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Wall Street's Search for Innovation

New York is investing in financial startups to make sure technologists and new ideas stick around.
By Erik Sherman

Why get a bad rap for working on Wall Street when billionaires are being minted in Silicon Valley and hailed as digital heroes?

Wall Street lives and dies by its ability to quickly and smartly manipulate data to come up with the latest financial product, high-speed stock trading strategy, or algorithm for trading risky derivatives. But just as the technology edge becomes more important, Wall Street has faced a big slump in its profits and reputation. That makes it harder to recruit promising technologists.

Now, some Wall Street giants—including American Express, JP Morgan Chase, Capital One, State Street, Goldman Sachs, and Bank of America— have backed the FinTech Innovation Lab, an attempt to create an ecosystem of financial technology startups in the New York area. The baby "fintech" companies could provide important innovation to the larger firms while receiving insight from and connections into potential customers.

After banking deregulation took off in the 1990s, it became "exciting and sexy to say you were working on Wall Street," says Bruce Bachenheimer, clinical professor of management and director of entrepreneurship at Pace University. Money and prestige helped lure top academic talent, including mathematicians and computer scientists, to hedge funds.

But that has changed, beginning with 2008 and the financial meltdown. "The perception of working on Wall Street went from positive to negative," Bachenheimer says. Wall Street reached its latest low this week when a Goldman Sachs executive resigned and publicly excoriated the company's ethics in a New York Times op-ed.

Meanwhile, places like Silicon Valley, Boston, and other hotbeds of high tech suddenly look like the most attractive places to be. With the recent spate of Web-company IPOs, technology startups are also potentially a faster ticket to wealth than Wall Street, where bonuses fell 14 percent last year, continuing a multi-year slide.

"Perceptions of desirability are very important in entrepreneurship. [Technologists] want to go where the action is and want to be doing cool stuff," says Bachenheimer.

Although New York and New Jersey form the largest center for all technology jobs, the pace of growth in hiring is a quarter that of other technology destinations, including Dallas and Los Angeles.
"You only have so many PhDs or engineers in technology every year," says David Treussard, head of the financial services practice at executive search firm DHR International. "Some people pre-crisis would have been very happy to join the industry, but they might think now, 'I'd rather work for a technology company in San Francisco than an investment bank in New York.'"

Among the Harvard undergraduate class of 2011, for instance, only 16.5 percent had a job lined up in financial services, compared to 27 percent in 2008. Gaspard de Dreuzy, CEO of the Manhattan-based financial technology startup Kapitall, says "the people we're interviewing and sometimes hiring are not really exploring banks." Kapitall has developed a user-friendly stock trading site and has received $12.3 million in venture funding.

The digital media industry in New York's Silicon Alley and Flatiron districts, where scores of startups work on app development, Internet advertising, and computer graphics, got its start with help from economic development organizations. One was the private New York City Investment Fund, a non-profit that looks for ways to create jobs in the city and is supported by million-dollar gifts from wealthy New Yorkers, many of whom made their fortunes in finance. "We actually stopped investing in digital media two years ago because it was [already] working," says the fund's CEO, Maria Gotsch.

Now the fund and the consulting firm Accenture are the main names behind the annual FinTech Innovation Lab program, which launched in December 2010 to help entrepreneurs and early-stage companies develop offerings for financial services. The program provides mentoring, workspace, and partial funding for expenses over a 12-week period each year for up to six entrepreneurs, vetted by Wall Street firms, who have at least an initial version of their software.

Among the startups picked in 2011 were Hanweck Associates, which develops software for calculating investment risks, and CB Insights, which is trying to automate the process of due diligence, or assessing a company's health, by using a variety of digital information sources, including news articles.

The goal of FinTech is to increase the number of financial startups operating in the city. As they invest more in R&D, they could kick off a virtuous cycle, possibly enticing people exiting Wall Street jobs and providing a source of innovative ideas to larger firms. "The world is a much more cost-constrained environment for Wall Street," says Bob Gach, managing director of capital markets at Accenture. "One of the risks going forward is whether or not they'll be able to afford the innovation. They'll have to pick their spots."