

GROWING SPANISH FINTECH SECTOR CREATING NEW CLIENT POOL FOR LAW FIRMS

Posted on 01/09/2016

\$250m

Amount of money new BBVA venture capital firm Propel Venture Partners has to invest in fintech businesses.

Category: [Archive](#)



Fintech companies from around Europe see opportunities for expansion in the Spanish market as customers ditch traditional banks, which are being forced to close branches and cut jobs

Spain is seeing growth in its financial technology, or 'fintech', sector, with various local banks and financial institutions setting up fintech-focused ventures, with start-ups from other countries also eyeing the Spanish market.

According to Pablo García Mexía, of counsel at Ashurst, the emergence of fintech has two significant ramifications. The first, and most wide-reaching, is the application of digital technology in the banking sector. This is something that has been happening for a while as the banks have had to quickly adopt new technology to better handle transactions. The second significant impact is the emergence of a new sector of companies, or start-ups, that are entering the financial sector to compete against banks.

Extortion risks

García Mexía describes such technological changes as disruptive as they are changing the way transactions are carried out in that there is an increasing use of online banking, cloud computing and digital applications by a wide variety of companies to streamline their operations. "All of this brings enormous legal repercussions and challenges," García Mexía says, citing the issue of online payments as the largest concern. Such payments give rise to issues related to privacy and cyber security, as well as the risk of fraud and extortion.

"But despite the risks, companies are obliged to adopt these new practices in order to remain competitive, and this applies to the financial sector," he adds.

As was the case with e-commerce, fintech has raised initial fears regarding privacy and security, García Mexía says. He adds that such issues will create a new challenge for law firms, both in terms of potential litigation and the need to keep pace with the latest developments.

Recent developments have included French marketplace lending platform Lendix receiving approval from the Spanish financial regulator CNMV to operate in Spain (see box). Meanwhile, another French fintech company Linxo – which has 900,000 users – is also reportedly considering expansion into the Spanish market. Earlier this year, it emerged that leading Spanish bank BBVA was setting up a fintech-focused venture capital firm – Propel Venture Partners – which would have \$250 million to invest.



Pablo García Mexía, Ashurst

1,200

Number of jobs that will be lost at Santander partly due to the bank losing business to fintech companies.

High street banks suffer

The emergence of fintech companies is having a devastating effect on more traditional banking operations. The extent of the damage suffered by high street banks was demonstrated earlier this year when it emerged that Santander would be closing 450 of its branches and axing 1,200 jobs in Spain.

"Fintech is a growth sector, and both a competitor of the banks and a sector that complements the banks," says Fernando Mínguez, a partner specializing in financial institutions at Cuatrecasas, Gonçalves Pereira in Madrid. He adds that the sector is beginning to attract a lot of talent from the financial, technological and regulatory sectors. "However, fintech does not yet have its own regulatory framework and such companies will be governed by financial regulations and not by specific rules for that sector – there will be more general credit regulations for example."

Fintech 'sandbox'

Mínguez says that, in future, there should be a more specific regulatory framework governing fintech, citing the example of the UK's Financial Conduct Authority (FCA). "The FCA has developed a fintech 'sandbox', which is a kind of friendly regulatory framework to encourage the growth of such firms," he explains. "It's a new area that is generating much interest among law firms, as fintech firms are sensitive to certain risks and are therefore potential clients – evidently there will be more legal issues going forward, because financial transactions inevitably imply risk."

The emergence of fintech also demands a harmonious collaboration between law firms' IT and financial departments, García Mexía says. This is because issues and litigation concerning digital transactions will inevitably involve a number of different law firm departments, requiring lawyers to be up to date on developments.

Fintech companies see Spain as lucrative market

In July 2016, French SME fintech company Lendix received official accreditation from the Spanish financial regulator CNMV to operate as a 'P2P' lending platform in Spain. It will be the first international operation launched by Lendix, demonstrating the attractiveness of Spain as a market for international fintech companies – Lendix also plans to expand into the Italian market, but considers Spain to be the best bet.

How will Lendix's Spanish operation work? The company said it will aim to finance credit to SMEs in amounts ranging from €30,000 to €2 million, for a duration of 18 to 60 months at interest rates ranging from 5.5 per cent to 12 per cent. SMEs accepted on to the platform will have to generate a turnover of at least €400,000. Non-accredited private investors (specifically individuals whose annual income is less than €50,000 or own financial assets below €100,000) will be able to lend up to €3,000 per project with a total maximum yearly amount of €10,000 while no limit will apply to accredited private investors nor institutional investors.

"Spain is a high-potential market with a network of companies that benefit from the rebound in the economy," said Olivier Goy, founder and president of Lendix. "Crowdfunding as a new source of funding for SMEs has the ability to contribute further to this dynamic – thanks to the green light from the Spanish regulator, Lendix is now in position to put in motion its launch plan with the creation of a Spanish entity and the recruitment of a local team.

Lendix said it will recruit six staff in Spain in 2016 and "consider ten additional hires" in 2017. The launch of the Spanish platform is scheduled for the fourth quarter of 2016.