Rethink

RETHINK FINTECH

Crisis as an opportunity – Israel

June 2021

BDO

INDEX PAGE

INTRODUCTION

"We've come up with a new name for COVID. COVID doesn't stand for Coronavirus 19, it stands for 'Catalyst Of Virtualisation and Increased Decentralisation. In every cloud, there is a silver lining. Be strong and have courage - don't fear." (David Blumberg, Blumberg Capital in a recent discussion about how COVID-19 has affected the industry before the seven most promising Israeli Fintech startups for 2021 were chosen early in March 2021).

As COVID-19 continues to cast its shadow of upheaval, the accelerated digitisation of the economy that it has triggered has given rise to new opportunities for the Fintech sector and placed it firmly in the spotlight. Challenges notwithstanding, the sector is poised to leverage its unique attributes to aid the recovery process, and to bolster Financial Services.

WIDAD ALTOUCHE,
Partner in the Financial Cluster

TAL DOLEV,
Partner, Head of Technology Advisory

TIM AMAN,
Partner - National Leader of Financial Services at BDO Australia and Global Fintech Leader

> *Israel is home to an innovative culture and a leading global Fintech ecosystem, experiencing accelerated growth. Competition on the world stage has highlighted the importance of a robust regulatory system to make Fintechs more competitive. Israel is securing their place by enhancing the environment for Fintechs to operate. With regulatory sandboxes, payment service regulation, decentralisation of the payment and credit sectors, and notably the Open Banking regime, growth is expected to continue as Fintechs are provided with more opportunities, both within Israel and globally*

ISRAELI FINTECH – OVERVIEW

DOMESTIC AND INTERNATIONAL EXPANSION

Israel

An innovative and entrepreneurial atmosphere and long-established technology and venture capital industries together with the abundance of financial sector veterans and accelerators focussing on Fintech, position the Israeli market as a unique hot spot for Fintech development.

With more than 750 startups operating today in the Fintech sector alone, Israel has been a global pioneer in the field for more than a decade.

Record-breaking funding, massive initial public offerings and unprecedented valuations are all now a part of the Israeli Fintech landscape.

While cybersecurity has established a strong market, Fintech is experiencing a sort of "gold rush stage," with firms competing aggressively. The sector has grown even more following the COVID-19 outbreak because more consumers are using all-digital platforms and global demand for Fintech solution is increasing.

Israel's Fintech industry has grown considerably in recent months. This development is evident when we look at the overall size of recent investment rounds, the number of IPOs, and the dramatic rise in the valuations of many firms.

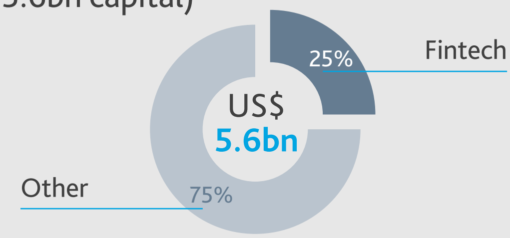
From September of last year until January 2021, the Fintech industry in Israel acquired around US$1.4 billion in funding, which makes up nearly 25% of all tech-focused investments during that period.

The US$1.4 billion secured by Fintechs (from Sept 2020 to Jan 2021) represents a dramatic increase from the US$340 million secured by the industry during the first eight months of last year. Many of these sky-rocketing valuations of Fintechs have not been supported by sizable profits. It's primarily just the expectation of growth that has been attracting many investors.

Israeli startups are often keen on international expansion from the outset, given the domestic market has a population of just 8.5 million. That means Israeli Fintechs are well placed to enter new hotspots for further growth opportunities.

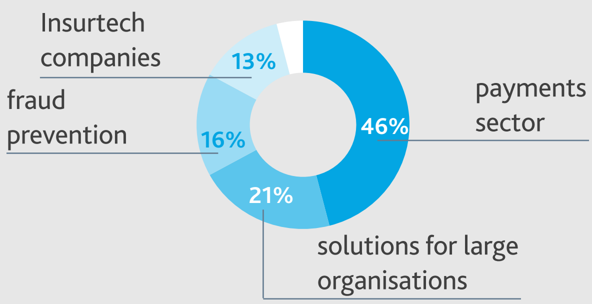
Israeli Fintech September 2020 – January 2021[1]

Tech focused investment
(US$5.6bn capital)



Five firms - **UNICORNS** > US1BN

Investment in Fintech



Source: https://www.crowdfundinsider.com/2021/02/172463-Fintech-industry-in-israel-acquired-nearly-25-of-technology-sector-funding-in-country-driven-by-speculative-valuations/

[1] Startup Nation data

Israel's high tech industry 2019

321,000 high tech employees

9% of the work force

8% increase from 2018

South-East Asia

In March 2021, Rewire, a Tel Aviv-based neobank, raised more than US$20m in funding for an expansion of its Financial Services app tailored to the needs of expatriate workers across Asia.

The Fintech startup, which specialises in cross-border online banking services believes that the Series B funding round of US$20m will consolidate its growth in South-East Asia.

The funding effort, which was led by OurCrowd, attracted investments from Jerry Yang, the former Yahoo! CEO and director at Alibaba, among others.

