

**BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

June 12, 2023

Press Release:

**Farewell Remarks by Supervisor of Banks Yair Avidan at a parting evening**

My dear family, Governor of the Bank of Israel, and honored guests:

It is certainly challenging to find a language that will connect the broad common denominator of all the participants here. I apologize in advance for not fining the right equilibrium.

In recent years, the banking system in Israel has displayed impressive stability, supported economic growth, assisted in the activity of the Israeli economy, and fulfilled its function in the socioeconomic fabric of the State. The stability of the domestic banking system, seen by many as a given, gains greater importance in view of recent occurrences in the global financial system. This stability was achieved through the activity of the Bank of Israel and the Banking Supervision Department that carries out tight supervision and control through a range of authorities and tools intended to ensure the proper activity of the banking corporations.

Alongside that, the Banking Supervision Department has worked a lot, especially in recent years, to promote fairness in the relationship between banking corporations and their customers. The trust of customers in Israel’s banking system is a foundation stone for the entire system, and a culture that embraces fair relations and quality service plays a large role in creating and maintaining this trust. Society’s expectation of banks becomes stronger and widens out to issues that are given a central standing and utmost importance, including the requirement for broad involvement and social responsibility, for strengthening and maintaining the values of equality, financial inclusion of the entire population, and consideration and handling of weighty issues regarding the future of the society and the future of our planet.

The banking sector has been going through a revolution in recent years, and is currently more competitive than ever before. The financial products and services can be broken apart and are offered by other participants and through various technological platforms. The financial information on customers, which in the past was the exclusive property of banking corporations, today is available in an open and accessible manner and allows the providing of services and value offers that are adjusted to the customer’s nature and activity characteristics. The Banking Supervision Department has worked hard to remove barriers, increase transparency, and promote competition with the goal of transferring the power to the customers and strengthening their competitive position. This trend of enhancing competition is expected to continue in coming years with the completion and maturation of many measures initiated and promoted by the Banking Supervision Department.

Looking forward, 2023 is accompanied by a sharp increase in uncertainty. In the domestic arena, the increase in uncertainty originates in the potential promotion of significant legislative changes related to the judicial system in Israel without broad agreement. To the extent that they adversely impact on the independence and strength of the institutions, they are liable to negatively impact the stability and prosperity of the Israeli economy over the long term, and to be reflected in the banking system’s results as well.

Well, three full years have passed since I entered the position.

I began the position at the height of the COVID-19 crisis—a time of a world interrupted, the economy and the banking and financial worlds in a state of uncertainty, with all the effects on the public.

It appears also that the ending time is also challenging in these respects, with similar characteristics, though under different circumstances.

We did not have a grace period. Not even for a few minutes. Empty offices. Meetings by phone, and in a good case by Teams or Zoom. Life in two dimensions.

My first day on the job was the day that the Israeli economy exited the first wave of COVID-19. We had no idea if it was the last wave and/or how many waves remained. The uncertainty was great. Within this framework of the COVID-19 pandemic we acted and assisted the banking system and the Israeli economy considerably to overcome the many difficulties that came with this global pandemic.

It is difficult to say that the past three years were typical years in the life of the State, economy, society, the banking and supervision world, and to some extent, worldwide and in the global economy as well.

Its enough just to mention:

* Five waves of coronavirus
* Political instability in Israel (three election campaigns)
* The inflation and interest rate environment
* The war between Russia and Ukraine
* Challenges of business continuity and operational consistency (COVID-19, Guardian of the Walls, Breaking Dawn, Shield and Arrow)
* The global banking environment in which we saw institutions with tottering stability
* Challenges to the business model and profitability of the banking system
* Management of the tension between stability, encouraging competition, and the consumer’s welfare
* Uncertainty in terms of the financial supervisory structure and more

Amid all the complexity of beginning the term and lack of certainty as Supervisor, we defined several main targets which guided our work:

* Maintaining the stability and protecting depositors’ money
* Integrating a culture of fairness, inclusion, and impact toward the customers
* Entrenching a competitive and advanced financial system for the benefit of the customers
* Adjusting the Banking Supervision Department’s method of activity to the changing financial and technological environment

