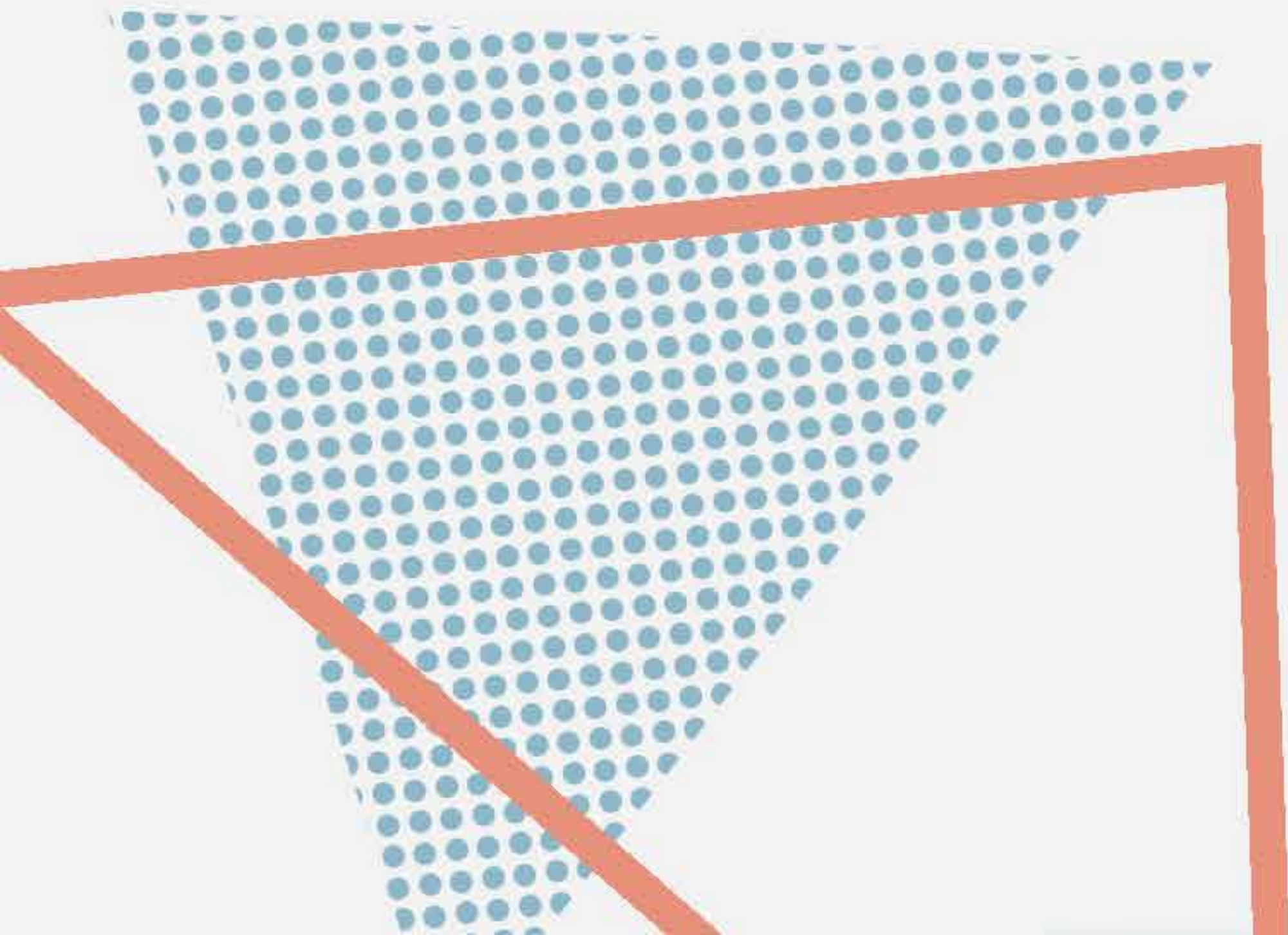


# Risk as opportunity:

## Fintech's Gold Standard

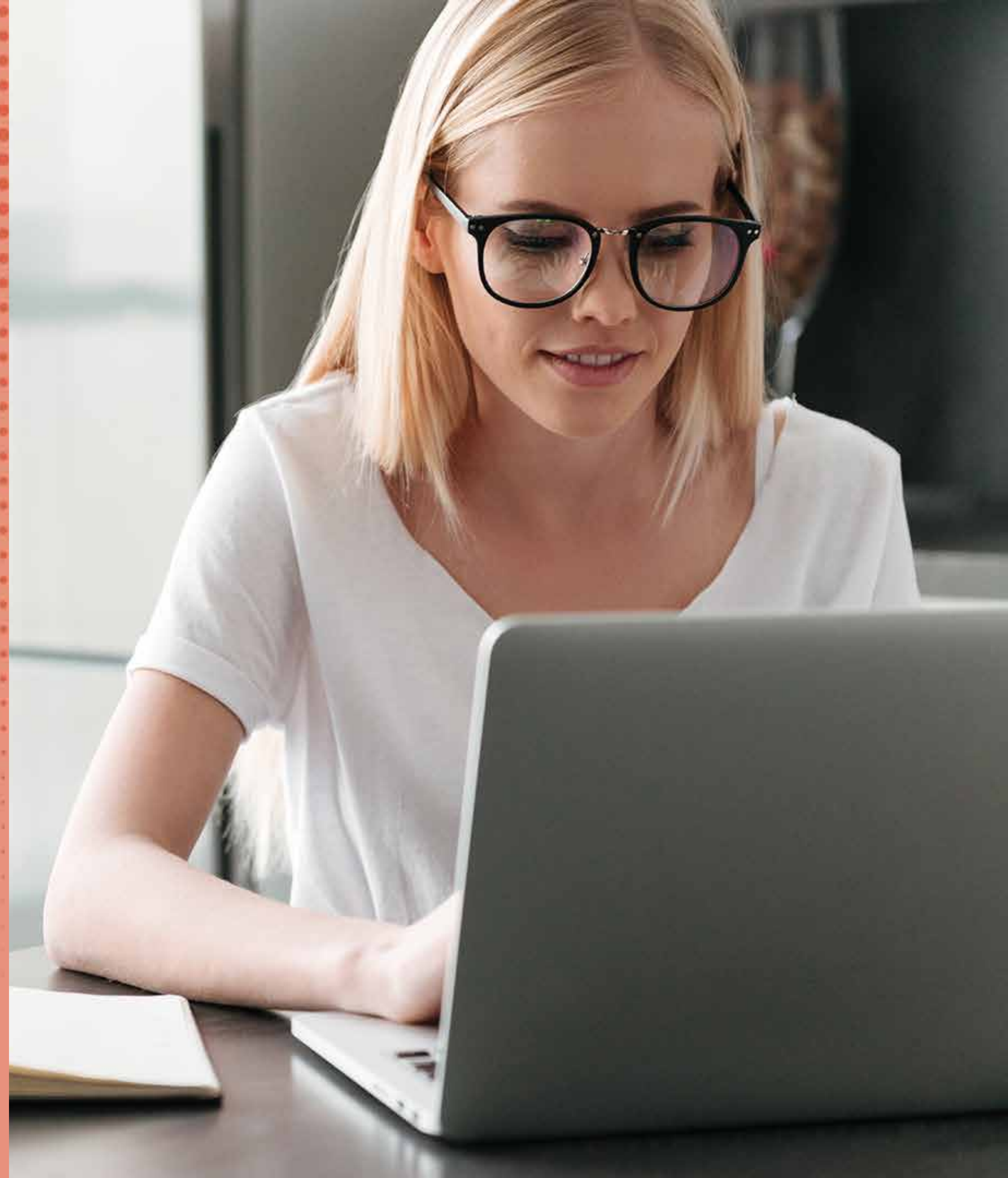


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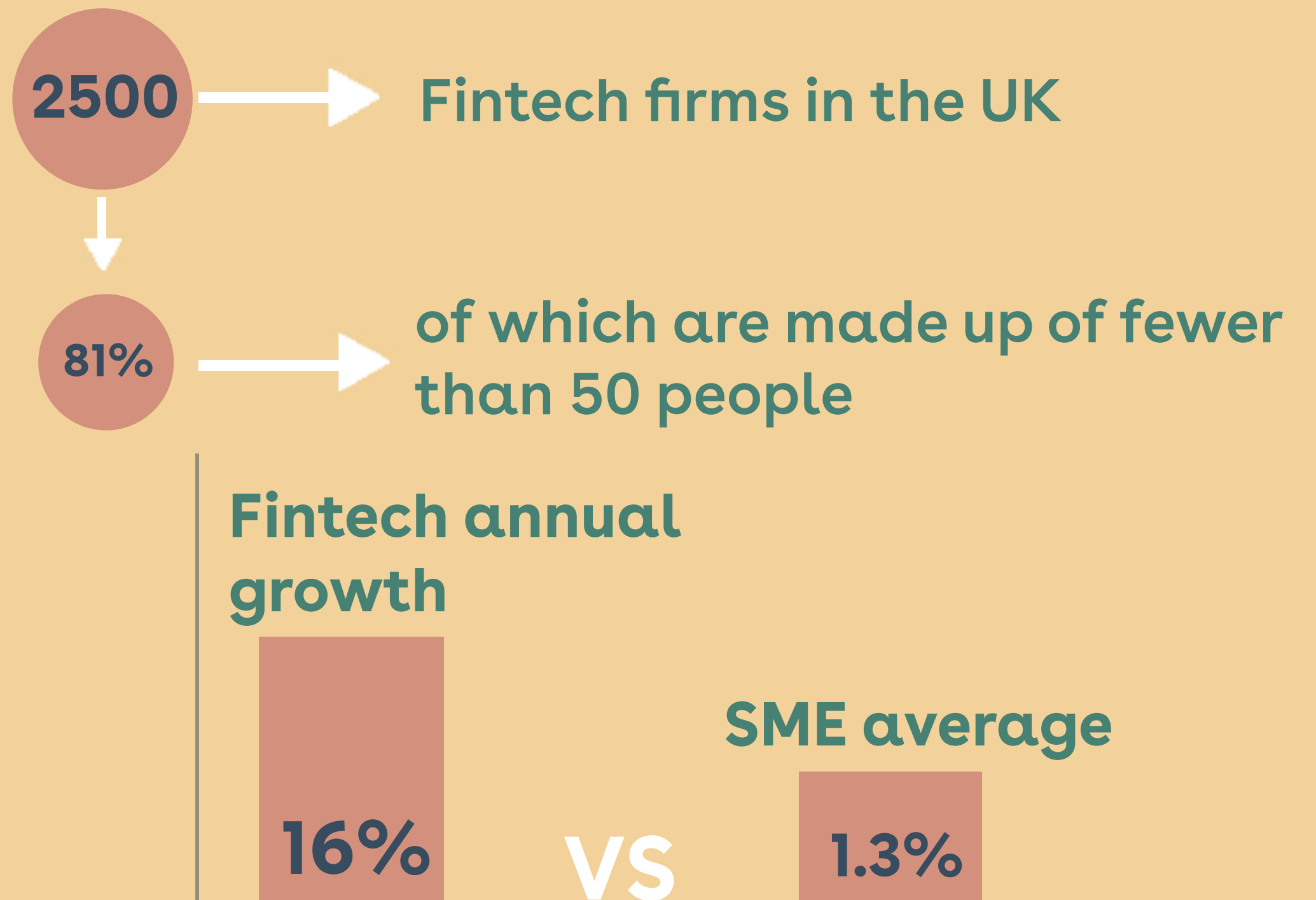




# Growth & barriers

Fintech organisations cover a broad range of services, from payments to loans, savings to insurance and, more recently, cryptocurrency. Their business models, products and markets are constantly evolving, with a laser focus on growth, agility and cost reduction.

Deloitte's Kalifa Review from March 2021, estimates





Taking financial services as an example, Fintechs typically focus on a niche product or service offering, either meeting unmet customer needs or solving particular customer pain points not addressed (or not addressed well) by traditional banks or insurance providers. Their customer centricity, product innovation and ability to leverage the latest technologies are just some of many reasons Fintechs are successfully disrupting traditional FS markets at pace and scale.

By their very nature, fintech organisations need to be disruptive, but this doesn't mean they aren't susceptible to disruption themselves. Extreme growth, business model evolution, competition from new market entrants, cyber-security concerns – all represent threats to fintech organisations and are therefore risks to manage






Fintech founders often come from a strong technology background vs a Risk or Compliance background. Combined with the focus on growth and consistent concerns with disruption, this means that risk management (the process of identifying and mitigating potential threats and challenges to a business or market) can be missed.

**The need to meet Risk and Compliance requirements can be underestimated, but can be fundamental to the ability to secure further funding, and ultimately can underpin the long-term viability of the business.**





A close-up, warm-toned photograph of a person's hands pointing at a document on a desk. The document features a pie chart with five segments in blue, green, orange, red, and purple, and a bar chart with three bars in green, orange, and red. The person is wearing a light-colored shirt. The background is softly blurred, showing a window with natural light and some sticky notes on the wall.

