EY FinTech scale-up handbook

October 2022

EY

Building a better working world

Foreword: Creating value for stakeholders and society

The emergence of the UK FinTech sector during the last decade has been truly dramatic. We believe the ongoing expansion and health of FinTechs will deliver significant value to society via a more innovative and inclusive financial services environment and stronger economic growth. Individual firms, entrepreneurs and employees all stand to benefit, as do established firms that now have more suitable partners for transformation.

Our interactive handbook is designed to help FinTechs moving into the scale-up phase realise their full potential and create value for the full range of stakeholders. The contributors to this handbook, and the whole of the EY FinTech team, have done a great deal of thinking around the scaling journey for FinTechs, from seed funding to Series A, and all the way to initial public offering (IPO). Specifically, we highlight a number of key priorities for FinTech scale-ups as they navigate the unique challenges and opportunities of this phase of their journey, based on our engagement and experience with hundreds of FinTechs.

The handbook is not meant to be exhaustive; rather, it frames the most important considerations that FinTech founders and leaders will face on the path to sustainable growth. There are also links to resources for readers who wish to explore specific topics more deeply.

Taking stock of current conditions, during 2022, FinTechs have extended their record of impressive growth in many parts of the sector. Yes, there have been challenges – the current economic uncertainty, high inflation, and the intense competition for scarce talent are foremost amongst them. Funding levels have dipped but less dramatically in the UK than in some other markets. The growing number of FinTech acquisitions by banks and other major financial institutions marks a new chapter in the growth journeys of those firms, and this trend looks likely to continue in the future.

While the market for initial public offerings (IPOs) is suppressed, they remain an attractive long-term option – and a primary objective – for many of the largest FinTech scale-ups. IPOs by themselves necessitate careful planning and preparation, as we highlight in chapter 6.

Macroeconomic conditions have made near-term profitability an imperative for many firms, but Venture Capital (VC) groups and other investors are still largely motivated by long-term growth and the prospect of FinTechs achieving significant scale. The biggest and most successful FinTechs have become global players, operating across multiple markets; confirming what's possible for scale-up firms that navigate the many barriers to growth. Furthermore, we see FinTechs and RegTechs as being very much part of the answer to current economic challenges.

At EY, we are proud of our track record in helping FinTechs achieve their objectives and fulfil their purpose. We hope you find the insights and recommendations on the following pages useful. And we would be delighted to hear your reactions to the handbook, ideas about how it might be improved and your organisation's experience in the market. You'll find a full list of contacts on page 52.

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Introduction

The EY FinTech handbook is designed as a guide to help founders and leaders seize the most compelling opportunities and navigate the most common risks that arise on the growth journey. It is targeted primarily at scale-up FinTechs, though start-ups will also find plenty of valuable content.

Specifically, it addresses the major focus areas that FinTechs must address if they are to achieve their growth objectives.

1. Developing and motivating a winning team
2. Managing complex risk and regulatory imperatives
3. Building effective, resilient and scalable technology and operations
4. Sharpening customer focus and engagement
5. Mastering finance and funding with speed, rigour and insight
6. Preparing for a successful IPO

The first edition of our FinTech handbook is not meant to be exhaustive or answer every question that will arise. And it's certainly no substitute for in-person ideation or Q&A with experienced advisors. Future editions will include additional insights and timely updates as the FinTech market continues to evolve and expand.

Introduction

UK FinTech market, c.2022

The UK FinTech market has grown dramatically and is maturing rapidly. Currently, it's the second-largest market globally. Large amounts of capital are flowing into UK FinTechs with the majority of funds going to late-stage rounds, and a smaller share into early- and growth-stage firms.

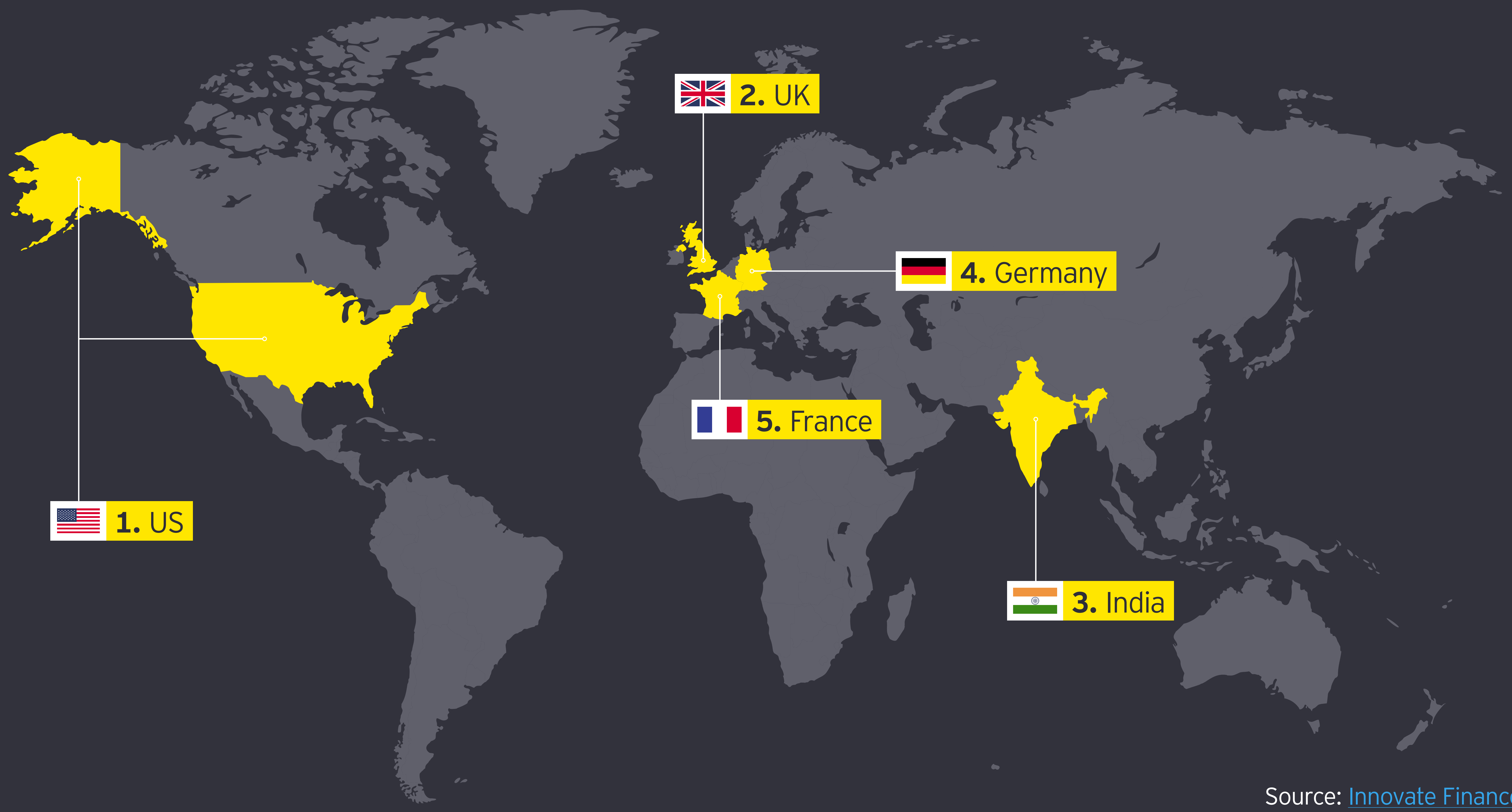
$11.8 billion

capital invested in UK FinTechs, 2021

217%

increase in capital investments since 2020

Top 5 FinTech markets globally



Source: Innovate Finance[1]

[1] https://www.innovatefinance.com/capital/2022-summer-investment-report

Introduction

The UK's position as a world leading financial centre drives the investment, as well as attracting a wealth of talent into banking, finance and insurance. However, it's encouraging that regional hubs in Manchester, Edinburgh and Cardiff have emerged to complement London, the epicentre of FinTech activity.

FinTech represents the UK's biggest investment sector, contributing 34% of all investment in 2021, according to Tech Nation.[2] In 2022, FinTech accounted for half of all UK funding; a total of $7.8 billion raised across 172 rounds with London raising more FinTech investment than any other global hub this year. FinTech is also the UK's biggest scale-up sector, contibuting to 41% of the value of the sector as a whole and 34% of the investment in 2021.[3]

As of mid-2022, there were 43 FinTech unicorns, or companies valued at $1 billion or more, according to Beauhurst, a consultancy and investment data provider.[4] As the market has expanded and matured, the number of start-ups and scale-ups has grown, too.

While there is no precise definition of scale-ups, 20% growth in both revenue and employee headcount for at least two years is a fairly common benchmark. To be clear, the growth journeys of start-ups and scale-ups are fluid and non-linear. Typical trajectories vary across different sub-sectors within the broader FinTech market. But scale-ups face a unique set of significant challenges during a critical phase of growth. That's why we've tailored the content here for firms with:

>20%
year-on-year revenue growth

>20%
year-on-year headcount growth

>$50 million
of raised capital

In contrast, start-ups are in the initial stages of business, typically focused on a single product or service, with funding coming from founders, and their friends and families. We have focused this handbook on guidance for scale-ups because, at that stage of growth, EY has the greatest opportunity to add value via market insights, fast-growth propositions, and introductions to potential partners and investors.

FinTechs at earlier stages will also find the content useful as they plan for the next phase of growth. Start-ups can also access additional EY resources and solutions:

- Accounting, compliance and reporting
- R&D tax credit submissions
- License applications and other core regulation
- EY's UK FinTech Start-up Academy – coming soon
- EY's UK FinTech Lab – coming soon

Contact the EY FinTech team if you would like to discuss ways in which we could support your business.

[2] https://technation.io/a-decade-of-uk-tech/
[3] https://technation.io/a-decade-of-uk-tech/
[4] https://www.beauhurst.com/research/unicorn-companies/

EY

Introduction

From start-ups to scale-ups

Scale-ups face a unique set of challenges and opportunities.

Click these tabs to toggle between the two tables.