During the past three years, we worked to implement and achieve the targets we set, through many steps and actions, including accompanying the establishment of a new digital bank and issuing a license to an additional digital bank, accompanying the establishment of a computer services bureau, which reduces the entry barriers to the banking sector; completing and putting into operation a system to move bank accounts with a click that makes it possible, for customers that want to do so, to conveniently switch banks and strengthen the competitive position of banking system customers; removing barriers to the use of cloud systems that will enable the banking system to operate efficiently, flexibly, and innovatively; realization of the open banking reform that makes it possible to share information with additional entities and to leverage the information that belongs to the customers and is for their benefit; promoting innovation, the ability to separate financial products and services; publication for the first time of the interest rates offered at the bank level, with the goal of strengthening the ability to compare and the negotiating power; the reform in the mortgages sphere that breaks down the product and provides transparency for customers and a better ability to compare; advancing the banking system’s preparedness to deal with climate and environmental risks; and continued strengthening and improving of cyber defense and the holistic supporting such activity.

A significant emphasis was put on improving fairness in the relations between banks and customers, with the leading approach being to put the focus on the customer, among other things through directives that define the banks’ conduct when providing service, enhancing the consumer-related control and enforcement including imposing sanctions on the system, freezing current account fees, formulating a methodology for measuring fairness and a range of additional steps intended to integrate a culture of fairness, inclusion, and impact. Of these, we will only note the advancement of a financial availability covenant to deal with economic violence, promoting a charter for increasing access to banking services for senior citizens, activity to enhance financial awareness in Arab society, and promoting impact banking in the banking system. Alongside all these, we of course invested a lot in confirming and entrenching the stability of the banking system, we worked to monitor, supervise, and control, and made sure to maintain regulation that is relevant and up to date, and of course, we acted within the frameworks and with the tools available to us in the examination, assessment, lines of activity, enforcement, and other tools. And I would truly be remiss if I didn’t mention, even if in a nutshell, the activities in the areas of information and knowledge, model risk management with all the challenges inherent in that, advancing and enabling in the complicated worlds of AML/CFT, strengthening and leveraging the international relations (UAE, Bahrain, regulators in the US and major institutions—IMF, OECD, trade agreements, observers, rating companies) and more. Yes, a very wide range of issue, areas, and activities.

With all that we’ve done, we can look at the present and at the expected developments, to the extent that they can be forecast and assessed. The inherent conservatism in the traditional banking world is fertile ground for significant processes of disruption and disturbance. Due to these processes, at this time, it can be said that it is clear that the banking market is no longer on the slow and steady track of evolution, in which the system advances step by step in a measured and arranged manner, but rather is on the unstable track of revolution, which changes dynamically and at a rapid pace. The revolutionary process is already changing today, and is expected to continue to change, within a relatively short time, the conventions, processes, methods, and cultures that we have known, and essentially is creating a different world. In my assessment, the new situation that will stabilize, when and if it stabilizes, can be termed the New Normal, and it will be different from what we are familiar with today.

The challenge of seeing the customer at the center has become complex in view of the increase in life expectancy, various ethnic and social aspects, alongside an expanding range of products and services. The strengthening of the digital services provided by the banking system to its customers has contributed markedly to increased consumer welfare and the service experience. The digital activity and operational efficiency are creating an inherent tension vis-à-vis the deployment and availability of the array of branches and traditional services, primarily among various disadvantaged populations. This requires attention, sensitivity, and at times, even compassion, from all of us. The subject corresponds with the role and challenges of the banking system in the socioeconomic fabric, and the importance of its being influential. The impact has to be from the values approach and the integration of such a culture. This approach has something much broader than the marginal activity or the current profitability. It has a kind of the vision, the long-term approach, that requires investment, and the kind that creates a deep and real impact on the communities in which we operate. Such an approach can differentiate the banking system from the developing competitive environment, and utilize the disruption to strengthen and leverage the connection with customers and society overall while enhancing loyalty and trust.

The social expectation of banks becomes stronger and broadens out to issues that acquire a central stature and the utmost importance, including the requirement for broad social involvement and responsibility, for strengthening and maintaining the values of equality, financial inclusion of the overall population, and through considering and handling the weighty issues regarding the future of the society. Although the banking system does not need to be what leads some of these actions, it must not remain behind, and we have the obligation to guide, support, and help in dealing with these issues.