Middle East

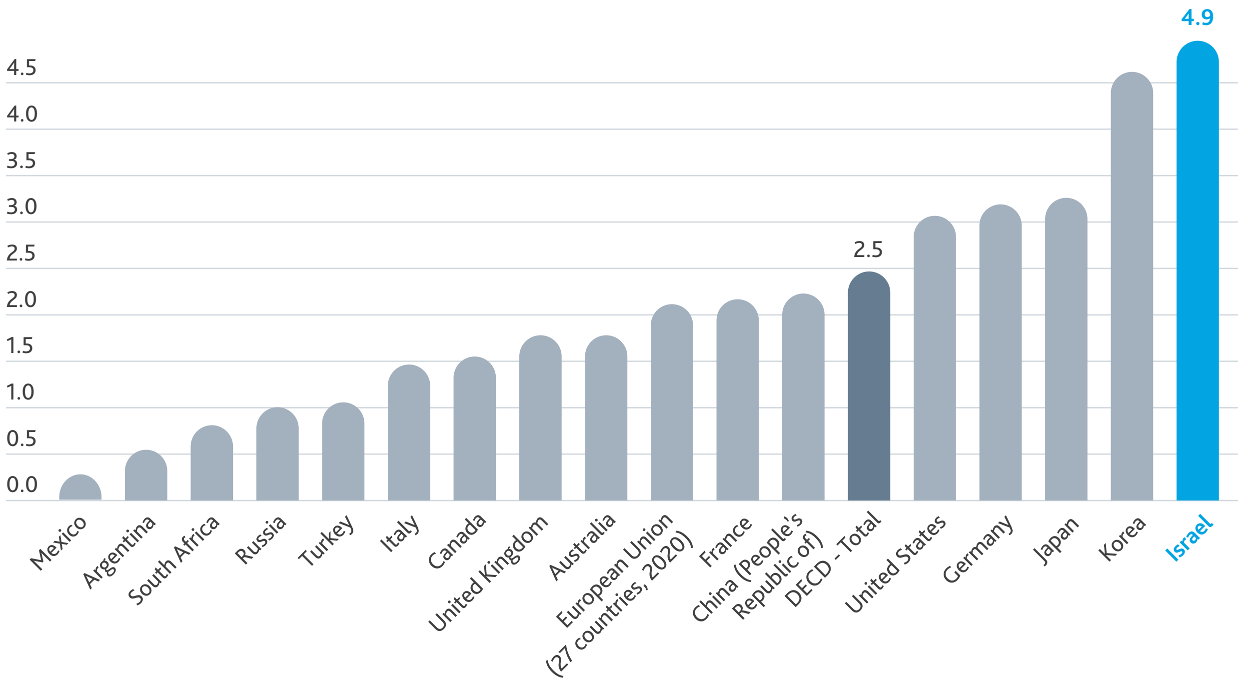
Last year, Israel established ties with the UAE and Bahrain via the Abraham Accords[1] (later with Sudan and Morocco) which led to various agreements and MoUs across key players in these countries – such as with the UAE's two international financial centres – Dubai International Financial District (DIFC) and Abu Dhabi Global Market (AGDM) – and Bahrain's Bahrain Fintech Bay[2]. In The Fintech Time's "Fintech Middle East in 2020 and Predictions In The Region for 2021" it is projected that Israel will further increase international trade and foreign direct investment (FDI) and vice versa with its new trading partners in the Middle East region.

[1] The Abraham Accords Peace agreement was signed in September 2020.

[2] Over the past three years, BFB incubated over 50 Fintechs that were looking to establish their MENA headquarters in Bahrain. BFB has also partnered with over 20 global scale-ups looking to expand regionally via its unique venture acceleration platform.

GROSS DOMESTIC SPENDING ON R&D 2019

Source: Main Science and Technology Indicators



FUNDING AND INCENTIVES FOR FINTECHS

Equity investments and convertible debt instruments are the most dominant types of funding for Fintechs. Very early-stage businesses have raised funding by way of convertible debt instruments, including simple agreement for future equity (SAFE) agreements and CLAs and have used the funds raised to demonstrate proof of concept and a minimum viable product (MVP) working model. More mature Fintech businesses opted for the equity financing path, mainly from venture capitals and designated accelerators. There are quite a few Fintech-designated accelerators and innovation centres in Israel, most of them founded by Israeli or foreign banks.

Another funding path would be via the Israeli Innovation Authority (IIA). One of the IIA's support programmes intends to encourage R&D in Fintech. The programme - R&D Fund – supports commercial Fintech companies by way of funding R&D of new Fintech products as well as upgrading existing Fintech technologies. The support amounts lie between 20% and 50% of the approved R&D expenses and an additional 10% is granted to companies that operate in peripheral areas. The funding is repaid by way of royalties from sales or other revenues.

Under the Encouragement of Capital Investment Law of 1959, companies may enjoy certain tax incentives and grants under the "Preferred Enterprise" regime or under the "Preferred Technology Enterprise" and "Special Preferred Technology Enterprise" regime. The Preferred Enterprise regime may be applicable to Fintech companies only where they engage in the sale of software products or licences or the development for others. The regime is therefore not relevant to Fintech companies which focus on providing financial services to end-users. The Preferred Technology and the Special Preferred Technology Enterprise regimes are relevant to companies that meet certain criteria relating to their investments in R&D, the scope of their R&D teams, certain revenues and employment growth; such status is subject to the approval of the National Authority for Technology and Innovation.[3]

WIDAD ALTOUCHE,
Partner in the Financial Cluster

> *Fintech in some industries was adopted as a second name, especially in the Finance Industry which was until recent years perceived as conventional, rigid and constrained by heavy regulations. Today we are witnessing a dramatic change in the players in the industry, services and products due to the enhancement of Fintechs which are greeted as joint ventures by some of the biggest Financial organisations or developed in-house by others.*
>
> *Recently key leaders in the finance industry described this era as "The Great Boom". I couldn't agree more.*
>
> *We are privileged to witness the evolution of industries through innovation and competition injected to the market by Fintech*

[3] IGLG. Israel: Fintech Laws and Regulations. April 2020.

REGULATION

In 2019, one of the key regulators in the Israeli market, the Bank of Israel, approved the establishment of the first digital bank in Israel. In the same year, a proposal to establish a regulatory sandbox environment for early-stage Fintech companies for the first time in Israel was submitted by a team led by the Ministries.

The most important development with the potential to influence market dynamics in the next few years is the open-banking regulation. This regulation was published by the Bank of Israel in February 2020 and gradually enters into force as of January 2021. Combined with new payment services regulation and the completion of structural steps to decentralise the payment and credit sectors, this presents an opportunity for growth for the Fintech industry, including successfully entering financial sectors previously controlled by traditional banks. These regulatory changes are making Israel a more attractive place for Fintech companies to operate and offer services, and not only export technology worldwide.

Israel offers a supportive environment for Fintechs

- High level of fundamental knowledge in areas such as real time analytics, algorithmics, big data, AI, risk management, anti-fraud and security
- One of the highest usages of mobile electronic devices globally
- Open regulatory landscape
- Financial Services industry ripe for disruption
- Higher education institutions incorporating Fintech courses into their curricula
- Banks and Insurers support Fintechs through investments and joint ventures or by running accelerators and funds

Source: adapted from Chambers and Partners, Fintech – The Israeli experience, January 2021

The Israel Securities Authority (ISA) was one of the first authorities to embrace the Fintech industry in Israel championing a legislative process that regulated and licensed online financial trading conducted via an own account trading ring. The ISA also promoted legislation that regulates crowdfunding, in which it sought to allow startups to be able to receive funding without running into issues with securities legislation.

