



## **FINTECH ONE-ON-ONE PODCAST NO. 403-BRIAN KAAS**

Welcome to the Fintech One-on-One Podcast, Episode No. 403. This is your host, Peter Renton, Chairman and Co-Founder of Fintech Nexus.

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Before we get started, I wanted to talk about our boutique all meetings event, Dealmakers East, happening at the Ritz Carlton South Beach on February 7th and 8th. Dealmakers East is all about meetings, there are no keynotes, no panels, it is 100% focused on hand-curated meetings, whether you are looking to meet fintech CEOs, bankers or investors, we have you covered. Now, Dealmakers events have consistently been our highest rated events so go to [fintechnexus.com](http://fintechnexus.com) to find out more and register.

**Peter Renton:** Today on the show, I'm delighted to welcome Brian Kaas, he is the Managing Director & President of CMFG Ventures, that is the venture capital arm of CUNA Mutual Group so they're all about credit unions. So, I wanted to get Brian on the show because he's got a really unique perspective when it comes to fintech coming at it through, really a credit union lens and we talk about obviously the investment thesis for CMFG.

We talk about some of the investments they've made and we talk about the different funds they have, the amount of capital that they've deployed and details of their new initiative, The Fintech Forum. Brian also provides his perspective on fintech valuations and the wild ride that we've been on the last couple of years, he talks about the challenges for the credit union industry and what his vision for the future is and much more. It was a fascinating discussion, hope you enjoy the show.

Welcome to the podcast, Brian!

**Brian Kaas:** Peter, great to be here today.

**Peter:** Okay. Well, let's kick it off by giving the listeners a little bit of background about yourself. Tell us some of the highlights of your career to date.

**Brian:** Yeah. So, I entered the world of venture capital maybe in a somewhat unusual path, but it really took me about 14 years of practicing law to realize that I wanted to do something more than review contracts and make sure commas were in the right place (Peter laughs). I had an opportunity about six and a half years ago to take over our venture capital fund at CUNA Mutual Group which is our parent company and really jumped at the opportunity and have not looked back since. Since that time, it really built out a pretty robust portfolio of companies and my days of practicing law are now in the rear view mirror.

**Peter:** Tell us a little bit about how CMFG Ventures kind of came to be. Did you take over from somebody or were you the founding kind of leader there?

**Brian:** Yeah. I'll tell you a little bit about the background and maybe it's helpful even to share a little bit about CUNA Mutual which is our parent company. CUNA Mutual is an insurance and financial services



company, but what's unique about CUNA Mutual is that we have really deep ties in the credit union space. So, we worked about 95% of all the credit unions in the United States, provide insurance protection to over 20 million credit union members. And back in around 2015 when sort of the emergence of fintech really started to take off, we saw an opportunity, and a need, to really kind of plug in to the amount of change and disruption that was occurring soon after we launched the venture capital arm which is CMFG Ventures. I transitioned into the position to lead the group probably six months after we officially launched.

**Peter:** Okay, okay, great. Do you have like a mandate, what is the investment thesis?

**Brian:** So, the investment thesis and really sort of our strategic focus is to invest in companies that we see, either current or future opportunities, to create partnership opportunities between those fintech companies and the financial institutions that we serve. So, really looking at fintech companies that can help address the technology needs of our customers so those credit unions that I mentioned or that have products or services that can be offered through the credit unions, to the 130 million credit union members that are in place here in the United States today.

**Peter:** So then, do you only invest in fintech companies if they're working with credit unions today or have the potential to be?

**Brian:** Yeah. I mean, I would say about half of our companies that we've invested in have current partnerships in place with credit unions. So, half of them do not and, you know, really with a number of the companies, probably most of the companies, there's either an immediate or near term opportunity to create these partnerships between credit unions and our portfolio companies, but in other cases, you know, we're looking at companies that can really broadly address financial needs of consumers. That's really at the core of CUNA Mutual's mission to make financial services readily accessible to all so really that mandate can expand beyond companies that are just looking to partner with banks and credit unions.

