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The AG Elevate platform for FinTechs

Fiona Ghosh and Isha Chander of Addleshaw Goddard discuss the work their firm is doing in the FinTech space through AG Elevate, a fast track 12 month programme for selected FinTechs designed to accelerate them through the legal challenges facing startups. Fiona and Isha also reflect on the experience of Mespo, an intelligent money manager, and its attitude to regulation.

In the UK and globally, financial services is one of the most heavily regulated sectors. It is also a sector that is increasingly subject to intense scrutiny and frequently in the spotlight, and more often than not, faces off to a cynical and distrusting public. Regulators are constantly evolving regulatory frameworks and standards to promote the sector's effective functioning with the overall objective of driving the right behaviour. In some cases, regulators such as the Financial Conduct Authority ('FCA') in the UK are also proactively creating conducive spaces in which FinTechs can test their products, services, and business and delivery models in a real environment while ensuring that the risk to consumers is appropriately managed.

The regulatory environment is increasingly becoming more complex due to the effects of globalisation, rapid technological advances and political events such as the UK's decision to leave the EU. The ramifications of getting things wrong are not only severe for organisations but also for the individuals within them. The Fourth Money Laundering Directive and the Senior Managers Regime are just a couple of the key regulations firms and individuals need to comply with. At the very centre of every firm is the strong need to have an all pervasive culture of ethics and compliance. Failing to comply with domestic or international regulation carries severe financial, reputational and individual penalties. Building a culture of compliance is not easy and regulation is seen as tedious more often than not. To add to the complexity, firms often face pressures to comply with multiple frameworks in multiple jurisdictions.

But is regulation that tiresome after all? Mespo, an intelligent money manager, sees the glass as half full when it comes

to regulation. In fact, Mespo is looking forward to getting regulated and is working towards complying with existing and upcoming regulations as part of AG Elevate, a fast track 12 month legal incubator by Addleshaw Goddard for FinTechs, designed to accelerate them through startup legal challenges.

The financial services landscape has changed drastically over the last few years. Traditional financial services institutions who were once at the centre of the financial universe have had to make space for newcomers. Powered by slick technology and sharp user experience, a range of challenger banks and FinTechs have appeared and are capturing not only the unbanked, but also customers who want banking to be simple and as personalised as their experience when shopping on Amazon. From cross border currency transactions to peer-to-peer lending, FinTech firms globally have been able to do what traditional banks aspire to - harness the sharing economy and the growing connectedness of customers. As a result of the changing financial services landscape, regulation too has significantly evolved. Open Banking and the revised Payment Service Directive ('PSD2') are examples of regulations that simplify the regulatory process, remove structural hurdles and have the power to transform how financial services firms work with each other and share data; they are ultimately designed to benefit the customer and fuel the much needed process of innovation. How firms such as Mespo tackle and respond to such regulations will shape the future of financial services.

According to Lukas Zörner, Mespo's¹ CEO, "Consumers want to engage with companies that are regulated and when it comes to early-stage FinTechs, who don't have a long standing reputation to

rely on, being regulated adds credibility and legitimacy in a world where trust is the cornerstone of a consumer and money manager relationship." "Regulation in fact builds trust throughout the industry, boosting competition and ultimately benefits the end-consumer," continues Zörner. "And all we are concerned about is the end-consumer. Money, probably one of the most personal things for people, needs to be in the hands of trusted organisations and regulation brings that trust - an ever so important stamp of approval."

However, Mespo is not an anomaly - most FinTechs want to be regulated. The last few years has seen a growing debate - will FinTechs take over traditional players? Over the last year, the debate has shifted - will FinTechs be able to collaborate effectively with banks? FinTechs are no longer seen as a threat to banks but instead there is an emerging interdependence and a want and need for traditional financial institutions and FinTechs to co-exist. Regulation ensures that FinTechs have processes in place which enable and encourage collaboration between startups and more established players. Regulation essentially adds the much wanted, and desired, order and structure.

The challenge remains that regulation is difficult to understand. It is technical in nature and the risks of non-compliance are acute. Over the last six months, as part of AG Elevate, we realised that our cohort's priority was to understand specific regulations and the associated implications. We found that our cohort values our support most when we offer them non-academic advice. We have combined our indepth technical knowledge with practical insight on how regulators work - simplifying regulation and making it easy for them to understand its implications.