The Capital Market, Insurance and Savings Authority recently issued a legislative memorandum draft for the government's comment regarding supporting the use of innovative payment services. The legislative memorandum encourages competition in the field by allowing non-bank entities in the payments sector to develop alongside banks.

Payments made by Insurance companies through payment service applications or organisations (startups) owned by banks are becoming more common. This is a clear signal to the market that services formerly provided by banks are shifting to being offered by payment services entities.

Virtual currencies are regulated via the Financial Services Supervision Act, which notes that virtual currencies are to be treated as a financial asset. This may require a person that trades or holds virtual currencies to obtain a regulatory license. The fact that many of the services and solutions offered by Fintech companies constitute regulated activities poses challenges to the industry, which can be resolved through various "sandbox" and partnership solutions, but also legitimises the industry.[4]

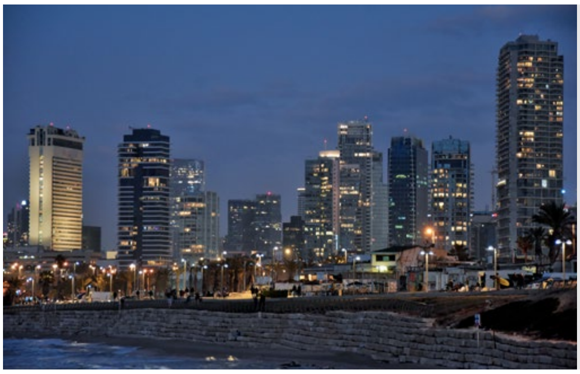
Central Bank Digital Currency (CBDC)

In November 2017, the Bank of Israel appointed a team to research the advantages and disadvantages of issuing a Central Bank Digital Currency. The findings of the team's research were published in November 2018 and recommended against issuing a digital currency soon.

In terms of privacy and data protection, global Fintech companies operating from Israel face a triple challenge. In addition to financial regulation, they must also meet multi-jurisdictional data protection requirements, including those in Israel, the GDPR in the European Union, and the new challenges posed by the CCPA.

All of the above has prevented some Israeli Fintech businesses from offering their services in Israel and has spurred the ventures to offer them in other jurisdictions which means that while the entrepreneurs are located in Israel and the development of the products and services is performed from Israel, the ventures aim for world (and not for Israeli) markets.[5]

Cyprus for example has become a preferred offshore territory for Israeli startups because of the close proximity and EU regulatory environment.



Boasting the highest number of tech firms outside of California's Silicon Valley, Tel Aviv is an epicentre of Fintech startups and a global leader in Blockchain technology. Such is the concentration of tech companies that the city has become popularly known as 'Silicon Wadi' – 'valley' in Arabic.

[4] Further reading: Regulation of Cryptocurrency around the World: Israel.

[5] Chambers and Partners, Fintechs - The Israeli experience, January 2021.

TAL DOLEV,
Partner, Head of Technology Advisory

Israeli Fintechs are born with a global vision and aim to address the needs for the many and by doing so, entrepreneurs turn the disadvantage of being a small market into an opportunity. The technology ecosystem in Israel produces talented entrepreneurs and engineers that attract foreign financial companies to invest in local Fintechs and open innovation centers.

Fintechs have become one of the main drivers for the Israeli economy and they reflect the entrepreneurial and innovative culture of the country.

LEVERAGING LEADERSHIP IN CYBERSECURITY

One of the drivers behind Israel's Fintech boom is their ability to leverage the country's expertise in fraud and data analytics.

Israel's cybersecurity industry accounted for 31% of global investments in the sector in 2020, putting the nation in second place after the US. Israel now accounts for 33% of global unicorns in the cybersecurity sector. Exports of cybersecurity products in 2020 totalled US$6.85 billion, up from US$6.5 billion in 2019.

Israeli companies account for nearly 40% of global cybersecurity technology sales, including anti-virus software, intrusion detection prevention systems (IDPS), internet and database security, and other cyber-defence solutions.

COVID-19 has caused an unprecedented shift in the volume and pace of physical activity into the online space which has set the scene for increased cybersecurity threats requiring all parts of the economy to gear up for protection, particularly in the financial sector which is the target of more cyber attacks than any other sector.

I wouldn't call Israel number one in the world for Fintech, but it's very significant… If Israel is already leading in cybersecurity, I think [Fintech is] heading there in the next few years.

Rakefet Russak-Aminoach,
Ex-President and CEO of Bank Leumi; current Managing Partner of Team8 Fintech

As a result, Fintechs that have tapped into the synergy between security and finance, like BioCatch, are leading the pack — focused on weeding out bad financial actors for major overseas banks like RBS.

With real-time continuous protection, BioCatch provides behaviour monitoring before, during, and after the cybercriminal is online. Leveraging behavioural biometrics at each stage allows us to protect banks and other Financial Institutions from massive financial losses, augmenting their significant investment in cybersecurity.

Gadi Mazor,
Chief Operating Officer and Israel General Manager, BioCatch

PAYMENTS

Newly introduced regulations which apply to non-bank Financial Services have created, together with challenges, opportunities for new players. The regulation of formerly non-regulated or underregulated Financial Services such as electronic wallets and electronic payment-related services, has supported needed conditions for wider consumer confidence in Fintech-based Financial Services.

Payment gateway and processing is a major field of activity for Israeli Fintechs, having Israel as a main R&D and Operation Centre while working globally with local banks and credit companies. Mature payments startups like Credorax, Payoneer and SafeCharge are now followed by revolutionary “RAPYD” startup providing an online collection and payments network for every type of payment available including cash.

Strong expertise in data analytics drive Israeli Fintechs to deliver customer experience products from Datorama (Sold to Sales Force) to Riskified, Appsflyer, Wix, Sisence and more.

bit is a digital wallet by Hapoalim Bank, that together with paybox has changed the payments culture in Israel, from relying on credit cards only to using various digital wallets and apps.

ARTIFICIAI INTELLIGENCE (AI) AND BLOCKCHAIN

ARTIFICIAL INTELLIGENCE (AI)

AI-related investments in Israel are surging: 37 per cent of the total capital raised in 2020 was for AI companies, according to a report from Startup Nation Central, which tracks and supports investment deals.

Israel's AI ecosystem grew from 512 companies in 2014 to 1,150 by the end of 2018 – a 120% increase in a span of 4 years. This includes companies that develop core artificial intelligence technologies and those that utilise it for their vertical-related products and services. Even the international tech giants are either investing in Israel's AI market or establishing unit/labs there. In 2019, the Israel Innovation Authority provided grants to 219 companies working on AI technologies for a total sum of roughly 415 million shekels. These grants were mostly provided for artificial intelligence infrastructure projects and in sectors underfunded by private investment. In the same year, it adopted ethics guidelines for responsible R&D in AI as a member of the OECD.