**Peter:** Right, right, got it. So then, are you looking at like all fintech verticals or are there specific niches within fintech that you're most focused on?

**Brian:** I'd say we really have kind of three main verticals. The first category would be companies that are in the lending space so lending is really the life blood of credit unions and so we're looking at solutions where we can leverage the partnerships that we have with credit unions to help support those companies. The second category I would describe as banking technologies that have B2B solutions so these might be companies that can help drive automation into credit unions. So, Posh is an example of a company in our portfolio that has a lot of conversational AI that is being utilized by credit unions, Zest provides a lot of...utilizes AI as well to assist in credit union underwriting of their loans.

And then sort of the third category of companies I would characterize in the financial wellness space and, you know, these are companies that are, again, looking to help improve sort of the financial well being of consumers. What we like about these companies is that in many cases they create opportunities for credit unions to engage with their membership. Perhaps it creates opportunities for



credit unions and banks to work with these companies to attract new members, to really, you know, kind of looking at how can we work with some of those companies to create those partnerships.

We've a company that we've invested in called Goalsetter and they're a banking app for teens and their parents and really looking at a way to start educating kids as early as eight years old on being financially savvy, recognizing the importance of savings. We see Goalsetter as the type of solution that credit unions can offer to their young membership to kind of bring in that next generation of customers.

**Peter:** Yeah, that's super important. So, you're mainly investing in sort of more established companies, I mean, what stage of company are you most focused on?

**Brian:** We actually have two funds for CMFG Ventures. Probably our focus is really Series A and B stage companies for that initial investment, but last year, we created the Discovery Fund which invests in pre-seed and seed stage companies that are led by founders that have historically been under represented in the venture capital space. So, these would be women founders, founders of color and other under represented groups that are leading fintech companies. So, if you kind of look at our portfolio, we have everything from pre-seed to pre-IPO so we really can kind of run the gamut, and have in terms of investments that we've made.

**Peter:** Right, and some of them have actually gone IPO. I'm curious about the size of the fund, maybe you can just breakdown, like the Discovery Fund, I imagine, is much smaller, you're talking about pre-seed and seed, what's the size and what's the size of the regular fund?

**Brian:** Yeah. CMFG Ventures invests off the balance sheet of our parent company. Since we launched back in 2016, we just are close to hitting \$300 Million of capital that we've invested into our portfolio. I would say average check size ranges anywhere from \$1 to 10 Million for the Series A and B stage companies with kind of probably the average initial check being \$3 to 5 Million.

With the Discovery Fund, those are smaller checks, earlier stage companies, really looking at writing checks up to \$1 Million. We've already invested in 16 companies in the Discovery Fund since we launched last year and target around \$5 Million a year for Discovery Fund companies and for CMFG Ventures we're now targeting about \$70 Million per year.

**Peter:** Basically, your capital is coming from CUNA Mutual Group, right?

**Brian:** That's correct.

**Peter:** You don't have any other LPs in the fund?

**Brian:** Yeah. We're a single LP fund that invests right off the balance sheet of our parent company.

**Peter:** Right, got you. So, let's switch gears a little bit and talk about the environment. You've been doing this since 2016 so 2016, 2017, 2018, 2019, they've been pretty normal kind of years, you know, valuations were increasing. Then we saw the pandemic and boom, everything went crazy so just take us through sort of what the last three years have been like and do you feel like now it's back to normal?



**Brian:** Yeah. It's been a wild a roller coaster ride, I can remember it would have been March of 2020 when we gathered the team together and, you know, we wanted to do a health scan of every company in the portfolio, how much capital did they have and to report to our Investment Committee on sort of what to expect. None of us would have expected that, you know, what would happen over the next 12 to 18 months with the amount of capital that our portfolio of companies were able to raise and then obviously the valuations of companies in the space really accelerated, I don't know that anyone would have predicted that.

