

ISRAEL

In the game

Israeli law firms focused on start-ups and early-stage growth companies are embracing risk in the hope of landing the next big thing
CHRIS CROWE





'You have young kids with offers from the biggest law firms to advise them for free. I have to persuade some kid to retain me even if they are not going to pay me.'
Simon Jaffa, Barnea & Co



Every Thursday at 6pm, Yair Geva, co-head of Herzog Fox & Neeman (HFN)'s high-tech department, drinks a beer on the rooftop of a client's office in central Tel Aviv. The weekly drink, which started seven years ago when he returned to Israel from New York, is a routine that is borne out of professional commitment and friendship. In the start-up and high-tech world, the two often go hand in hand.

'We share a long journey with our clients and we are often with them from day one,' Geva says. 'The only way to keep in touch with this very vibrant dynamic ecosystem is to hang out with friends, clients and hear the news.'

Geva, like many of his peers in the Israeli legal community, enjoys the day-to-day adrenaline rush from taking a gamble in working with clients from such a fast-moving sector. The gamble is

that start-ups and high-tech companies cannot afford typical legal fees, meaning firms have to wait for their payday. 'When we bet on the right people, we usually do well,' Geva says. Yet, often the investment of time and effort into a client comes to nothing.

For a profession that is notoriously risk averse, the start-up-driven Israeli economy naturally pushes local lawyers out of their comfort zone. Working with a whizz-kid, who happens to have a great idea and may or may not become one of the richest humans on the planet, is a different experience to advising established institutional clients.

GAMBLING BIG

Israeli law firms have had to develop a sophisticated investor mentality in the hope that they can back winners, but along the way there will be inevitable losses and time that is written off. Given

the make-up of the Israeli economy, local firms have little choice but to take that gamble.

Israel is the second-most innovative nation in the world, according to the World Economic Forum's Global Competitiveness Report 2016-2017. The drive for innovation is self-perpetuating, with frequent reports of entrepreneurs achieving billionaire status by selling their businesses to foreign investors or listing on global stock exchanges. It has created a nation of romantics.

David Schapiro, a partner at Yigal Arnon & Co, says: 'Every single day of the week, you see a dramatic exit of one form or another. The average person opens the newspaper and they see that you can become a multi-millionaire. People feel the only way to realise that dream is to have a start-up.' In 2016, Yigal Arnon advised a Chinese consortium on its \$4.4bn acquisition of Israeli online gaming

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BIG WINNINGS: TAKING EQUITY OR STOCK OPTIONS IN A START-UP

Deferring fees or taking equity or stock options in a start-up is not a new concept, but it continues to divide the legal profession, not least because it leads to accusations of conflicts of interest.

In the 1990s leading up to the dotcom bubble bursting, Silicon Valley firms took equity stakes in start-ups and growth companies on a relatively frequent basis. They often established separate funds to hold the equity and asked clients to sign a waiver prohibiting them from launching conflict-of-interest claims.

The concept of deferred fees until a start-up achieves a designated milestone, such as a round of financing, also leads to accusations of conflicts, not least because a deferred fee equates to a success fee. The lawyer or adviser effectively has an interest in pushing the client towards that milestone, irrespective of whether it is truly in their interest.

Noory Bechor, the founder of Lawgeex, an Israel-based contract review automation start-up, and a former senior associate at local firm Meitar Liquornik Geva Leshem Tal, is sceptical about handing over equity to a legal adviser: 'If a lawyer is good at their job, they should be paid for doing that job and you should keep your equity.'

Yigal Arnon & Co partner Barry Levenfeld agrees that taking equity is not the right way forward: 'We prefer not to take equity. It might be a mistake in the long run and we may lose a lot of money from that stance, but we really think it is the right thing to do. We don't want to compromise our professional position.'

