FinTech: Growth Versus Governance

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Growth versus governance: How can fintechs get it right?

Now is an exciting time to be a UK fintech. The country received $16 billion (£12.1 billion) of investment in the first half of 2018 - more than a quarter of the $57.9 billion total spent worldwide.¹

Fintech revenues climbed on average 22 per cent between 2014 and 2016, with half of the nation’s businesses expecting growth of more than 100 per cent this year.²

The future undoubtedly looks bright for the industry. But does fintech’s rapid growth and disruptive nature leave good governance trailing behind? What key challenges do businesses face? And how can fintechs strike the perfect balance between risk and reward?

We aim to answer all these questions, but let’s first take a brief look at the current industry backdrop for fintechs in the country.
The benefits of being a UK fintech

In March, The UK government launched its Fintech Sector Strategy to preserve and extend the nation’s international edge within the sector.\(^3\)

**The policy aims to:**

- Reduce regulatory compliance costs;
- Create partnerships between fintech firms and incumbents;
- Harness the benefits of new technologies, such as blockchain;
- Support international expansion; and
- Attract and retain world-class talent to the industry.

Even UK regulators are doing their part. The Financial Conduct Authority (FCA) provides significant support for fintech companies through its Innovate programme. Launched in 2014, Innovate offers five initiatives, including a regulatory sandbox for testing new products and services, assistance with the latest RegTech developments and tailored compliance advice.

The general public are also increasingly fintech savvy. Last year, 42 per cent of digitally active people in the UK were using at least one fintech service. Only China and India had higher adoption rates (69 and 52 per cent respectively).\(^4\)

Ultimately, technology advances are helping innovative start-ups revolutionise entire industries, but even the most successful firms are beginning to feel the negative effects of their meteoric rise to the top.

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Fintech industry faces governance challenges

Corporate governance remains a key concern for many fintechs, despite the UK’s generous regulatory environment. Nearly one-quarter (24 per cent) of respondents in the Fintech Census said compliance was a principal challenge.

They are right to be concerned; high-growth tech firms often struggle with good governance. Car sharing app Uber is rarely out of the news following multiple blunders including: data breaches, anti-competitive behaviour and allegations of sexual harassment and discrimination.

Fintech firms have so far escaped similar scandals. Nevertheless, digital banking provider Revolut recently hit the headlines after the company informed the FCA of potential money-laundering on its platform. At the time of writing, Revolut was hiring for its third Head of Compliance in just 18 months.

Many fintechs also have a global customer base, requiring them to meet regulatory obligations across multiple jurisdictions. The UK looks favourably on the sector, however international regulators are already circling fintechs that cross too far over into the spaces inhabited by traditional financial institutions.

Finding the right talent is also an ongoing struggle. Three-quarters of fintechs cited regulatory and risk management abilities among their top three most difficult skillsets to attract and retain. Indeed, 28 per cent predicted these roles would be the toughest to fill last year.

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When should fintechs hire key governance professionals?

Some fintechs may feel corporate governance is a barrier to growth. After all, governance professionals can often be seen as the ones who must always say no. But effective governance is an important revenue enabler with the right approach.

Fintechs must therefore map the growth of their business and introduce crucial governance roles at the right time. Hiring risk, compliance, legal, audit and cyber security professionals - to name just a few - will ensure a company’s rapid growth is underpinned by strong processes and controls.

At Barclay Simpson, our specialist consultants are adept at recruiting professionals for all the interrelated disciplines of governance. This includes vital interim staff, which many fintech start-ups must rely upon for their early governance commitments. Our team can develop a tailored hiring strategy to fulfil any fintech’s unique corporate governance recruitment needs, both now and in the future.

But where should fintechs start? The following are some of the specific challenges fintechs face that would require bringing in heads of core governance departments.

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Dean Spencer
CEO,
BARCLAY SIMPSON
Compliance

Any business that requires authorisation from the FCA or PRA needs a safe pair of hands to navigate the firm through murky regulatory waters, especially in the innovative and disruptive fintech space.

