



Compliance programs: A strategic competitive advantage for FinTechs

November 5, 2019

When you think about a strategic competitive advantage in the FinTech world, the first thing to come to mind isn't compliance programs. In the FinTech world, compliance programs aren't generally thought of as a strategic competitive advantage. On the contrary, compliance programs shouldn't merely be viewed as expenses that generate limited value. Effective compliance programs protect the value generated by your business and also enable engagement in partnerships with mature financial services companies that require their partners to have compliance programs that meet certain standards.

In a recent [article](#) posted by the Wharton School of Business, it was correctly noted that FinTechs "are focused on building their product and getting it to market as quickly as possible...[and] [t]hey're not thinking about regulatory policy, but it's a fact of life if you're playing in the finance system in the U.S." Founders are passionate about their companies and excited to disrupt the financial services industry, generating value while doing so, but what protects this value or enables exponential growth through partnerships with large financial institutions? Great FinTechs will eventually lose value or have stymied growth if their compliance programs are not sufficient.

A very public example of this phenomenon is demonstrated by the recent withdrawal of six prominent corporate backers of Facebook's Libra cryptocurrency. As noted in a CNBC [article](#), PayPal, Visa, Mastercard, Stripe, eBay and Mercado Pago exited the Libra Association. It is believed that the driving reason for such exits was concern about Libra meeting regulatory expectations and potential exposure to enforcement actions.

Startups and early stage FinTechs may also run into this issue when raising capital. As investors perform due diligence and decide how and with whom to partner, compliance programs can provide a strategic differentiator among similar companies. A company with limited concern for compliance may be viewed as riskier than a similar company with proper or developing compliance controls. Investors are also very aware of regulatory requirements and risks, as well as the need to meet the regulatory expectations of larger counterparties and potential partners.

Compliance will also help during an exit from a company. Once the value is created, founders and their team may want to reap the benefits of this value through an exit, such as the sale of the company or an IPO. In both of these processes, compliance programs will be a necessary part of the plan. Larger companies in the financial services industry have strong compliance programs and will review programs carefully during due diligence. Also, in any IPO, a compliance program will be important to meeting investor and regulatory requirements to execute the IPO. In either event, investing in compliance programs during the growth stage of the company will reap future benefits and ensure the company is ready for its next stage. (And nothing beats the feeling of walking into a meeting knowing that the investor or acquirer will not only find your compliance program sufficient but will be impressed by it!)

Importantly, compliance shouldn't drive business strategy or growth. And compliance programs and teams should facilitate and protect growth, without limiting the innovation and strategy of the business. A FinTech's return on its investment of time and resources in its compliance program will become evident when the successful partnership, investment or exit was made possible by having addressed compliance requirements in advance of needing to meet required standards.