With the recent FINRA announcement of the settled enforcement action of over \$70m for Robinhood Financial for 'Systemic Supervisory Failures and Significant Harm Suffered by Millions of Customers', it shouldn't be a surprise that regulators are increasingly paying closer attention to fintech organisations.

The question we should be asking is– how can fintech organisations continue to grow and flourish whilst meeting increasingly stringent regulatory requirements, ultimately ensuring that customers and clients are protected?



# Risk as an enabler of growth

In a [recent article for Webhelp](#), Faye Sadler-Clark made the case that risk needs not be seen as a roadblock to progress and growth, but rather as a value-add enabler that drives growth for organisations, their investors, and their customers.

As Simon Taylor of 11:FS says whilst discussing the Robinhood situation in his fintech Brain Food Column,

**“Being a brand that looks after customers’ money is a huge responsibility. Those that can find the right balance of managing risk and reducing friction have a fintech superpower”.**

This will be the new gold standard that investors and the market are looking for.



Indeed there are shared opportunities here for both the fintech and regulators.

The FCA has, for example, committed to being more 'innovative and adaptive' in its 2021/22 business plan.

The overarching objective of ensuring customers are protected remains, but there's also a desire to streamline compliance requirements so as not to stifle innovation in FS markets.

The regulator understands that increased choice and innovation can lead to delivery of better customer outcomes and encourage competition – both key strategic goals for the FCA.



# Establishing fintech risk capability

It can often be a challenge for fintech organisations to proactively manage risk, needing instead to react to reports and regulations, and making changes after regulators have identified emerging risks in the market, or even after the risks have materialised.

Building risk into the business as a crucial component from Day 2 - helping to shape the business and allow it to grow safely and resiliently, while also allowing for much greater agility in reacting to emerging market risks – is a successful approach taken by leading fintech organisations.

This also helps reframe risk as a contributor to innovation, allowing it to work closely with the product and engineering areas, and providing meaningful insight to inform product development.



For example, a fintech organisation with sound risk management principles built into their business structure can subsequently incorporate risk into their product and data models at an early stage. Risk management by design allows for much greater ability to leverage analytics, machine learning and AI – a significant edge on competitors.



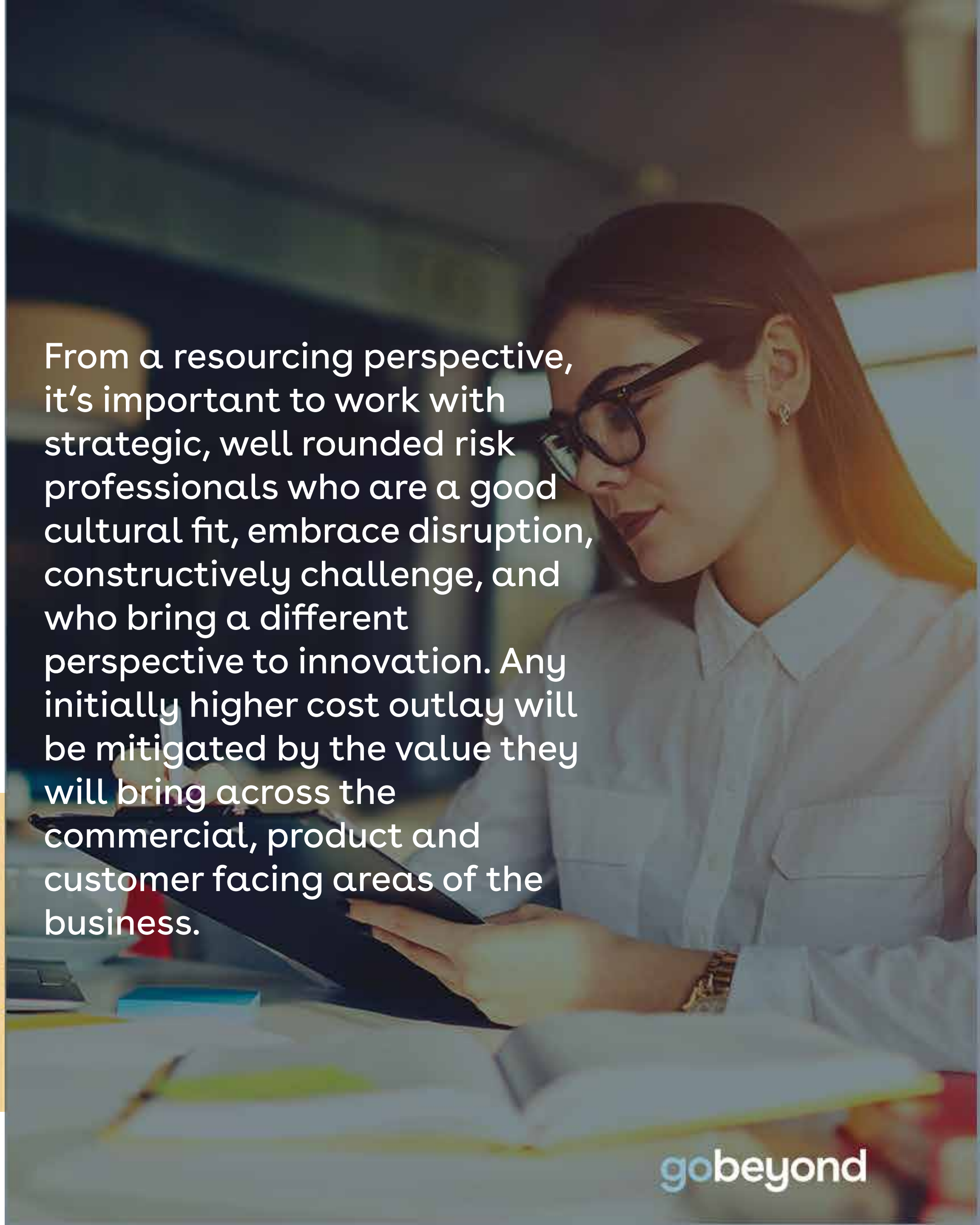
# What is of key importance in practice?

