

Market Risk

What is market risk?

While many risk factors are internal to a startup, market risk is about the environment and context in which a startup is situated. In some cases, the fate of a startup is determined not by the business, but the regulatory and competitive circumstances that surround it. A well-functioning business and team with a good product may ultimately fail because of a competitor, a change in technology, or shift in regulation. While it is hard to control for big macroeconomic shifts, startups can at least focus on monitoring regulation and competition.

In terms of regulation, fintech startups often find themselves in grey areas, either between authoritative bodies or decrees, or else in sandboxes, designed precisely to take advantage of such grey areas. Even when fintech startups are clearly regulated, the space is particularly dynamic so startups need to stay attuned to regulatory trends and dynamics. Authorities may take action unexpectedly, especially as digital providers and financial technologies grow in reach and influence, so startups can expect that regulators will move toward greater oversight in the near term. After all, financial services are among the most regulated sectors in the economy so startups should be prepared for stringent reporting and compliance requirements as fintech grows in size.

Beyond regulation, another key area of market risk is competition, both from existing players and from new ones. For example, a large player entering from an adjacent market could completely transform the landscape for a startup. Similarly, among competitors of equals, if one partners with a dominant distributor or receives a large investment, prospects for your startup could be significantly dim. This risk is particularly acute in smaller emerging markets that larger players from other markets might see as easy pickings.

Other areas of market risk are more difficult to anticipate. They could include advances in technology or shifts in device availability or changes in consumer preferences, or bigger macroeconomic or geopolitical shifts, each of which could alter the face of the market in unexpected ways. While these changes are difficult to anticipate, they may be determining for startups, yet there is little control a startup could have on them.

Key factors of market risk

- Degree of competition
- Regulatory concern about your product space
- Supervisory attention
- Strong regional players
- New market entrants

Mitigation strategies

Since market risk is not internal to a startup, the best a team can do is to stay on top of the various dynamics that determine these risks. A few practices and routines can help your organization keep track of these risks and to mitigate them where possible.

Landscape analysis

The first is to regularly update a competitive analysis of the landscape that allows you to quickly understand the options your customers see, and how your services compare among them. To build a competitive landscape, a first step is to understand the comprehensive list of your competitors, including how your current (and potential) customers view those competitors. Next, you should list the advantages and disadvantages of your competitors' offerings relative to your own. Finally, you can use this analysis to fortify the strengths of your offer. These three steps involve research, analysis, as well as strategy, and will present a comprehensive picture of your position in the market. Not only will this picture allow you to play to (and further develop) your strengths and is a powerful addition to your pitch deck.

Regulatory risk assessments

The second practice for mitigating market risk is to regularly conduct regulatory and supervisory assessments. This means keeping tabs on where regulators are turning their attention and how their attitude toward fintech is evolving. For example, particular areas that authorities seem to be pursuing today include consumer protection, data protection, and KYC (know your customer) procedures. Fintech startups around the world would do well to keep these issues top of mind as they develop their products, especially the backend.

Resources

- [Mapping your competitive position](#)
- [Market mapping and landscape analysis \(for NGOs\)](#)
- [How to conduct and prepare a competitive analysis \(includes templates and exhaustive list of questions\)](#)
- [Handbook on Consumer Protection for Inclusive Fintech](#)
- [Survey of financial authorities](#)
- [Complex Regulatory Landscape for FinTech](#)
- [Global Fintech Regulation and Supervision Practices](#)
- [From FinTech to BigTech: an evolving regulatory response](#)
- [FinTech and RegTech in a Nutshell, and the Future in a Sandbox](#)