In the early days of the pandemic, we kind of thought things might go the other way, capital would dry up so we were counting the months of runway for each of the companies in the portfolio. I mean, I think we look ahead to where we're at today, you know, it really has been sort of a....you know, if you think about a pendulum swinging we probably swung very far to one direction in 2021, in terms of the amount of capital being deployed, you know, valuations going through the roof.

Now, you go to kind of the second half of this year, I wouldn't say the capital has like seized, I mean, there certainly are deals that are getting done, but it's much, much harder for companies I think looking to raise capital, it's taking a longer period of time and, you know, valuations are really coming down probably to where, you know, realistically should be relative to the kind of the stage and growth of the company. So, we're probably entering more of a normal period with the exception of we're not just seeing maybe as many funds deploying capital right now.

**Peter:** Right. Did you deploy capital all the way through, did you kind of jump on some of the valuations that you might have, you know, in 2019 you would have paused and said there's no way we're doing that. Tell us a little bit about what you did.

**Brian:** We do think that there are a lot of great companies out there that are very worthy of venture capital funding and, you know, now as an investor it's great to kind of see more normalized valuations. We continue to deploy capital and we're also looking at our existing portfolio companies so, you know, many companies today are really looking to their inside investors to raise some bridge capital to get them through this period. So, it's really been a combination of, you know, those two things.

We've added, you know, probably six or seven new companies to CMFG Ventures, you know, probably eight or nine companies in the Discovery Fund so we've been very active increasing the size of the portfolio and I think we'll end the year very close to the \$70 Million of capital that we've targeted. So, yeah, we continue to still be active and think there are some good opportunities out there.

**Peter:** So, did you change your due diligence process during the crazy days where hundreds of millions of dollars were being raised, it seems like, every week there was another company. From your seat, did you kind of have to take, at least on a timeline basis, you had to take a shortcut because deals were getting done so quickly, I imagine, so what was that like compared to what it is like now. Now is the time where you can, you know, take as much time as you did in 2019?

**Brian:** Yeah. I would say, probably we could almost say more time today. You know, the number of companies that we talk to who are raising capital that are having an over subscribed round but lack a lead investor is sort of more the norm so we certainly can take time on the diligence fund. Contrast that



to 2021, I would say we remain diligent in terms of if we weren't able to do the level of diligence required to get comfortable with a company, you know, we're not investing.

What we saw even with companies in our portfolio is yeah, they can sometimes raise a deal in a matter of weeks and a lot of times those investors were taking the entirety of their round so we weren't even....you know, a lot of the existing investors do not have an opportunity to participate. I wouldn't say the pendulum has swung back to the middle here, but in terms of the speed at which deals and velocity at which deals are getting done, as an investor it's nice that we have time now to actually kind of do the proper diligence on these companies.

**Peter:** Right. I want to ask about the Fintech Forum you guys have, tell us a little bit about the CMFG Ventures Fintech Forum.

**Brian:** You know, really we're brainstorming last year in terms of now that we've built out a very significant and kind of broad portfolio of companies, you know, our mission really is to enable credit unions to remain relevant and to stay competitive with all the change that's going on. We had to find an opportunity to create an environment to bring fintechs and credit unions together, a place where they can collaborate, in many cases a place that provides a forum for credit unions to learn about fintech companies, what some of the trends are and how credit unions can leverage those trends to their advantage.

So, we created the Fintech Forum, it's a community, again, that's purpose is to bring fintechs and credit unions together. We do that through a series of webinars, demos, we'll be launching actually an online platform where we can post content, videos, enable credit unions to connect with other credit unions. And since we launched just under a year ago, we've already added 2,200 members to that community primarily executives and senior leaders from credit unions, leaders from fintech companies and then others in the industry so we'll have our last webinar of the year looking at sort of what are the top credit union/fintech trends for this year and what to expect in 2023. We're proud about, you know, just the size and really sort of the intersect of fintechs and credit unions have demonstrated to kind of work together.