It's crucial to bear in mind that any incorporation of risk into a fintech organisation's model needs to be underpinned by the clear awareness, accountability and engagement of the board (hence the Financial Conduct Authority's (FCA) introduction of the **Senior Manager & Certification Regime** [SM&CR] which was extended to all FCA regulated firms in December 2019). This is particularly important to the FCA, who places a great deal of focus on "**tone from the top**," linking a company's culture and conduct to the fair treatment of its customers.

Equally important and cascaded from the top of the organisation down should be a shared understanding of, and adherence to, 'risk appetite'.

**"67% of the UK's fastest growing fintechs consider talent to be a high priority"**

- Deloitte, March 2021



From a resourcing perspective, it's important to work with strategic, well rounded risk professionals who are a good cultural fit, embrace disruption, constructively challenge, and who bring a different perspective to innovation. Any initially higher cost outlay will be mitigated by the value they will bring across the commercial, product and customer facing areas of the business.



# Steps to setting your framework



## Engage the right people:

The Board (key to developing a Risk and Compliance culture as described above) and your Risk and Compliance Officer.



## Prioritise activity to close or strengthen controls with clear time-bound plans

Appropriate automated controls should be considered where appropriate. The FCA Advice Unit can support, providing “regulatory feedback to firms developing automated models to deliver lower cost advice and guidance to consumers.”



## Identify key risks and risk exposure:

Create clarity around the big picture view on risk exposure (regulatory compliance being one risk) and determine who is accountable for key risks.



## Implement risk governance and monitoring:

Keep things simple, review material and any severe risks regularly to facilitate appropriate decision making and to enable action to mitigate and manage risk.



## Understand and strengthen existing controls

Understand and document what is already in place to mitigate the risks eg. training, processes, regular reporting and MI.



