

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

Press release

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**Opening remarks at the conference on increasing competition in the credit market**

**Remarks by the Governor at a press briefing regarding the publication of the summary report of the interministerial team on measures to enhance competition in the retail banking sector, which includes recommendations that will ease the process for nonbank entities to obtain a banking license**

Bank of Israel Governor Prof. Amir Yaron participated in the press conference held today at the Ministry of Finance. Below are the main points of his remarks:

“Honorable Minister of Finance, Committee Chairs, distinguished members:

“At the outset, I would like to thank the interministerial team for their comprehensive work in promoting competition in the retail banking sector. To avoid getting ahead of myself, let me say that we have seen a thorough and in-depth effort to develop frameworks that will enable additional entities to become banks, thereby improving competition, services, and the welfare of customers—while striking the right balance to prevent potential conflicts of interest and maintain the stability of the financial system.

“Competition in the financial system directly affects every household and business in Israel. At the macro level, greater competition in the financial system will positively influence economic activity and contribute to growth and prosperity throughout the economy.

“In recent years, the Bank of Israel—together with the Ministry of Finance and the financial regulators—has been working to enhance competition in the banking system. Some of the measures taken have already borne fruit, while others are expected to come to fruition in the coming years. There is no doubt that more work remains to be done.

“The primary path to fostering competition in the financial system is removing barriers that prevent new participants from entering and existing ones from developing new lines of business. In this context, I note that, after several decades without a new bank in Israel, we have seen the establishment of two new digital banks in recent years. This is positive progress, but we aspire to do more.

“To meaningfully strengthen competition in the financial system, we need additional new banks to enter the market. Such banks would be able to raise deposits from the public at relatively low cost and use those deposits to extend credit—thereby competing effectively with the market’s longstanding participants.

“There are two main obstacles preventing the entry of new banks. First, the extensive regulation to which banks are subject translates into significant costs, which primarily deter smaller participants. Second, a new bank needs sufficient ‘financial backing’ to compete with established market participants. While it can raise deposits relatively inexpensively to fund its lending, building up that deposit base takes time, and a substantial journey lies ahead before a new bank can gain enough market share. During this interim period, it needs the financial means to keep operating.

“The report and its recommendations reflect this understanding, offering multiple avenues to mitigate both barriers. The framework presented in the report lays out a tiered and customized approach, providing smaller banks with greater flexibility in their business models as well as in their ownership structures.

“Transforming a major nonbanking entity into a small bank may help boost competition, given its existing customer base, prior experience with underwriting and lending, solid financial standing, and sufficient equity to provide credit. These factors create an excellent starting point for banking activities.

“In my view, it would be a substantial achievement if this team’s work results in one or two significant new participants entering the banking system. If the team’s recommendations succeed in doing so, that would be a major success.

“It is important to note that to ensure that these efforts to increase competition yield optimal results, we must adhere to several guiding principles. First of all, we must guarantee that the steps taken to enhance competition do not jeopardize the stability of Israel’s financial system. The financial system’s stability is one of the strategic strengths of Israel’s economy, enabling it to weather various crises while avoiding the especially problematic scenario of combining a real crisis with a financial one.

“In this context, I commend the report’s conclusion that, although its recommendations open new avenues for competition among all financial institutions and allow for certain changes to the ownership structure of companies in the credit market, the principle remains that any institution taking deposits and lending from those deposits is a bank and must be regulated as such.

“Second, the report takes a long-term view and avoids short-term fixes that might lead to adverse consequences down the road. In particular, government intervention in market mechanisms often produces suboptimal outcomes and may be viewed negatively by international bodies.

“I believe that Israel’s financial system is undergoing a revolution and stands on the cusp of major advancements in the coming years. In recent years, we have already implemented significant steps in the financial and banking system, such as separating credit card companies from banks, open banking, the ‘Equalizer’ system, EMV technology, mortgage reforms, a retail credit registry, one-click mobility for bank accounts, expanded access to payment systems for fintech companies, and more. We are also in the midst of additional important developments: this report and its recommendations; the securitization of financial assets, which will further expand the credit supply and distribute risks among various participants; the transition of our stock exchange operations to Mondays through Fridays—similar to global practice—to attract foreign investors and increase liquidity in the local capital market; the establishment of a repo market to deepen the money market; changes to the SHIR interest rate in alignment with global trends, providing a uniform and transparent daily market rate; and the introduction of immediate payments. It will take time for all these foundational measures to come to fruition, but they will ultimately bring about meaningful change.

“The financial world continues to progress at a rapid pace: from tokenizing deposits via a distributed ledger to conditional and smart payments, stablecoins, and central bank digital currencies. We are committed to leveraging innovation and progress for the good of our economy, while maintaining stability and mitigating the associated risks.

“In closing, I want to thank the members of the team for their report and for their professional, constructive collaboration. I am confident that the report’s recommendations for increasing competition will strengthen public trust and ensure a more stable, equitable, and advanced financial system.

“Thank you very much.”