Omidyar, and that gives us flexibility. We are also different in that we are one of the few firms that is truly committed with expertise and portfolio in the U.S., a very advanced market, and in emerging markets.

There’s quite a bit of innovation happening in emerging markets that we believe might well be relevant for the U.S. One place where we see a global convergence is in the changing nature of work, the gig economy. Increasingly people in the U.S. are working in the 1099 economy. They would benefit from help and support from new firms that understand their situation and provide solutions for their situation. One investment in the U.S. we’re very proud of is called Steady. Steady wants to help workers in the gig economy discover their earnings potential. During the day you might want to work from home or you might follow an online course to upskill and get some credentials. Steady is this two-sided marketplace in which one side aggregates gig-economy workers and helps them discover and optimize their earnings. On the other side are all the big platforms that appreciate the steady flow of prequalified candidates — Uber, Home Depot and others who are looking for workers on a flexible basis. When you do that for gig-economy workers, you can help them consolidate their earnings in one account so they have visibility, which they might need when they apply for a loan or mortgage because they don't have a traditional W-2 or pay slip. At the same time in emerging markets we have the same phenomenon. We have gig economy platforms such as Uber and Lyft that also are growing in emerging markets. While the underlying nature of the economies is different, the possible solutions and the ingenuity that can come from combining technology with innovation, behavioral economic insight, data-driven optimization and innovation in the U.S. can inform emerging markets.

How are you able to identify these teams that can pull off a social mission and profitability at the same time? Do you look for specific things? Is it a gut instinct?

When we talk to entrepreneurs, or when they come to us, we first want to understand, are you solving a real problem for real people in the real world? Then we discuss with them and try to understand, how are you going about solving this problem? Do you have a sense of what the revenue model could look like, a revenue model where your customers' interests and your own interests are aligned? And is there clarity around that thinking? When these pieces are in place, then there's no contradiction between delivering real value and having an impact and being proud of it and financial success. We always look for that. We only invest when we feel there's both this understanding of the problem that's being solved, and clarity in the thinking around how to solve the problem in a way that there's real value being created for the consumer and is really viable to the enterprise. The rest takes care of itself.

We are an early investor in Propel. Jimmy Chen realized there's a real pain point for food stamp recipients, which is 40 million Americans at any point in time. The benefits are put on a card, but families often don't know what their balance is. That can be very humiliating, if you swipe your card at the supermarket and it's denied. He realized that if he made an app that could scrape this information and put it at the fingertips of food stamp recipients, he could get incredible customer engagement. It helps them stretch the benefit by an extra two or three days per month. That in and of itself is huge.

And in emerging markets where we have a larger portfolio, the benefit is often even more clear. Because often for the first time, you make modern financial services available to people. One example from India: In an emerging market with high growth but also high inflation, it's difficult to beat inflation as a saver when you only have access to the bank account and [certificate of deposit], because the real interest rate on savings accounts is often negative. The only way to beat inflation is if you can participate in the equity or bond markets. Historically that was only available to you when you had a certain minimum investment balance. A company we have invested in in India is called Scripbox — it's a mobile retail brokerage firm. About 80% of their customer base is first-time investor, young people in their late 20s, early 30s, who want to invest and save for financial security in old age and up until now there was nobody who would cater to them. The environment and the business model had democratized access. That is a story that is playing out in emerging markets.

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