

# YIFAT ORON

## Profile

*Understanding the financial needs of tech companies that lose money but grow fast is LeumiTech's signature business, its CEO explains to Joy Macknight.*

ALMOST FIVE YEARS AGO, Israel-based Bank Leumi set out to 'bank right' the early-stage technology sector, from start-up to scale-up. Central to CEO Rakefet Russak-Aminoach's strategic growth plan, the bank launched LeumiTech, a tailor-made structured business for this market segment.

Tech start-ups face many challenges when trying to access financial services, according to Yifat Oron, CEO of LeumiTech. "They are most often serviced by local or domestic banks, which find it difficult to deal with companies that are small yet global," she explains. "In addition, these start-ups usually have more question marks than exclamation marks in a bank's evaluation."

For example, normally a bank would want to compare the tech start-up to other companies, to assess profit margins levels and so on. But many times there is nothing to compare to because the start-up is the first of its kind – "and if it's not, then it's not very techie", adds Ms Oron.

Then there is the question of lending. "How does a bank defend lending to a money-losing – for a while at least – company? This is counterintuitive to traditional banking, but tech companies lose money by definition. So banks are challenged on why they should fund/lend to a company that burns more than it makes. To overcome this mindset, we have formulated a dedicated credit policy that provides debt finance to tech companies," says Ms Oron.

### A LITTLE UNDERSTANDING

To 'bank right' in this sector, a bank must understand the growth trajectory of an early-stage tech start-up. "Companies don't grow 100% year on year in other industries like they can in tech. Therefore, the valuations are different because the expectations for growth are 10 times more," says Ms Oron. "A start-up defines a category and if it doesn't grow fast enough that means either the category is too small or it won't be a player."

A bank also needs an understanding of



### Career history

*Yifat Oron*

- 2014** LeumiTech, CEO
- 2002** Vertex Venture Capital, managing partner
- 2000** JPMorgan, technology investment banking associate

both new technologies, such as blockchain, and new regulations, including know your customer (KYC) requirements. "As part of KYC, a bank has to identify the business, but how does it define a blockchain company or its competition?" asks Ms Oron. "Similarly with peer-to-peer lending – should such businesses be considered financial institutions and therefore regulated?"

### GLOBAL REACH

Bank Leumi had the infrastructure in place – including a responsive Israeli operation, a wholly owned UK bank and a US bank – to launch LeumiTech globally in 2014. "We were an international platform from day one because Israeli start-ups quickly launch operations abroad, first in London and then either New York or Palo Alto. LeumiTech provides a seamless service for companies suffering under a patchy service from banks who are not 'tech heads,'" says Ms Oron.

LeumiTech quickly gained recognition for being the 'go-to' tech start-up bank with an interconnected ecosystem. Ms Oron says: "We act as a partner to help start-ups speed up expansion – we take care of the financial part so they can focus on the business."

It has designed specific products for this market segment. For example, it launched the first community-based business credit card for entrepreneurs. "We took a major credit card platform, stripped out the offers not pertinent to an early-stage start-up and added benefits that provide value to a tech entrepreneur, such as discounts on travel, storage, Amazon, Microsoft products, etc," says Ms Oron. "For entrepreneurs in early funding rounds of \$500,000 or \$1m, every cent their bank can save them is valuable."

To support the community, LeumiTech also signed a contract with the European Investment Fund (EIF), where the EIF takes 50% of LeumiTech's credit risk on its balance sheet. "The deal signed with EIF allows us to reduce the bottom line credit cost to start-ups, so this is the EU helping us help the ecosystem," she says.

### START-UP THINKING

LeumiTech has 4500 Israeli or Israeli-related clients, which may be small compared with other Leumi Group business lines, but as a standalone activity it is "very profitable", according to Ms Oron. It also helps its parent bank evolve. "Staying the same for more than 100 years won't win new entrants who are doing a lot of funky things," she says. "By servicing and partnering with the ecosystem, LeumiTech can build relationships with those start-ups which we think could win in the banking race."

During the past three years, LeumiTech has been engaging in open innovation and endorsing adoption of tech-based solutions for better storage, artificial intelligence, targeted marketing and personalisation. Ms Oron says: "We see fintech as a much broader area and buy technology that will make us a better bank, improve our competitive position, make our solutions easier to consume and ease compliance."

According to Ms Oron, LeumiTech thinks like a start-up and looks for the quickest ways to market and new revenue streams. "We collaborate and do whatever makes sense, which could mean launching LeumiTech in other jurisdictions, partnering in a co-branded venture, or white labelling," she says. "Many think that innovation is about writing code, but it is also about the business model." 