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| BANK OF ISRAEL  Office of the Spokesperson and Economic Information | MINISTRY OF FINANCE  Office of the Spokesperson |

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Press Release

**Strategic measure to strengthen competition in the banking market:**

**Opening the market to new participants**

**Publication of recommendations of the interministerial team to advance banking competition**

The interministerial team appointed by Finance Minister Bezalel Smotrich and Bank of Israel Governor Prof. Amir Yaron—and led by Supervisor of Banks Dani Hahiashvili, and Finance Ministry Budget Director Yogev Gradus—has recommended a plan to enable the establishment of small banks with more lenient regulation. The goal is to increase competition and reduce concentration in the banking system, ultimately benefiting households and small and medium businesses.

The team focused on removing restrictions and lowering entry barriers for new participants—especially those already active in the financial market who could help enhance competition, such as credit card companies, nonbank lenders, and payment companies. Throughout this process, there was great emphasis on preserving the stability of the banking system, protecting customers’ interests, and addressing any conflicts of interest that might arise due to these new ownership structures.

The following are the team’s main recommendations:

* Create a tiered banking license framework that supports new participants entering the banking system. The Bank of Israel’s Banking Supervision Department will update its guidelines to allow for proportional and gradual adoption of supervisory directives for new and existing banks, establishing three levels of supervision in line with each bank’s size.
* A small bank, the assets of which don’t exceed 5 percent of the total banking system’s assets, can run a flexible, innovative, and lean business model, including offering only deposits and credit if it wishes.
* A holding company that also controls an institutional investor will be allowed to control a bank with assets that don’t exceed 2.5 percent of the total banking system, with the possibility of raising that threshold to 5 percent if approved by the Minister of Finance and the Governor of the Bank of Israel, in consultation with a dedicated oversight team. Such a bank would have restrictions—for example, it could not be involved in investment advice, brokerage, or marketing of investment, insurance, or savings products.
* Real corporations will also be allowed to control a bank under the proposed framework, similar to the current legal situation.

In addition to the two co-chairs, the team includes Israel Securities Authority Chairman, Attorney Sefi Zinger; the Commissioner of Capital Markets, Insurance, and Savings, Amit Gal; Israel Competition Authority Director General, Attorney Michal Cohen; the Deputy Attorney General for Economic Law; the Head of Financial Stability at the Bank of Israel; and the Director of the Licensing and New Banks Unit in the Banking Supervision Department.

Finance Minister Bezalel Smotrich:

“Citizens of Israel, today marks a pivotal moment in our real and determined fight against the high cost of living. For years, the banking system was too centralized, insufficiently competitive, and didn’t offer fair enough terms. The banks charged us high interest rates for credit but barely paid us for our deposits. The gap was too big, and it wasn’t just because of market forces—it was because there wasn’t enough competition.

“When money is expensive, everything is expensive—mortgages, running a business, even opening a falafel stand. The report published today lays out a practical, responsible, and innovative plan that will allow new participants to enter the market and open it up to real competition. This is a necessary, bold move that will break the monopoly, bring interest rates down, and give power back to the public. I want to thank all the professionals involved in formulating these recommendations. From here on, we’ll keep moving forward to implement them for the sake of Israel’s citizens.”

Bank of Israel Governor Prof. Amir Yaron:  
“The Bank of Israel views promoting competition in the banking system as a central strategic goal, with the aim of improving banking services for the entire public. I’d like to thank the team for their thorough work on boosting competition in the retail banking sector. The team worked diligently to develop plans that will encourage more entities to become banks, thereby improving competition, service, and customer satisfaction. At the same time, they struck the right balance by preventing potential conflicts of interest and preserving the stability of the financial system.

“Granting a banking license to additional entities is an opportunity to strengthen competition in both credit and deposits, which will ultimately benefit customers—especially households and small businesses. The framework suggests a graduated approach that lowers barriers for new participants to get a banking license, all while safeguarding depositors’ funds and the financial system’s stability. We must implement these steps responsibly, with a long-term view of what benefits consumers and the economy. I’d like to thank the team and its leaders for their comprehensive and professional work over the past few months.”

Ministry of Finance Budget Director Yogev Gradus:

“The recommendations we are presenting today to the Minister of Finance and the Governor of the Bank of Israel join a long list of moves that the Budget Department has led and promoted over recent years, aimed at boosting competition, tackling the high cost of living, and developing Israel’s financial industry. At the heart of these efforts is the entrance of new, competitive participants into banking and finance—just as we saw with the Bachar reform (the 'Bachar Committee'), which doubled the number of participants offering competitive, attractive financing to large businesses.

“The recommendations being presented today, twenty years after the Bachar reform, continue the trend of increasing competition, this time focusing on households and small and medium enterprises. Lowering the cost of credit for these groups has the potential to create meaningful competition and reduce the price that households pay not only for credit, but for other financial services as well. I’d like to thank the Minister of Finance for trusting me to lead this team, my fellow team members, and the Bank of Israel for our collaboration.”

Dani Hahiashvili, Supervisor of Banks at the Bank of Israel:

“I welcome the publication of the committee’s recommendations, and I want to thank all the members for their professional work and for producing such a significant outcome for our economy. Our goal was to create a more competitive banking market, and this report reflects the consensus we reached among all committee members.

“The team’s work focused on establishing the right foundation for increasing the number of participants in retail deposits and credit, while continuing to maintain system stability and public trust. This report builds on previous committees like the Strum Committee and the Bachar Committee, refining their recommendations by distinguishing between large and small banks.

“Implementing these recommendations will lead to differential and proportional regulation in the banking sector, with three levels of supervision. This will let both domestic and international financial institutions enter the banking market.

“I want to thank the Finance Minister and the Governor of the Bank of Israel for forming this committee and supporting our work, and I wish us all success in putting this model into action and promoting competition in the market.”