**Executive Summary**

*Introduction*

In order to build a practical, comprehensive, and effective work plan to increase financial inclusion in Israel, the Team had to thoroughly examine all aspects of the issue. The team needed to examine how the main components of financial inclusion are reflected in various population groups in Israel, what the barriers to financial inclusion are, and to what population groups are those barriers relevant. As such, the Team gathered a wide variety of data, which provided a holistic picture of the level and characteristics of financial inclusion in Israel. The Team did not suffice with just statistical data, but held broad discussions with various entities in the public sector, the financial system, the private sector, and civil society organizations. Beyond the professional perspectives of these entities, the Team also used focus groups in order to grasp the point of view of relevant segments of the population. Based on a broad survey that the Team conducted, it obtained a clear picture of the state of financial inclusion in Israel, on the basis of which it devised a program to increase financial inclusion in general, and in various population groups in particular.

*What is financial inclusion*

Financial inclusion means creating **equal access** to financial services[[1]](#footnote-1) **at a reasonable cost** for the entire population. Financial inclusion is very important, and can improve the well-being of citizens in a numerous ways. Financial inclusion may help people get out of poverty, reduce inequality in society, reduce the shadow economy, encourage business opportunities, and stimulate economic growth. Financial inclusion expands access to sources of financing and helps increase economic opportunities for individuals and businesses. However, there are risks to increased financial inclusion without the proper financial literacy. For instance, expanding financial inclusion and the supply of credit without increasing people’s financial literacy may cause households to take credit in an uninformed manner, and if they then have difficulty repaying that credit, it could lead to financial exclusion due to difficulties they may face in the future in obtaining credit, and the effect this would have effect their access to financial products.

One main way of dealing with this problem is through a long-term financial education program that imparts norms of health financial conduct throughout the population.

*The financial inclusion discrepancies between groups in Israeli society – Qualitative findings*

Beyond the overall picture, it was important for the Team to map the extent of financial inclusion in all population groups in order to understand the barriers that are relevant to each group. In this context, the Team focused on *Haredi* (ultra-Orthodox) society, Arab society, the elderly, and disadvantaged population groups.

The Team held discussions with nonprofit organizations, entities from the private and public sectors, and civil society activists working in this area. Through these discussions, the Team developed qualitative insights. For example, it found that there are citizens in Arab society who avoid consumption of financial products, partly due to self-perception of discrimination. Some of the aforementioned self-perception comes from a lack of representation of Arab society among employees in financial firms, digitalization gaps, or because the products are not in line with Islamic religious directives. In *Haredi* society no significant financial inclusion discrepancies were found with regard to certain products, while with others the *Haredi* society was found to have even more financial inclusion than the general society. Moreover, it was found that in addition to the formal financial institutions, there are others that are unique to *Haredi* society that are adapted to its needs. However, there appears to be a preference for cash usage over the use of advanced means of payment, and there are digitalization gaps that hamper well-being and restrict their consumption abilities. The Team also found that disadvantaged segments of all population groups may be at risk of having credit heavily endorsed to them by entities that may exploit their lack of financial literacy. A lack of understanding of the implications of taking out credit, for instance, may lead to a deterioration toward financial exclusion, and thereby to social exclusion. Disadvantaged population groups, those with low socioeconomic status, also suffer from a lack of digital literacy and of physical access to digital infrastructure, which makes it difficult for them to consume various financial products.

The Team held discussions with various financial regulators, during which a number of main measures taken in order to enable Israelis to consume financial products were presented. One of the measures presented by the Banking Supervision Department was the Banking (Service to the Customer) Law, 5741–1981, which sets out that a bank is required to open an Israeli currency current account for any customer, unless there is a reasonable cause to refuse. Moreover, Banking Supervision Department directives require banks to offer each customer basic means of payment (debit cards, ATM cards) and access to their bank account through digital means such as a website or various cellular applications.

Some of the measures taken in recent years by the Capital Market, Insurance, and Savings Authority include tools to make financial information in the field of insurance accessible to the public, such as the “Money Mountain” and “Insurance Mountain” websites (in Hebrew). The Authority also publishes service indices of the companies in the insurance and pension industries in order to increase transparency in the field.

