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Fintech IPOs

Four foundational keys to success

It's a fascinating time for fintech. The virtual-first environment we're experiencing globally has accelerated the adoption of many of the industry's innovations, including digital banking, online point-of-sale financing, contactless payments, and enhanced digital offerings across fintech companies, such as proptech and insurtech. Meanwhile, a significant amount of money is up for grabs in the capital markets, and there's a widespread push for public listings as venture capitalists look to find successful exit strategies for stars in their portfolio.

These trends have led more and more fintech companies to consider pursuing a public listing via an initial public offering (IPO), special-purpose acquisition company (SPAC), or a direct listing (DL). This public listing boom is solidifying a shift in the way financial products and services are delivered and underscoring fintech's arrival on the main stage as a viable long-term business model. It's being led by companies pursuing stand-alone end-to-end business models and/or partnership models with traditional financial services organizations.

Of course, a fintech IPO, SPAC, or DL demands rock-solid financial and operating processes and practices—table stakes for any company looking to go public. What may distinguish the most successful public fintech companies from their peers is a willingness and ability to embrace the "fin" in "fintech"—that is, to treat several key capabilities specific to financial services delivery not as a series of boxes to be checked, but as potential areas of innovation and competitive advantage.

Your company's growth was likely due to your tech-focused approach to culture, speed to innovation, and customer experience. These characteristics attracted the investors and devoted users who fueled your growth as a private company. Your tech is the foundation of your organization and essential to your success. Your approach to the financial services–specific aspects of your business ahead of, and after, your public listing can either amplify that success or negate it; even some of the world's largest fintech companies and financial institutions have paid big (sometimes literally) for not prioritizing key aspects of their governance and oversight.

Building out proactive and innovative approaches to navigating requirements for financial services organizations can be a competitive advantage for your fintech. These approaches can make your company an attractive business partner for larger organizations and enable scalable growth. It is therefore advisable to invest in these areas in advance of your public offering.

How can you embrace the "fin" in "fintech"? Let's explore four important focus areas.

"Building out proactive and innovative approaches to navigating requirements for financial services organizations can be a competitive advantage for your fintech."

1 Governance structures that inspire trust

As companies that are often advising on and enabling financial transactions and products, fintech companies have a responsibility to make sure their controls are effective and their leadership is strong and experienced.

Turning your governance into a competitive advantage requires some extra effort. As a public fintech, you need an internal control environment that establishes appropriate lines of defense that can enforce and systematically monitor operational effectiveness, reliable and timely financial reporting, and consistency in regulatory compliance. You will need corporate governance procedures that clarify roles, responsibilities, and decision-making processes and set the tone for behavior in the organization for creating long-term value. Your systems and processes can help your fintech differentiate itself from competitors and be innovation-forward, with a customer experience protected by reliable processes.

If you're considering an IPO, your board of directors should pull in relevant experience to guide how your company is embracing the "fin" in "fintech" and challenge it to excel not just in technology innovation, but also in delivering a differentiated customer experience within the compliance boundaries that govern it. For this reason, your board should include leaders with extensive experience at financial services organizations that reflect the risk profile of your company. These board members can serve as valuable guides to the complex regulation that was largely written to govern traditional organizations. Combining that with an innovative vision of management, these board members can help you pivot those requirements into a competitive advantage for your company.

Your customers are trusting you with their money. To foster that trust, you need to demonstrate your steadfast commitment to compliant and reliable execution by possibly investing in a governance structure that provides appropriate oversight to your business.

2 Capital and liquidity planning ready for any environment

Financial discipline is a must before your fintech IPO, SPAC, or DL. Shareholders of public companies often don't have the same tolerance for growing pains as venture capitalists looking to get in on the next disruptive idea or unicorn while it's still in its infancy. Public company shareholders may not want to hear about the profits that are coming; they may prefer to see those results today, or at least understand the clear path to get there.

