

**BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

November 26, 2020

**Remarks by the Governor at Fintech Abu Dhabi Conference**

**November 25, 2020**

I am honored and happy to have been given the opportunity to speak at this esteemed forum. I would like to thank the Governor of the Central Bank of the United Arab Emirates, H.E. Abdulhamid M. Saeed Alahmadi, for the invitation to participate in this conference, and I am pleased to have the opportunity to learn from the experience of the UAE, which developed an advanced and innovative financial ecosystem. It is very impressive how the UAE has amassed in a short period of time— considerable presence of global financial institutions—more than 700 multinationals.

The economic development of our region—the Middle East and North Africa, MENA—in which nearly 600 million people live, will provide hope , growth and employment, which will benefit all the nations in the area. The region overall is characterized by rapid growth and increased exposure to advanced technologies, Internet use, and mobile.

My presentation today will touch upon:

The economic potential between Israel, the UAE and region, I will say a few words on the High Tech ecosystem in Israel; And will focus on the topic of this conference, that is the Fintech sector and I’ll focus on its presence in Israel; As the Governor of the BOI, it is important for me to mention the approach taken by the BOI to innovation; I will conclude with the advantages of collaboration with the UAE and the MENA region.

The Potential economic relations include fields of mutual interest:

As we know, Dubai's airport is one of the largest in the world, and will support trade and tourism by more efficient pathways.

The EAU water sector is based on desalination in which Israel has expertise, and there is high potential for cooperation in the water area.

This connects to the agriculture sector, which is a focus of interest in the region as a whole. Lately, there has been vast research on aggrotech and agro ecology as means to achieve food security and independence.

Similarly, technological advancements have created interest in developing the communication and internet sector; cyber security as part of the digitalization revolution, and the changing banking world. These days, as we are all concerned about health issues, in view of the COVID epidemic, there is a growing interest in health technology.

These are areas in which Israel excel in and are natural for advancing and providing mutual benefits.

Turning to the High tech ecosystem in Israel:

The Israeli tech ecosystem is uniquely positioned to help address the challenges of the new digital age. Its entrepreneurial spirit, data and software deep-tech focus, combined with the multidisciplinary approach of Israeli tech experts, put the sector in a good position to adapt quickly to the new economy.

Israel is known as a Start-Up Nation. It has the highest ratio of start-ups per capita of any country in the world and an average of almost 1,000 new start-ups every year in the past five years. The establishment of many start-ups stems from Israel’s vibrant tech entrepreneurial culture, the strong venture capital industry, and three decades of experience in raising tech companies from scratch.

An important part of the Israeli economy is the innovation sector. As can be seen, Israel spending on civilian R&D is highest among OECD countries. What is unique in Israel is the combination of the start-up culture and technological depth. The backbone of the tech industry is its deep tech expertise, based on advanced academic institutions and military units. Intelligence and other technological units that develop capabilities and ecosystem.

The high tech accounts for 9% of total employees, 13% of GDP and 46% of total Israeli exports.

The focus of the Israeli economy on innovation, is reflected in its ranking in various global innovation indices.

The Israeli market is characterized by the presence of both domestic companies as well as foreign ones. With regard to the overall Israeli ecosystem, today there are over 500 global companies, from 35 countries, in various models, out of which about 350 have development centers in Israel.

The high tech industry in Israel is on a growing trend.

The coronavirus pandemic that began in 2020 has accelerated the world’s transition to the new digital age faster than anyone could have predicted. This unprecedented rate of change requires technology-driven solutions across all sectors. Overall, the high tech sector has been less adversely impacted, and at times has even profited, from requests for digitization and technological solutions. This has cushioned some of the adverse economic impact of coronavirus crisis.

Israel specializes in various high tech sub sectors.

The Artificial Intelligence (AI) is a fast growing sector -- over the last decade, Israel has positioned itself as one of the leading ecosystems for AI, with more than 1,500 companies operating in the space. From 2017 to 2019, over $10 billion was invested in Israeli start-ups engaged in AI technologies.

In addition, the digital health and foodtech sub sectors are growing.

As can be seen, there are growing sub sectors and declining ones. The Fintech is one of the emerging sectors.

Fintech is helpful in financing of traditional businesses, but there is a lot of potential in developing the technology as well as implementing innovative developments in financial centers. Large technology companies’ interest in the financial world served as an impetus for changes.