Scale-up profiles and priorities

Start-up profiles and priorities

Scale-up profiles and priorities	Series B and C (4-7 years)	Series D and E (7+ years)
Profile	• <100-400 employees • Dedicated finance, risk, compliance, HR teams • CEO still involved in fundraising • Formal COO, CTO, CFO, strategy positions • Proper partnerships, sales teams and marketing teams • Processes undergoing professionalisation	• 300-500+ employees • Larger teams, building on previous structure • Complex or global company structure • Full finance, risk, compliance, HR, legal, sales, partnerships and marketing functions • Professionalised processes • Some outsourcing of complex compliance, HR and legal tasks • Finance looking to transition from online accounting to other platforms
Product	• Series B: more bespoke investments, with revenue generation expected in line with stricter targets • Series C: clearly defined route for product	• Round sizes dependent on clearly defined route for product and market penetration
Priorities	• Establishing systems to manage business operations at scale and control risks across the business (e.g., commercial, financial) • Attracting strategic investors on advantageous terms to enable strategic growth • Aligning employee incentives via options scheme (e.g., potential growth shares) • Efficiently scaling the finance function • Demonstrating strong security and data handling in line with industry standards and customer expectations • Securing appropriate licenses efficiently • Taking advantage of R&D tax credits and other start-up benefits and incentives • Creating suitable international organisational structures • Expanding internationally in a compliant and cost efficient way	• Refining systems and processes to meet evolving global needs, including ongoing refinement to risk and control frameworks • Attracting strategic investors on advantageous terms to enable strategic growth • Establishing a robust and scalable risk and compliance framework for third-party risk management (TPRM), financial crime, operations, business continuity planning (BCP) and resilience • Devising a strategy for international and market expansion • Establish suitable international organisational structures • Defining partnership strategy to drive growth • Weighing options for inorganic growth • Validating business model • Setting up an internal audit function to ensure all functions are running smoothly • Scaling legal, tax and HR function (potentially globally) • Optimising the people agenda (e.g., outsourcing payroll, immigration, compliance) • Preparing for a potential IPO

Key priorities for scale-up FinTechs

1

Team
Developing and motivating a winning team

2

Risk and regulation
Managing complex risk and regulatory imperatives

3

Technology and operations
Building effective, resilient and scalable technology and operations

4

Customers
Sharpening customer focus and engagement

5

Finance and capital
Mastering finance and funding with speed, rigour and insight

6

Scale and beyond
Preparing for a successful IPO

1 Team: Developing and motivating a winning team

Key takeaways

- At the scaling stage, the priority is hiring for skills and talent that drive growth (e.g., product developers and owners, business analysts, data engineers and analysts) and support scale (e.g., finance, HR, risk management, digital marketing).
- In a competitive market, recruiting and retaining top talent is harder than ever – especially for the most in-demand roles.
- To build a winning team, FinTechs must go beyond compensation to create rich employee value propositions and cultures that celebrate diverse skillsets, perspectives and backgrounds.
- Successful FinTechs have strong leadership teams at the C-suite and board levels, as well as a depth of talent across the organisation.

While a clear vision, a commitment to innovation and sophisticated technology are all key components of FinTech success, a skilled, motivated and cohesive team might be the single most important factor. Having the right people on board will lead to more innovative ideas, higher productivity, and a healthy and collaborative culture.

When thinking about people and teams, it's important to consider everyone who contributes to your business – from the first full-time employees you hire, to contractors and contingent workers, to external partners and collaborators that you'll need to rely on from time to time.

Navigating a tight labour market

As important as talent is, it's increasingly difficult to attract and retain people with the right skills. Software developers are the most in-demand workers, making up 8% of all advertised digital technology roles, according to Tech Nation.[5] Beyond tech skills, demand for experienced finance pros and non-technical product and program managers has increased significantly.

2 million
number of tech vacancies advertised between May 2021-May 2022

5 million
total number of workers in digital tech economy

The most in-demand roles:

- Software developers
- Business analysts
- Java developers
- DevOps engineers

Source: Tech Nation[6]

[5] https://technation.io/a-decade-of-uk-tech/
[6] https://technation.io/a-decade-of-uk-tech/

1 Team: Developing and motivating a winning team

Early-stage FinTechs face big challenges in that developers and other highly skilled technical workers are usually the hardest to find and the most expensive, largely because big tech companies want to hire them. Workers that have both technical and business skills are extremely scarce.

The Kalifa Review's findings reflect the importance of talent to the future of FinTech. The good news is that the report's recommendations – retraining and upskilling adults, opening new visa streams for foreign talent, and placing younger workers directly with FinTechs – are all designed to bridge the talent gap.

Skill profiles

In the scaling phase, the most valuable skills are those focused on growth; for instance, employees who can build businesses efficiently and have strong managerial skills help attract other workers. Depending on the business model – business-to-business (B2B), business-to-consumer (B2C) or B2B2C – sales, marketing or partner relationship management may be top hiring priorities.

It's also worth noting that FinTech businesses are fundamentally tech-first, and rightly have a solid grounding when it comes to digital capabilities. As the business scales, it's important to ensure that the talent base of these core skills expands in line with growth targets, while also having the appropriate operational support.

When it comes to softer skills, effective communication, collaboration, delegation and the ability to focus are critical; it's common in fast-scaling FinTechs for leaders and managers to take on too many responsibilities and tasks, rather than focusing on a handful of core objectives. First-time founders lose sight of the strategic big picture and become overwhelmed by operational details if they don't learn to delegate effectively.

Types of workers

There are advantages and disadvantages for hiring different categories or workers, including full-time employees and contractors, as well as interns, contingent and temporary workers, and those sourced from employment agencies. Each presents varying obligations and requirements for payroll, tax, legal documentation, insurance and other matters.

Leadership teams

Founders who build a senior team with diverse skill sets – especially skills and knowledge they don't themselves possess – are more likely to mature and scale their companies successfully. Engaging individuals with experience running successful start-ups is especially valuable for early-stage FinTechs. Many such leaders want to contribute to another hyper-growth journey and actively seek new opportunities to share their insights and expertise, either as senior executives or advisors.

The mix of skills on the leadership team should be shuffled periodically to ensure the company has access to the right combination of experience and knowledge during each stage of the growth journey.

[7] https://www.gov.uk/government/publications/the-kalifa-review-of-uk-fintech

1 **Team:** Developing and motivating a winning team

Compensation and incentives

Cash remuneration and salaries

Discussions of talent are always anchored around compensation. Attractive salaries can help attract the right talent, but FinTechs may struggle to compete with larger employers in terms of compensation. They also need to protect cashflow. That's why many get creative in their approach to compensation and recruitment.

36%

increase in tech salaries since 2015, compared to 10% for all jobs

Source: Tech Nation[8]

Since the COVID-19 pandemic, flexibility has become more important to attracting talent. The ability to work remotely or set their own schedules may be worth more to some workers than a slightly higher salary. See Looking beyond financial compensation.

[8] https://technation.io/a-decade-of-uk-tech/#key-statistics

Equity, options and other incentives

There are many alternatives for offering employees equity or other incentives that allow them to share in the company's success. In general, the best incentives will be appealing enough to retain top talent and align the interests of employees with those of founders and investors - this is how employees get 'skin in the game.' Equity incentives such as share options can also be very cost efficient, reducing employer costs even as they increase potential returns for employees. See Choosing the right incentives table on the following page.

There can also be tax advantages; cash payments are usually subject to both income tax and National Insurance Contributions (NICs), whereas it may be possible to structure equity incentives to benefit from lower capital gains tax rates, and such awards are not always subject to NICs.

There are important differences between issuing shares to employees and granting options, including tax treatment, and this means that there is a need to choose appropriate structures for your business. Shares or options can be granted to employees on an ad-hoc, standalone basis, but as the business develops most companies will benefit from more formal arrangements which can include "umbrella plans" under which multiple award types can be made. Whatever arrangements you choose, it will be important to ensure that these are properly documented and implemented – both to secure the intended outcome, and because this will likely be an area of significant scrutiny for any future investors.

When it comes to creating incentives, key questions for FinTech founders and leaders to ask include:

- Does this incentive drive the business towards its strategic priorities?
- Is there a route to realising value if business objectives change?
- Is there full alignment between shareholders and equity award holders?
- Is the share pool the right size and transparent? Is it clear who owns what?
- Is the valuation current and accurate?
- Are there international issues or implications for tax, regulatory, or administrative matters?

1 Team: Developing and motivating a winning team

Choosing the right incentives

Incentive type	Key features
Enterprise Management Incentives (EMIs)	‣ Tax-advantaged stock options under an HMRC approved regime – generally income tax and NIC savings ‣ Common in high-growth private companies ‣ Subject to certain criteria (e.g., company independence and size, full time employment, must meet certain requirements around trading and nature of the business) ‣ Maximum limits for award sizes at both an individual and company level
Direct equity, including 'Growth Shares'	‣ Direct acquisition of equity by issuing shares to employees, who accrue all the rights of shareholders ‣ Can be issued as restricted class to limit rights ‣ Often subject to growth hurdles (i.e., shareholders share in value only above a certain level) ‣ Common with investor-backed private companies ‣ Typically feature clawback provisions and specific conditions for leavers ‣ Often exit-focused (participation in growth in equity on a future exit) ‣ Potential tax advantages (i.e., growth often subject to capital gains as opposed to income tax) ‣ May require an establishment of a new share class
Unapproved options or Conditional Share Awards (aka 'RSUs')	‣ Right to acquire shares at a pre-set price on a future date ‣ Can be structured to become exercisable based on certain events (e.g., the achievement of performance milestones, company sale, IPO) which incentivises employees without diluting ownership ‣ Incur income tax on exercise/delivery ‣ Flexibility on participation, including terms and performance conditions ‣ Common in both private and listed companies ‣ Often used where tax-advantaged schemes cannot be used, or where maximum flexibility is needed
Company Share Option Plan ('CSOP')	‣ Tax-advantaged stock option plan similar to EMIs ‣ Lower individual limits than EMI (e.g., £30k max value of shares under option on grant, EMI is £250k) ‣ Broader eligibility criteria (e.g., not limited by size) although independence and share class ownership requirements apply

1 **Team:** Developing and motivating a winning team

Looking beyond financial compensation

The post-pandemic work experience

EY research confirms the extent of post-pandemic changes to the work environment and employee experience.[9] Consider the number of employers planning moderate to extensive changes in their:

Source: EY Work Reimagined Survey[10]

Some FinTechs may be well-suited to hybrid working models, while others will prefer to develop their products and services and build their collaborative cultures in shared workspaces. In either event, digital workforce tools can help achieve talent management goals.