To ensure your company's capital is furthering strategic objectives instead of funding losses, you need products that generate enough revenue and systems that reduce enough cost to maintain the consistent profitability expected of a public company. Building capabilities to perform ongoing sensitivity analysis to stress your capital and liquidity position, resulting in a forward-looking financial plan, can instill confidence and enable informed decision-making.

Innovative and forward-looking financial planning fuels your ability to reinvest in your business and launch new products and growth strategies that a public company needs. It also helps you become a company that, during periods of economic uncertainty (like what we've seen during the COVID-19 pandemic), can double down on investment and grow market share instead of hunkering down and simply trying to survive.

3 Compliance capabilities that enable organizational growth

The regulatory landscape is always changing. Meeting existing requirements and being able to adapt to new ones without slip-ups will keep your shareholders and partners happy. But that should only be the start. Your fintech company can stand out by developing processes that look ahead and anticipate changes from key US regulatory bodies, such as the Fed, OCC, CFPB and SEC, state regulators, and even those of other countries if you have (or plan to have) international operations.

By working to strategically address regulatory changes before they go into effect with smart, innovative, and agile operations, your fintech company can pivot more quickly once the effective date arrives. You can also be a first mover on business opportunities that may arise due to emerging regulation, ahead of slower-moving traditional financial institutions and fintech companies that choose not to invest. Having a compliance management system that can sustainably identify regulations, risk-assess, test, and monitor changes can help to reinforce controls to proactively protect shareholder value. Instead of looking at regulatory compliance as meeting what's required, look at it as building a competitive advantage. As your company heads toward a public listing, an innovative compliance function can help you efficiently obtain the permissions and licenses your business needs to expand product offerings and geographies, obtain money transmission licenses, or even secure a bank charter. This know-how and speed in satisfying regulatory requirements may enable your company to expedite the rollout of new products and customer features. Managing your product offering and customer experience is a critical ability as you scale up your business and seek to provide an end-to-end digital experience for customers.

4 Risk management strategies that bolster your brand

How you manage risk as a public company is a signal for potential investors and ecosystem partners. It tells them how responsibly you're running your company and how confident they can be in your future. That risk exposure is determined by topics like your company's balance sheet, loan portfolio, investment portfolio, systems and data reliability and protection, and foundational processes like flow of funds and platform reconciliations. A commitment to enterprise risk management that demonstrates a capability to manage the inherent risks posed by the fintech business model can inspire confidence and provide value to management and likely synergy with other strategic enterprise goals.

Any risk-related missteps will be amplified when your company is in the public eye. An innovative approach to managing risk can help your company establish a respected long-term brand and reputation. By investing in a vision for enterprise risk management and engaging the right talent and governance process, you can flip risk from a matter of due diligence to a strategic mechanism that monitors the health of your organization, anticipates threats and opportunities, and addresses them with speed and agility.

The time is right.
Is your fintech ready?

Fintech's innovative financial products and services have become increasingly relevant during the COVID-19 era. Pair that demand with the overall boom in companies going public, and you have a setting that's ripe for a fintech IPO, SPAC, or DL. But success requires more than a favorable environment. It also requires embracing the "fin."

When you become a public fintech, regulation and compliance can overshadow your technology story if they are not thoughtfully and effectively executed. Internal controls and corporate governance become an important part of how potential shareholders and regulators will evaluate your company's ability to grow. Approach these aspects of your business as opportunities for innovation and differentiation from day one as a public company, and you'll likely gain a competitive advantage over those fintech peers that overlook and underestimate the importance of these challenges, as well as less agile incumbent financial services organizations.

Your public awaits.

Covering your bases: What every public listing requires

Embracing the "fin" in "fintech" is about turning several key aspects of a public financial services organization from boxes to be checked into areas for differentiation. But those don't capture all of the work that needs to be done ahead of a public listing. Every company, regardless of industry, needs to meet a challenging list of requirements to go public.

