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Israel's First New Bank in Half a Century Seeks Poor Customers



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Eased requirements for bank formation in Israel will allow the country's first new lender in nearly half a century to open in 2020, with a mission to serve low-income customers shunned by other institutions.

Ogen, a non-profit bank, will offer affordable credit to poor clients. One-fifth of Israel's population cannot get affordable loans from Israel's five largest banks, which provide 95% of all trade credit and 65% of all commercial credit, according to a 2015 Milken Institute report.

Ogen's creation became possible after the Bank of Israel in June 2018 greatly reduced capital requirements for new banks and allowed them to gain licenses for limited retail services, such as consumer loans.

The Bank of Israel previously only considered applications for the establishment of full commercial banks, regardless of the proposed scale of operations, a lengthy and expensive process.

The state bank has removed "many barriers that in our assessment deterred entrepreneurs from setting up new banks," a spokesman said by email Aug. 8, declining to comment specifically on Ogen.

Non-Profit Roots

Ogen developed from the Israel Free Loan Association, which since its founding 30 years ago has

distributed more than \$320 million in zero-interest loans to more than 60,000 low-income clients, using a \$55 million fund collected from charitable donations.

As a bank, it will be able increase its assets to \$500 million in five years, said Sagi Balasha, Ogen's chief executive officer and a former Israeli Finance Ministry official.

Using funds from investors earning 1% on deposits, Ogen will lend to "the poor, small businesses, and people that cannot get their first apartment," Balasha said in an interview at his Jerusalem office Aug. 4. "In order to get deposits we need to become a bank. We are going to be the first ever non-profit social bank in Israel."

In Ogen's previous incarnation, despite its low-income clientele, the default rate was only 0.7%. That history gives depositors confidence their money will be secure, Balasha said.

The bank will be a wholly-owned subsidiary of its parent non-profit foundation. Instead of the free loans it has been giving for 30 years, the bank will lend at 5% interest – cheaper than the double-digit interest rates that Israel's established banks often charge borrowers with riskier credit profiles.

Ogen's services will be available via digital platforms, obviating the need to rent costly office space.

"Even five years ago, we would have had no chance," Balasha said. "The digital environment was not developed enough."

More Banks to Follow?

More new banks are applying under the eased regulations, the Bank of Israel said. They are reported to include plans for Israel's first all-digital lender.

"It's excellent news from a social point of view," Ruth Plato-Shinar, professor and head of the center for banking law at Netanya Academic College, said Aug. 7. "We're speaking about a population that is excluded from credit and financial services provided by banks."

Since 1972, when Israel's last bank was licensed, the number of retail lenders has halved to seven while the population has tripled. Tight regulation following a stock market crash in the 1980s and subsequent mergers allowed the country to avert the global 2008 financial meltdown but increased concentration and reduced competition.

The marketplace is dominated by five large institutions: Bank Leumi, Bank Hapoalim, Bank Mizrahi-Tefahot, Bank Discount, and First International Bank of Israel.

The Bank of Israeli relaxed its requirements for new bank formation after studying models in the U.K. and Australia, the spokesperson said. The new policy aims to increase competition and improve access

to credit, while also supporting financial innovation and improved service to consumers.

Ogen “will not constitute a competitive threat because of its small size and because the customers of this bank are not the population the banks seek to work with,” Plato-Shinar said.

The bank’s CEO Balasha has no problem with that.

“We are not competing,” he said. “If somebody is financially strong enough to get a lower rate, they should not come to us. Ogen is a solution for those who the banks don’t count or take advantage of.”

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