In addition to the insights obtained in the discussions with the various regulators, information was aslo gathered from nonprofits organizations and social activists by a secondary team that was established. These discussions revealed that in all population groups there is some lack of financial literacy. The public is not aware of the implications of its financial actions as derived from the Reducing the Use of Cash Law, 5778–2018 and the Credit Data Law, 5776–2016. A lack of familiarity with the legal arrangements involved in the use of financial products is causing harm to the public. For instance, the Reducing the Use of Cash Law harms the Arab and *Haredi* public, where the use of cash is more common, and the Credit Data Law makes it possible to accumulate “negative” information on customers, which may catch up with them in the future.

The discussion with activists also revealed that community structure is significant for the *Haredi* and Arab communities. Therefore, having people of significance in the community transmit financial knowledge that is linguistically and culturally adapted may be more efficient. These agents will be able to actively make the material accessible and bridge the various literacy gaps. The representatives that participated in the conversations discussed the fact that Arab and *Haredi* societies, as well as population groups in economic distress, must deal daily with existential issues, which is particularly intensive, leading to a lack of significant savings efforts. In addition, these population groups are generally guided by welfare workers to use cash, which they perceive as being a more financially conservative method of conduct.

*Mechanisms that affect financial inclusion*

In order to explain the reasons for the financial inclusion discrepancies between the various population groups in Israeli society, the mechanisms affecting the level of financial inclusion and the barriers to it were surveyed. The Team found that one of the main barriers is credit risk. For instance, in Arab society there are indications of high credit risks, mainly in localities with low socioeconomic levels, which limits their access to credit. The rate of customers reported to the statistical credit register who have been reported in arrears on loan repayments is about 15 percent, compared with about 6 percent in the non-*Haredi* Jewish society.

With regard to the quality of mortgage collateral, the Team found that in Arab society, there are property registration barriers, alongside a low level of real estate tradability. These barriers make it difficult to bondage properties, and are some of the reasons for the low rate of mortgage borrowing in Arab society. For instance, the Team found a significant negative correlation between the rate of those aged 18 and over who have a housing loan and the rate of unparcelized land.

Another major barrier is the linguistic barrier. The combination of low Hebrew-language fluency and low access to financial products in Arabic is a barrier to integration of the Arab population in the financial system. Survey respondents in Arab society said that the linguistic barrier prevents them, to a certain extent, from consuming many financial products.

One of the main barriers that was discussed in the focus groups is a low level of digital literacy. Since digitalization of financial services is increasing, population groups that are not familiar with the use of various digital means may be financially excluded. Data gathered from the banking system show that Arab citizens use the banks’ websites and applications at a lower rate (21 percent) than *Haredi* (31 percent) and non-*Haredi* (44 percent) Jewish citizens. Another possible explanation for the low use of digital means in Arab society may be linguistic barriers.

Some customers in Arab society avoid using financial products for religious reasons. More than 10 percent of respondents said that this barrier affects their consumption of financial products. In Arab society, both the level of financial literacy and confidence in financial literacy are lower than in Jewish society.

Information gathered in the Team’s discussions shows that those in the Arab and *Haredi* communities have a cultural and social preference for using cash. The findings of a survey carried out for the Bank of Israel in 2021 show that more than 50 percent of Arab respondents prefer receiving one-time grants in cash over other means of payment. A survey conducted for the Team’s work found that the rate of Arab respondents who avoid holding a payment card due to a preference for cash is higher than the rate among non-*Haredi* Jews. The rate of those who avoid ownership of a current account for the same reasons is higher among non-*Haredi* Jews than among Arabs.

Another barrier to financial inclusion is that the conditions are consuming the financial product are not sufficient for the consumer. For instance, a survey conducted for the Team’s work found that about half of non-*Haredi* Jewish respondents that prefer not to take loans from formal financial entities and about 37 percent of the Arab respondents with the same preference, believe that the mortgage\loan terms offered to them by financial entities are not good enough.