I will also attempt, in all modesty and humbleness, to outline some of the future challenges, of course those that receive a different dimension and depth over various time periods. In the consumer-competitive world, it is important to continue bolstering and strengthening the view of the customer as the center. There is no doubt that as a society we are facing a significant challenge in all that is related to financial literacy, digital literacy, and information literacy. A broad and comprehensive public response is required that will enable our parents, us, our children, and our grandchildren to be more informed and involved consumers, alongside increasing the access to the banking services via the various service channels. This should be reflected through the deepening and expanding transparency of the information to the customer regarding products, services, fees, and terms in an accessible and simple manner, improved financial literacy to strengthen the customers and their ability to make informed decisions, cultivating the experience and assistance to the customer so that they will be enough to improve the loyalty of consumers and competition, with an emphasis on personally adjusted services, effective mechanisms for solving complaints and easy access channels in accordance with the customer’s characteristics and needs. All this is alongside compliance and following the privacy protection and consumer protection laws.

We are all charged as well with the task of developing and strengthening the sense of responsibility of the public for its financial situation, and to encourage it to display initiative and involvement. The Banking Supervision Department has promoted many reforms in recent years with the main goal being to strengthen the customer’s power and to enhance the customer’s negotiating ability through the information and new tools that these reforms created. In order to generate significant value from these reforms, the customers must know about them and make use of them and utilize their enhanced competitive power through involvement, initiative, and informed consumerism. It is our obligation to promote the required processes for the benefit of strengthening the customer as well as to conduct effective public awareness and intermediation so that they will be able to generate the maximum benefit.

And from the perspective of customer service, we should continue strengthening the manner of handling customer complaints. It is very important to focus on the existence and constant strengthening of an effective and fair process of dealing with complaints, which espouses, among other things, a timely resolution of customer complaints, improved communication with customers, and the means to learn from customer feedback in order to improve products and services. And with the increasing use of customer data, there is importance and a need to strengthen the means of security and protection of the privacy of the data. It is a challenge and it is important to implement strong cyber security protocols, compliance with data security regulations, and ensuring responsible handling of information related to customers.

In this regard, we must note the information processing tools, the development of advanced abilities based on technology, such as artificial intelligence (AI), machine learning (ML), and computers communicating with each other (API). These technologies are expected to switch from a means of support to a central and dominant factor in the decision making processes in various content areas, including finance. The advantages of using information and advanced models are clear, beyond any doubt. However, such activity is not free of difficulties or risks, so the technology must be integrated and used carefully and responsibly. One of the major risks is related to ethical issues of discrimination and various biases that are liable to be created in such models. These are liable to be reflected in prohibited discrimination of customers. Alongside this there are additional risks such as mistakes in assumptions in corporate decision making mechanisms, the creation of black boxes and loss of transparency, an adverse impact on protection of privacy, and additional issues.

In the world of stability—but not only there—we should continue to strengthen the organizational governance and risk management culture. Risk management that is professional, effective, and efficient is crucial to maintaining the stability, as is providing an emphasis on managing traditional, modern, and developing risks. In terms of the innovation and digital transformation, early adoption of technology is essential to the existence and development of the competitive and even existential environment. The system has to invest in digital infrastructure, to continue to upgrade, even more, systems from previous generations and to provide user-friendly and convenient to use digital platforms while providing a secure environment. Within the framework of innovation and technology, in order to take an active role in the development of the ecosystem, there is certainly room to promote collaboration with fintech companies, startups, and other financial institutions that can lead to disruptive innovations and to creating new growth opportunities. Within this framework, strategic planning, consistently assessing and analyzing the development of the competitive environment, market trends, and developing technologies, understanding customers’ changing expectations, the expectation regarding competitive threats and adjustment of business models accordingly, are very important.

