Best Practice for working with regulators, Berlin 11 October, 2023

Fintech entrepreneurs and regulatory best practice are not necessarily comfortable bed fellows, so it was with a certain degree of bravery that we decided to host a dinner at the heart of Berlin's fintech community to discuss just that.

Leveraging the combined knowledge and networks of **EY Partner Christopher Schmitz** and his fintech strategy consulting team with **James Isaacs, Consultant** at executive search and leadership advisory firm **Eric Salmon & Partners,** we were privileged to have two distinguished speakers give their individual perspectives from the top floor boardroom at EYs Friedrichstraße offices.

Our first expert was **Marcus Mosen.** Amongst other activities he has chaired and navigated Germany's fintech bank N26's evolution from start-up through challenger status to established player, whilst navigating fierce competition, rapid growth and an evolving regulatory landscape. Providing a complementary perspective was **Chris Woolard CBE**, previously CEO of the UK regulator FCA and now Partner at EY's Financial Services consulting, UK Fintech and Chair of the EY global regulatory team, who gave his opinions on the challenges of engaging and co-operating with regulators both locally and overseas.

Guests had come from not only the local area but also Munich, London, Utrecht, and Romania. Such was the interest and enthusiasm of the participants that the individual presentations quickly turned to open conversation and debate, where no topic was off-limits, and no stone was left unturned. Of particular note were the following:

- **Regulation needs to be built into corporate strategy**. Failure to do this will be costly both in terms of corrective measures, loss of momentum, penalties or ultimately loss of regulatory approvals.
- **Trust is critical in the relationship between the regulator and the regulated**. It takes time to earn and is easily lost. Summarised eloquently by the then head of the Bank of England, Mark Carney, who said, "Trust arrives on foot but leaves in a Ferrari."
- **Size and scale matter.** Regulatory resources are limited and tend to be focussed on making the most impact, so on larger companies that can affect the biggest number of customers. Smaller firms will get relatively less time to build a relationship with regulators.
- In interactions between the regulator and regulated, it is productive to **take the other person's perspective** or "take a walk in their shoes" in order to try to understand where they are coming from and what they are trying to achieve, and to seek alignment.
- It is important to **recognise that there are different regulatory regimes** between countries and indeed within individual markets as economic, political and philosophical changes impact regulation. The evolution over time from rules-based, then principles-based and culminating in outcomes-based regulation was discussed as one example of the changing attitudes and policy approach before, through and after the 2008 crisis.
- Regulation must acknowledge that **fintechs are typically not built for one market only**, but do expand into multiple countries. It is a platform strategy which addresses the needs of digital minded people, and which has typically a different growth profile compared to traditional players addressing local markets.

It was acknowledged that there are weaknesses in the system, and all is not perfect. Innovation and disruption move at speed whilst the law and regulation move at an entirely different pace. The sheer number of crypto licence applications relative to the number that were actually approved was one example.

Additionally, there are some issues that go way beyond one regulatory regime. ESG and the knock-on effects of geo-political tensions were cited as two examples where regulators could, and should, collaborate more closely.

Overall, it was universally agreed that **regulation is critical to ensure that customers have access to and trust in a healthy and competitive financial services industry**. It was certainly interesting to note the evening's attendees' subtle but positive change of attitude towards the subject, perhaps engendered by the authority of the speakers and the way in which the topic was demystified.

Written by James Isaacs

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