



Bank of Israel
Banking Supervision Department

February 14, 2024

Public consultation document to receive the public's input regarding a gradual framework for proportionate licensing and regulation for nonbank entities, in order to enhance competition in the banking system

1. Background

- 1.1. In recent years, the Bank of Israel has worked to enhance competition in the banking system and to encourage the entry of new participants by removing regulatory barriers. These include setting up a technological services bureau, establishing a retail credit data register for customers, easing the banking regulation that applies to new banks, streamlining the establishment process, and accompanying the applicants. The removal of barriers led, for the first time in over four decades, to setting up two new banks.
- 1.2. **As a complementary step to activities carried out to date, and to encourage the entry of additional participants into the banking system, the Bank of Israel set up a committee headed by the Supervisor of Banks. The committee's objective is to identify further barriers to entry and to devise a framework that will enable existing nonbank entities, including credit card companies, to obtain a banking corporation license, thereby authorizing them to raise deposits from the public and to provide credit from those deposits.**
- 1.3. Granting a banking corporation license to existing nonbank entities has the potential to enhance the competition in the banking system, on both the credit side and the deposits side, and as a direct result, to benefit customers by reducing the costs of banking products and improving the banking service, mainly for households and small businesses.
- 1.4. Alongside that, it is important to emphasize that a situation in which financial entities take deposits from the public and grant credit from them without a banking corporation license or appropriate supervisory framework can create significant risks to the financial system and can risk the public's money should a crisis event occur. **Therefore, every entity that takes deposits from the public and extends credit from them is required to have a banking corporation license, and to be subject to banking supervision and appropriate banking regulation.** This is similar to legislation existing in all OECD countries and to the standards established by international institutions such as the BIS and FSB. In Israel as well, the law requires a banking corporation license for said activities.

2. The framework

- 2.1. The Bank of Israel is poised to delineate a policy for granting licenses to banking corporations, as part of which the license and banking supervision will be adjusted to the requested activity and to the level of risk in the activity of

the license applicant. Within this policy framework, three distinct tiers of banking licenses will be established, consistent with the authority currently vested in the Governor of the Bank of Israel by existing legislation to grant such licenses. In addition, the committee will recommend proportionate legislation and regulation, tailored to the scale and intricacy of the operations of the entities requesting a banking license for taking deposits and providing credit from them, and in a manner that takes into effect the requirements of stability.

2.2. Proposed Banking License Tiers:

2.2.1. **A banking corporation with a financial-institution license:** This existing category, as defined in the Banking (Licensing) Law, 5741-1981, permits a financial institution to accept deposits (excluding the management of current accounts) and to and to extend credit from them. As these banking corporations do not manage current accounts, they are exempt from the relevant banking legislation for managing such accounts.

2.2.2. **A banking corporation with a basic bank license:** This category is designated for a banking corporations that meet all of the following criteria:

(1) Its activity is not complex¹ as the term is defined in Proper Conduct of Banking Business Directive no. 480 on “Adjustments to Proper Conduct of Banking Business Directives that Apply to a New Banking Corporation”.²

(2) It complies with the definition of a small-scale bank³ in Section 5b1 of the Banking (Service to Customer) Law, 5741-1981.⁴

Such a banking corporation, in addition to taking deposits and extending credit through them, may also manage current accounts and extend credit through them.

2.2.3. **A banking corporation with a complex bank license:** This category applies to a banking corporation with a bank license that does not comply with the definitions of “financial institution” and “basic bank”.

2.3. To provide more flexibility in managing banking activity to banking corporations that have a financial institution license or a basic bank license, the committee will assess the necessity for legislative and regulatory modifications within the scope of the framework. This assessment will address, among other aspects, the following issues:

2.3.1. The banking legislation imposes costs on the banks, without accounting for the nature and extent of their activities. These costs serve as a significant barrier to new entrants requesting a banking corporation license.