This leads me to the topic of this conference – The Fintech sector:

The Fintech market in Israel is growing and is oriented primarily to markets in the US, Europe, and Asia, and still almost not at all to the Arab market. There is a great potential for a leap forward.

Fintech in Israel is made up of various sectors: that is, a vertical segmentation within the industry. Trading and Investing count for nearly a quarter of the Israeli Fintech industry. The payments area, is the second largest, and includes transfers between countries and from customers to suppliers; in addition, this area includes transfer payments between citizens working abroad and their countries of origin. Also, there are companies that specialize in preventing fraud in financial transactions, AML; AI serves financial institutions in managing money as well as AI in the area of providing credit. In addition, there is growth in technological insurance companies that deal with underwriting for small companies.

Today, there are more than 500 startups in the Fintech area.

This is a growing area with strong sales growth and high foreign investor interest. In 2019, equity investments in Israeli Fin Tech reached $1.8 billion, representing 5 percent of all venture stage Fin Tech investments worldwide.

Almost six months have passed since Covid-19 was recognized as a global pandemic, and Israeli Fintech continues to raise money at a fast pace, similar to the levels recorded last year.

It should be noted that the development of Fintech in Israel is characterized more by development for uses geared mainly to businesses—that is. B to B, while we understand that in the UAE, in addition to B to B, there is strong expertise in developments that are more for Business to Consumer. The link between the two can provide a significant synergetic multiplier.

As mentioned, equity investment in Fintech in Israel is on a growing trend, and foreign interest in the sector is rising.

Now, turning to the Bank of Israel perspective and approach to innovation.

As part of the Bank of Israel’s strategy, we are interested in, and promote, financial innovation. Three years ago, we established a Technology and Innovation Division in the Banking Supervision Department. We are learning the fintechs’ language and helping to serve as a bridge between Fintech companies and the traditional financial entities, as well adjusting regulation.

The approach taken by the BoI is to remove regulatory barriers that enable digital transformation, to impose regulations when the activity becomes systemic, and to support the infrastructure for innovation.

The Bank of Israel helps in creating the infrastructure necessary for innovation and for supporting Open Banking.

We have adopted a strategy for gaps regarding immediate payments and building a payment system that is fast, efficient, secure, and open to various participants. We advance open participation in the payment system, and introduce mandatory EMV and NFC standards for credit card users to allow apps in cell phones and entrance of global wallets.

We are following and studying the issue of Central Bank Digital Currencies—or CBDC.

On the Digital Bank, we are at a stage that we granted a banking license. The founders of this Bank came from Mobileye, a technology company that develops autonomous cars.

We see the UAE, Bahrain and Middle-Eastern countries as strategic partners for economic strength. Our shared location between Asia, Europe, and Africa is an attractive location for trade ties, initiatives and innovation. In the short period of time since the signing of the agreements between Israel and the UAE and between Israel and Bahrain in September 2020, we have seen the signing of bilateral agreements between banks in the Emirates and in Israel. Also agreements were signed between communities, such as the Abu Dhabi Investment Office and Israel’s Fintech Community of Israel—City TLV. The banking systems are already connected. The first transfer, celebrating the signing of the agreement between the banks, was for the amount of $180, which has symbolic resonance in our culture. Hebrew letters have a numerical value, and the letters for 18 spell “chai”, or “life”, and 180 is ten times 18.

Collaborations between us will lead to new regional endeavors and will accelerate the collaborations already existing between Israel and the nations of the region. We expect that the new regional initiatives will be a driver for Israeli companies to reach the Emirates and for Emirati companies to reach Israel. The benefits of integrating the cultures, the strong abilities, and the innovative approach, help with business success. One of the ideas for encouraging collaborations in the area of innovation can be based on a fund model that encourages joint ventures in research and development.

To conclude there are many areas of joint interest in research and development integration and business collaboration. These include energy, water, agriculture and food, health, communication and Internet, medical technology, cyber, and tourism. In the financial field: digital financial services, Fintech, artificial intelligence (AI), digital banking.

The Global Financial Centers Index (GFCI) demonstrate that generally global financial centers and technological centers are found together. In Israel, we have a technological center, and the collaboration with a global financial center will bring great benefits to all involved.

THANK YOU