The employee value proposition (EVP)

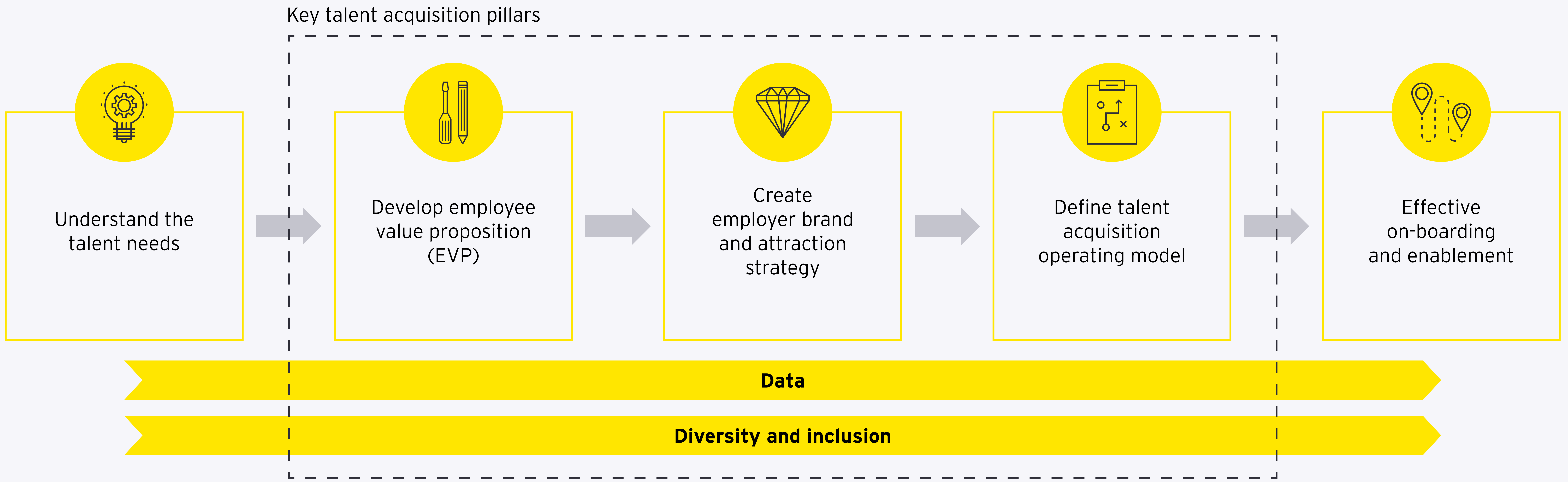
Many employers are looking for new ways to attract, engage and retain talent. A well-designed employee value proposition – incorporating compensation, culture and the working environment, and training and development opportunities – can help bring in not just the right skills but also the right cultural fit. A successful EVP incorporates benefits and perquisites as well as HR policies such as hybrid working arrangements, annual leave and parental leave as well as defined career progression plans and options. When an organisation's people experience is aligned to the organisational vision, purpose and values, employees are more engaged, resulting in stronger performance.

A strong EVP can help organisations become employers of choice, attracting the best talent to join the team and improving company performance. A leading EVP can activate your ability to retain high potential and high performing employees, driving the attainment of company performance goals.

9 https://www.ey.com/en_gl/workforce/work-reimagined-survey
10 https://www.ey.com/en_gl/workforce/work-reimagined-survey

1 **Team:** Developing and motivating a winning team

Incorporating EVP strategy at the right time is key for an organisations' success, in part due to its impact on the broader people agenda:



1 **Team:** Developing and motivating a winning team

Recommended actions

1. Identify and prioritise the key skills necessary for each phase of the growth journey.
2. Consider the best combination of skills and experiences to build a diverse and effective leadership team.
3. Design a holistic employee value proposition incorporating compensation, cultures and career development.
4. Think beyond cash compensation to offer opportunities for workers to participate in the company's success.

Additional resources

EY Work reimagined research

Kalifa Review

People and skills report 2022 – Tech Nation

A dual approach for UK FinTech talent and skills | EY UK

2 **Risk and regulation:** Managing complex risk and regulatory imperatives

Key takeaways

- As FinTechs grow and mature, they will naturally encounter increased regulatory scrutiny, as well as increased complexity and risk.
- New regulations are expected to emerge around cryptocurrency, buy-now-pay-later and other innovative areas within financial services.
- A strong risk management framework goes beyond regulatory compliance to strengthen decision-making in support of sustainable growth.

As part of a highly regulated industry, FinTechs must be aware of the many requirements they face from the Financial Conduct Authority (FCA) and other bodies. Current and emerging regulatory priorities for FinTechs include:

Buy-now-pay-later (BNPL)	Digital Operational Resilience Act (DORA)	Markets in Crypto-Assets (MiCA)	Payment Services Directors 2 (PSD2) Review	Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF)
• UK to bring into scope of short-term interest-free credit (STIFC) regulation • EU to revise Consumer Credit Directive (CCD) to bring into scope • Affordability assessments and annual percentage rate (APR) caps, proposed by the EU • Consultation on draft legislation in 2022 with secondary legislation laid by mid-2023 in the UK • Exemptions for specific agreements where risk of customer detriment is low	• EU-level comprehensive ICT risk management requirements specific to financial services sector • Will require assessment of legacy systems and arrangements with third-party providers • FCA, the Bank of England (BoE) and Prudential Regulatory Authority (PRA) also working on similar operational resilience framework • To align with already existing Network and Information Security (NIS2) directive but DORA to have precedence	• Expansion of EU regulatory perimeter for crypto-assets not currently covered by existing financial services laws • Linked to the EU's agreed crypto-assets related amendments to the Transfer of Funds Regulation (TFR) • Decentralised finance (DeFi), crypto lending and most NFTs are out of MICA's scope • Political agreement reached on 30 June 2022	• European Commission keen to assess application and impact of PSD2 • Currently in a fact-finding phase as Commission is consulting with market participants • EBA's recent 200 proposals should be considered by firms • Linked to Commission's larger plan to devise an Open Finance Framework to create new and improved services beyond PSD2	• Current package is largest overhaul of the EU's AML/CTF legal and supervisory framework • Consists of fully harmonised AML single rule book, the creation of a new supervisor at EU level, amendments to TFR and amendments to flagship law (6AMLD). TFR to be finalised first • Impact on firms' operations will be significant and therefore require adaptation

FinTechs need a strong framework to manage both financial and non-financial risk to achieve regulatory compliance efficiently and to promote strategic and sustainable growth. As FinTechs scale, they will encounter increased regulatory focus and scrutiny. That is especially true for firms offering technology or services for cryptocurrency users, BNPL, or other areas where new regulations are being designed.

2 Risk and regulation: Managing complex risk and regulatory imperatives

Consumer Duty

Finalised in July 2022, the Consumer Duty represents the most significant shift in financial services regulation in more than a decade. It applies to all firms that engage directly or indirectly in regulated activities with, or provide certain services to, UK retail customers and small and mid-sized enterprises (SMEs). The Duty introduces a new principle that financial services firms 'must act to deliver good outcomes' for customers. Specifically, that means satisfying three overarching rules:

- Acting in good faith towards retail customers
- Avoiding foreseeable harm to retail customers
- Enabling and supporting retail customers to pursue their financial objectives

Firms will be required to attest to their adherence by 30 April 2023. By that time, FinTechs and other firms will be expected to have corrected any poor outcomes they identified in implementing the new standard. For many firms, developing the necessary understanding of customer objectives and behaviours and gaining the ability to 'walk in customers' shoes' will require significant strategic, cultural and organisational change.

Consumer Duty is significant because of its:

Customer centricity: Formalises customer centricity, which many firms have talked about for years, by ensuring it is deeply embedded into financial products and services; focuses on the industry's treatment of vulnerable customers, with knowledge gained from behavioural analysis informing firms' responses.

Extensive reach: Applies to firms without direct relationships with end-consumers (e.g., wholesalers offering products via brokers, retail outlets and platforms) and products and services which are ancillary to regulated activities.

Outcomes-based approach: Shifting away from 'box-ticking' regulations by requiring firms to demonstrate that they are securing good outcomes and addressing bad outcomes for customers.

Attestation requirements: Mandating that firms provide evidence that there is appropriate sign-off at the board or board-equivalent level on adherence to the duty on a regular basis (at least annually).

Large-scale change: Necessitating key tactical and strategic measures to meet the implementation date and ensure future, ongoing confidence that good customer outcomes will be delivered.

2 **Risk and regulation:** Managing complex risk and regulatory imperatives

Consumer Duty at a glance

The Consumer Duty: *Delivering the new principle*

Delivering good outcomes

Pillars of success: *How the duty will be achieved by firms and measured by FCA*

Outcome 1	Outcome 2	Outcome 3	Outcome 4
Governance of products and services	Price and value	Consumer understanding	Consumer support

The foundations: *Three overarching rules*

1. Act of good faith
2. Avoid foreseeable harm
3. Enable and support customers to pursue their financial objectives

2 Risk and regulation: Managing complex risk and regulatory imperatives

New requirements for affordability

Firms offering credit need to ensure that affordability checks on customers are thorough and comply with relevant regulations. Not only does this promote sustainable business for FinTechs (e.g., more secure business model, reduced risk of default), it also ensures that vulnerable customers are safeguarded. According to the FCA specifications, creditworthiness includes both credit risk to the lender and affordability risk for the borrower.

"Most firms have a strong commercial incentive to assess credit risk (the probability of default). Affordability risk, on the other hand, is concerned with the risk of the customer being unable to make repayments without this having an adverse effect on their financial situation. Both credit risk and affordability are elements of creditworthiness, but they are different things: credit risk is concerned with risk to the lender and affordability risk with risk to the borrower."

Creditworthiness assessment should consider:

- Credit risk: The risk that the customer will not make repayments by their due dates
- Affordability risk: The risk to the customer of not being able to make repayments under the agreement in accordance with CONC 5.2A.12R

Affordability assessments must consider whether customers can make on-time repayments under the agreement without:

- Having to borrow
- Failing to make any other payment the customer has a contractual or statutory obligation to make
- Being significantly adversely impacted by the repayments in terms of essential living costs and financial situation

2 **Risk and regulation:** Managing complex risk and regulatory imperatives

Authorisation, change of control, change of permission

As FinTechs scale, the range of products and services they offer generally increases. Their geographical presence may also expand, leading to additional requirements for regulatory authorisations for products and locations. For example, to offer payments in the UK, firms must be an Authorised Payment Institution (API) with a licence granted by the FCA.

Electronic money institution (EMI) licences and UK banking licences may also be necessary for some FinTechs. In other cases, new product offerings require amendments to existing licences.

Common questions asked by FinTechs

“What is the minimum content needed to apply?”

“How long is the application process?”

“How do I ensure we are fully compliant with the regulatory framework?”

“How do we identify the activities that are subject to authorisation?”

“What are my reporting obligations?”

2 Risk and regulation: Managing complex risk and regulatory imperatives

Risk management frameworks

Since the 2008 crisis, financial services firms, including FinTechs, have made significant investments in their risk management frameworks, resulting in higher standards in risk awareness, behaviours and capabilities. The most effective frameworks are designed to reflect the complex and ever-changing economic and geo-political environment, as well as shifting regulatory expectations and the need for ongoing business model changes.