Osnat Sarusi-Firstater, a partner at Lipa Meir & Co, says that the firm has in rare situations taken equity in businesses that have cashflow difficulties, but only when the firm has had absolute belief in the client and its prospects: 'Some simply do not want to share equity and others say putting the name of a law firm as a partner will improve the start-up's chances of getting investment and reaching the designated milestones.'

Sarusi-Firstater says that the firm is diligent about eliminating conflicts of interest, believing that taking such small minority stakes means the firm is not able to exert any control over the start-up. It also appoints proxies to the board to eradicate any perception that the firm can influence executive decisions.

Yaron Sobol, a partner at Hamburger Evron & Co, is expecting a client that the firm holds equity in to list on Nasdaq in 2017. He expects to achieve a return of some three to five times the hours his team has invested in the client since it began working with it in 2008. The value of its shares can only be realised after a six-month lock-up period. Sobol says that this is dependent on how the initial public offering (IPO) is received, the outcome of potential clinical studies and whether the management team is delivering. The firm's rewards are uncertain.

Sobol says such transparency is pivotal to the avoidance of conflict accusations, noting that in public offering documents, for instance, it will explicitly state that the firm providing a legal opinion also holds equity or stock options in the company. Clearly though, where a start-up does eventually achieve a significant milestone, it gives even minority shareholders an opportunity to



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Barry Levenfeld, Yigal Arnon & Co

be generously rewarded. In 2016, Israeli high-tech exits topped \$10bn, according to the IVC-Meitar Israeli High-Tech Exits Report. Of these exits, only three were through IPOs, raising a modest aggregate total of \$15.1m – a far cry from 2014 when Mobileye raised \$890m on Nasdaq.

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SELLING OUT: FOREIGN INVESTORS BATTLE FOR ISRAELI TARGETS



Israel's two largest banks have been ordered to sell their credit card businesses, with the market only open to foreign buyers

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Clifford Davis, a partner at S Horowitz & Co, says that he and colleagues at the firm worked on eight auction sales during 2016, believing this is a symptom of mounting foreign interest in the Israeli economy.

A report by IVC Research Center and Israeli law firm Shibolet & Co said that private equity investment in Israel rose to \$3.5bn in 2016, up from \$3.1bn in 2015 and \$2.73bn in 2014. This comes despite a 17% drop in the volume of deals in 2016.

The \$1.4bn buyout of Keter Plastic by BC Partners was the marquee deal of the year with Linklaters and Meitar Liquornik Geva Leshem Tal advising BC Partners, and White & Case advising the Sagol family, the sellers. China continues to generate headlines with a number of bold investments. A Chinese consortium paid \$4.4bn to acquire Playtika, the Israeli online games company, from US-based Caesars Interactive Entertainment in 2016. Yigal Arnon & Co and Silicon Valley-headquartered Fenwick & West advised the Chinese consortium, while Latham & Watkins advised Caesars.

Recent efforts to decentralise the Israeli banking market are likely to fuel deal activity in 2017. In January, the Israeli parliament issued a new law demanding that Israel's two largest banks, Bank Leumi and Bank Hapoalim, sell their credit card businesses. The two businesses account for over 75% of the domestic payment card market. Under this new law, Israeli financial and non-financial businesses are prohibited from buying these credit card companies, effectively opening up the market to foreign players, including private equity sponsors.

► company Playtika (see box, 'Selling out', to the left).

But the risk-and-reward mentality is not one that sits well with the average law firm business model. Firms, in large part, are still wedded to the billable hour, enabling them to meet monthly and quarterly financial targets. Working with an early-stage tech company, means the client is likely to have very little capital to spend on legal advice.

Firms are then forced to offer very low fees, deferred fees or even work for free until the client has sufficient capital. Some firms are even willing to take equity in the client's business in the hope that they will be rewarded once the company is sold or goes public (see box, 'Big winnings', page 76).