*Financial inclusion in Israel: The situation based on quantitative data*

An international comparison of basic financial inclusion indices shows that the average level of financial inclusion in Israel is high, similar to the levels of countries with similar income levels. However, there are indications of gaps between various population groups within Israel, and within different financial products. Most of the gap in financial inclusion was found to be among the Arab population. In contrast, the Team found that despite the high level of access to and use of the financial system among *Haredi* society, there are a number of discrepancies relative to non-*Haredi* Jewish society. For instance, in the  *Haredi* society, the rate of savings was found to be lower in most savings channels than among non-*Haredi* Jews (other than the use of savings plans).

A prominent finding among Arab society is that there is a relatively high rate of households that do not have a bank account (12 percent), compared with other population groups—including *Haredi* society where the rate is miniscule. Corresponding to the qualitative findings, Arab society was found to have a low rate of payment card usage. Only about half of Arab households have a payment card.

Another finding that was prominent among Arab society is the higher use of consumer loans alongside low use of housing loans, due to the interchangeability between these products. These findings show a trend that is the opposite of the trend in Jewish society, where the rate of use of consumer loans is low and the rate of use of housing loans is higher. This interchangeability between consumer credit and mortgages is partly due to the complexity of registering a lien on properties in Arab localities and the quality of the collateral, which leads some people in Arab society to take out consumer loans as an alternative to housing loans. It should be clarified that despite the high level of use of consumer loans, the average loan amount in Arab localities is lower than the general average, and the interest on those loans is higher, which may attest to a higher level of risk in Arab society. These findings are in line with data from the statistical credit register and other administrative data, which show either a low payment ethic, or a low supply of credit and a lack of sufficient competition over Arab customers.

While current account lines of credit in Arab localities are lower than the overall average, the utilization of those lines of credit in those localities is higher, which may attest to low financial literacy that could lead to an imbalance between household income and expenses, which may in turn lead to credit risk. The utilization of lines of credit may indicate limitations in obtaining cheaper alternative credit. The issue of low supply in this context is reflected in the fact that people for the Arab society borrow from a small variety of credit sources. In contrast, *Haredi* society features a relatively broad range of credit sources.

In the area of savings as well, the data show significant gaps in savings volumes between the various population groups. The savings rate in *Haredi* society is significantly higher than in Arab society in all savings channels, even when looking at groups with similar income levels. The savings rate is highest among non-*Haredi* Jewish society, which is in line with higher income levels.