As such, heads of compliance and financial crime are usually among the first, if not the first, governance professionals to step through the door at a fledgling fintech.

Every organisation faces different compliance hurdles, but fintechs often have to deal with regulations regarding:

- Anti-bribery and corruption;
- Anti-money laundering;
- Regulatory policy (PSD2, MiFID II, SMCR);
- Data protection and privacy; and
- Conduct risk.

Smaller fintechs often combine the head of compliance and head of legal roles into a single position. Risk management duties are also commonly merged with one or both of these functions when businesses are starting out, although experienced candidates with such broad skillsets are rare.

Barclay Simpson partners closely with clients to understand the profile of the governance professionals that are required to push businesses forward.

We have sourced key compliance roles for a number of high-profile fintech firms, including:

- **Etoro** – Head of Compliance
- **CurrencyCloud** – Chief Compliance Officer
- **Equifax** – Risk & Compliance Executive
- **MoneyBox** – Head of Compliance
- **Clearbank** – Compliance Manager

“FinTech compliance candidates need to value company culture, possess the right technical expertise and be effective communicators to drive regulatory change throughout the business.”

Nick Evans
SENIOR COMPLIANCE CONSULTANT, BARCLAY SIMPSON
In-house legal

A General Counsel provides long-term strategic value by ensuring the boundary pushing that is an essential part of fintech innovation remains within the confines of the law.

We are seeing a growing number of fintechs recruiting senior lawyers early in their business lifecycle. The ever-evolving regulatory landscape is a key driver of this trend, particularly in emerging sectors such as cryptocurrencies, blockchain and CFD. Experienced regulatory lawyers can help fintechs with regulatory challenges providing expert advice in possible roadblocks and how to navigate through.

Professionals must handle regulatory compliance issues, as well as:

- Intellectual property rights;
- Licensing and partnership agreements;
- The creation of corporate documentation;
- Transactional duties, including securities lending and general banking;
- Regulatory implementation such as MIFID 2; and
- Managing external counsel.

Remaining on the right side of the FCA is integral to start-ups, helping to generate investor confidence and to alleviate the risk of crippling fines. However, in-house lawyers must also adapt to the fintech culture and find ways of making things work rather than acting as a legal roadblock to growth plans, or they could risk being cut out of crucial strategic conversations.

We have helped numerous fintech businesses source senior legal roles this year, including:

- **Lending Block** – General Counsel
- **Clearbank** – Legal Counsel
- **Coinbase** – General Counsel
- **Intertrader** – Head of Legal

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Dan Conway
SENIOR LEGAL CONSULTANT, BARCLAY SIMPSON
Risk management

Fintechs must keep pace with growing regulatory scrutiny, rapid market growth, new industry partnerships and the evolution of technology. These forces expose firms to various emerging risks that could impact their operations.

Fintechs must remain agile, while still maintaining the right tone at the top. Bringing in experienced risk professionals early ensures risk management is embedded into new products and services from the beginning.

Deloitte has categorised four broad areas of risk management that fintechs should consider:

- **Operational risk:** A combination of suboptimal internal processes and third-party supplier risk may lead to significant customer service failings and dissatisfaction.

- **Financial risk:** Poor governance can result in fines, sanctions, legal fees, lost business and missed opportunities.

- **Regulatory risk:** Non-compliance can lead to sizeable fines, particularly with the recent introduction of GDPR and MiFID II, both of which could result in multi-million-pound penalties.

- **Reputational risk:** Disrupters rely on their exposure to build their customer base, but corporate governance failings can cause serious damage to brand equity and higher churn rates.

Our risk division has delivered high-calibre candidates to multiple industry-leading fintechs, such as:

- **Ratesetter** – Head of Commercial Credit
- **Elevate Capital (Now iYield)** – Chief Risk Officer
- **Moneycorp** – Head of Credit

“Bringing in experienced risk professionals early ensures risk management is embedded into new products and services from the beginning.”