Simon Jaffa, a partner at Barnea & Co, says that all firms are chasing the same start-ups, despite these clients' inability to pay typical legal fees. 'You have these bizarre situations where you have young kids who already have offers from the biggest law firms to advise them for free and they ask whether you can do better than that,' he notes. 'I have to persuade some kid to retain me even if they are not going to pay me.'

Jaffa says that firms will often defer fees until a client reaches a certain milestone, such as a seed investment. They tend to agree a fixed period of time or a fixed number of hours the start-up will receive free or at heavily-discounted rates. At each round of funding, hourly rates gradually increase until they reach standard rates. In the end, the firm hopes to advise the client on a lucrative sale to a strategic or financial sponsor, or on its initial public offering, often on Nasdaq.

'It's a long-term investment,' remarks Daniel Chinn, a partner at Tulchinsky Stern Marciano Cohen Levitski & Co, suggesting that working with young companies is akin to spending time at business and industry conferences. Sometimes it pays off, often it doesn't.

However, Israel's reputation for innovation encourages investors from all over the globe. In February this year, Apple acquired Israeli artificial intelligence (AI) facial recognition company RealFace. This followed its acquisition of other Israeli facial recognition AI companies PrimeSense and LinX over the last few years. ►

'We can keep prices low in the expectation that the company will find an exit, or become a big company with substantial operations and many employees.' Amit Steinman, S Horowitz & Co

The age of emerging technologies

Yigal Arnon's Barry Levenfeld, Nimrod Vromen and Roy Keidar on regulatory uncertainty

The renowned futurist Ray Kurzweil once said: 'Our intuition about the future is linear. But the reality of information technology is exponential, and that makes a profound difference. If I take 30 steps linearly, I get to 30. If I take 30 steps exponentially, I get to a billion.'

Kurzweil got it right in more ways than one. We are living during revolutionary times, when new emerging technologies such as artificial intelligence, nanotechnology, the internet of things, intelligent transportation, virtual and augmented reality, wearable computing, 3D printing, blockchain and more are changing the world as we know it. New industries rise up in front of our eyes. Traditional occupations disappear. The pace of change is so fast that it is difficult even for futurists to imagine the workings of the world in the coming decades.

The Israeli high-tech industry has been at the forefront of these changes. Driven by skilled human capital, a vibrant technological ecosystem and a widespread entrepreneurship mentality, we have witnessed Israeli companies introducing innovation in almost every new technological sphere. The recent multibillion-dollar acquisition of Mobileye by Intel, in which Yigal Arnon & Co was involved, is another testament to the pioneering leadership of the Israeli market on the cutting edge of new technologies.

Against this backdrop, we can also observe the challenges faced by regulators and lawyers grappling with the mind-boggling rate of technological progress. How can such rapid changes be predicted? How can lawmakers successfully regulate new technologies if by the time a regulation has been enacted, it is already outdated? How should counsel advise their clients in these times of regulatory uncertainty? These are not hypothetical questions, but rather real practical concerns that must be taken into account throughout the course of providing day-to-day legal services: investments, M&A, due diligence reviews, opinions regarding regulatory and legal risks with respect to specific technologies and, eventually, even during litigation in courts.

To cope with these challenges, lawyers who work in the field of emerging technologies are required to go beyond traditional resources and expand their skillsets in order to render useful advice to the technology clients. First, being a good jurist may not be enough. Lawyers need to have some understanding of the technologies at play. While they do not have to be engineers, they need to understand the purpose each technology is designed to serve and its various applications. For example, when considering

the use of virtual and augmented reality in the context of computer games, such as the popular *Pokémon GO*, technical elements, like GPS capabilities, accuracy rates, the ability to overlay data on top of existing sets of maps and to analyse all of the information vis-à-vis the reasonably anticipated behaviour of players, must be accounted for. Without identifying the technologies in use, it is impossible to anticipate legal challenges relating to trespassing, invasion of privacy and nuisance, let alone to provide assistance to developers to generate technical and structural solutions alongside proper legal disclaimers, before the product is launched.