Israel ranks among the top 5 countries in the world for AI solutions. Furthermore, it has more AI companies and startups per capita than the market leader USA.

How does Artificial Intelligence (AI) help Financial Services?

- Risk Assessment (e.g. to make a recommendation of loan and credit offerings; detect cyber threats)
- Fraud Detection And Management
- Financial Advisory Services (e.g. robo advisors; bionic advice)
- Trading (pattern recognition and predictions; portfolio solutions based on risk appetite)
- Managing Finance (Regulation, Compliance)

In April 2020 there were 73 startups providing AI in Financial Services. Let's look at some examples of how Financial Services benefit from utilising AI in some key areas:

Risk Assessment

Pagaya delivers credit evaluations via machine learning and big data analytics tools. The platform focuses on fixed income and alternative credit.

Fraud Detection and Management

In April 2021, AI-based Big Data analytics provider ThetaRay launched its AML (Anti-Money Laundering) for Cross-Border Payments solution as a cloud-based service. The cloud-agnostic offering protects banks, Fintechs, PSPs, and payments infrastructure companies from sophisticated money laundering schemes hidden within cross-border transactions.

Forter recently raised US$300 million in Series F funding. Founded in 2013, Forter developed an automated, identity-based fraud-prevention platform for e-commerce that detects fraudulent activity in real-time, throughout all online consumer experiences. The company works with clients such as Farfetch, ASOS, Shein and Prime Trust, and recently partnered with American bank holding company Capital One to launch "Trusted Authorisation", a solution that enables merchants to increase authorisation rates and decrease false declines by sharing Forter's fraud insights with issuing banks for more informed decisions.

Financial Advisory Services

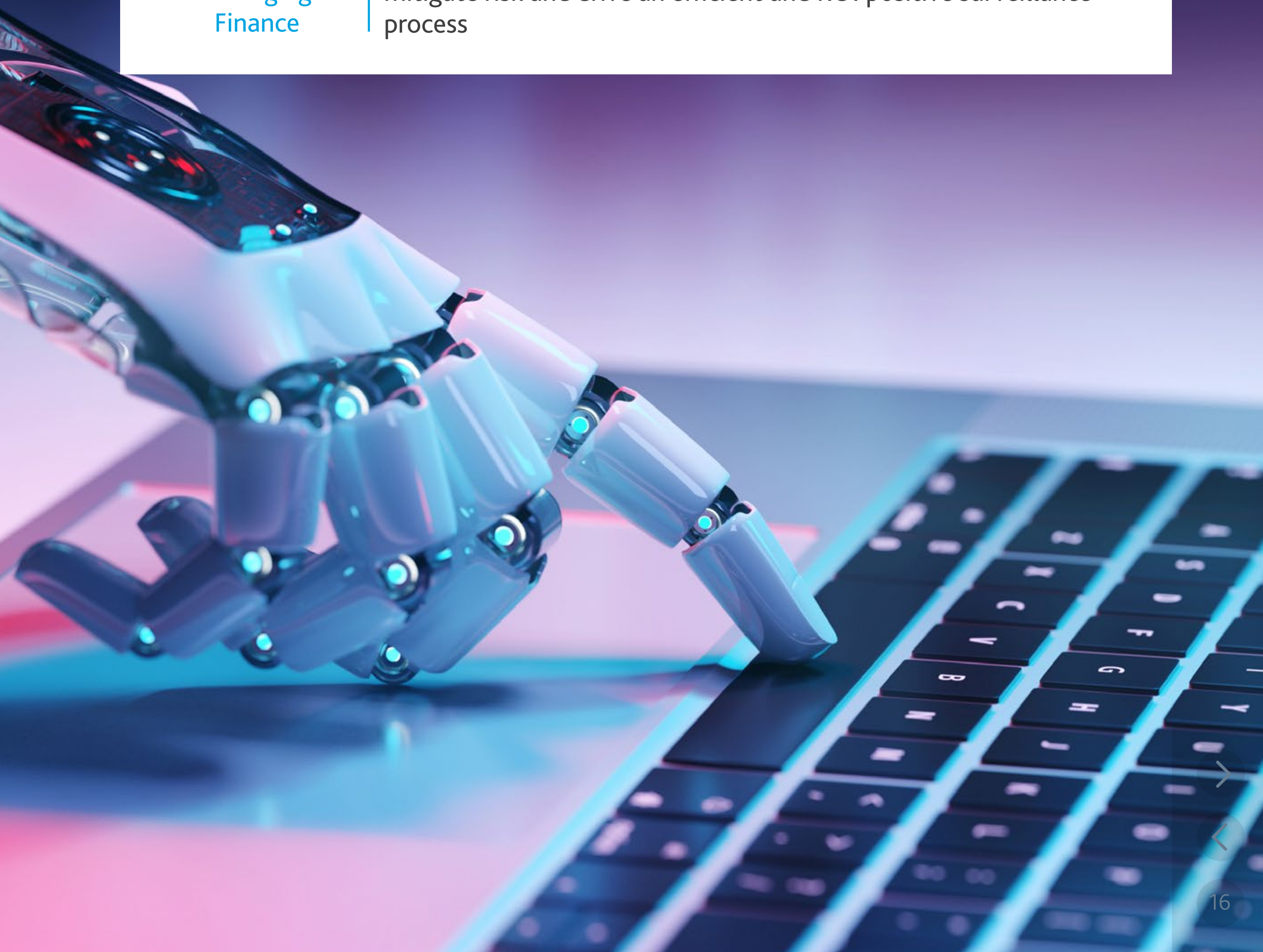
ROBIN HOOD pro - A marketplace & financial Robo-Advisor based on an advanced data-driven platform which uses a unique combination of sharp algorithm, data analytics, and machine learning to provide objective & personal financial services in a secured & transparent way.

Trading Automation

Final Israel - is a high-frequency trading (HFT) company that specialises in proprietary prediction and trading algorithms and big data analytics for the financial market. The company uses its machine learning algorithms to mine, identify patterns in, and accurately predict big data. Its services address both offline analysis of large, complex data sets and real-time data flow

Managing Finance

shield. - shield. is a communications compliance platform that automates and orchestrates the complete communications compliance life cycle. By utilising AI, Natural Language Processing and Visualisation capabilities, helping financial organisations mitigate risk and drive an efficient and ROI positive surveillance process



Targeting specific segments of customers in Insurance, Banking and Payments, Israeli startups are offering financial products using a customer centric approach and utilising Machine Learning and AI.