*Summary of recommendations*

1. **Credit to weaker population segments (page 91­).** Obtaining a credit facility or loan from a supervised financial institution may help households smooth their consumption, both in terms of current consumption or purchasing durable goods and in terms of large and significant deals such as purchasing a home. The Team devised recommendations that will make it easier to take out a mortgage in Arab society in the short term, as well as recommendations to enable credit excluded individuals to regain access to credit in an informed manner:
   1. In response to the difficulty in property registration and real estate tradability in Arab society, the Team recommends providing partial State guarantees for mortgage loans in the short term, and regulating the registration of new properties and developing the tradable real estate market in Arab society, in a way that will enable residents of the Arab localities to take out mortgages.
   2. In order for excluded customers to regain access to credit, the Team proposes enabling the issuers of means of payment to provide a limited short-term credit line of credit while hedging risks, and the streamlining and improvement of government and private funds for credit excluded individuals.
   3. Increasing awareness of the credit data system and its implications for borrowers among particular population groups through focused public information campaigns, taking into account the cultural and linguistic characteristics of each group and the public information channels relevant to it.
   4. Arranging mechanisms for personally contacting customers in arrears before the debt is assigned to legal debt collection proceedings, giving preference to control and enforcement by financial regulators concerning the implementation of directives regarding consumer credit and debt collection, and formulating mechanisms to assist customers in managing their debts.
2. **Increasing access to and use of advanced means of payment (page \_\_\_98.** The Team found that while the use of advanced means of payment is widespread among the general public, a considerable part of Arab society and among those who are credit-excluded do not use such means. The Team formulated a set of recommendations with the aim of increasing the use of advanced means of payment:
   1. Recommendations that will make advanced means of payment more accessible to the public and make it easier to use them in general, and debit cards in particular.
   2. Recommendations that will increase the penetration of these means of payment among customers and merchants in areas that are characterized by a low level of financial inclusion.
   3. A recommendation that would require merchants to have advanced means of accepting payments.
   4. In order to minimize the payment of wages in cash, the Team recommends examining amendments to the Wage Protection Law, which would minimize the payment of wages in cash and provide the possibility payment through advanced means.
3. **Multiyear financial education plan (page 106­).** By implementing a national financial education program that concentrates on the differences between various population groups and adapts to various stages of life (youth, establishing a family, purchasing a home, retirement, and more) it will be possible to increase financial literacy in Israel. The Team formulated recommendations that aim to instill financial education in the optimal manner:
   1. Anchoring the function of the Capital Market, Insurance, and Savings Authority as the body with overall responsibility for financial education in Israel, which will lead the effort together with the Bank of Israel and the Israel Securities Authority.
   2. Putting special emphasis on Arab society by establishing a designated team that will be coordinated by the Bank of Israel and lead together by Capital Market, Insurance, and Savings Authority, Israel Securities Authority and the Minorities Authority that will lead the financial education effort in that society.
   3. Establishing a national portal that will concentrate all of the educational materials published by the Israeli financial regulators so that people will have easier access to impartial financial information, with an emphasis placed on linguistic and cultural access for the Arab society.
   4. The team recommends that the financial education plan be included in the education system.
   5. In order to control the various financial education initiatives, the Team recommends that success indicators be formulated to examine the inclusion of financial education and the level of financial literacy.
4. **Removing cultural, religious, and linguistic barriers to financial inclusion (page 109­).** Trust in the financial system may be impaired when there is a lack of employment diversity in the financial system, such that manpower in the financial institutions does not reflect the composition of the population. The extent of the customer’s fluency in the language in which the service is provided has an impact on his understanding of the service he will be consuming. In addition, the Team found that there may be religious barriers preventing Muslim customers from consuming some services. These factors have a large effect on parts of Arab society in their consumption of services form the financial system.
   1. In order to make financial products more accessible to Arab citizens who are not highly fluent in Hebrew, the Team recommends that financial regulators instruct the institutions under their supervision that essential documents that have consumer significance, as well as essential explanatory documents on the institution’s website be accessible in Arabic, without the customer needing to make an active request. The regulators will instruct the supervised institutions to provide basic common services on various platforms in Arabic. Finally, the financial regulators’ public enquiries units will respond to those wishing to make enquiries in Arabic, even if the final answer is provided in Hebrew.
   2. In order to increase employment diversity in the financial system, the Team recommends that the financial regulators examine ways to encourage the supervised institutions to publish information on employment diversity in the financial institutions.
   3. The Team recommends that the financial regulators publish a public consultation to examine whether there are regulatory barriers to providing Shari’a-compliant financial services that are common in Muslim countries, and to examine whether any such barriers can be overcome.
5. **Additional recommendations (page 111­).**
   1. **Financial advising** – There are financial advisors and agents whose activity is not supervised, and many customers are exposed to misleading advice and sometimes even to fraud and extortion. The Team recommends a number of alternatives for regulating financial consultants and broadening the powers of the Consumer Protection Authority in this regard.
   2. **Bank branches in Arab localities** – The digital gap is greater in the Arab community than in Jewish society, and there is greater need to consume services at bank branches. The team therefore recommends that the provision of services at bank branches and manpower at the branches be in line with the cultural and social characteristics of the customers. The Team recommends that the Banking Supervision Department issue instructions that as part of its branching policy, each bank will be required to concern itself with how services are provided and bringing them in line with the quantity and spread of its customers by residential location. In addition, the Team recommends that during the next two years, no branches should be closed in Arab localities without an appropriate alternative within the locality or nearby at the Banking Supervision Department’s discretion.
   3. **Continued monitoring of the level of financial inclusion and implementation of the recommendations** – In order to examine how the Team’s vision and targets are being met and the effectiveness of the policy measures implemented due to the recommendations, the Team recommends that various indices of financial inclusion continue to be quantitatively monitored in selected measurable areas.

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**צוות בין-משרדי לגיבושתכנית לאומית להגברתההכלה הפיננסית**

1. All financial services, including bank accounts, credit and insurance services, digital and mobile means of payment, savings instruments, and so forth. [↑](#footnote-ref-1)