

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

Press release

October 14, 2024

**The Team Examining the Path for Providing a Bank License to Nonbank Entities, Headed by Supervisor of Banks Daniel Hahiashvili, published an interim report for public comments. The report contains recommendations that will make it easier for nonbank entities to obtain a bank license**

**The interim report recommends advancing legislative and banking regulatory amendments to promote competition, which will enable nonbank entities that obtain a bank license to maintain their existing business and to operate along a flexible business model; change the control and ownership structure of small banks; and formulate a regulatory framework that is consistent with the size and complexity of the bank.**

Bank of Israel Governor Prof. Amir Yaron said: “I congratulate the Supervisor of Banks and his team on the formulation of the report and its recommendations. This is another stage in advancing a more competitive market structure in the financial system in Israel. It is important to emphasize that even in a competitive market structure, as detailed in the report’s recommendations, there is a principle to maintain the international standards and practices, according to which an entity that wishes to accept deposits and provide credit must operate under a bank license issued by the central bank, and must be subject to prudential supervision by the Banking Supervision Department in accordance with the recommendations that appear in the report. This is the way to promote competition and improve the consumer’s well-being while maintaining depositors’ money and financial stability.”

Supervisor of Banks Daniel Hahiashvili said: “In order to ensure a variety of financial services and products at competitive prices, it is important to advance long-term measures with structural implications for the banking system. The implementation of the recommendations appearing in the report, alongside the changes in the financial system resulting from previous reforms in the field, will enable additional entities to join the banking system and to contribute to improving competition and the desired improvement in consumer well-being.”

One of the Banking Supervision Department’s objectives is to increase competition in the banking system, alongside maintaining its stability and fairness toward the customer. Accordingly, in recent years, the Bank of Israel has led and participated in various reforms to increase competition in the financial system. In view of the changes that have taken place in the financial system in recent years—technological, structural, regulatory, and changes in consumer preferences—and further to the experience accumulated from the establishment of two new banks, a team was established under the leadership of the Supervisor of Banks. The team examined additional measures to remove barriers that will enable nonbank entities to obtain a bank license in order to be able to accept deposits from the public and provide credit from those deposits. These entities have a proven business model in the financial world, and the ability to expand that model to offer all their customers additional financial services and products under a banking license, including the acceptance of deposits. In this regard, it is important to clarify that accepting deposits from the public and providing credit from those deposits without a bank license and without an appropriate supervisory framework may create significant risks to the financial system and put the public’s money at risk, particularly in the event of a crisis, and are contrary to international standards and commonly accepted practice around the world.

The team included subcommittees that identified and mapped the challenges and barriers that currently prevent nonbank entities from obtaining a bank license. These include the obligation to provide certain products and services, supervision and regulation that is independent of the size and complexity of the entity, a list of business operations that are permitted to banks, and holding companies’ parallel control over institutional investors and banks.

As part of the teams’ work, discussions were held with representatives of government ministries, financial regulators, and more than 20 social and business organizations, which provided their written responses and oral reactions during hearings that were held. Prior to the publication of the interim report, a “round table” discussion was held, led by the Supervisor of Banks, and including representatives of the Ministry of Finance, the Ministry of Justice, the Competition Authority, the Capital Market, Insurance, and Savings Authority, and the Israel Securities Authority. During this discussion, the main points of the team’s recommendations were presented and discussed.

The main points of the team’s recommendations concern three layers that require legislative amendments, regulatory amendments, and setting supervisory policy, as detailed below. Some of the recommendations, mainly those that have implications for the financial system as a whole, require continued discussion as part of an interministerial committee that will include the financial regulators and the relevant government ministries.

1. Banking legislation and regulation in Israel does not distinguish between a small or a large bank. Therefore, in order to enable a small bank to operate on a flexible business model, it is proposed that such a bank be exempt from offering the full range of services that are currently required by the law, such as: opening and managing a current account, receiving deposits in shekels and foreign currency, and selling bank checks in shekels and foreign currency. If a small bank chooses to open and manage current accounts, it is proposed that it should be permitted to offer partial current account services.

In addition, it is proposed that supervisory regulation be adapted to the size and complexity of the bank, while setting out two supervisory levels and making the transition between levels gradual. Among other things, there will be adaptations in capital and leverage aspects, liquidity requirements, corporate governance, reporting to the public directives, and directives on reporting to the Banking Supervision Department.

1. It is proposed that the list of business operations permitted for a small bank be expanded beyond the list that currently exists for banks, and that the Supervisor of Banks be enabled to add business operations in accordance with technological and financial developments. It is also proposed that this recommendation be implemented with regard to banks that are not small, at a later implementation date. Setting the later implementation date will provide “infant industry protection” to the new entities that enter the banking system.
2. “Bachar Committee” legislation prohibited a financial holding company that controls an institutional investor from also controlling a bank. Therefore, nonbank entities controlled by such a company are currently not able to obtain a bank license, and their contribution to competition in the banking system is limited. It is recommended that financial holding companies be permitted to control a small bank as well. The recommendation’s limitation to controlling only a small bank provides a response to issues driving from increased concentration, connectivity, and potential conflicts of interest, all of which were the basis for the Bachar Committee’s decisions at the time. As a complementary step, financial regulators should be given supervisory authority over financial holding companies that control entities currently under their supervision.

The public is invited to send comments to the interim report no later than November 14, 2024, to kol.kore.mitve@boi.org.il