Insurance

Digital Insurance startups have become a key trend in Israel. Lemonade, Hippo and Next Insurance target the US Insurance market and gain high investment valuations. Those companies are offering a full online insurance experience backed by Machine Learning algorithms for pricing, claims and risk management.

Why American insurance?

- A population of only 8.5 million, the insurance industry is small. Only 5 large insurance carriers in Israel
- Highly regulated market in Israel – products are not always standard and the carrier might operate differently than it would in the US; different needs
- The US offer a larger market for innovative ideas and technology
- English is widely spoken in Israel
- Israeli startups that collaborate with local talent tend to do better in providing a good market fit

In July 2020, the share price of digital insurance company Lemonade (NYSE: LMND) ended its second day trading on Wall Street up a further 17% at US$81.19, giving a market cap of US$4.46 billion. Having risen 140% on its first day of trading, at one point, the digital insurer's share price was up 30%. It had tripled its value since its NYSE IPO the week before.

Digital insurance company Lemonade was founded in Israel in 2015. The company sells home insurance online based on big data and artificial intelligence. The company began operating in the US and has a licence to sell insurance in most US states.

In November 2020, Israeli-founded insurance tech startup Hippo raised US$350 million in a fresh funding round with Mitsui Sumitomo Insurance Company. The investment is supporting Hippo's product roll out in additional states to reach 95% of the US homeowners population in 2021, as well as providing additional capital for its insurance and reinsurance companies. In March 2021, Hippo acquired its listing through merging with a publicly traded special purpose acquisition company (SPAC). The merger with the Reinvent Technology Partners Z valued Hippo at US$5 billion.

Israeli Insurtech company Next Insurance announced on 31 March 2021 that it was raising US$250 million at a US$4 billion valuation. The company raised US$250 million at a US$2 billion valuation just six months ago. Since then, Next Insurance announced two acquisitions, added new strategic partners, and doubled its gross written premium. Next Insurance also announced in March that it was acquiring U.S.-based digital insurance agency AP Intego, just three months after buying Juniper Labs. The new funding will be used for additional acquisitions and to continue and bolster the company's workforce.

"It starts with developing a comprehensive digital product portfolio under one roof, continues with leveraging technology that improves the customer experience, and ends with a network of integrated partnerships that bring policy purchasing to the customer within the systems they already use."

Guy Goldstein,
CEO, Next

Payments

Having registered revenues reflecting US$300 million annually for the first three months of 2021, Israel-based startup Pagaya is planning to enter Wall Street at US$8 billion, as well as execute a traditional IPO.

Pagaya delivers credit evaluations via machine learning and big data analytics tools. The platform focuses on fixed income and alternative credit.

Pagaya plans to merge with a special purpose acquisition company (SPAC).While the Fintech company's board is yet to make a final decision on the IPO, talks led by JP Morgan are said to be ongoing in the US.[6]

CYBERSECURITY AND ARTIFICIAL INTELLIGENCE

"The financial sector is the target of more cyber attacks than any other sector."

Hudi Zack,
Chief Executive Director,
Technology Unit, Israel National
Cyber Directorate.

Cyber is going to remain the biggest threat to the stability of the financial system.

The need for cybersecurity solutions jumped in the past year, with a big part of it a direct result of the COVID-19 pandemic moving work to home. In Israel, the pandemic pushed local companies in terms of development and also in terms of sales.

The Israeli National Cyber Directorate is now setting out guidelines to firms and entities that are developing AI-based solutions to make sure they incorporate cybersecurity solutions within the products.

AI systems that can identify fraud and be used to identify cyber attacks are already in the early stages of being integrated and will in the future be a main tenet of the tool basket. Blockchain has the potential to provide protection from various attacks and collaboration between financial bodies can be taken a step further.

Israel's economy largely serves a global, rather than local market, and its cybersecurity sector exports products around the world: Exports of cybersecurity products and services hit US$6.85 billion in 2020, up from US$6.5 billion in 2019.

[6] Finextra.com, April 2021

Advancements in Distributed Ledger Technology (DLT) and the Blockchain, have made it easily possible for businesses to develop and distribute encrypted tokens, often referred to as crypto-currency, and to use smart contracts to facilitate transactions.

"We are noticing a promising change in the Israeli Blockchain industry. In 2017, the focus was primarily on fundraising - fueled by the cryptocurrency 'goldrush' and the ability to raise capital at unprecedented levels for seed companies. In 2018, we started to see real projects coming alive. Groundbreaking concepts in areas such as collective intelligence and governance (DAO Stack) or data privacy in Blockchain applications (Enigma), that started as mere theoretical whitepapers, are now delivering real platforms. Fintech and Insurtech Blockchain companies such as Colu, a token-based payment platform are in production with consumers using them in real life."

Gigi Levy Weiss,
Managing Partner NFX

The Blockchain industry in Israel is maturing and many teams are implementing necessary critical security measures and protocols to ease the minds of worried investors. This comes as part of the technological evolution of new developments. Understanding and complying with strict security standards to appease cryptocurrency holders and investors is paramount. Development teams quickly realised that there is an immense gap between payment solutions across fiat and cryptocurrencies, which is why numerous Israeli startups devised practical solutions, with more to follow.

PayPal has agreed to buy Curv, a Tel Aviv-based cloud-based wallet for digital asset securities, to flesh out its newly formed Blockchain business unit.

PayPal will use the acquisition to accelerate and expand its initiatives to support cryptocurrencies and digital assets.