In addition to analysing the technological aspects of a given client's product offering, tech counsel are in need of a more refined

change not only the ability to move from one place to another, but also the approach to car ownership, liability for road accidents (and consequently, the world of auto insurance), city planning, etc. Because transportation is a highly-regulated field, there is hardly a single element of the new landscape that will not require regulation. Although the standards have yet to be formed, the first regulatory steps in several jurisdictions (such as in California, Michigan and the UK) have already been taken. In the face of regulatory uncertainty, counsel should take note of significant markets that have effectively laid the future's foreground by taking the first steps in otherwise legally 'grey' industries.

Meanwhile, the most common coping mechanism that has emerged in order to handle

'Being a good jurist may not be enough. Lawyers need to have some understanding of the technologies at play.'

understanding of the global regulatory dilemmas, as they often have a direct financial effect on the client's industry. For example, blockchain technology is the platform on which virtual currencies, such as Bitcoin, were developed. Bitcoin has raised serious regulatory concerns because of its anonymous nature, the lack of central bank oversight and widespread use on the black market. Over time, such concerns have affected the ability to use blockchain in various settings, such as fintech, intellectual property and automated smart contracts.

Sound legal advice in the field of emerging technologies also requires familiarity with existing international and foreign regulation. Although Israel is a stronghold of technological excellence, its small size prevents it from being a 'target market'. Companies that develop new technologies in Israel can almost always predict to a great degree of certainty in which significant market their technologies will first be launched. They must be ready for the challenges that market will present, understand the regulatory environment of the applicable jurisdiction and be familiar with the different laws they will be facing. In all likelihood, these will be the bigger US, Asian and European markets. As such, lawyers working for these tech companies must be acquainted with the relevant extraterritorial legal environment. The most prominent example of this issue today is autonomous cars. This industry is expected to generate trillions of dollars over the next few decades and will

regulatory *lacunae* in emerging technologies is self-regulation: voluntary compliance with an anticipated set of guidelines, expected to be adopted one day by the regulator. The logic is twofold: saving costs at the outset of future modifications, which would be required as a result of forthcoming regulation and creating a competitive business advantage by setting market-accepted standards.

Augmented reality, blockchain technology, autonomous cars and other emerging technologies will keep challenging society and the legal world at an ever-increasing rate. The ability to provide suitable legal solutions depends on our ability to analyse and internalise these changes, and simultaneously create legal anchors that will enable technological and business growth despite the uncertain regulatory environment. This makes our job harder, but then again, no-one promised us it would be easy.

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▶ Israeli companies are frequently snapped up, but Yigal Arnon partner Barry Levenfeld admits that identifying potentially lucrative clients can be a shot in the dark. 'For every one of these successful exits, there are many that don't succeed,' he says.

Firms then have to find ways of mitigating the risk of chasing a client that never makes it. Many have created efficiencies, using standard documents and boilerplate terms in the early stages of a company's lifecycle, and for the first rounds of financing. 'We can do this efficiently and keep prices relatively low in the expectation that the company will find an exit or sale, or become a very big company with substantial operations and many employees,' says Amit Steinman, a partner at S Horowitz & Co.

Firms are also adept at using younger partners and lawyers, often those that have a tech or sector background, to identify and nurture these clients in the initial stages. The problem, though, is that young

'Lemonade's founders are serial entrepreneurs with great backers doing fascinating work in an area crying out for innovation.' Daniel Chinn, Tulchinsky Stern Marciano Cohen Levitski & Co

entrepreneurs can be needier than a larger company that has its own general counsel.

Levenfeld says: 'With freshness and idealism you get a lack of experience, and that requires a lot of hand holding. Israelis may have had great success in the army and be brilliant in the technology field, but they could struggle with daily business and legal issues.'

