

**BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

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Press release:

**Remarks by the Supervisor of Banks at a Conference of the Israel Bar Association and the Israel Money Laundering and Terror Financing Prohibition Authority**

**Supervisor of Banks Daniel Hahiashvili spoke at a conference of the Israel Bar Association and the Israel Money Laundering and Terror Financing Prohibition Authority. He discussed the challenges in managing AML/CFT risk. Following are the main points of his address.**

* AML/CFT risk is a main risk that impacts on banks’ activity and the services they provide to their customers. In recent years, managing this risk become more complex due to changes in the financial ecosystem, the broadening of regulatory requirements, and the need to balance managing the risk and customers’ needs.
* The financial activity environment is changing, as the traditional banking system, which includes the banks and credit card companies, is required to work with nonbank financial entities, some of which are supervised and some of which are not, that provide a range of banking services to customers. These positive developments increase the sophistication of the financial market and add considerable value to customers, while at the same time they strengthen the challenges to the banking system with regard to money laundering and terrorism financing risks.
* In parallel, regulatory requirements of the banking corporations have increased in recent years—partly due to an enhanced battle by many countries, led by the US, against unreported capital and tax evasion; partly due to requirements of the financial institutions to serve as gatekeepers in the battle against terrorism; and partly due to the use of sanctions as part of the AML sphere.
* In a world where AML requirements are getting stricter, it is important to ensure the maintaining of the balance between banking corporations’ obligation to manage AML risk with the providing of banking services to the public. Care should be taken that the expansion of the requirements regarding AML regimes do not lead to financial exclusion of disadvantaged populations, and in cases of refusing to provide services, that the banking corporations are required to know to specify their reasons to their customers.
* The abovementioned challenges can be seen in several recent cases. I will give two examples. The first is Israeli citizens being placed in the sanctions regimes of foreign countries. It is important to clarify that banking corporations are required to determine policy for using national sanctions lists as part of their risk management, as circumventing sanctions can expose the banking corporations to significant risks, including compliance risk, AML/CFT risks, legal risks, and reputation risks. However, managing the risk does not mean avoiding risk. Rather, the banking corporations are required to understand the significance of the sanctions and their ramifications vis-à-vis their customers, particularly which services can continue to be provided. The second example is related to banking corporations’ customers’ activity in crypto, and the balance the bank is required to maintain between managing the risk in this sector and providing services to its customers.
* The Banking Supervision Department welcomes the regulatory reform in the AML/CFT regime expected in Israel, and the intention to establish a uniform AML prohibition order that will apply to all financial sectors. A uniform Order that will apply to the entire financial system in Israel can help in reducing regulatory gaps among various entities, certainly in sectors in which an AML culture and processes have not yet been optimally integrated. The Banking Supervision Department’s stance is that the uniform Order should be based on delineating general principles that will apply to all financial sectors, with powers granted to each financial regulator to determine specific directives to the entities supervised by them, by force of their overall responsibility for stability.