**Peter:** Right, right, okay. I want to talk about credit unions specifically for a minute because they're obviously huge numbers of people that have as their primary financial institution is a credit union and what's your feeling of the state of play in credit unions today and how they've fared the last couple of years.

**Brian:** There are credit unions across the full spectrum when we look at sort of the steps that they've taken to kind of adopt to their businesses to all the technological changes that have been really introduced to financial services over the last decade. We've some credit unions that are really on the leading edge of things, many though that are just starting to kind of dip their toe in the water of partnering with fintech companies. You know, what I tell credit unions is, I'd look at sort of these major technology shifts, it's really presenting the greatest threat and also the greatest opportunity for credit unions. You know, when you look at the credit union industry as a whole, their technology budget is about \$6.2 Billion, that's for the entire industry.

**Peter:** Wow, not as much as Chase. (laughs)



**Brian:** I was going to say Chase has a tech budget that's, you know, nearly double that and so what I tell union leaders is really the only way that we're going to be able to compete is by finding great partners with fintech companies that can deliver the technology and experiences that your members have come to expect and if we told you that you can't build this level of technology anymore, you have to partner. I think that message is really getting through, and what we've seen is just a pretty significant increase in the number of fintech partnerships and inbound interest of credit unions that really want to get involved with these types of relationships.

**Peter:** Got it, okay. So then, do you feel that, I mean, credit unions are more open now to these partnerships than they have been in the past?

**Brian:** Yeah, definitely more open to partnerships and we've tracked partnerships that we've been able to create through the Fintech Forum, for example. Yeah, we've now created, helped create several hundred, I'd say several thousand partnerships between companies in our portfolio, for example, and credit unions so we know that those types of relationships are becoming more common. I compare that to 2019, I spent a lot of time out on the road speaking at different credit union conferences and I used to ask for just a show of hands for credit unions that had fintech partnerships and maybe you get 10 or 20% of the room to raise their hands. Today, that's more about 80 or 90% and I think the pandemic, you know, really just accelerated a trend that was already well under way, the digitization of financial services was accelerated because of the pandemic. So, yeah, that's created a lot of interest that didn't exist four or five years ago.

**Peter:** Right, right. And it struck me that credit unions are actually well positioned in some ways to grow given that...I'm talking about the younger generation that are more mission-driven, don't necessarily want to bank with a big nameless bank, but need to have good financial services. And I'm just wondering if you feel that that particular piece is something that credit unions are starting to kind of focus on.

**Brian:** Yeah, I think, you know, we've always been mindful of that, I mean, in terms of how the message and mission of credit unions really aligns with the younger generation. But, you know, the challenge is one, a lot of younger consumers aren't really aware of credit unions or aware that they can become a credit union member. And two, credit unions have lacked the technology to really reach those younger consumers.

Yeah, I think sort of the value proposition and trust and sort of the not-for-profit status of credit unions, combine that with great technology really creates a powerful combination to serve a lot of younger consumers so I think there's a tremendous opportunity to reach more consumers to continue to grow that membership base. You know, the challenge that we have is we know that the average credit union member is, you know, 48 years old and aging each year so we really want to use these fintech companies as the tool to reach younger audiences and kind of bring in that next generation of credit union members.

**Peter:** They're going to have high expectations when it comes to tech, right?

**Brian:** Yeah, absolutely, yes.



**Peter:** And, I mean, the thing is it doesn't have to be a spectacular.....we were just talking about this just this morning, like you don't have to have the absolute best app and you've got to have a good enough app that's even maybe slightly better than good enough to keep people happy so it doesn't have to be brilliant.