Strong risk management frameworks:

- Reflect strategic and organisational priorities
- Are accessible to employees in all parts of the organisation
- Provide clear, simple and practical direction
- Address non-financial risks – ESG, cyber and the impact of Brexit – with appropriate tools and techniques

Regulatory priorities

Regulators are interpreting and applying regulations more granularly. Some examples of responses from businesses include:

- Enhancements to the risk appetite framework in parallel with improvements to stress-testing and business forecasting capabilities by introducing forward-looking stress measures (e.g. earnings volatility) to act as central points of calibration for underlying limit frameworks.
- For firms operating group or subsidiary structures, there is an increasing focus on the ability for forecasting capabilities to model cashflows between subsidiaries to support understanding of maximum distributable amounts (MDAs), trapped capital and dividend payments.
- Significant work to review the approach and accountability for underwriting and credit decisioning and the operating model, including reporting lines and adoption of credit workflow solutions.
- Reviewing the alignment between risk appetite, policies and asset origination to build portfolios that better reflect the board approved risk appetite.

2 **Risk and regulation:** Managing complex risk and regulatory imperatives

Typically, financial services firms adopt the three lines of defence model for managing risk throughout their organisations.

First line (1LOD): Includes front-line operational areas that own risks and take responsibility for identifying and monitoring risks, operating and assessing effectiveness of controls, and operating within risk appetite.

Second line (2LOD): Provides independent risk oversight and management, establishing risk policies and standards, setting risk appetites, assessing 1LOD risk management activities and controls, and reporting on risk and control to board-level risk committees.

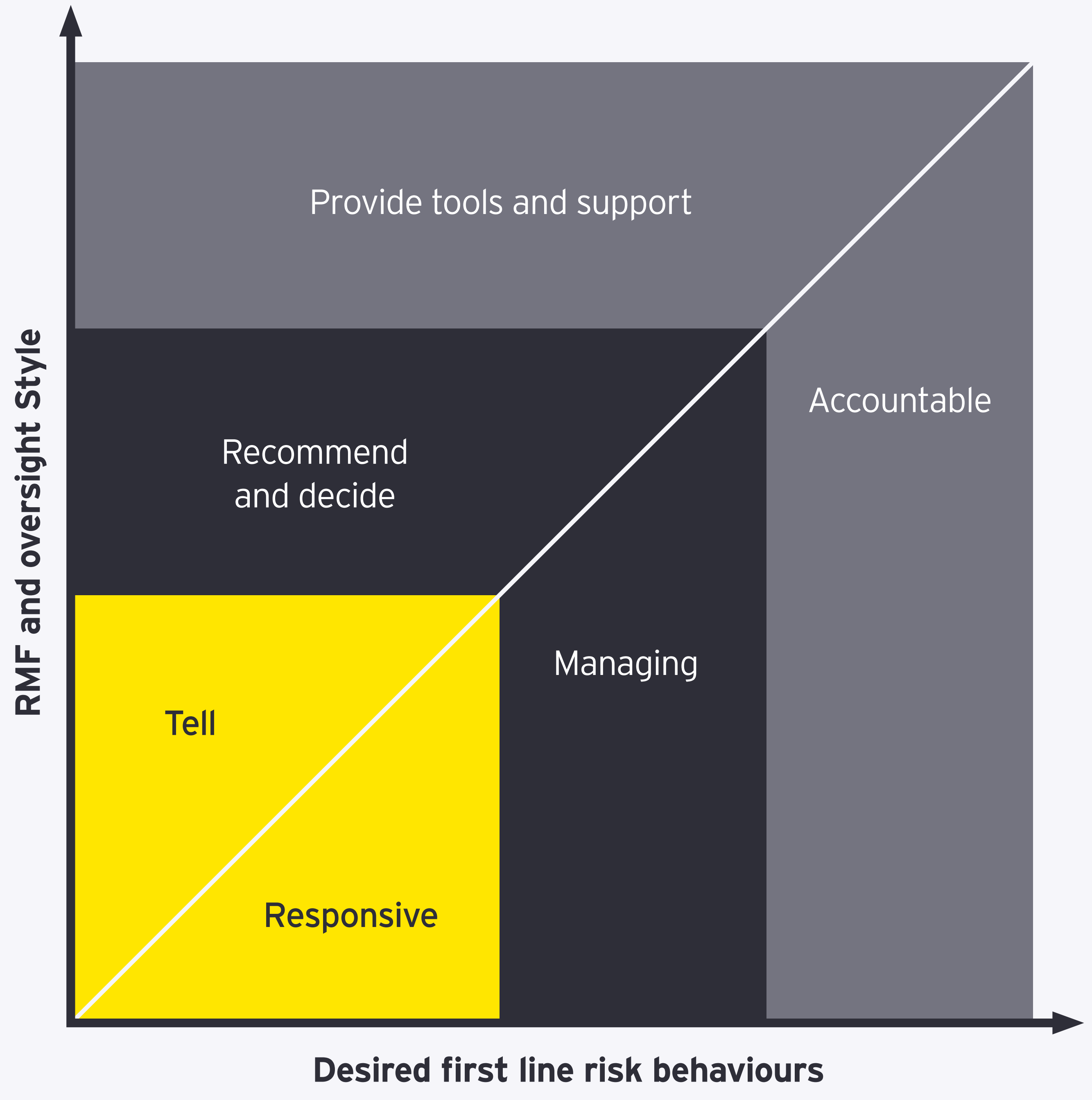
Third line (3LOD): Provides risk assurance through audit functions that operate independently from the business; responsibilities include assessing and evaluating compliance with controls, policies and procedures and provide independent assurance to audit committees and the board.

There are options for applying risk management frameworks and structuring the relationship between the first and second lines of defence:

- Centralised 'command and control' approaches where the first line responds to second line instruction.
- More flexible models, where the second line provides tools and support, along with guardrails and clear operating parameters, to a first line with real accountability but more autonomy to apply the framework in a way that reflects the needs of the business.

While the former approach can be suited to tackling common issues across the business (e.g., mainly 'risk-off' environments), the latter may be more suited to mature and well understood risks or where the first line risk management capabilities and resources are more developed.

The style of RMF drives different first line behaviours

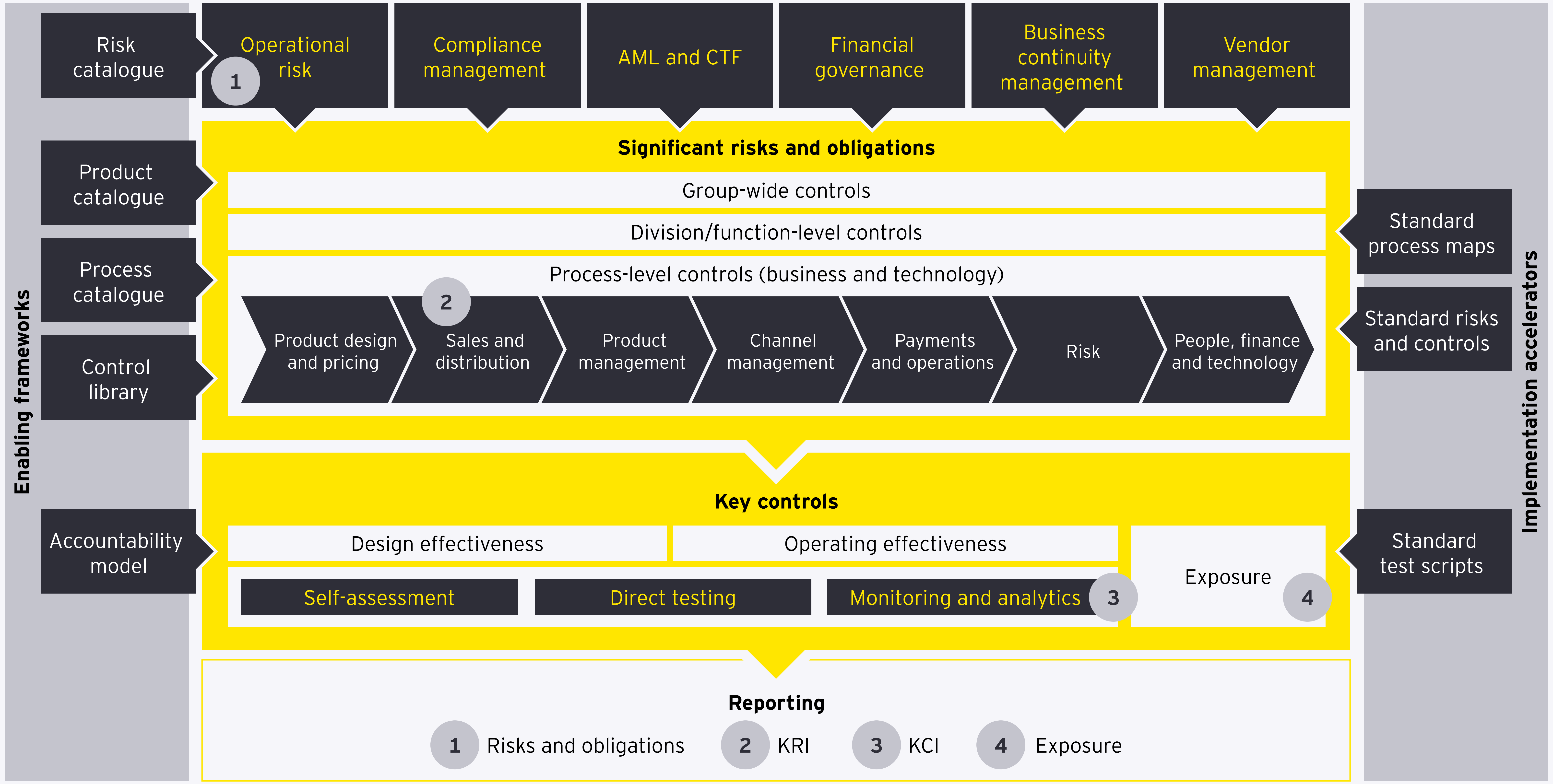


2 **Risk and regulation:** Managing complex risk and regulatory imperatives

Managing non-financial risks

As non-financial risks increase, FinTechs need robust frameworks that address everything from operational risks and financial crime to business continuity and vendor management. Proven assets (e.g., process maps, controls libraries, reporting templates) can greatly increase the efficiency and effectiveness of their risk management.

General frameworks for non-financial risk management



2 **Risk and regulation:** Managing complex risk and regulatory imperatives

Managing financial crime risks

Financial crime presents unique challenges to FinTechs, as do the considerable requirements for regulatory compliance. To effectively manage the risks and efficiently achieve compliance, FinTechs must ensure they have access to the right knowledge and skills, technology and data management capabilities, in addition to efficient processes and strong governance models. Beyond defining the right strategy for financial crime risk management, FinTechs need to determine who is best positioned to handle the work and where it should be done.