Antony Berou

SENIOR RISK CONSULTANT, BARCLAY SIMPSON
Cyber security

Fintechs regularly collect and store sensitive customer information and protecting this data is crucial to establishing trust as a market entrant. It’s no surprise then, that 11 per cent of fintechs said cyber security was their biggest challenge last year. One-third of large fintechs also claimed cyber security was the most relevant technological area they intended to invest in over the next year.

Despite these fears, organisations may prioritise other major governance hires over heads of cyber because they are confident in their IT security and resilience processes as tech firms - the responsibility for which tends to fall under a CTO or Head of IT. As a result, many fintechs lack a mature specialist cyber security functions.

Organisations often wait until they are a certain size, when industry and regulatory pressures demand greater focus on cyber security. This is particularly true for fintechs looking to partner with incumbents. Revolut recently hiring its first Chief Information Security Officer is a good example. Last year, 71 per cent of financial institutions said cyber security was the biggest risk of partnering with fintechs.

This is further evidenced with recent high profile data breaches, where exposures have often been exploited through third parties. With the introduction of GDPR in May a greater focus has been placed on how data processors manage and use personal data.

We have seen a growing appetite among fintechs to develop in-house security expertise in order to reduce dependence on third-party outsourced solutions - a desire that often increases as the firm expands.

Barclay Simpson has recruited key cyber security roles for several firms operating within the fintech sector:

- Visa – Multiple senior GRC, Architecture and Operations roles
- Worldpay – Senior Cyber Risk Manager
- Equifax – UK DPO
- CLS Group – IT Security Architect

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Luke Spencer
SENIOR CYBER CONSULTANT,
BARCLAY SIMPSON
Internal audit

The audit function is the third line of defence and is usually one of the last senior corporate governance hires at fintechs. That’s not to say internal auditors are undeserving of a place at the table. On the contrary, they provide valuable assurance that risk management and compliance processes are working.

But fintech is an industry that is always looking forward, which may lead some firms to delay hiring for a function they see as largely retrospective. This could prove a costly mistake, with PwC research finding that 75 per cent of tech-savvy auditors provide significant innovative value to financial institutions.

A proactive approach to internal audit enables professionals within these departments to become trusted business advisors to fintech firms.

As such, they can support various mission-critical tasks, including:

- Guiding company strategy;
- Raising broader awareness of key risks;
- Assessing potential pitfalls;
- Identifying corporate governance gaps; and
- Testing remediated processes.

Fintech firms should be ideally placed to provide the technology-driven environments that leverage the most value out of internal auditors. To do so, they must consider audit hires earlier in their growth lifecycle.

Our consultants have supported pioneering fintechs with essential senior auditor hiring requirements, including:

- **Optal** – Head of Audit
- **MarketAxess Europe/Trax** – Head of Audit
- **Equifax** – Head of Audit

“This could prove a costly mistake, with PwC research finding that 75 per cent of tech-savvy auditors provide significant innovative value to financial institutions.”

**Irma Boulderstone**
SENIOR INTERNAL AUDIT RECRUITER, BARCLAY SIMPSON
Conclusion

The UK fintech industry is going from strength to strength, with significant investment, a favourable regulatory environment and strong government support.

But challenges still remain. The breakneck speed with which many fintechs grow can create weaknesses in their corporate governance processes. Left unchecked, poor governance can result in severe financial and reputational damage. Increased regulatory scrutiny worldwide and skills shortages within the market provide added pressures.

Overcoming these hurdles requires a solid understanding of which corporate governance professionals are required at key stages of a fintech’s journey. A sophisticated hiring strategy can help businesses sustain rapid growth without jeopardising their future.

Would you like to learn more? Please contact Nick Evans, Senior Compliance Consultant at Barclay Simpson. NE@barclaysimpson.com

References