¹ Activity permitted for a bank, provided that: (1) Granting credit will only include retail credit and credit to small businesses; (2) activity in the trading book will not exceed the threshold set for trading book transactions in Section 683(ii) of Proper Conduct of Banking Business Directive no. 208. In this regard, “small business”—a micro business or a small business as defined in Section 79a(5) of the Supervisor of Banks’ Reporting to the Public directive no. 634.

² <https://www.boi.org.il/roles/supervisionregulation/nbt/httpswwwboiorgilrolessupervisionregulationnbtpc480/>

ENGLISH: https://www.boi.org.il/en/economic-roles/supervision-and-regulation/proper_conduct/adjustments-to-proper-conduct-of-banking-business-directives-that-apply-to-a-new-banking-corporation/

³ A bank for which the value of its assets does not exceed 5 percent of the total assets of all banks in Israel. With regard to this definition, “value of assets” of the bank—the value of the bank’s assets as they appear in the bank’s balance sheet in the most recent annual financial statement compiled on a consolidated basis based on the generally accepted accounting principles that apply to it.

⁴ <https://www.boi.org.il/roles/supervisionregulation/legislation/leg150/>
ENGLISH: <https://www.boi.org.il/en/economic-roles/supervision-and-regulation/legislation/banking-service-to-customer-law-5741-1981/>

- 2.3.2. With regard to banking regulation, the Banking Supervision Department adjusted, as part of the proportionality approach, the Proper Conduct of Banking Business Directives for a new banking corporation.⁵ Within this framework, among other things, reliefs in the following issues were arranged: capital ratios, a model for calculating liquidity, size and composition of the board of directors, the possibility of consolidating functions, as well as the possibility of outsourcing certain main functions. All this is alongside ensuring the stability of the banking corporation and protecting its customers. There will also be an examination of whether additional relief can be provided, in line with the type of license.
- 2.3.3. It is proposed to amend the law in order to expand the list of permissible activities for a banking corporation, particularly the holders of a financial institution license or a basic bank license, based on the type of the bank's activity and conflicts of interest with other activities, should there be any. This is different from Section 10 of the Banking (Licensing) Law, which provided a closed list of occupations permitted for banks. Such an amendment, as noted, is also needed in view of the existing difference between the list of permitted occupations for banks and permitted occupations for nonbank entities, including credit card companies, so that their current activities (that could be wider than what is currently permitted for a bank) shall not be adversely impacted.

3. Consultation Topics for Public Engagement

The framework aims to encourage the entry of additional participants to the banking system, which is expected to enhance the competition, and consequently yield benefits for customers. As part of the public consultation process, the committee seeks to consult with and hear the public's stance regarding the following issues:

- 3.1. The tiered approach to granting banking licenses, its advantages and disadvantages, as well as any alternative proposals.
- 3.2. The main obstacles, regulatory and nonregulatory, that can prevent a nonbank entity, including a credit card company, from applying for a license in line with the proposed framework. These include adjusting the legislation, regulation, control structure, list of permissible businesses and activities permitted for the banking corporation compared to nonbank entities, accessibility to information and technological means.
- 3.3. Suggestions for reducing the risks derived from providing a bank license to nonbank entities controlled by holding corporations that control institutional entities, including: enhanced concentration, enhanced interconnectedness between the banking system and institutional entities, avoiding conflicts of interest, and more.

The contact with the committee should be in writing. The team will relate with seriousness to all contacts to it, and if needed will be in contact with the entities that will take part in the process, in line with its discretion.

The committee invites the public to impact on and take part in the enhancement of competition in the financial system. We would appreciate receiving comments on the issue by March 31, 2024.

Comments can also be sent via email: kol.kore.mitve@boi.org.il under the title "Response to the public consultation document—a framework for banking corporation license holders—<respondent name>."

⁵ Proper Conduct of Banking Business Directive no. 480 on "Adjustments to Proper Conduct of Banking Business Directives that Apply to a New Banking Corporation".