Many successful tech entrepreneurs have come out of the Israeli army, which continues to select the best candidates for its most prestigious forces such as Unit 8200 – the intelligence unit known for its cyber security and high-tech spying activities. Investments in Israel's cyber security

sector increased by 9% in 2016 according to PitchBook – the private equity and venture capital database – which said 365 Israeli cyber security companies raised \$581m. This amounts to 15% of global investment in cyber security.

Chinn asserts that even the finest military minds require premier legal advice: 'My view is that young companies require a level of senior advice that is inverse to their age and size. Young people are less experienced in running companies and do not know what to look out for.'

This presents a particular challenge to Israeli firms, given their relatively small size; HFN is the largest domestic practice with 300 lawyers. Firms need to guard against becoming overstretched by the demands of the start-up and growth company community, especially when it is not especially remunerative. Barnea's Jaffa asks: 'How many start-ups can we take on this year given our resources of 85 attorneys? We don't want to be in a situation where we don't have enough manpower to deal with a large and intensive acquisition.'

PICKING WINNERS

Chinn has had success in identifying early-stage businesses that have gone on to make an impact. He represents New York-based Lemonade Insurance Agency, a company driven by AI and behavioural economics. It uses algorithms to assess claims, and through this automation can claim to be faster and more transparent than the traditionally opaque world of insurance payouts. In December, only two months after its launch in New York, it announced a \$34m funding round led by General Catalyst Partners. Chinn has known the company's two founders Daniel Schreiber, a former Israeli attorney, and Shai Wininger for some years, and says he knew they would make an impact: 'They are serial entrepreneurs with great backers doing fascinating work in an area crying out for innovation.'



The bond between Silicon Valley and Israel has been strengthened by the introduction of direct flights ▶

Data security and cyber crime trends

Hagai Doron and Tomer Scheuerman of S Horowitz answer questions on legislation

Would you consider your national data protection laws to be ahead or behind of the international curve?

The current data protection laws in Israel are slightly ahead of the average international curve.

With regard to privacy, Israel's data protection laws establish high-level standards (eg, restrictions regarding the transfer of data abroad and opt-in consent for spam). The EU has held that Israel provides an adequate level of protection to individuals with regard to the processing of personal data and on the free movement of such data, in relation to automated international data transfers. Where these are not automated, they are subject to further automated processing in the Israeli territory (for further information, see Opinion 6/2009 and the EU Commission's decision of 31 January 2011 (2011/61/EU)).

However, some of Israel's data protection laws are relatively old and outdated. While their provisions lay down general obligations, they fail to establish detailed, comprehensive, clear and specific duties and obligations with regard to certain issues that fall within the realm of data protection and privacy.

Moreover, over the past few years, enforcement of matters touching on data protection has been relatively limited, and focused mainly on extreme and clear breaches of privacy, and related incidents. Thus, there remain issues in the field of privacy and data protection that are questionable, largely because of the lack of clear-cut case law specifically dealing with the subject.

Are any changes to existing data protection legislation proposed or expected in the near future?

On March 2017, after years of preparation and debates on the issue, the Israeli legislature has approved the Protection of Privacy Regulations (Data Security). The new regulations will come into force a year after the official publication, and include specific requirements and arrangements with regard to data security (including matters based on common global standards and norms), and new notification requirements in specific events of a breach, among other provisions.

Are there restrictions on the geographic transfer of data?

Yes. According to the Protection of Privacy Regulations (Transfer of Data to Databases Abroad) (5761-2001): 'A person shall not

transfer, nor shall he enable, the transfer abroad of data from databases in Israel, unless the law of the country to which the data is transferred ensures a level of protection no lesser, *mutatis mutandis*, than the level of protection of data provided for by Israeli Law [Section 1].'

The regulations also specify certain core principles that will need to be complied with in the foreign country (to which the data is transferred), in order to permit the

contemplated transfer. In addition, the regulations also list various exceptions for facilitating the transfer of data abroad, for instance: the data subject has consented to the transfer, etc.

Do any specific requirements apply to data owners where personal data is transferred to a third party for processing?

