

**BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

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Press release:

**Remarks by Supervisor of Banks Daniel Hahiashvili at the Fair Value Forum concerning effective competition in the banking system**

Supervisor of Banks Daniel Hahiashvili addressed the Fair Value Forum, held at Reichman University, in reference to effective competition in the banking system His main remarks follow:

* Enhancing competition in the financial services system is one of the main objectives of the Banking Supervision Department. The Department considers competition complementary to its main objectives: maintaining macroprudential stability and assuring the fairness of the system toward its customers. A competitive banking system may contribute to the wellbeing of banks’ customers by lowering the prices of banking services, widening the variety of banking products and services, and incentivizing innovation and efficiency. Therefore, the objective of competition supports the Banking Supervision Department’s objective of fairness because competition forces banking entities to place customers in the center, give them transparent and fair treatment, and offer them products and services of the highest value for them. The more competitive and fair the banking system is, the more the public will trust it and the more macroprudential stability there will be.
* The Banking Supervision Department believes in a market economy and in encouraging long-term measures to enhance competition in the banking system. In recent years, several infrastructure-related steps of this kind have been taken (open banking, switching banks with a click, a database for sharing credit data, licensing two digital banks, etc.) and such action should continue in the future. “One should be careful,” the Supervisor of Banks notes, “not to fall into the trap of neglecting the advancement of long-term structural measures and settling for spot treatment due to a concept of irresolvable market failure. The great risk of short-term measures is that they will become permanent in the system, as a result of which no entity will see any reason to engage in processes of innovation, improve its service, deliver value to consumers, and, in effect, enhance competition.”
* In pursuit of its objective of competition, the Banking Supervision Department has laid down competitive principles—ensuring wider access to financial information (Open Finance), encouraging new players to enter, promoting the delivery of diverse and competitive services and products; improving the transparency of the prices of financial products; measurement and analysis of competition in the financial-services industry (understanding the competitive environment in the industry and identifying places where contribution is scant), and increasing consumers’ well-being. In accordance with these principles, the Banking Supervision Department is promoting several measures in accordance with a detailed work plan.
* The Banking Supervision Department is working to make prices of banking products more transparent and to improve consumers’ ability to compare banks. The “Kav HaMashve” (Equator) site provides individualized information about the interest rates of banking products in great detail, parsed by individual banks. In addition, the Banking Supervision Department issued last week a directive requiring banks to publish their deposit rates at any given moment on their websites. Such information will enable customers to better compare the rate that they will earn on their deposits with each bank. It may also lead to the development of intermediators who will gather information for the public and recommend to consumers where they should place their money.
* The Banking Supervision Department is continuing to encourage access to information in general and financial information in particular. Information is the basic raw material for offering financial services to customers. In addition, action should be taken to promote a world of Open Finance and, more so, of open information. For this purpose, there is a need for legislative and regulatory action to streamline information sharing processes, ensure consistency in regulation among different players, and create customer confidence in the open ecosystem. The Banking Supervision Department considers it necessary to establish a national strategy in this matter, including aspects of financial education, protection of information and of privacy, and so on. In the medium term, action is needed to set a single standard for the banking system and to continue promoting the usability of the Open Banking system.
* The Banking Supervision Department is continuing to act to eliminate regulatory, infrastructural, and other entrance barriers so that additional new banks and, possibly, existing nonbanking entities may join the system. To attain progress in this matter, the Department issued a call for public participation in the process and received responses from, and met with, some twenty entities. The main entrance barriers that they mentioned in the process thus far pertain to the following fields: **permissible lines of business**—the list of business activities that the law allows banks to pursue is a limited one that impairs the ability of new entities to diversify their lines of business; this matter is also relevant to the existing banking system; **niche activity as against comprehensive and broader activity**—new entities are interested in establishing a reduced business model as opposed to engaging in universal banking; **proportional and gradual regulation—**commensuratewith the level of risk in the entities’ activity; **structure of ownership**—the 2005 Bachar reform precluded banks from controlling institutional players. Some nonbank entities are controlled by institutional entities and the question is whether, and under what terms, this requirement should be treated leniently and, in fact, what is the right balance between encouraging competition and enabling nonbank entities to evolve into more meaningful players in the banking world, with concern about conflicts of interest and to what extent this concern can be alleviated. Discussions with all government and market functions concerning the path to licensure are continuing in order to elicit appropriate recommendations. Some of them belong to the purviews of the Supervisor of Banks and his directives; others will also require legislative amendments.
* The Supervisor of Banks wished to emphasize that “As these steps are being promoted, it is important to explain that there is no room for a reality in which an entity accepts deposits from the public and issues credit on their basis but does not operate under a banking license and under appropriate macroprudential regulation. No such thing exists anywhere and such a reality might become a slippery slope that would menace the stability of the banking system and the public’s money in the event of a crisis.”
* In conclusion, the Supervisor stated that “To intensify competition in the financial-services system without impairing stability, it is important to act in cooperation with all government entities while understanding the business and competitive environment and being attentive to the diverse players that operate within it.”