

**MORRISON
FOERSTER**

FINTECH WAVE: WHY SINGAPORE IS LEADING CHANGE



Jake Robson



Nicholas Davies

The Fintech wave may have started in the US and been refined in Europe, but it is in Asia where its true potential is becoming evident. The authors see the next wave of growth in the Fintech space being driven by Asia – both in existing financial centres in the region, which have increasing levels of sophistication, and in countries across the region with low levels of financial inclusion but high growth prospects.

CHALLENGES IN PARTNERSHIPS

In more developed markets or market segments, Fintech technology is a substitute to existing financial services or products. Here, Fintech has a transformative effect on the way that financial services are delivered to consumers and on a business-to-business basis. However, due primarily to fragmented regulation and the resulting challenges of running financial services businesses in each jurisdiction, scaling these products to serve customers in multiple Asian jurisdictions – a prerequisite for the profitability of many Fintech solutions – remains difficult.

The authors believe that due to particular challenges in Asia, the main developments in the Fintech market segment are likely to take the form of strategic commercial partnerships between financial services providers and Fintech innovators.

FINTECH GROWTH COMPANIES

The lack of financial inclusion in developing countries across Asia leaves room for significant innovation, which would not find success in over-banked and heavily entrenched economies such as Europe and the US. The combination of sizeable populations and growing GDP levels, together with Fintech innovation, means the conditions are right for widespread disruption from new Fintech players. For emerging Fintech companies,

the need for multi-jurisdictional expansion comes quickly on the heels of a successful proof of concept. A competitive advantage will only be retained as long as there is a rapid launch across multiple jurisdictions. This may involve a combination of venture capital, strategic partnerships, licensing deals, or even a franchise-style model.

Singapore's strong and transparent financial services sector, a buoyant venture capital industry and a forward looking regulator help to make Singapore a destination in its own right on a regional and global level. For Fintech growth companies, rapid expansion coupled with the need for regulatory compliance requires both expertise and capital. Fintech companies will gravitate to the key financial centres in the region in order to source their funding, as well as to seek talent to execute their expansion plans.

Singapore stands out as being strategically placed to serve these needs in the region, and increasingly as a destination for European and US capital.

TOOLS FOR DEAL MAKERS

Regional expansion and capital needs, plus high-growth potential of Fintech companies in Asia, provide a key opportunity for investment by existing financial services providers, and also for other strategic players and venture capital investors.

Successful deal making in this specialist area, whether through commercial partnerships or direct investment, needs specialist guidance from lawyers with experience in venture capital investments, and M&A and regulation.

Alongside corporate due diligence, legal due diligence on a Fintech deal normally requires an emphasis on regulatory matters, especially: systems and controls relating to financial services licensing; anti-money laundering; and the way customers are acquired

and served. A focused due diligence exercise performed by an experienced team can go a long way to de-risking an investment or partnership. IP and IT matters including data privacy and ownership of customer data will also require review and evaluation. Experienced advisers in new Fintech technologies and financial services are invaluable in matching these technical drivers for valuation of a target with the underlying regulatory and licensing regime in countries where the target operates.

INVESTOR-SIDE CONSIDERATIONS

Acquiring a controlling stake or a minority equity investment in a Fintech company must be approached with care. Investing in a target that already has some level of venture capital funding must be done in a way that seeks to enhance working relationships between the investor and the target company. Similarly, investing into a target with financial services licences requires analysis in respect of regulatory change of control issues with these licences.

Shareholder agreements must be negotiated with skill, as the challenge is to protect the investor's investment over a long growth period for a FinTech target, while giving the target the flexibility it needs to grow, and also being mindful of the strategic aims of other shareholders. In the next five years, the FinTech wave is likely to touch, directly or indirectly, on nearly every aspect of business in Asia. An experienced law firm can assist its clients to navigate this highly complex and regulated area, maximizing commercial potential.

JAKE ROBSON is a partner at Morrison & Foerster in Singapore. **NICHOLAS DAVIES** is a senior associate at the firm.