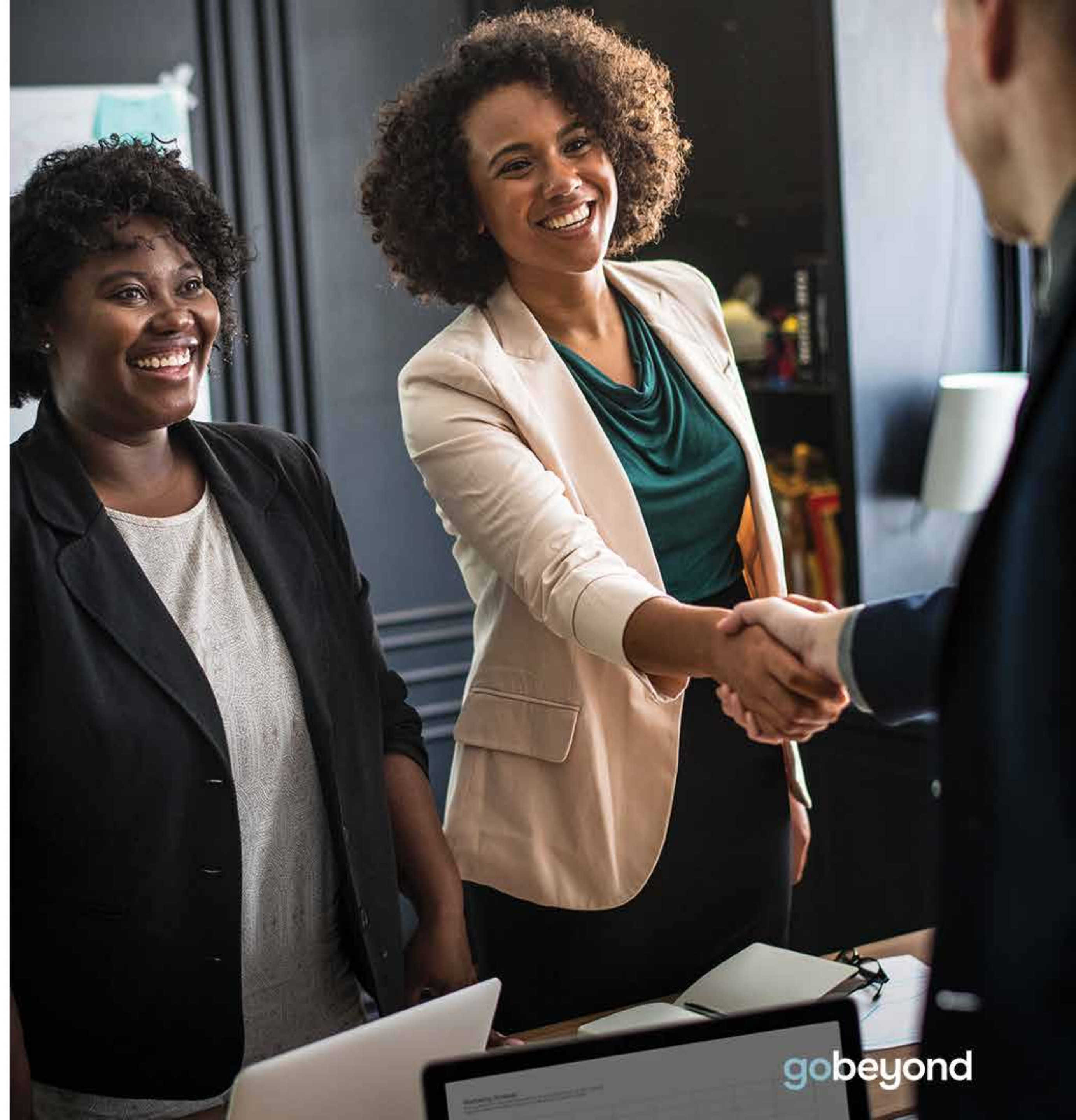
## Build in risk management by design:

Consider and mitigate risk up front and avoid the need to apply costly controls to new products or services retrospectively.



If you'd like to discuss how you manage risk within your organisation, and how to enhance your operating model to take advantage of risk as a growth enabler, then why not get in touch?

Our experts can help you quickly design and implement practical changes to effectively embed risk and compliance into your operating model.





# About the authors



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Financial Services

Dafydd has 17 years of experience working with the operations of large, multi-national organisations across sectors including Financial Services, public sector and outsourcing. He brings significant experience in combining the use of technology enablers with people development to drive long lasting, value driven business change. His dynamic but collaborative stakeholder focussed approach enables him to manage complex relationships across regional and supply chain boundaries.

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Head of Risk, Compliance  
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As Head of Risk, Compliance and Innovation for Webhelp, Faye supports our mission to be leaders and experts in delivering low risk solutions that help our clients and colleagues to innovate and stay safe. She has over 13 years of experience in financial services, most recently delivering transformational change for global clients as a consultant with Gobeyond Partners. Working across Europe and Asia Pacific Faye has developed a deep understanding of the operating context faced by senior leaders today.

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# About Gobeyond Partners

Customer behaviour is changing. But many organisations are not keeping pace.

With legacy systems, cost pressures, and agile new competitors, businesses need to think differently about the way they look at things.

Gobeyond Partners is a new type of consulting firm that partners with you to solve complex customer journey challenges.

By combining deep sector expertise with an award-winning approach to client service and value, we bring your transformation vision to life.

As part of the Webhelp group, our people understand what it takes to deliver great customer experience. This means we connect design and transformation with the real world, working alongside your people to embed lasting change.

Our customer journey view is broader and deeper, so we help you break down organisational silos and deliver a fully connected omnichannel experience.

Every client and engagement counts, and every objective is guaranteed.