Given the level of effort, some may choose to participate in industry utilities or engage managed services partners to access support for Know Your Customer (KYC), anti-money laundering (AML) and other regulations.

People

Capabilities	Culture	Location
Analysts with the knowledge and ability to apply judgement, supported by an adequate QC framework and continuous improvement feedback loop	Plausibility training for the front line; clear tone from the top; emphasis on coaching, diversity and inclusion, and purpose	Offshoring, outsourcing or internal centre of excellence

Process

Optimisation	Event-driven reviews
Lean process design to cut waste and reduce onboarding time; continuous improvement and integrated change; Agile organisational design	Trigger frameworks to reduce periodic reviews; bespoke treatments and triage for trigger events

Technology & Data

Client lifecycle management	Enhancements
Moving away from workflow alone; codifying procedures and treatment strategies; automation of data gathering	Augmentation of client data with reference data APIs; marketing and maximise KYC to generate revenue; straight-through processing

Governance

Management information and reporting	Capacity planning	Outreach
High-level and low-level leading and lagging indicators, automated dashboards; insight generation; feed into planning; average handle times, measuring impacts of change or spikes	Holistic model across all demand and supply types; including capability and productivity (not just capacity); integrated horizon scanning and spike management	Self-service and digital interstitials, targeted and bespoke "ask once;" communication to raise awareness of due diligence process

2 Risk and regulation: Managing complex risk and regulatory imperatives

Recommended actions

1. Understand the full range of relevant regulations and areas where new requirements are in development.
2. Build plan for complying with Consumer Duty, both in the near term and for ongoing compliance.
3. Consider financial crime obligations.
4. Develop a strategy to engage with the regulator, including through relevant industry groups or through building a relationship based on two-way communication.
5. Seek guidance and insights from experienced risk management partners.

Additional resources

EY perspective on the Consumer Duty

EY perspective on financial crime

Global Risk Management Priorities podcast

3 Tech and ops: Building effective, resilient, and scalable technology and operations

Key takeaways

- Significant re-engineering of the core technology platform is typically required as FinTechs begin to scale up.
- Cyber risk increases for firms that achieve greater scale and a higher profile.
- The Agile-at-Scale framework has proven effective in preparing FinTechs for rapid growth; increasing speed to market and improving the quality of deliverables.

As FinTechs grow, what used to be a sustainable operational setup with a few people wearing multiple hats can suddenly be overwhelmed by increased demand from customers, product owners and investors. Similarly, technology that once worked fine with a few clients may be overloaded by increased traffic if it's not built on a flexible and scalable architecture. There's also a risk that core tech becomes bloated with additional features and new functionality to support risk, compliance and finance requirements at organisations that don't have a clear tech plan.

FinTechs often develop products and services that drive digital transformation at established financial institutions. But as they scale up their business, FinTechs may also need to significantly re-engineer and enhance their operational models and core technology platforms.

And with increased scale and visibility comes increased risk. FinTechs that raise significant funds become more attractive as targets for cyber-crime and, thus, must prepare their IT architectures and environments. Strong cybersecurity strategies and solutions can make FinTechs more attractive as partners and acquisition targets.

3 Tech and ops: Building effective, resilient, and scalable technology and operations

Technology transformation priorities

While great technology is the heart of the business, many scale-up FinTechs find they need to transform their foundational technology to compete. What worked well at the start-up phase may not translate as the volume of customers, stakeholders and transactions grows. Key operations – including HR, finance, risk and compliance and change management – also benefit from effective technology, especially as business needs expand in line with growth.

The right technology plan will also ensure sufficient support for cloud environments, data management, AI and machine learning and process automation – crucial services and capabilities for FinTech solutions.

Other priorities for growing FinTechs:

Technology strategy involves developing a plan and approach to fully align technology to the overall purpose and business objectives, addressing digital foundation design, capability assessments, IT operating model and organisational design, and tech governance. Over the long term, the tech strategy will also account for support for effective product management, Agile delivery, and DevOps, as well as post-merger integration or divestiture.

Infrastructure and service resiliency is about ensuring that core technology is aligned to critical business operations and is designed for business continuity. Typically, that means optimising the infrastructure and adopting multi-cloud and hybrid cloud environments to support fully connected and digital businesses. As they secure and optimise the infrastructure, IT teams must reduce complexity so developers can continue to deploy their apps easily and efficiently.

In instilling business and technology resilience, FinTechs must plan for routine challenges, unforeseen events, and crisis management. Intent-based networking will enable FinTechs to constantly adapt, protect and inform across the network infrastructure in support of user and customer communities as well as business applications and services.

The EY FinTech Lab, launching late 2022, is being designed to help growing FinTechs define use-cases, build propositions, and leverage EY's experience to enhance their people, processes and technology.

Next-generation technology operations enable FinTechs to manage and improve the performance of IT operations, including financial management, strategic sourcing, contract management, asset management and delivery management. The end goal is to manage the necessary technology for disruptive business models and ongoing innovation.

Architecture encompasses a full set of capabilities that address the broad-based needs of CIOs, CTOs and chief architects, from high-level architecture planning to detailed implementation blueprints for technical components. It also includes the software development lifecycles associated with those activities.

In driving technology transformation, FinTech leaders should ask how they can:

- Use technology as a source of differentiation and competitive advantage
- Integrate business solutions with enterprise applications
- Deploy next-generation technologies to drive new customer and business channels
- Be more responsive to rising demand from business users

3 Tech and ops: Building effective, resilient, and scalable technology and operations

Protecting the business from cyber threats

Cyber threats continue to proliferate and grow more sophisticated and severe. Remote working models have created new vulnerabilities across the business. Heightened dependence on cloud services and third parties to support key business functions and activities requires proactive monitoring and prevention activities. The right cybersecurity approach not only safeguards key data and assets, but also provides clear measurement of and visibility into risk.

Given the importance of cybersecurity, more FinTechs are hiring Chief Information Security Officers (CISOs). The most effective ones become agents of change. With stronger relationships at business and board level, and the ability to anticipate evolving cyber threats, CISOs ensure core tech is secure and – more importantly – contributes to business growth.

New regulatory agenda
The ECB's Single Supervisory Mechanism (SSM) Risk Map for 2020 identifies cybercrime and IT deficiencies as one of the top three risks currently faced by consumers in the euro area banking system; cyber incidents can result in significant costs and reputational losses and can have systemic impacts.

Trust by design
The EY Cybersecurity team enables trust in systems, design, and data, so organisations can take more risks, make transformational changes, and enable innovation with confidence. The first step is to evaluate the effectiveness and efficiencies of cybersecurity and resiliency programs in context of the business growth and operational strategies.

Data protection and privacy
Safeguarding data and information over the full lifecycle – from generation and acquisition to decommissioning and disposal; a key challenge involves staying up to date with data security and privacy leading practices, as well as compliance with regulations, as the threat environment and regulatory landscape continuously evolves.

Identity and access management
FinTechs need to define their access management strategy, governance, access transformation and ongoing operations – specifically, processes for validating who users are and providing access to the right assets and resources.

Architecture (including cloud), engineering and emerging technology
FinTechs need to protect themselves and their customers from adversaries that would seek to exploit weaknesses in the design, implementation, and operation of their technical security controls, including disruptive technologies in the marketplace.

Next-generation security operations and response
FinTechs should proactively identify and manage risk, monitoring for threats and investigating the effects of real-world attacks.

3 Tech and ops: Building effective, resilient, and scalable technology and operations

Embracing Agile-at-scale

Most FinTechs typically use Agile methodologies in developing their applications and offerings. Only some use Agile-at-scale, which involves the application of sustainable Agile principles and practices beyond a team level to the wider organisation – at the level of products, programs or the portfolio. Agile-at-scale is particularly well suited to scale-up FinTechs seeking increased business agility.

Introducing Agile-at-scale requires thought and preparation, as well as management commitment, tools and training and discipline. The benefits include:

- **Quicker time-to-market:** Improved ability to respond to market demand and build new products
- **Increased productivity:** Stronger alignment of product teams across the business in support of common goals
- **Improved quality:** Built-in architectural rigour and reviews at each stage of rapid development cycles

FinTechs that want to implement Agile-at-scale frameworks must keep in mind the following challenges:

Agile adoption and transformation
Agile frameworks encourage experimentation and are not solely driven by efficiency. The organisation must move away from measuring outputs to measuring outcomes and delivery of value. The top management must support change and adapt their leadership style and behaviour to fit the new ways of working being introduced.

Scope
Project scope can be ambiguous and outcomes may not be clear in the beginning. Separate entities in an organisational structure with isolated systems can hamper business agility especially if operations are organised around skills and functional silos, rather than outcomes. A strong product owner is needed to keep the project and business objectives on track.

Culture shift
Agile is a culture or a shared mindset, not just a set of practices. It demands organisations to think, act and respond differently in a range of circumstances. That requires time, effort and commitment from the top management.

Measuring performance in Agile projects
Metrics that are used to track success in waterfall projects rarely translate to the Agile environment. To establish the success of Agile projects, organisations need to ascertain how value is delivered over time. For instance, Agile promotes quality by tracking various metrics such as defects escaped, frequency of sprint delivery, meeting the project commitments and employee motivation levels.

Architecture and documentation
A key principle of the Agile Manifesto is 'Working Software over Comprehensive Documentation.' However, architecture documentation provides value in aligning teams to a larger vision and setting out architectural runways and roadmaps to avoid technical debt. A key challenge in an Agile transformation is finding the right balance in weighting working software over architecture documents.

3 **Tech and ops:** Building effective, resilient, and scalable technology and operations

There are a couple other considerations related to technology and operations that should also be front of mind.

International expansion
One further opportunity for FinTech growth is international expansion. Launching into a new country requires strategic thinking, planning, and rigorous execution, and it might even result in slight changes to the products and services you offer. New teams may need to be set up in the new locations, with more complex reporting lines coming into play.

The EY UK FinTech team assist UK FinTechs looking to launch in other markets across Europe, Asia, the Middle East, the Americas, and Asia-Pacific, and we can also help international FinTechs looking to come to the UK. This includes operational setup, corporate registration, and taxation amongst other things.

Legal
As with finance, legal is another area that needs attention when scaling up. The new complexities of regulations, expansion, larger teams, more contracts with clients and suppliers, can all take a toll on stretched legal teams. Increased business success can lead to mergers and acquisition (M&A) activity, which may not have been a consideration during the start-up phase. Larger workforces may necessitate more stringent HR policies and obligations.

Legal considerations are important when dealing with new technologies, such as Web 3, crypto and digital assets, and the metaverse. These are likely to be new and complex concepts for a small FinTech legal team.

