

Karnit Flug: Increasing competition in the financial system to benefit the Israeli economy

Remarks by Dr Karnit Flug, Governor of the Bank of Israel, at the presentation of the Strum Committee Report to the Minister of Finance and to the Governor, Tel Aviv, 14 December 2015.

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I would like to thank the Committee's members and its chairperson for their comprehensive and professional work in recent months. ***The Bank of Israel sees extreme importance in increasing competition in the banking system in particular and in the financial system in general, and toward that end is promoting a series of processes, some in collaboration with the other regulators, in addition to the recommendations discussed here today:***

- Establishing a credit data register, which will reduce information asymmetries between banks and nonbank credit providers and will provide the customer with negotiating power;
- Promoting a securitization market, which will allow an increase in the sources of credit and provide a bridge between the capital held by institutional investors and the credit needs of the economy;
- Extended implementation of the vast majority of recommendations by the Zaken Committee to promote competition.

The Bank of Israel supports every process that serves the public, and takes this principle into account in every decision it reaches. Therefore, the issues must be examined from a long term perspective, and processes whose negative impact is greater than their benefit and that are liable to pose a risk to the economy should be avoided. We will thus ensure that the reform will bring about the intended changes.

There is broad agreement on the need to strengthen the competition in the credit market's household and small businesses segment, and to make it easier for new participants to compete in the merchant acquiring and payment services sector as well. The Committee proposes ways to increase the number of participants, to create conditions that will increase competition between participants, to increase the sources available to them, and to ease the connection to the payment and settlement systems.

During the formulation of these processes, there is utmost importance to ensuring the protection of financial services consumers, and the stability of new entities, which of course impacts on the stability of the entire system. We must not forget the lessons of the most severe financial crisis in our generation, which was caused by irresponsible measures and inadequate supervision. It is important to remember that in the past three years the balance of consumer credit has increased cumulatively by about 20 percent, and credit to small businesses by about 30 percent.

As noted, the report contains very significant steps, which will change the state of financial system competition, and agreement has been reached regarding those steps. However, there are quite a few steps regarding which there is still disagreement, such that the discussions have not yet been exhausted and there remains much work ahead of the formulation of final recommendations. I emphasize that the issues which the Bank of Israel opposes reflect, from the Bank's professional perspective, measures that are liable to negatively impact the public and to serve as a marked risk to the stability of the economy.

The Committee's recommendations reflect agreements that were reached on important and material issues:

Separating the two credit card companies from the large banks, while providing proportionate protection to the nascent separated companies;

A more lenient level of supervision over entities that do not take deposits, which will make it easier for new entities to compete with banks;

Constructing technological tools for the consumer (information services and activity initiation) that will allow simple price comparison;

Deposit insurance is a measure that will help small banks compete for additional customers, and strengthen our ability to deal with the next crisis;

Completing regulation that will apply to **nonbank financing companies** (including P2P's). Supervised companies will be able to be connected to the payment systems.

Payment services regulation, in accordance with generally accepted principles worldwide with adjustment for the domestic market, and the setting of conditions for access to the controlled payment systems.

Setting up a committee to monitor the implementation of the recommendations, and to recommend, as necessary, additional steps.

Advancing the steps on which agreement has been reached will lead to a material change in the level of competition in the financial system, without risking its stability and without negatively impacting consumers. It is important that financial system reforms are made with agreement, as a lack of agreement will hamper the ability to implement the recommendations in practice. We must implement these steps responsibly, with a long term view of the benefit to consumers and the economy.