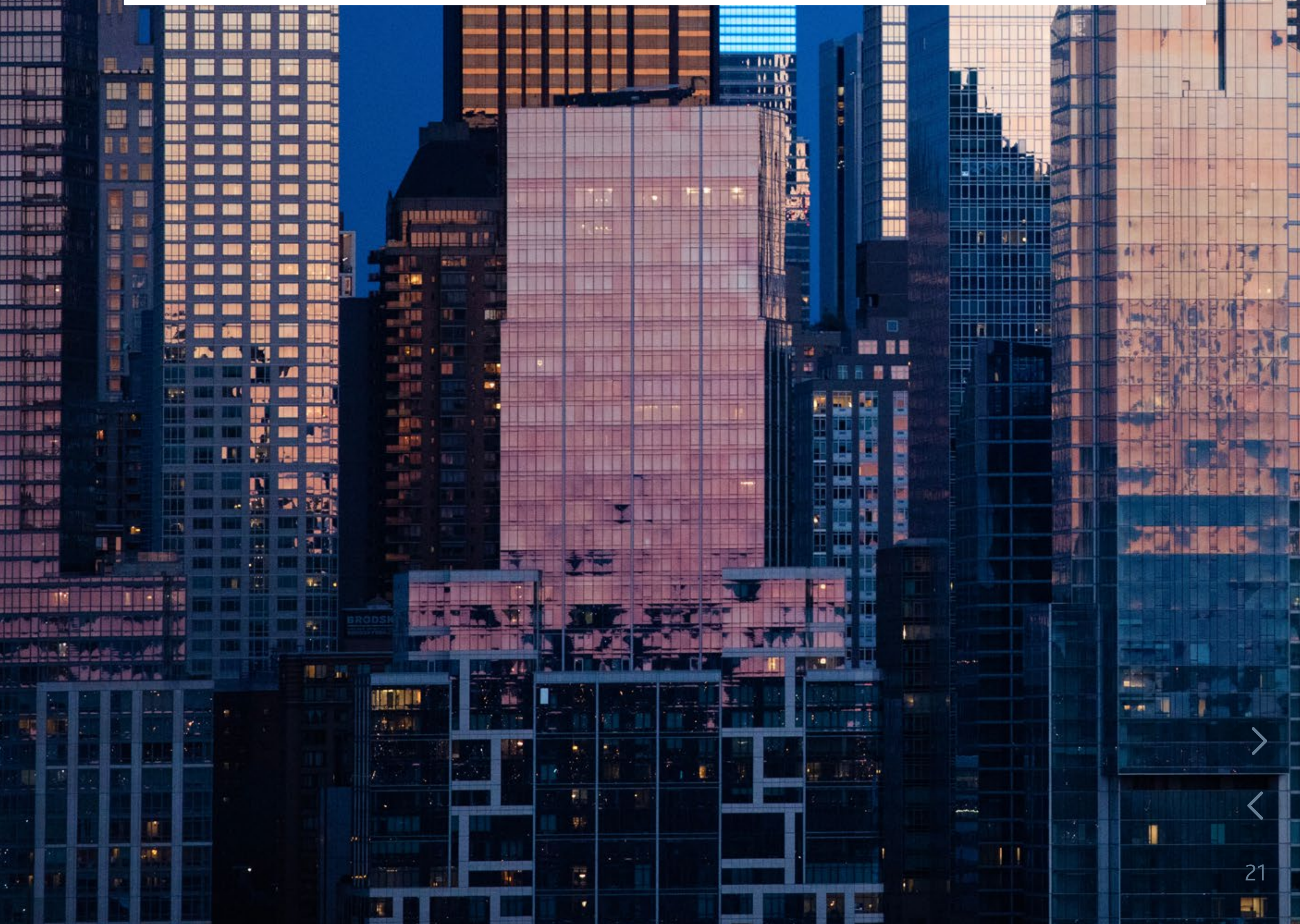
The Israeli Blockchain industry is currently focusing on Blockchain core technologies and protocols. Zero knowledge protocol is one of the local innovations which inspired Fintechs to offer technology that implement it in operations, Fintech and the gaming industries.

Raising capital

Most Blockchain-related entrepreneurs have raised capital when cryptocurrency markets were on the green side. Extreme amounts of capital were raised by projects; those who focused on improving their product, research and development, and marketing survived. Those who didn't, sank with the ship. The survivors are now breaking through as the spotlight shifts from legacy systems back to niche markets like commodities, metals, and cryptocurrencies. Moreover, those who persevered gained a massive competitive advantage versus newcomers who are now attempting to enter the fray.

International collaboration

CV Labs Switzerland recently announced a strategic partnership with the Israeli Blockchain Association. Earlier in 2020, the UAE and Israel signed the Israel–United Arab Emirates peace agreement. These two announcements pave the way for collaboration amongst the main Blockchain ecosystem players in these three countries - the UAE, Israel, and Switzerland. The international partnership will connect each of the respective partner's ecosystem members, thereby providing startups access to the networks, investors, local insights, and specialised knowledge offered by the individual hubs.



RETHINK MODEL

Over the past year, the economic landscape has changed rapidly as a result of the pandemic. In response, BDO developed the RETHINK model as a practical guide to help companies assess potential risks and issues. This three-phased approach creates the optimal foundation to develop their business through each phase – **REACT**, **RESILIENCE**, **REALISE**.

Most Fintech businesses will have successfully moved past the **REACT** phase – which focused on the immediate needs of supply chain, health and safety, operations and sustainability to safeguard their businesses. With employees safe, cash flow secured, and funding runway in place, they should have turned their minds to building **RESILIENCE** in the longer term.

Building resilience requires a focus on mitigating risk, financials, operations, regulations and compliance, and people. The emphasis for Fintechs in this phase is building out and solidifying business models; raising more capital or consolidating with incumbents; increasing the speed of digital transformation and creating the foundation for work in 'the new normal' that prioritises risks, ensures compliance and focuses on people.

While recessional impacts and its threats will be felt across the globe for some time, it also creates new opportunities - particularly for Fintech companies - to realise their potential. During the **RESILIENCE** phase, Fintechs should be laying the groundwork to make a transition into the **REALISE** phase.

In the **REALISE** phase, Fintechs must take advantage of the opportunities from changed economies, societies, and professional and personal lives. This will, among other things, involve securing capital for growth, technological innovation, and continuous adaptation of business models. It will also mean taking advantage of global regulatory conditions such as Open Banking that will allow Fintechs to thrive.

Sensible business decision-making during the resilience phase will be key to future benefits and rewards in the **REALISE** phase. At this phase, it's time for Fintechs to capitalise on their activities and realise their economic and disruptive potential, by grasping future growth opportunities, scaling up, and finally, planning a successful exit.

Despite the pandemic constraining efforts for Fintechs to scale globally, BDO is well-positioned to help. With offices all over the world, we work collaboratively and provide the assurance of boots on the ground so you can harness the opportunities that await. At BDO, our Global Fintech team understand the intricacies of varying jurisdictions to get the best results for you - whether it's understanding the complex regulatory environment, listing on the local stock exchange, or getting you in touch with a broader network.