3 **Tech and ops:** Building effective, resilient, and scalable technology and operations

Recommended actions

1. Assess core technology in terms of its scalability to support dramatic growth in the customer base and flexibility to support rising demand from internal stakeholders.
2. Holistic cybersecurity strategies must incorporate data privacy and security, identity and access management, and cloud environments.
3. Adopt Agile methodologies across the business and at scale to promote faster product development and continuous improvement.

Additional resources

Transformation Realised | EY UK

Cybersecurity | Insights, case studies & services | EY UK

Agile-at-Scale – How COVID-19 affects people, technology and operations in insurance | EY UK

4 **Customers:** Sharpening customer focus and engagement

Key takeaways

- Expanding the customer focus from niches to the mainstream is key to scale-up FinTechs.
- Neobanks, InsurTechs and other types of FinTechs with multiple value propositions and solutions must clearly define customer segments to differentiate as they grow.
- FinTechs that adopt proven marketing techniques (e.g., next-best action, contextual personalisation) see better results.
- The most successful FinTechs typically integrate their sales and marketing operations.

How customers think about technology and financial services was forever changed by the COVID-19 pandemic. People are looking for purposeful experiences and solutions that make it easier to conduct transactions and meet big-picture goals. They view new technologies as instruments of fulfilment, enablers of satisfying experiences and powerful tools to get things done.

FinTech leaders and founders looking to make a difference will need to think carefully about rising customer expectations and rapid cultural and societal shifts and how the 'new (or never) normal' is impacting all dimensions of growth and customer experience. Compared to start-ups, most scale-up FinTechs need to consider how their offerings can reach mainstream consumers rather than targeted market niches; though it seems counterintuitive, focusing the value proposition often creates broader reach and engagement.

4 Customers: Sharpening customer focus and engagement

Building on customer and market insights

Success in the market today is increasingly driven by deep insights into customer needs and behaviours. A multifaceted, insight-driven approach will recognise how consumers live and work, the kinds of products and services they use, and the challenges they face in achieving their goals. Specifically, a strong insight generation capability will reveal:

- Customer need-states and priorities
- Sensitivity to social impacts and sustainability
- The effectiveness of the overall customer journey and individual touchpoints
- Business benefits associated with different types of interactions and new product features

A deep understanding of customer needs provides a foundation, but gaining market traction for truly customer-centric solutions also requires:

- Satisfying demand for better and more data use across the company to drive stronger outcomes and optimise revenue performance
- Reducing costs and building a lean operating model that can flex in line with shifts in customer demand
- Addressing challenges in adapting the company and operating model to new skills, new digital channels and new ways of working
- Navigating new competition and market entrants

Orienting the entire company and all operations around the customer vision is key. The steps include:

- Connecting functional silos around key points on the customer journey
- Developing the right marketing use cases, supported by the right data and tech architecture
- Forensically analysing customer buying behaviours
- Embracing metrics such as MROI (marketing return on investment) for continuous improvement
- Designing and managing a right-sized marketing ecosystem of agencies and partners

4 **Customers:** Sharpening customer focus and engagement

This issues our clients are facing	Where the resolution lies
Rising customer expectations and rapid cultural and societal shifts	Connect silos across the customer journey to drive outcomes
Demand for better and more data use across the company to drive stronger outcomes and optimise revenue performance	Build the right data and tech architecture supported by the right data strategy from the right marketing use cases and align to operating model and overall strategy
Intense pressure to drive sustained growth while reducing costs against economic headwinds	Forensically analyse and understand customer buying and act upon MROI (marketing return on investment) for continuous improvement
Challenges adapting the company and operating model to new skills, new digital channel pressures and new ways of working	Design an optimised operating model aligned to business objectives, develop the right-sized marketing ecosystem of agencies and partners
New competition and entrants from unexpected sources	Actionable, measurable customer, marketing and data strategies that articulate complex portfolios of brands, products and services

4 **Customers:** Sharpening customer focus and engagement

Customer and growth strategy

The key components and attributes of an effective customer and growth strategy include:

Engagement
- Customer focus and disciplined approaches to consumer segmentation, lead generation and nurturing
- Marketing and communications agility to move rapidly, responsively and with purpose

Growth drivers
- Product strategies that extract value from existing products
- Virtualised sales that shift the mix to new channels

Experience
- Digital journeys that prioritise new ways to engage and interact
- Virtualised services to support customers and fulfill their needs

Business needs and objectives
- Remote teaming based on new models for productivity and collaboration
- Last-mile innovations that deliver products to end users

Data is the fuel that enables all of these key connection points, shaping personalised messages and offers and driving stronger, more engaging experiences.

4 **Customers:** Sharpening customer focus and engagement

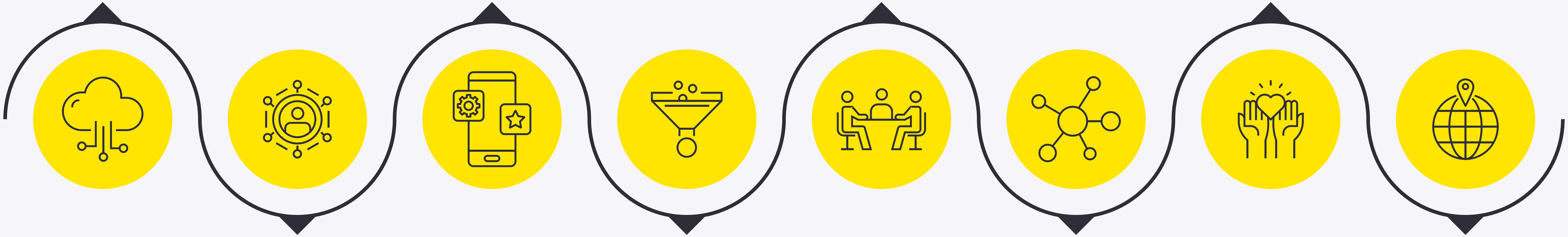
From insight and strategy to planning and delivery

Customer intelligence and orchestration in real time

Automated and personalised communications customers needed

Mutually valuable Customer relationships over a lifetime

Purpose-driven brand strategies that builds loyalty



Intuitive customer experiences powered by data and analytics

Strategies for **accelerated marketing excellence**

Data orchestration that underpins everything

End-to-end MarTech planning and delivery

Customer	Data and tech	Processes	People

4 **Customers:** Sharpening customer focus and engagement

What EY offers

We have capabilities across the whole of the marketing ecosystem with the goal of driving loyalty and growth by delivering personalised customer communications and experiences. Our expertise ranges from insight and strategy to planning and delivery:

- Real-time customer intelligence and orchestration
- Sophisticated customer and market research
- Design of intuitive customer experiences powered by data and analytics
- Automated and personalised communications
- Data orchestration underpinning marketing, sales and service
- Proposition design and purpose-driven brand strategies that build loyalty
- End-to-end MarTech planning and delivery
- Cultural transformation and organisational design

EY Seren – a customer experience and digital transformation agency – offers a range of strategic capabilities and solutions tailored to financial services. We use a design-based process that blends human insights, experience design and delivery, and cultural transformation to deliver high-impact outcomes.

Preparing the organisation for customer centricity and growth

Scale-up FinTech leaders will need to consider the following issues and opportunities as they look to build strong and customer-centric marketing, sales and service operations.

- Is our organisation and culture ready for rapid growth?
- Is customer-centricity embedded in all operations?
- What skills and talent do we need to innovate in line with customer needs and preferences as well as market opportunities and our long-term strategic plans?
- What is the right research approach to generate high-value insights?
- What is the best way to monitor consumer trends and behaviours over time?
- Have we crafted the right value proposition to scale our business?
- Are customer experiences aligned to customer needs and sufficiently rich and personalised?
- Do all products and experiences reflect our purpose and business objectives?
- How can Agile methodologies and design thinking enrich our value propositions and experiences?

Over the long-term, FinTechs should aspire to put – and keep – customers at the centre of key operations. That requires:

- Aligning UX designers and researchers to client customer teams
- Focusing on behaviour, engagement, tangible experiences and actionable outcomes
- Delivering robust insights, aligned to clients' strategic priorities and tactical objectives

Business and customer teams should work closely together to shape, incubate and prioritise strategic business solutions for growth, using short sprints and rapid experimentation to drive customer-centric outcomes. Agile methodology, design thinking and experience design are among the top skills that FinTechs will need to deliver solutions that drive breakthrough growth. Those capabilities are especially powerful when embedded into business teams.

4 Customers: Sharpening customer focus and engagement

Recommended actions

1. Stay close to customers through sophisticated market research and ongoing monitoring of consumer trends and behaviours.
2. Evaluate the current value proposition and map necessary refinements that can engage a broader range of customers and mainstream your offerings.
3. Prepare the organisation and culture for dramatic growth.
4. Cultivate expertise in Agile ways of working and experience design and other capabilities necessary for sustainable growth.

Additional resources

EY Global FinTech Adoption Index 2019 – Our latest thinking | EY – Global

How banks can stay relevant as customer preferences change | EY – Global

Open banking – Our latest thinking | EY UK

5 Finance and capital: Mastering finance and funding with speed, rigour and insight

Key takeaways

- As FinTechs scale, finance teams need to be prepared to address a wider range of requirements, withstand more detailed scrutiny and contribute to more confident decision making.
- FinTechs are subject to a suite of regulations from the FCA, which puts a premium on a highly effective and efficient finance function. For more on regulation, please see Chapter 2.
- Larger funding rounds typically invite increasing due diligence and scrutiny.
- The tax issues that arise during the scale-up stage should be approached from a forward-looking perspective.

Every FinTech has its own definition of success, from broader geographic reach and product portfolios, to higher revenue and a larger client base, to proximity to an exit through a buyout or public listing. But no matter the precise goal, a strong, technology-enabled finance function will be critical to achieving it.

Such a function plays a crucial role in:

- Supporting the seamless management of cross-border activity and readily incorporating new products
- Enabling accurate and timely reporting to meet the standards of clients, investors and regulators
- Instantly analysing the numbers to produce high-value insights for real-time decision-making

At many successful FinTechs, the CFO is not just a number-cruncher, but a key strategic advisor to the business. For CFOs to add value in this way, the finance function must be highly automated and data-driven.

