

The Effects of the Law Limiting Executive Compensation in Financial Companies



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In March 2016, a law was enacted in Israel to limit the compensation of senior executives in financial companies (mainly banks and insurance companies), setting a mandatory compensation cap. In this article, we discuss the impact of the law based on the case study analyzing its approval by the Knesset Finance Committee conducted in Abudy et al. (2020). The findings show that at that time, stocks of financial companies subject to the law recorded positive excess returns. The positive effect was concentrated in companies for which the cap was effective (i.e., companies that paid their managers compensation higher than the cap set by law). These findings indicate that investors held that the compensation cap had a positive effect on the value of financial companies. In addition, the findings show that in the three years that have passed since the enactment of the law, no impairment in performance or increase in the rate of executives leaving has been observed. The conclusions of the discussion show that executive compensation contracts can be determined in a way that does not maximize the company's value.