Yes. According to Israeli law, a data controller may not transfer personal data to a third party without first obtaining the consent of the data subject.

There are certain exceptions to this, one of which is the outsourcing of personal data-processing services. The owner of a database may outsource personal data-processing services, via a third party (a supplier) and, as part of the outsourcing, the owner may transfer data to third parties, even without the individual's specific consent. This exception is subject to the Registrar of Databases Guideline Regarding the Outsourcing of Personal Data Processing Services (2011/2) (which imposes, among other things, a series of demands and restrictions regarding both the database owner and the supplier of the services, in order to protect the privacy of the individual and maintain data security. For example, the supplier must explicitly undertake not to transfer the data to a third party, and must destroy and erase all the data as soon as it finishes processing it for the owner).

What are the other significant regulatory considerations regarding cyber security in your jurisdiction (including any international standards that have been adopted)?

Israel joined and adopted the European Convention on Cybercrime (Budapest Convention), subject to certain (permitted) reservations, etc.

Are companies required to report cyber crime threats, attacks and breaches to the relevant authorities?

In general, data owners or processors are under no duty to report cyber crime threats, attacks and breaches to the relevant

'Enforcement of data protection matters has been limited. There remain issues in the field of privacy and data protection that are questionable.'

regulatory bodies. However, in certain specific fields (especially regarding essential services or sensitive data such as banking) notification is mandatory under the relevant regulations. In the case of cyber attacks (and in general), companies may apply, on a voluntary basis, to CERT-IL and obtain government assistance.

The full article, written by S Horowitz, can be found on Lexology.

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Israel's reputation for innovation encourages investors from all over the globe

▶ Although Chinn spent time as a seed investor before returning to the law in 2010, few lawyers are professional investors, meaning they have a difficult task in assessing whether to invest their time in a client. 'I'm not trying to assess whether a particular product is going to be in demand in X years' time,' comments Barnea's Jaffa. 'I'm not going to kid myself that I have that skill – plenty of lawyers believe they do – but I can look at young entrepreneurs and make a judgement call as to whether these guys are going to succeed.'

Geva says a law firm's risk is not as great as that of a venture capital fund and that the key for firms is to believe that a client is going to reach the next stage of financing. When clients are funded, firms can at least recoup all or a significant proportion of outstanding fees. Geva believes a few well-placed conversations with venture capitalists and market participants can give him and the firm a good understanding of whether a client is going to succeed.

Chinn says that he and his contemporaries are now much more plugged into the start-up and high-tech 'ecosystem' than when he was

first practising law. As an attorney at HFN back in the 1980s, he received a call from a partner, saying that Baker & McKenzie's San Francisco office was asking for help with a stock option plan for Microsoft. The partner had heard neither of Microsoft nor a stock option plan.

For Chinn and others, the priority is to be part of the high-tech start-up environment. Many will sponsor or take a prominent role with start-up accelerators and incubators, getting to know the promising entrepreneurs and company founders. Lawyers also feel compelled to spend time overseas, most notably in Silicon Valley, where a high proportion of Israel's most enthusiastic acquirers and investors come from.

Jaffa visited Silicon Valley six times in 2016, speaking to big tech companies and investors about what they were interested in. He is consistently surprised by Silicon Valley's connection to and understanding of Israel: 'I sat with a venture capital investor in California last year and he asked about fintech companies in Israel. I mentioned ten names and he knew every single one.'

Jaffa believes that his regular visits to the

US and his connections there provide another reason for Israeli start-ups to work with him: 'They might see the advantage of us making interesting introductions. We are not going to operate like an investment bank, but if we see an opportunity then we could try to add some value and make that connection.'

He also says that buy-side clients want to see that their lawyers are part of the high-tech and start-up scene: 'Venture capital investors on the West Coast want to have a feel for what is going on.'