REACT – STEP BY STEP PLAN

In the short term, the economic impact and fallout of COVID-19 make conditions difficult for Fintechs, with the priority being on cash flow and solvency. Safeguarding business is critical for Fintechs, who must consider belt tightening and cost saving measures into the medium term and seek out relevant stimulus and grants. The four key areas of focus should be sustainability, operations, supply chain and health and safety.

STEP 1 - Build your "new world" cash flow forecast

Build a 12 month cash flow forecast - 3 months (weekly) and then 9 months (monthly) taking into account your "new world" – build in revenue impacts but retain committed expenses as is for now – understand if you are cash flow positive. If not – understand your cash burn and your runway before existing reserves are exhausted.

STEP 2 – If you have a cash deficiency now or coming up – identify measures to reduce costs or increase revenue

Identify discretionary or non business critical expenditure to eliminate immediately. Identify overheads to defer, adjust or remove (e.g. rent, equipment leases, employee costs). Identify capital outflows to defer or adjust (e.g. dividends, bank loan repayments, capex).

STEP 3 - Engage with key stakeholders regarding potential standstill arrangements

This will be critical – you need to engage with key creditors such as landlords, ATO and suppliers, explain your situation and attempt to negotiate stand still arrangements where possible. An independent report from your accountant or financial advisor on your financial position will bring credibility and assist negotiations.

STEP 4 – Conduct due diligence on other capital sources

Consider collateral and equity available to support finance. Engage with your existing financiers - bring them into the "tent". Consider equity sources – do existing shareholders have capacity? Are there logical buyers of your equity you can approach? Do you have assets that are non-core to realise in short time to generate cash?

STEP 5 - Consider government support available

Identify the measures in the federal government's stimulus packages and state government support programs that are available. Identify how they impact cash flow and apply where relevant.

STEP 6 – Develop a 90 day "business rescue" plan

Develop a 90 day action plan incorporating steps above. Include:

- Implementation of the cash flow measures identified (i.e. apply to financier for funds, negotiate with creditors for standstills.
- Engagement with key stakeholders such as employees, financiers, landlords, customers and suppliers and remaining creditors to ensure they understand your position to continue business.

STEP 7 – Update your cash flow forecast

Recast your cash flow forecast in-line with your 90 day plan. Forecast for 90 days initially on weekly basis – be sure you can remain cash flow positive. When you are confident you can manage through the next 90 days – extend your forecast for a further 9 months (taking into account timeframes of stand stills agreed) to determine how long your "runway" is now… understand the point where you exhaust cash reserves and which you cannot go past (if within the next 12 months).

STEP 8 – Implement the plan and monitor regularly

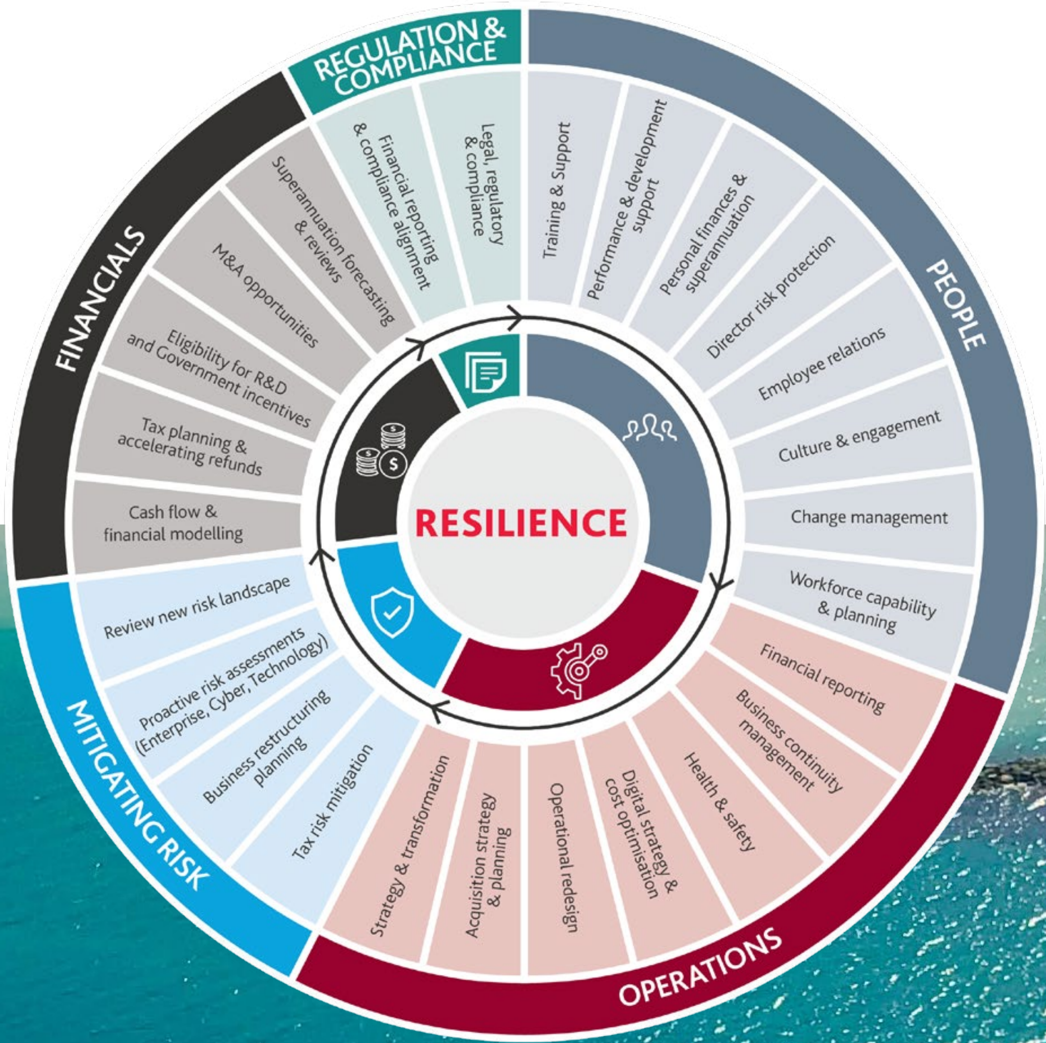
Start engaging with relevant stakeholders to put your plan into action. Monitor progress regularly (weekly to begin with) and keep updating the cash flow forecast weekly to monitor the length of your runway. Be conscious of when your cash reserves are exhausted so you do not continue to incur expenditure past that point.