Unique finance challenges for scale-ups

A number of common occurrences and milestones confirm when it's time to upgrade the sophistication and capacity of finance units. Such change often becomes imperative much sooner than most high-growth FinTechs realise. The events typically include:

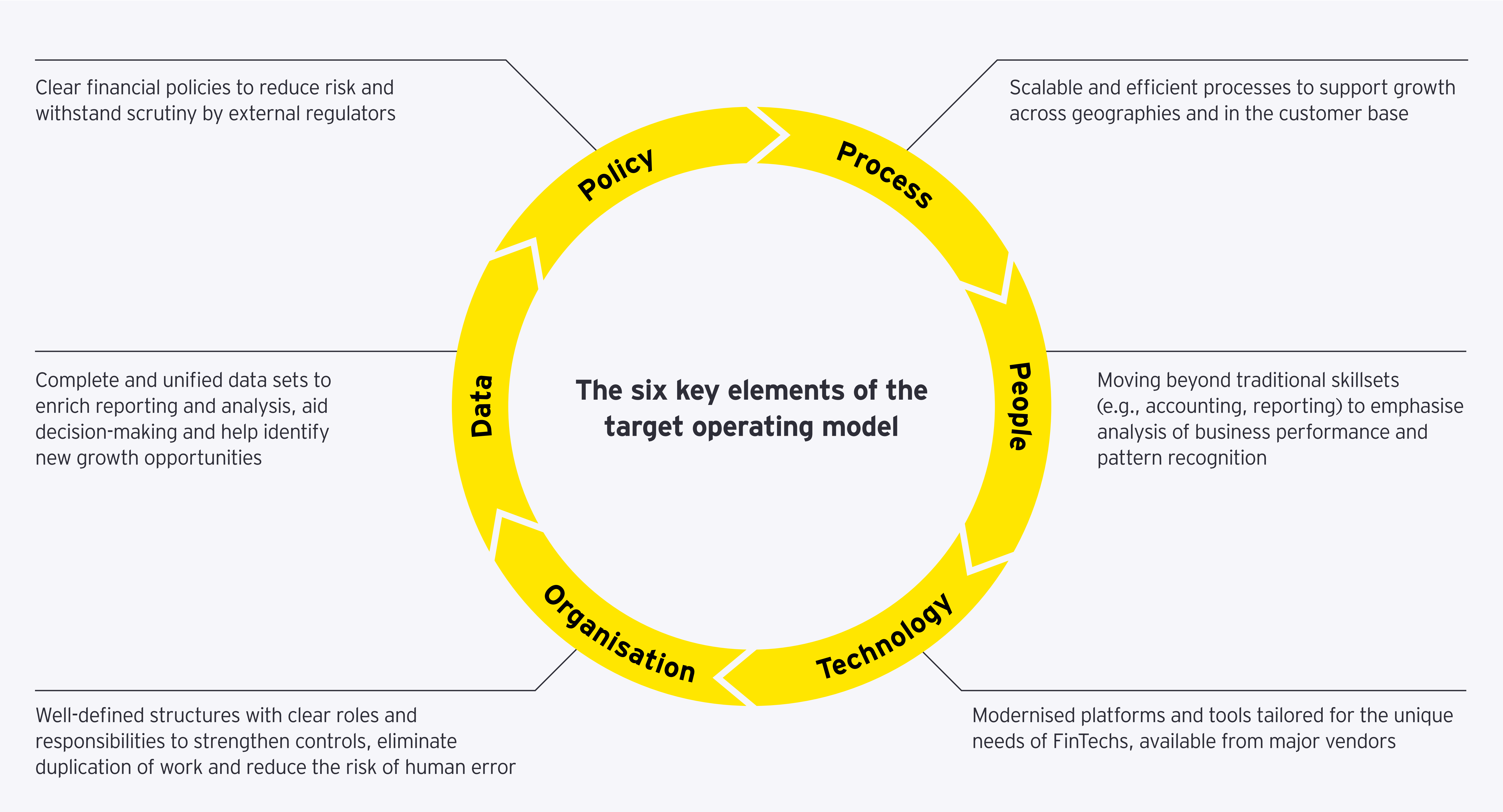
- Operating in a new country with new accounting rules and reporting requirements, new currencies to accommodate and new legal entities to consolidate
- Winning a large client that may demand granular financial information from FinTech suppliers as part of its third-party risk management activity
- Investors asking for more extensive information (e.g., the margins of different products within different customer segments)
- Rising expectations from regulators and auditors
- Preparing for an IPO or direct listing, with demands for comprehensive financial information to be produced quickly and accurately and evidence of robust financial control

When these events happen simultaneously, FinTechs may face a 'tipping point' where the finance function must quickly pivot or augment its capabilities to match growth strategies and aspirations. That's why FinTechs need a roadmap for their finance functions.

5 **Finance and capital:** Mastering finance and funding with speed, rigour and insight

The finance target operating models

A finance target operating model charts the course for finance teams evolving beyond being accounting and reconciliation hubs to become business partners that support decision-making and growth. Further, the right operating model ensures the finance function is scalable, adaptable and aligned to the core business vision.



5 Finance and capital: Mastering finance and funding with speed, rigour and insight

The right finance tools and systems

A modern and full-featured finance platform goes beyond efficient reporting to empower finance teams to produce data-led insights of commercial value. Through robust financial planning and forecasting, finance can directly influence the operating model and move closer to the heart of decision-making. Finance teams can also exert positive influence in the following areas:

- **Cost:** Controlling the cost base, running finance services efficiently and providing insights that lead to better cost management across the business.
- **Control:** Delivering accurate, timely and consistent reports and data to both internal and external stakeholders.
- **Cognition:** Analysing business data and deriving insights for strategic and tactical decision-making.
- **Compliance:** Responding efficiently to regulatory requirements and changes and promoting compliance with accounting policies and multi-jurisdiction regulation.

The importance of exit readiness

For many scale-up FinTechs, finance teams will be focused on exit readiness, which aims to identify the business issues that will need to be addressed prior to or during the process of selling, spinning off or contributing a business or asset to a joint venture.

EY's annual divestment study[11] identified the following activities as making the biggest difference to value during exit preparation:

- Identification and early 'fixing' of key risk areas, including value-eroding issues
- Strategies to address the equity cases for each of the most likely buyers
- Detailed, evidence-based forecasts, supported by operational plans and consistent KPIs, that are credible to potential buyers
- The right due diligence approach for supporting operational, commercial, tax, legal and regulatory plans
- Planning and prioritisation of key activities to promote consistent performance as business continues alongside the exit

A full exit readiness assessment encompasses:

- Identification of issues that affect the value or timing of a sale
- Creation of objective views of the business from the perspective of most likely buyers, using current business information
- Action plans with timetables and practical advice and recommendations
- Inputs from shareholders regarding the best time to begin a sale process and preparation priorities
- Analysis of the different options being considered by management (e.g., full or partial sales, joint ventures, spin-offs, IPOs, refinancing)

The outputs will help promote confidence in management and increase the likelihood of a timely and high-value transaction.

[11] https://www.ey.com/en_us/divestment-study

5 **Finance and capital:** Mastering finance and funding with speed, rigour and insight

How EY helps with exit readiness

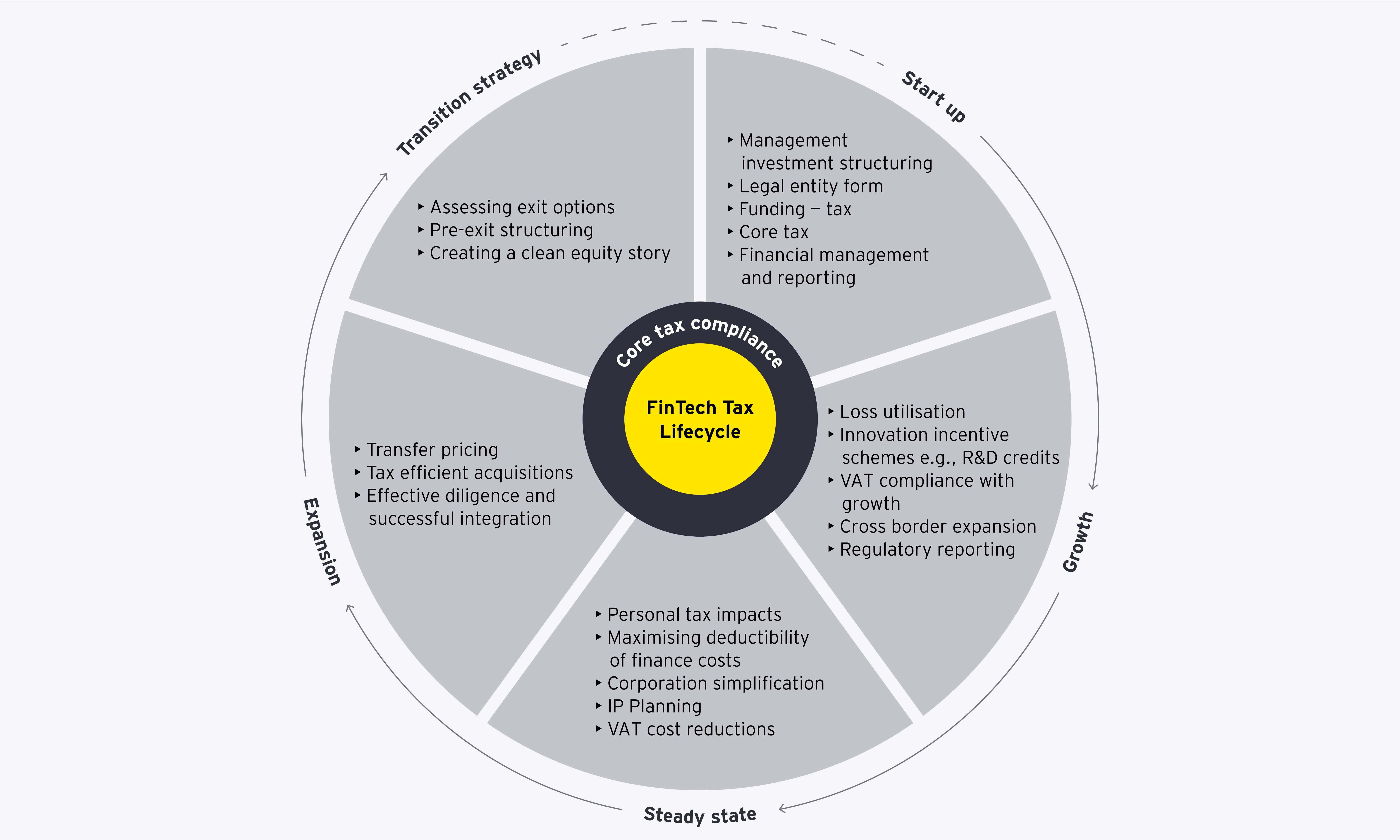
Our 'exit platform' approach produces plans tailored to FinTechs' unique objectives and opportunities.