There may be a strong bond between Israel and Silicon Valley, further cemented by the now direct flight between Tel Aviv and San Francisco, but the start-up and high-tech ecosystem goes way beyond that. Berwin Leighton Paisner's head of corporate, Jonathan Morris, says that London, as one of the world's principal financial centres, has its sights set on Israel's thriving fintech scene. And then there is China, a nation that now spends billions of dollars on Israeli companies and technology. In light of this, committing fully to the start-up and high-tech ecosystem requires a lot more than a bold partner and a couple of young associates. **LB**

Disruptive technology

Herzog Fox & Neeman's Alan Sacks highlights the impact of technological developments on the finance sector

If the key theme of last year's article was populism, perhaps the key theme of this article should be disruption. In March 2017, technology giant Intel Corporation agreed to buy the Israeli autonomous vehicle technology company Mobileye, for a staggering \$15.3bn. The deal places Intel at the forefront of the driverless car market and highlights Israel's position as world leader in disruptive technology. Israeli technology is at the forefront on vehicle-to-vehicle, vehicle-to-pedestrian and vehicle-to-infrastructure technologies, which will dramatically affect the motor industry and transportation generally in the coming years. An example of an Israeli company that is developing technologies in each of these areas is Autotalks, which has recently raised finance from a number of investors, including the Samsung Catalyst Fund.

Turning air into water sounds more magical than disruptive, but that is exactly what the Israeli technology company Water-Gen is doing, first purifying the air and then chilling the air to extract its humidity, and transforming the moisture into clean drinking water. The prospect of making potable water available to the literally billions of people who today lack proper access to clean water supplies has already brought Water-Gen to the attention of the United Nations. There is no doubt that many other sectors will be affected dramatically by Israeli technology in the years to come.

One area where disruptive change is already being felt is the financial sector. Israel had been a fertile ground for disruptive financial technologies long before the term 'fintech' achieved its current popularity. With more than 400 fintech start-ups located in Israel, Israeli technology is finding its way to wallets and accounts around the world. In some cases, ventures which were seeded in Israel reach maturity in other, bigger markets. Examples such as Lemonade Insurance Agency (technology-based insurance platform), Payoneer (payments), eToro (social platform for trading securities), Forter (fraud prevention) and Credorax (online payment processing) are

threatening to transform the industries in which they operate. Global financial institutions Citibank and Barclays have each established innovation centres in Israel; international giants such as Visa, PayPal and others maintain local research and development centres; other institutions such as HSBC, Deutsche Bank and Santander support local technological developments.

But it is not only technology that is disrupting the financial sector in Israel. At a more prosaic level, the Israeli legislators and regulators are introducing measures that will, it is hoped, break the duopoly of Israel's two largest banks and change the face of Israel's banking sector.

The Law for Increasing Competition and Reducing Concentration in the Banking Sector in Israel, 2017 has recently been enacted, adopting many of the recommendations of the committee established by the Ministry of Finance and the Bank of Israel (the Strum Committee). Primary among these recommendations is the requirement that Israel's two largest banks each sell off their credit card operations, within a three-to-four-year time frame. As the name of the law suggests, its purpose is to encourage competition in the financial sector, especially with regard to small and medium-sized enterprises and domestic borrowers. The aim of the regulators is to lower the cost of borrowing by increasing competition (including opening up the small business and domestic borrowing market to institutional non-bank lenders), lower the cost of credit card transactions by increasing competition and encouraging new players in the market, and introduce measures to make it easier for customers to move from bank to bank and to compare alternative costs of borrowing. The Bank of Israel will also encourage technological developments and e-banking. Time will tell to what extent, and how quickly, these developments will 'disrupt' the traditionally-conservative banking sector in Israel. Perhaps the real breakthrough will occur if peer-to-peer financing platforms develop sufficiently to challenge traditional banking models, and digital assets such as Bitcoin challenge traditional concepts of money.



'Israel had been a fertile ground for disruptive financial technologies long before the term "fintech" achieved its current popularity.'

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