RESILIENCE – WHAT'S NEXT

In the short to medium term, many Israeli Fintech companies are going to need to restructure their organisation, strategy, and financial setup. Any company in early-stage growth mode – be it Fintech or otherwise – will find the likely economic downturn following in the wake of COVID-19 challenging to navigate.

For Fintechs, their resilience will be typified on how well they can attract capital at each of the Rethink phases. Some will be looking at mergers and acquisitions to stay afloat and carve out revenue streams.

THE RESILIENCE WHEEL



There is no way of getting around the fact that not all Israeli Fintech companies will make it through the current crisis. However, many will – and will find themselves in an excellent position to thrive. In the wake of COVID-19, Israeli Fintech companies may take advantage of the established ecosystem that supports it and its cross-border relations – such as with the USA, the Middle East region, South East Asia and Europe to find new opportunities for growth.

To succeed in the REALISE phase, Fintechs must:

- Respond to shifts in consumer behaviour and new market conditions
- Find avenues of collaboration to create synergies
- Undertake technological transformation
- Manage expansion and costs
- Seek expert advice

Although COVID-19 has slowed the world economy, it's important to remember that neither it, nor technological development have stopped. New areas for Fintech solutions keep on appearing, for example, in the shape of Internet of Things (IoT) – enabled contactless payments, which could well be in high demand through smart city-scapes within a few years.

We are likely to see big changes in consumer behaviour due to COVID-19. For example, an increased push toward end-to-end digital solutions, as COVID-19 has both customers and incumbents focused on areas such as digital transformation, contactless payments, and online financial services.

That goes for both end-users and financial institutions. Fintechs are often the originators of such solutions and will likely be sought after by large-scale incumbents who, through partnerships or M&A, will look to combine Fintech companies' flexible, digital solutions with their capital, distribution access, and compliance infrastructure. Fintechs may want to seek out collaboration with incumbents such as traditional lenders who are safe guarded through their other investments, but also identify the need to expand their Fintech options.

EXTERNAL AUDIT

- Agreed Upon Procedures
- Audit Of Financial Statements
- Controls Reports

INTERNAL AUDIT & FORENSIC SERVICES

- Secondments
- Outsource
- AML/ CFT
- Forensic Services
- Specialist Technical Support

INDEPENDENT EXPERT REPORTS

- Regulatory Audit Reports

EXTENDED ASSURANCE

- Non-financial Reporting Review
- Risk Framework Review
- Risk And Compliance Outsourcing

TAX ADVICE

- Tax Compliance
- Transfer Pricing

RISK CULTURE ASSESSMENTS

- Risk Culture Assessment
- Conduct Framework Review

TECHNOLOGY ADVISORY

- Cyber Security
- IT Transformation
- Data Quality Support

BDO IN ISRAEL

BDO is one of the world's leading accountancy and advisory organisations, with clients of all types and sizes in every sector. As a result of our client partnership approach, our teams develop strong insight into their client's business, enabling them to find innovative ways to help clients maximise their growth opportunities, improve processes and avoid pitfalls.

BDO Israel was established in 1983, employs over 1,600 employees (67 partners) through 9 offices (Tel Aviv, Haifa, Jerusalem, Nazareth, Bnei Brak, Modi'in Illit, Kiryat Shmona, Beer Sheva and the South, and Eilat) and operates Israeli desks in the US, UAE, Bahrain and the Gulf states, China, India, Vietnam and Eurasia.

BDO Israel provides Audit, Accounting, Consulting and Tax services to the private and public sector and serves over 300 domestic and international publicly traded firms and trust funds.

ABOUT BDO FINANCIAL CLUSTER

BDO Israel's Financial Cluster has years of experience in the finance and banking sector. As a result, the firm specialises in a variety of unique, client-specific services.

We accompany large banking groups, investment banks, stock exchange members, underwriting companies, venture capital funds, trust funds, provident, pension and education funds, hedge funds and exchange traded funds in their activities in Israel and around the world.

We are ready to assist both Fintech / Insurtech companies, financial incumbents and businesses throughout all stages of their growth. We combine knowledge of the market and banking system with an understanding of digital transformation. We help both traditional banks in their evolvement to become digital and the new Fintechs to overcome the difficulties of regulations and adhere to best practices of compliance, risk and ALM among others.

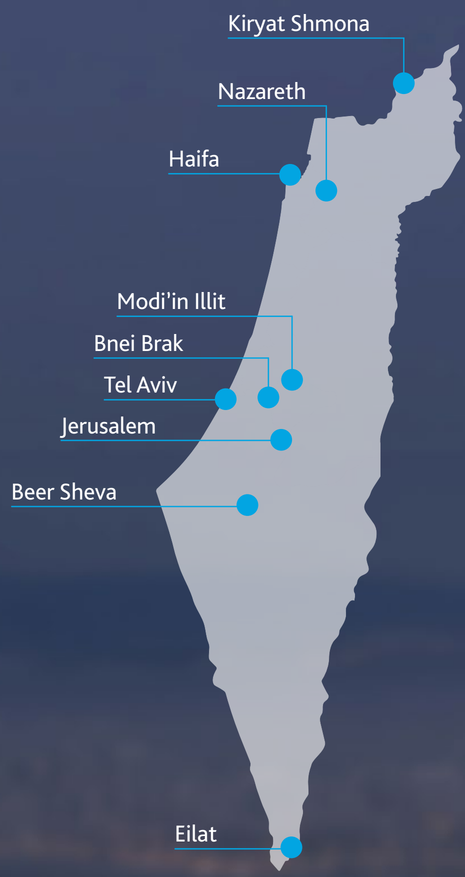
Our team provides a very strong offering in Technology and leads the BDO global network with its Artificial Intelligence Workbench.

established in
1983

1,600 employees
(67 partners)

9 offices

Tel Aviv, Haifa, Jerusalem, Nazareth, Bnei Brak, Modi'in Illit, Kiryat Shmona, Beer Sheva and the South, and Eilat



For more information about BDO Israel, visit

www.bdo.co.il /

www.bdo.co.il/en-gb/industries/Fintech-and-blockchain

and follow us on Linkedin and facebook.

CONTACTS

TIM AMAN

Global Fintech Leader

Tim.aman@bdo.com.au

https://www.linkedin.com/in/timaman/

+61 404 042 615

CHRISTINE NEBEL

Global Financial Services – Business Development

Christine.nebel@bdo.global

https://www.linkedin.com/in/christinenebel/

Visit our Global Financial Services sites: