Karnit Flug: Increasing competition in the financial system

Remarks by Dr Karnit Flug, Governor of the Bank of Israel, at the cabinet meeting on increasing competition in the financial system, Tel Aviv, 13 June 2016.

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I would like to express appreciation for the serious work done by the committee led by Dror Strum.

The financial system is a complex system, and has unique characteristics that require in-depth through regarding how reforms and changes are to be carried out. I am happy that in the end, after tremendous effort by all those involved, we have succeeded in formulating recommendations that will benefit consumers and maintain the stability of the system.

The changes that we have agreed upon are very significant, particularly when taken as a whole. These changes, alongside initiatives led by the Bank of Israel and the Banking Supervision Department-such as building a credit register, promoting greater efficiency in the banking system, and promoting technology and innovation in banking-will in the coming years create an advanced banking system that is more competitive in the retail and small business areas.

It is very important, and we have agreed to this with the Minister of Finance and his team, that we now focus on the implementation of the reforms, and in general avoid promoting new legislative initiatives in the field of banking or support such initiatives. The change that we are proposing here is a sizable change, joining changes that have already been made, and it is important that we manage these changes responsibly and enable the system to get accustomed to them and prepare for them.

It is important to emphasize that Israel’s professional and stable banking system is an asset to the economy, and is essential in order to support the financing of the economic activity of households and small businesses. In contrast with banks in the US and Europe, the Israeli banks withstood the Global Financial Crisis very successfully, remained stable, continued to function during the crisis, and saved the Israeli economy from having to pay the high price paid by many other countries around the world in terms of loss of output, unemployment, and a heavy burden on taxpayers in rescuing failed banks. Therefore, it is important that the changes be made in an intelligent and measured manner, while maintaining the stability of the banks and the financial system.

The agreement that the supervision of the credit card companies will remain at the Bank of Israel is very important, in order to prevent a regulatory gap between banks and credit card companies in the provision of credit. As the credit card companies have the potential to become a significant factor in the provision of credit to households, such a gap could have created pressure for lowering the standards for providing credit in the entire financial system.

I attributed tremendous importance to the fact that alongside the implementation of the reform being presented here today, we will soon complete the legislation for establishing a financial stability committee, which will firmly establish the cooperation and coordination among the various financial system regulators. The committee will monitor, provide early identification, and handle risks to the financial system before they are realized.