**Brian:** That's exactly right, and I think there are a lot of credit unions out there that are not even quite the level of offering kind of those basic services. And so, we keep encouraging those credit unions to, you know, really look to these types of partnerships and, you know, the other thing that we're doing with CUNA Mutual is we're really looking at how do we deliver a lot of these solutions into the credit union market. So, we've also acquired seven or eight fintech companies during the same period of time where we've invested in over 50 companies through the portfolio. And you know, let's deliver some integrated end-to-end solutions that we can take into credit unions to kind of help them grow to deliver better digital services to their members and make it as easy as possible to integrate those solutions into those credit unions and that's been a huge focus for the organization over the last few years.

**Peter:** So, you're saying you actually acquire a fintech outright and then roll it out to your members or to the teams of your members?

**Brian:** Right. So our team, we both handle the investing and the acquiring of companies and so part of that strategy is to look to invest in companies that can maybe enhance the capabilities of technology that we've acquired or that can create more robust solutions through what we call the "Fintech Solutions Group." Yeah, that's really kind of a go-to-market arm where we can integrate these technologies on the backend and deliver these very robust solutions. We have really focused on the auto lending vertical, that's really critical to credit unions. And so, I think if you look at a case study of what we've focused on is we've acquired two companies, one that provides transactional lending documents in the digital form, another company that can run perpetual pre-approved loan offers so they can pre-approve credit union members for car loans.

Now, we have CarSaver which is an auto buying platform that can be integrated onto the credit union Home Banking page so a credit union member can see that they're pre-qualified for let's say a \$50,000 new car loan, they can shop for that car on the Home Banking page and go through a financing and insuring of that vehicle really without leaving the credit union's website. A lot of that is really kind of done behind-the-scenes where we've kind of built, you know, this integrated solution and we're just rolling that out to credit unions now.

**Peter:** Right. A couple of questions before we close. I'd love to get your take on or your vision for the future of the credit union industry. I mean, what does a healthy and thriving credit union industry look like in ten years time.

**Brian:** If, at least a lot of the work we're doing, you know, is successful, I'd love to see the average age of a credit union member be in the mid-30's, that means we've reached a new generation of credit union members. I think another thing that's really interesting and exciting, credit unions really are focused on serving the middle market and the lower middle market so, you know, the underserved, the under banked and I think with technology we'll create the tools necessary that will enable credit unions



to reach a much broader segment of the US population. And I'm really excited about sort of the future of credit unions and the opportunities that exist to serve a broader segment of our US population.

**Peter:** Right, right, okay. This episode is going to be our last episode published in 2022. We'd like to get your take as we look to the new year, what are the fintech trends that you are following most closely for 2023?

**Brian:** We're closely tracking just sort of what is transpiring in the venture capital space in terms of funding and, you know, kind of what valuations roll ahead as we go into 2023. I think we're also.....you know, because of the importance and our focus on creating these partnerships between banks and credit unions on one hand and fintechs on the other, certainly watching what's happening on the regulatory front. With sort of the insolvency of some of the companies in the crypto space and sort of the drumbeat that that's creating around regulation, will that kind of spill over and create more regulation and oversight of fintechs generally, you know, kind of watching things on that space.

You know, I think from the technology standpoint, we're really excited about the technology that's being deployed to drive a lot of automation into backend services so that will be a focus for us. And I think there are tremendous opportunities in the blockchain space as a technology to help on that front and to kind of level the playing field for smaller financial institutions to be in a better position to compete with some of the very large banks because it will drive down the next five/ten years a lot of the costs that have really hindered the smaller financial institutions of the market. So, those are all the things that we're certainly closing watching and pretty excited about overall.

**Peter:** It is going to be exciting to see what transpires next year and beyond, very much appreciate you coming on the show today.

**Brian:** Thank you, Peter.

**Peter:** Well, that was our last episode of 2022, we'll be taking a couple of weeks off now. Before we close down the year, a couple of things, if you haven't done so already, please leave a review on the podcast platform of your choice, I would very much appreciate that. And finally, I just want to say thank you, thank you for listening, would like to wish all the listeners Happy Holidays, hope you have a restful and enjoyable time this holiday season and we'll be back in 2023 with some fantastic interviews on tap. Enjoy!

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