The exit platform	
Most likely buyers	Choose up to five likely representative buyers (including IPO)
Equity story	Collate the equity case for representative buyers
Information	Identify information gaps and key buyer questions
Timetable	Resources needed and time required
Stakeholder alignment	Vendors, management, advisors, financing sources

Tailored outputs
Detailed exit plan
Preparation timetable, steps to bridge information gaps, resource planning (internal, PE-owned, advisors), identification of tasks that cannot be done internally
Identification of value sources
Changes (including SPA) design of 'adjusted EBITDA' definitions, project assessments, including start, stop, accelerate (e.g., working capital improvements), tax attribute design, business or deal structure

5 Finance and capital: Mastering finance and funding with speed, rigour and insight

Mastering the tax implications



It's difficult to overstate the importance of tax matters to FinTechs' finance teams, or to the overall success of the business. It's safe to say that as the business grows, so too will tax obligations; however, FinTechs will face unique tax challenges and priorities at each phase of their lifecycle.

5 **Finance and capital:** Mastering finance and funding with speed, rigour and insight

Start-ups face a number of important tax considerations to ensure compliance and to secure tax efficiencies for both the immediate and longer terms. The key is careful and robust tax structuring to minimise tax leakages and bolster cash flow. There are also important requirements for accounting, financial and management reporting, payroll and company set-up with potentially significant tax implications.

Non-compliance with core tax obligations can incur significant financial penalties and cause reputational damage, as well as harming relationships with the tax authorities. Compliance can be challenging in an ever-changing and increasingly complex regulatory environment.

Beyond compliance, FinTechs should aim to take advantage of various tax incentive schemes (e.g., for R&D, the patent box regime) which can improve cash flow. Effective VAT recovery can help minimise VAT leakage and promote value.

As the business grows, scale-up will be looking to the finance function for sound business decisions that maximise growth and return on capital. For instance, finance and tax teams can:

- Review current capital structure to boost tax efficiencies (e.g., examining the deductibility of finance costs)
- Explore opportunities for corporate simplification, which can reduce management time and administrative burdens going forward
- Identify personal tax impacts on business owners and the tax implications of employee incentives programs

FinTechs looking to expand will want to conduct robust due diligence on potential acquisition targets, identify the most advantageous deal structure, and plan for post-deal integration to realise value sooner. International expansions raise a number of issues including managing tax residence, permanent establishment and transfer pricing risks. Transition strategies should address the significant corporation and personal tax consequences.

5 **Finance and capital:** Mastering finance and funding with speed, rigour and insight

Recommended actions

1. Create a target operating model to guide finance transformation investments and change programs.
2. Identify areas where process automation can free finance teams to focus on value-adding activities.
3. Build a readiness plan incorporating the full range of exit options.
4. Consider engaging tax specialists to achieve compliance with core regulations, maximise the value of government-sponsored tax incentives and the advantages of the right legal structures.

Additional resources

EY divestment study

How EY is going beyond borders with FinTechs in the UK | EY – Global

Investing in innovation | EY UK

5 **Finance and capital:** Mastering finance and funding with speed, rigour and insight

Managing through uncertain times

While the growth of many FinTechs continues at an impressive rate, a range of macroeconomic indicators indicate potential risks on the horizon. This includes the risk of a recession, difficulties facing customers as the cost-of-living crisis evolves, significant increases in inflation and interest rates. Added to these factors, the COVID-19 pandemic, geopolitical uncertainty and cross-border trade restrictions provide a backdrop of increased uncertainty.

FinTechs are generally well-placed to respond to these challenges through a high degree of agility in their propositions and their operations. However, this environment will prove challenging for some firms, such as those that have struggled to reach a good product-market fit and are unable to find investors or funding to support the next stage of their journey. FinTech firms running into financial problems should consider getting professional advice to help navigate practical and legal considerations in how the organisation should be managed.

Business restructuring – whether that be an operational turnaround or a financial restructuring – can be a vital tool in preserving value for a company and its stakeholders. From refinancing and cashflow improvements, to the divestment of assets and management of liabilities, there are a range of ways executives can maintain value in their organisation. We additionally see several focus areas for teams for whom the current uncertainty provides acute pressure:

- **Contingency planning:** Setting up a 'Plan B' and possibly a 'Plan C' for the management of the organisation which provides options for key stakeholders
- **Communication strategy:** Firms typically need to adopt a change in their communication strategy, acknowledging uncertainty, focusing on business priorities in clear and simple terms, often increasing the cadence of communication, maximising in-person contact
- **Liquidity and working capital:** Focusing on sustaining good control over short-term cash flows and the working capital that drives them; this typically includes identification of cash-generating opportunities, cash flow forecasting, and increasing visibility and control through advanced digital analytical techniques

Many FinTech firms will have a wind down plan as required by the regulator. Where this is the case, it will be the key initial reference point for firms.

Through proper forward planning, firms will put themselves in the best possible position to weather the possible economic difficulties ahead.

6 Scale and beyond: Preparing for the IPO

Key takeaways

- IPOs are best viewed as a long-term process that requires careful planning and disciplined execution
- An IPO readiness assessment clarifies critical success factors and gaps that must be addressed, from organisational cultures to operational capabilities
- A strong, effective and appropriately resourced program management office (PMO) is necessary for successful IPOs, particularly relative to selecting external partners and meeting key deadlines

For many FinTechs, initial public offerings (IPOs) are a key goal and milestone on the growth journey. Preparing the organisation for such a major event is critical and should be viewed as a process rather than a one-off event. An IPO represents a metamorphosis – a series of planned, pervasive changes undertaken to achieve long-term objectives.

The planning process starts long before the transaction, ideally with a holistic IPO readiness assessment. It extends to the development of a PMO and a structured timetable. FinTechs will need to explore why, when, where to list their shares.

IPOs require considerable effort, but in our experience, the hard work pays off with better results. Put simply, well-planned and effectively executed IPOs create and increase value for stakeholders, while those that are poorly planned and executed destroy value.

Moving from a private organisation to a public enterprise

Preparing the organisation for the shift from private to public ownership involves several work streams that require proactive and careful planning. Among the key variables:

- Conducting a readiness assessment
- Developing an IPO ‘story' or narrative with strategic support
- Building a viable IPO timeline based on reasonable expectations
- Determining the right location and exchange for listing
- Preparing an ESG strategy linked to the company positioning, purpose, and storytelling,
- Establishing structures and processes for external reporting, good corporate governance, compliance and investor relations

Many parts of the organisation will be involved, including finance, HR and IT groups, as well as the C-suite. So it's critical that resource gaps are understood early. After all, the management team still needs to run the business during the IPO process, which can be a stressful time.

6 Scale and beyond: Preparing for the IPO

The readiness assessment

A thorough readiness assessment will explore organisations' ability to change and the quality of leadership and management teams in terms of navigating the complexity of capital markets, increased regulatory oversight, and the need for stronger corporate governance and risk management capabilities.

An effective readiness assessment also defines the capital-raising goal. For instance, if capital is being raised to execute on the business strategy and achieve operational excellence, it's important to ask:

- Where is the company in its lifecycle?
- What is the company's growth potential?
- Is the business model predictable and sustainable?

IPO transformation

The journey to IPO is typically a phase during which a number of transformational changes take place in the business. These include:

- **Organisational change:** Development of new organisation and management structures to support continued growth of an increasingly complex organisation.
- **Leadership and management readiness:** Bringing onboard new leaders, and supporting existing leaders, to continue the scaling journey.
- **Transparency:** Preparing for far greater disclosure of company information, and control over that information, associated with being listed.
- **Ownership structure/control:** Possible new investors bought onboard during the listing, as well as potential steps to manage control of the organisation (e.g., dual class share structures).
- **World-class financial organisation:** Rapid development of the finance function to produce richer financial information and analysis on a timely basis.
- **Delivering on promises:** Focus on the need to communicate financial plans to the market, be measured against these and explain any variances.

If the goal is to maximise company value and mitigate risk, the key questions include:

- What are the stakeholders' motivations?
- Is the management team strong enough?
- Are corporate governance models strong enough?

No matter the goals, FinTechs will want to analyse the costs and benefits of listing in different locations or on different exchanges, as well as defining a realistic timeline. Because of the complex and sensitive nature of these questions, many FinTechs look to experienced transaction advisors for help in finding the right answers.

6 Scale and beyond: Preparing for the IPO

Building the PMO

A strong, dedicated IPO PMO can make a difference in executing a smooth IPO preparation process. In identifying the right resources to lead or work in the IPO PMO, the key questions to ask are:

“Are any current employees experienced or familiar with the UK IPO process?

“Could they run the PMO and/or manage the overall process?

“Can the PMO work across the business, linking disparate teams like legal, audit, operations, marketing, and finance?

“Does the PMO have experience in maintaining confidential information, until it is required to release that publicly and can they bring the executives along with them on that journey in confidence?

“Is the PMO sufficiently staffed to manage the increase in reporting requirements leading up to, during, and after an IPO?

“Do management and key employees have the capacity to run an IPO process in parallel to managing daily business?

“What are the most important qualities and skills for a PMO leader to have?

PMOs will also be responsible for coordinating the efforts of external service providers and ensuring dependencies are being met in line with the overall timeline and specific target milestones.

6 **Scale and beyond:** Preparing for the IPO

From preparation to transaction: A typical IPO roadmap and timeline

12-24 months prior to target IPO date

- Evaluate IPO as strategic funding in an IPO readiness assessment workshop, IPO diagnostics and an IPO readiness result report
- Identify resources and set up an internal IPO team
- Identify the requirements to connect to capital market infrastructures and/or make structural adjustments
- Prepare group systems, new functions, tax optimisation at company and shareholder level

6-12 months prior to target IPO date

- Have a 'beauty parade' to select banks, lawyers, auditors and investor relations teams to support IPO
- Set timetable, start due diligence, and prepare offering concept and prospectus
- Fine-tune business plan, fact book, and presentation materials for analysts, the press and investors
- Fine-tune the equity story and valuation perceptions based on investor feedback

1-6 months prior to target IPO date

- Finalise offering prospectus for approval by regulators and securities admission to the stock exchange
- Hold press conference and launch the investor roadshow
- Determine the issue price and allocation via book building and order book analysis
- Plan for first price on the stock exchange with an IPO ceremony and media attention

Post-IPO

- Be proactive in investor relations and conduct ongoing road shows based on the IR calendar
- Manage investor expectations via efficient forecasting and using issue proceeds in line with the plan
- Issue transparent external reports on an ongoing basis
- Share disclosures (e.g., directors' dealings, corporate governance, ad-hoc) and conduct general meetings

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6 Scale and beyond: Preparing for the IPO

Recommended actions

1. View of the IPO as a critical transition and major milestone for the company.
2. Design a planning process that reflects the huge value creation opportunity, as well as the unique complexities and new responsibilities associated with going public.
3. Clearly articulate the objectives for your IPO within a compelling IPO story.
4. Identify the best approach in terms of when, where and how you list shares, all of which align to the why.

Additional resources

EY Global IPO Trends Q2 2022 | EY – Global

EY Guide to Going Public (pdf)

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