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Bank and non-bank finance: natural allies

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Until now financing of Spain's private sector has come mainly from banks, as is the norm in Europe general, and particularly in countries with a large proportion of small businesses. Recently, driven by the advances of the new technologies, new forms of non-bank financing have arisen or established themselves, and anecdotal evidence suggests they are partly replacing bank lending. Is the David of alternative financing gathering the necessary strength to overtake the Goliath of traditional banking?

In the first place, we would do well to quantify the volume of financing that private sector economic agents obtain from banking and non-banking sources in Spain. Despite their high growth rates, sources of financing such as the MARF (Alternative Fixed Income Market) and the MAB (Alternative Stock Market), venture capital, private equity, business angels, crowdfunding and other corporate debt issues accounted for less than 4% of new bank financing granted in 2016. Therefore alternative financing still lags far behind the flow of new bank lending.

An example of alternative financing is MARF, which saw a total volume of €2.28 billion in new issues in 2016, 175% more than in the previous year but only about 0.5% of new bank lending. This market, which was created for solvent medium-size companies to issue fixed income securities, is aimed at institutional investors and is showing that it is useful to part of our business fabric. However, it is not the appropriate path for SMEs, which constitute the bulk of businesses operating in Spain, since they lack the resources to meet the required administrative processes and in any case they would not be of interest to potential investors because of their small size.

Another innovative form of financing is crowdfunding, which has recently arrived in Spain. It consists in connecting communities of investors with specific projects. It is a fast way to obtain financing, and online intermediation platforms have become increasingly sophisticated, to the point where some of them operate their own rating systems. It was regulated in Spain in 2015 for cases in which the investor receives pecuniary remuneration, by the Promotion of Business Financing Act, which established the supervision of the CNMV (Spanish SEC), with control and regulation of Banco de España (Spain's central bank) in cases where there is a loan, and defined the criteria for investors to be considered as qualified, allowing them to access larger projects. In 2016, total inflows from equity and real estate crowdfunding, crowdlending, rewards and donations, amounted to €114 million, 116% more than in the previous year but just 0.03% of new bank lending.

It seems clear that it is important to seek a better balance between bank and market financing, which would make the Spanish economy less vulnerable to turbulence on either front, and European initiatives such as the Capital Markets Union are aimed in this direction. In this regard, alternative financing has a crucial role to play as a complement to bank financing, for the early phases of a project or for bold initiatives, thus promoting entrepreneurship and innovation. It will be essential for the efficient allocation of resources and to underpin the economic recovery that bank and non-bank operators work together to channel transactions through the appropriate financing channels.

What can we do to push alternative financing? In the first place, make sure we have a comprehensive regulatory framework that provides legal certainty to lenders and borrowers alike. Sources of alternative financing must be regulated and supervised in a similar way to banks, so as to seek to maintain competition. In other words, any given product, service or risk must be governed by the same regulations irrespective of whether or not it is supplied, provided or incurred by a bank.

Lastly, the development of alternative financing will take some time, since it is starting virtually from scratch. While David grows it is important for Goliath to stay in good health and for both to work together to better meet the needs of those requiring financing.

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