

PUGET SOUND BUSINESS JOURNAL

Puget Sound area should get in on FinTech revolution

“FinTech” or “financial technology” is the term used to describe a line of business that uses software and digital platforms to provide financial services.

In the last few years, digital entrepreneurs have challenged many old-line financial service providers with new and more efficient services, especially in the areas of payments, remittance, consumer and commercial lending, insurance products, financial planning and, more recently, the offering of debt and equity securities. Global FinTech investments tripled from \$4.05 billion in 2013 to \$12.2 billion in 2014, and increased by an additional 57 percent to \$19.1 billion in 2015. Inc. magazine quoted Goldman Sachs as estimating that new FinTech companies could steal up to \$4.7 trillion in annual revenue and \$470 billion in annual profits from established financial services companies. Established FinTech names include LendingClub, PayPal, Square and OnDeck, and even companies such as Amazon, Microsoft and Starbucks have entered the field.

Seattle entrepreneurs

have been somewhat slow to jump into FinTech. The Bay Area, New York, London and Israel have been leaders in FinTech developments. According to Cascadia Capital LLC, in the last two-plus years (2014-2016) investment in West Coast FinTech companies totaled about \$6.8 billion, while during the same period investment in Pacific Northwest FinTech totaled \$303 million.

Notwithstanding this disparity, the Seattle high-tech ecosystem seems to be the perfect place to grow FinTech companies of the future. Four elements are necessary to develop and sustain a major company in the FinTech space:

1. Technical expertise (especially in programming, big data and cloud). There is no place better in the country for this expertise. With Microsoft, Amazon and the deep tech talent in the Puget Sound area, Seattle can compete with any locale, including Silicon Valley.

2. Startup expertise. Although the startup community here is somewhat smaller than other areas, Seattle certainly has a



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wide array of experienced and talented entrepreneurs who could actively grow new, exciting and useful FinTech companies.

3. Venture and angel financing. Once again, the angel and venture communities here are smaller than in the Bay Area, but there are numerous angel groups, private equity, venture investors and others that are very active and could fund growing FinTech enterprises. According to Cascadia Capital, in 2015, Pacific Northwest startups attracted a record \$2.4 billion of venture capital in 374 deals, up from roughly \$2.3 billion in 2014.

4. Regulatory expertise. This is the area that will become much more important as the space matures. While FinTech companies are typically



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experts in the “tech,” they often fail to understand or evaluate the importance of the “fin.” The regulators (including the Fed, the Consumer Financial Protection Bureau, Federal Trade Commission, Securities and Exchange Commission, state Attorneys General and state bank, insurance and securities departments) are actively reviewing FinTech models for compliance. The Seattle area has knowledgeable legal talent for providing the advice essential for an enterprise to try to legally avoid various regulations while complying as efficiently as possible with those regulations which do apply.

