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The Top 5 Fintech Trends For 2017

By **Mark Taylor**

Law360, London (January 2, 2017, 6:03 PM GMT) -- The U.K.'s financial technology industry hit new heights in 2016, but as with any runaway success story, challenges quickly appear on the horizon.

London has cemented itself as the global capital for fintech, turning a fledgling sector into a $24 billion industry in just two years, to the envy of governments around the world. In the coming year, the industry will face new obstacles as it continues to grow.

Here, Law360 looks at 2017's fintech trends as the landscape becomes more competitive and regulators look to tighten rules.

"The financial services sector has always been at the forefront of innovation, from new products and services to developing new markets and harnessing new technologies," said Guy Wilkes, financial services partner at Mayer Brown International LLP. "Cognitive technologies, high-speed processing and algorithmic trading have altered the market landscape."

Regtech Is Red-Hot

Regulatory technology, or regtech, is seen as the future for oversight and enforcement agencies. The U.K's Financial Conduct Authority has spent the last 12 months championing firms developing such solutions, and financial services lawyers agree this will be one of 2017's buzzwords.

This growing offshoot of fintech centers on helping firms meet regulatory requirements via new methods of data crunching such as machine learning, artificial intelligence and other technologies such as blockchain.

The FCA also believes regtech can help it do its job of monitoring firms better, and is encouraging companies to come up with ideas even though they may not be initially commercially viable.

"For a regulator to make consistent comments about what it is interested in and what it wants to use, saying 'regtech is important,' for me it's a pretty clear steer they are saying, 'If you build it, we will come,'" said Claire Harrop, financial institutions lawyer at Freshfields Bruckhaus Deringer LLP. "They want to encourage fintech in London despite Brexit, and these statements fit in with that."

Blockchain technology, machine learning and artificial intelligence are heralded as the immediate answer. Research by luminaries including Goldman Sachs Group Inc. and Banco Santander SA prices savings at tens of billions of dollars for the banks, stock exchanges, asset managers and investment names that get on board.

"The space is evolving rapidly, and regtech could bring significant change to the financial services sector in relatively short order, potentially transforming how regulators and financial institutions operate and interact," said Kevin Petrasic, partner at White & Case LLP.

M&A Set to Skyrocket

For big banks with legacy infrastructure and huge, continent-spanning operations, it is difficult to pivot or bring about change quickly; it is easier to acquire.

“Larger financial services firms are having to get more flexible with their models,” said Mark Prinsley, business and technology sourcing partner at Mayer Brown International LLP. “They have shown a willingness to invest in, or at least expose themselves to, new types of business that they would not have considered even a few years ago.”

He said the appetite is growing to buy in new technologies and approaches. A survey put out by the firm covering 30 global banks, 20 insurers and 20 asset managers found one-third said they expected to acquire a fintech business in the next three years.

2016 was fairly quiet for buyouts, but the intention from traditional finance is to step up activity markedly.

“Fintech will continue to drive the evolution of financial services, disrupting some subsectors, enabling new developments in others, and providing new and improved infrastructure for the digital age,” said Roger Kiem, a White & Case partner and co-leader of the firm’s EMEA financial institutions M&A group. “As the market evolves, fintech M&A and investment will only grow.”

Regulators Get Busier

“Cybersecurity, investment risk and regulation are among the main issues that fintech has been grappling with as it has increased in size and become more influential in financial services,” said Gavin Weir, a partner at White & Case. “For example, banks and regulators have expressed concerns about the safety of customer data held by banks being made available to third-party fintech providers for use on their apps.”

While the FCA has taken the lead in encouraging fintech, it has been reluctant to lay any rules down to stifle the U.K. market. In 2017 it will update its regulations on automated advice, known as robo-advice, and is looking at potential tweaks to crowdfunding and peer-to-peer lending following a huge rise in popularity of the online lender sector.

The European Commission, the bloc’s executive arm, announced formation of a fintech taskforce, and it will present its first set of policy suggestions and recommendations in the first half of 2017. Lawmakers have advised it to follow the U.K. model.

“There is a lot of work to be done by EU lawmakers to ensure there is a joined-up approach across Europe that finds the right balance between nurturing the fintech industry and protecting consumers before we start to look at any kind of wider international harmonization," said Angus McLean, partner and head of the international fintech team at Simmons & Simmons LLP.

"The U.K. regulator is taking the lead in talking to regulators in other countries and has set up a number of 'fintech bridges,' and other jurisdictions are looking to see how they can mirror the U.K. approach," McLean said.

The cross-border nature of many internet-driven fintechs also means regulators are looking to become more familiar with how their international counterparts are faring "It is important that regulatory collaboration becomes more widespread," said Lucy Frew, financial services partner at Walkers LLP. "Forward thinking regulators such as the FCA, Hong Kong Monetary Authority, Australian Securities & Investments Commission, the Monetary Authority of Singapore, the Korean Financial Services Commission and the People's Bank of China have built "fintech bridges' intended to assist innovative businesses to enter each other's markets."

London Law Firms Get More Fintech-Savvy

In the last year, City law firms have been investing heavily in their fintech practices and providing cut-price services to new clients in the hope of bringing the next big player to market, and the trend is expected to continue in the coming year.

In May 2016, Simmons & Simmons launched a dedicated fund to help startups solve some of the difficult legal problems they often encounter when their businesses are in their infancy.

"Early-stage fintech businesses in the U.K. currently face challenges finding the right kind of legal support," said McLean. "Our vision is for the fund to help promising startups solve challenging legal or regulatory problems that could otherwise slow down their development or, in some cases, prevent them from getting off the ground at all."

Hogan Lovells launched a regulatory accelerator, an online tool to help fintechs understand and navigate the FCA's regulatory regime as they start up and scale, and it has also been a major player behind the growth of London's largest fintech trade group, Innovate Finance.

Also in 2016, Addleshaw Goddard LLP launched a £500,000 ($623,300) program to provide free legal advice and a mentoring service to established and startup businesses.

The firms themselves are also getting in on the act. Pinsent Masons LLP, a well-regarded fintech-friendly law firm, rolled out a technological tool it says helps clients identify risks related to the United Kingdom's vote to leave the European Union in existing portfolios and future contracts.

The Inescapable Brexit Question

In perhaps the biggest development in the coming year, London's fintech scene is worried that leaving the EU will rob it of talent and the perfect legal environment to flourish and serve the European single market.

Much hinges on the U.K.'s deal with the EU on leaving, and fintech firms have lobbied hard on issues such as access for workers to Europe and the ability to passport talent. With Britain set to formally begin the exit talks in April, it will be a pivotal moment in the history of what is still a nascent sector.

“The Brexit vote is already affecting sentiment in fintech and financial services,” said Liz Stern, a partner in Mayer Brown’s Washington, D.C., office. “The uncertainty about business immigration regulation is already affecting plans by major multinational companies that have London as their European headquarters.”

There are significant challenges ahead for the sector and their decision to stick or move. It may well remain quiet until the second half of the year, when Britain fires the exit pistol.

“The uncertain nature of how and when Brexit will occur means that companies aren‘t making rash decisions on investment yet, particularly in such a key area as fintech,” said Weir.

--Editing by Sarah Golin and Brian Baresch.