Financial and SEC reporting: Financial reporting, monthly close, investor relations, finance systems infrastructure, technical accounting, registration statement, ongoing reporting capabilities

Systems, process, and controls: Control environment, capacity and capabilities, strategic improvements, scalability, monitoring certification, control testing and remediation

Human capital: Clean-slate review, new incentive plans, implementation and communication, disclosure, process and governance, benefits

Tax: Tax structure; tax compliance; ongoing compliance, governance, and reporting; tax function; tax operations

Corporate governance: Governance structure, board and management committees, internal audit charter and infrastructure, disclosures, ongoing close and reporting optimization, risk management capabilities

Investor relations: Listing preferences; roadshow preparation; disclosure policy and regulation FD; stand-up investor relations team and infrastructure; market intelligence; earnings release, investor inquiries, and presentation

Start navigating the roadmap to your IPO and learn more about how Deloitte can help.

Helping your fintech's public listing become a success

Is your fintech considering an IPO, SPAC, or DL in the near future? Deloitte can help you address the long-term business imperative of embracing the "fin" in "fintech" beginning on day one. Let's start a conversation about turning your compliance, capital, risk, and governance into the areas of innovation and competitive advantage they need to be.

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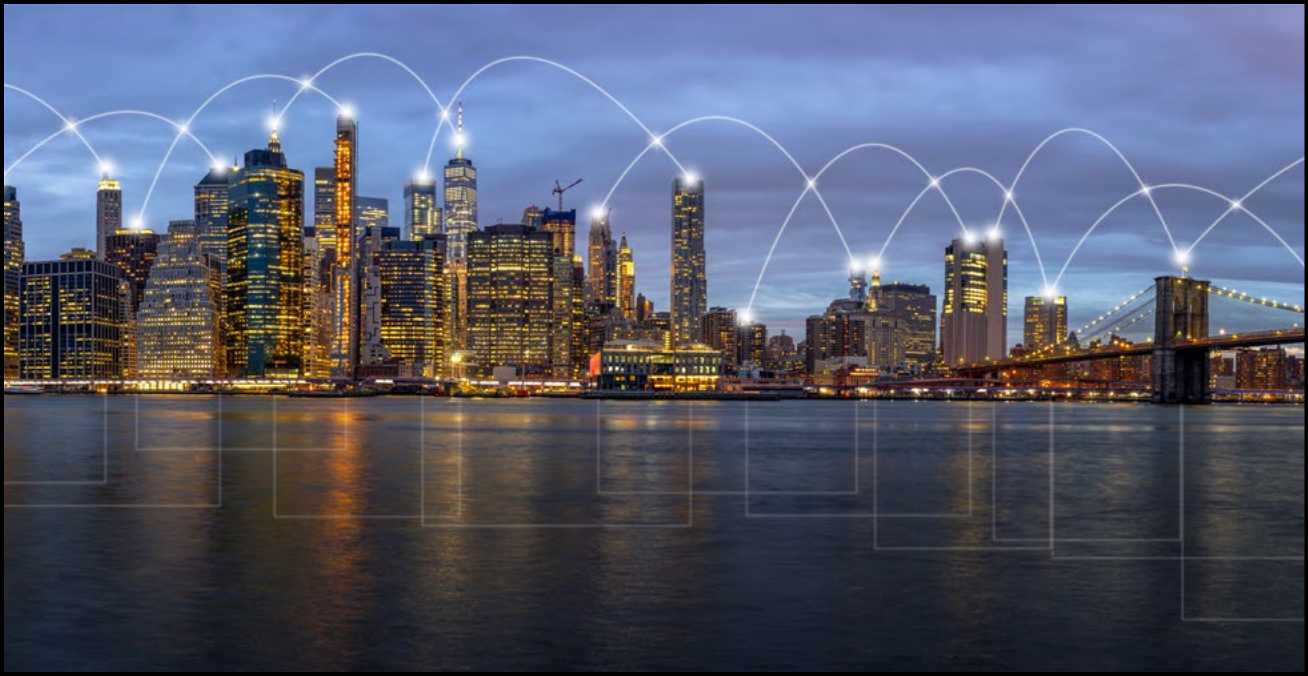

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