A few words about climate and environmental risks. Climate change presents us with special challenges, which we are heading toward without prior experience. This is true regarding the necessity of reducing the pace of climate change, as well as regarding the need to prepare for what will apparently be difficult to avoid. These two activity routes are a national mission of the utmost importance. I am convinced that through collaboration between all the relevant entities—government, regulators, the business sector and the public overall—it is necessary and possible to do a lot in order to move forward on these two paths. Central banks and the supervisors that are responsible or financial stability also have an important role in this issue, but it is important to understand that the activity of financial regulators is a complementary activity, and cannot replace the activity required of governments. Along these lines, and against the background of the emerging climate crisis, an increasing number of governments and business entities—financial and real—are committing to ESG targets, and particularly climate targets, and are striving for a better world. In other words, more and more key players in society understand that “we have to reset!”. First, to “reset ourselves”, in order to understand the magnitude of the event and respond accordingly, as well as to reset in the critical sense at hand—resetting greenhouse gas emissions and achieving the Net-Zero goal. We, as well, as the regulator of the banking system, and the banks are partners in this intellectual change. According to the 2023 report by the World Economic Forum (WEF), environmental and climate risks were again ranked as the number one threat facing us in the coming decade. These are also the risks that we are least prepared for. In the global and local response to climate changes, we have to adopt a determined stance and long term perspective. Passivity in this issue is not a relevant option. The cost of “not acting” is liable to be higher than the cost of “acting”. The banking system has the wherewithal to assist in complying with these targets. The Banking Supervision Department at the Bank of Israel acts, and will continue to act, in order to be at the Best Practice in guiding and managing this activity. Of course, if we don’t emphasize an additional social issue, the puzzle will be incomplete.

Over the past decade, Harvard University has developed the term “Shared Value”. This term represents the approach that in order to remain competitive in today’s world, companies have to do more than just generate profits. They have to generate shared value, meaning to create economic value in a manner that also responds to social or environmental needs. This leads to a comprehensive change in strategic thinking and the business model. Through this change in concept, companies differentiate themselves, open new growth paths, and also achieve better bottom lines. From a business perspective, creating “shared value” is a way to achieve a significant competitive advantage. At the same time, shared value can “make the pie bigger”, which is an important value in and of itself. As far as I see it, not all financial profits are the same. Profits generated by providing social value have a higher strategic value. Companies should act out of a sense of mission and purpose, not just with the goal of maximizing financial profits. Business, including the banking system, should, and even must, take responsibility and impact positively on their human and physical environment—in my eyes this is part of the “license to act”.

I also assume that all of us here understand that a strong society requires a strong regulator, and we at the Banking Supervision Department are acting, and will act, to continue to be strong enough. We act in order to realize our vision of being leaders, initiators, and professionals on behalf of the economy and society. The challenge is only becoming more complex and challenging, whether it is the many levels, the pace of the changes, or the size and scope of the playing field. There is a significant challenge of preserving and strengthening human capital, Using and developing technological means to support activity. There is a challenge in providing a response to the development of the business models. There is a challenge in understanding and assessing emerging and developing risks. There is a challenge in understanding what is permitted and what is not in terms of the legal and regulatory infrastructure. The entry of new participants. There is a challenge in sharing and coordinating with regulators and many stakeholders and partners. The challenge is huge. The range is broad. The responsibility is high.

So, three full years have passed since I took on the position. Three years of intensity, totality, and exhaustion. From my perspective, satisfactory and significant exhaustion. In a world of mission and contribution to the economy and to society, it is difficult to think of a role and a mission with much more exhaustion.

But I cannot conclude without a few words of thanks and appreciation.

I would like to thank the Governor for the trust and support all along the way. I would like to thank my colleagues in Bank of Israel management for the collaboration. I would like to thank all the parties at interest and partners, regulators, representatives of various ministries (Finance, Justice. Environmental Protection, Social Equality, the Economy, Construction and Housing) on the collaboration. I want to thank all the supervised entities for a supervisor-supervised relationship that was professional, challenging, contributing, honoring and honored. When looking at you, the Banking Supervision Department employees, it is difficult not to be amazed by your activity, the sense of mission and dedication of so many employees. I met, and had the privilege, obligation, and challenge of working with people who are serious, professional, and dedicated, who are concerned for all the citizens of the State. I am grateful for the great privilege given to me to lead the Banking Supervision Department in the past years. And there is no better time than this to wish success to the incoming Supervisor, Daniel Hahiashvili. It is an excellent appointment, that I am confident will continue to lead the Banking Supervision Department to impressive achievements. Good luck, Dani.

Now I would like to be a son, spouse, father, and grandfather, and will of course search and consider the appropriate challenges and paths going forward, places where I will be able to contribute and be contributed so that we can live here in a better, fairer, and more equal society.

Thank you very much.