

Introduction—the Supervisor of Banks



The Banking Supervision Department’s vision—to be a leading, professional, and proactive supervisor to benefit the public and the economy—serves as a beacon guiding the Department’s activity, as outlined broadly in the Survey of Israel’s Banking System that you hold.

This Survey is intended to reflect, and to provide the general public with access to, the ways in which the Banking Supervision Department is currently leading and implementing its vision in practical terms, in its policy and in its main activities, in view of the way in which the Department views and analyzes the activities and developments of the Israeli banking system, and the challenges, risks, and opportunities it faces.

This year, similar to previous years, the Israeli banking system has shown impressive stability. It supported economic growth, assisted the activity of the Israeli economy, and fulfilled its function in the country’s socioeconomic fabric. The stability of the domestic banking system, which many consider to be self-evident, is even more important in view of recent events in the global financial system. This systemic stability was achieved due to the continued activity of the Banking Supervision Department, which carries out close supervision and control using a variety of tools and legal powers intended to ensure the proper functioning of the banking corporations, thereby protecting the public’s money that is invested in the banks.

Alongside this, the Banking Supervision has acted for many years—and even more so in 2022—to advance the level of fairness in the relationship between the banking corporations and their customers. The public’s trust in the Israeli banking system is the keystone of the entire system, and a culture that espouses fair relations and the provision of high-quality services plays a vital role in the creation and maintenance of this trust. In parallel, there are increasing social expectations of the banks, which are expanding to issues that are taking on greater importance and status. These include the demand for widespread social involvement and responsibility, strengthening and maintaining the values of equality, financial inclusion of all population groups, and the need to think about and deal with weighty issues in relation to the future of society and the future of the environment in which we live.

In addition, in the past few years, the banking industry has undergone a revolution that has made it more competitive today than ever before. Financial products and services are becoming more modular, and as such are now being offered by additional participants and over various technological platforms. Financial information about the customer, which was previously the exclusive domain of the banking corporation, is now openly available and accessible, which makes it possible to

offer services and value offers that are in line with the customer's nature and activity. The Banking Supervision Department has worked hard to remove barriers, increase transparency, and advance competition, with the aim of transferring power to the customer and intensifying competition. Some of the many measures that the Department has taken have already borne fruit, while others are expected to be completed in the coming years, and are expected to further increase competition.

The banks' profitability increased, and in 2022, it reached the highest levels since 2006. This was partly due to the rapid increase in credit to the public in 2022 and in previous years, as well as global developments that led to increased inflation and, for the first time in many years, higher interest rates. The higher inflation and interest rates translated into higher profit margins, partly in view of timing discrepancies between the rate of transmission of interest rate increases to credit, which was relatively fast, and the rate of transmission to deposits. Even though the pass-through of the interest rate on deposits in Israel is relatively high compared to what is happening in other countries, the Banking Supervision Department believed that it was correct for there to be a faster rate of transmission from the interest rate to deposits. As such, it sent a letter to the banking system on this matter, and took other actions, including the publication, for the first time, of data on deposit rates at the various banks in order to advance competition in this area as part of the transfer of power to the customer and to accelerate the rate of transmission from the interest rate to the public's deposits.

Looking forward, 2023 is being accompanied by a sharp increase in uncertainty both in Israel and abroad. The source of this uncertainty in Israel has to do with the possibility of significant legislative changes concerning the country's judicial system in the absence of broad consensus. Such changes, if they harm the independence and strength of the country's institutions, may also have an adverse effect on the activities and prosperity of the Israeli economy over time, and be reflected in the banking system's results. In addition, there were a number of bank failures in the US and Europe in the first months of 2023, which were influenced by changes in the global macroeconomic environment. These failures emphasize how essential it is that there be a stable and reliable banking system to support the economy. This era of globalization combined with developments in mass communication in general and social media in particular can lead to the rapid spread of rumors—and to panic—regarding the financial system, and to accompanying risks, which may make it necessary for regulators to take rapid, responsible, and decisive preventive measures.

Alongside these developments, the Israeli banking system is strong, and can continue supporting its customers and the entire economy. The Banking Supervision Department will, as always, continue monitoring the risks inherent in the banking system's activity, supervise them, and work if necessary through the variety of tools available to it.

The Banking Supervision Department first published a broad and comprehensive annual survey on the activity of the Israeli banking system in 1972. The Survey of Israel's Banking System for 2022, which you now hold, marks the 50th anniversary of this publication—a half-century of professional review and transparency of the Banking Supervision Department's work. This is also an excellent opportunity for me to thank the Department's employees through the years for their dedicated work on behalf of the entire public and the economy.

To conclude on a personal note, I am currently completing a three-year term as Supervisor of Banks and as a member of the Bank of Israel's management. During this period, I had the honor and merit of serving the Israeli public and involving myself in its issues. I thank the Governor of the Bank of Israel, the Bank of Israel management, the Banking Supervision Department's employees and officials and the employees of the entire Bank of Israel for their work during my term. I would like to wish the incoming Supervisor of Banks tremendous success in fulfilling this important function, and to wish much success to all of the Department's employees in their future work on behalf of the Israeli economy and society as a leading, professional, proactive, fair, and independent regulator.

Sincerely,

A handwritten signature in black ink, appearing to read 'Yair Avidan', with a stylized, cursive script.

Yair Avidan
Supervisor of Banks