



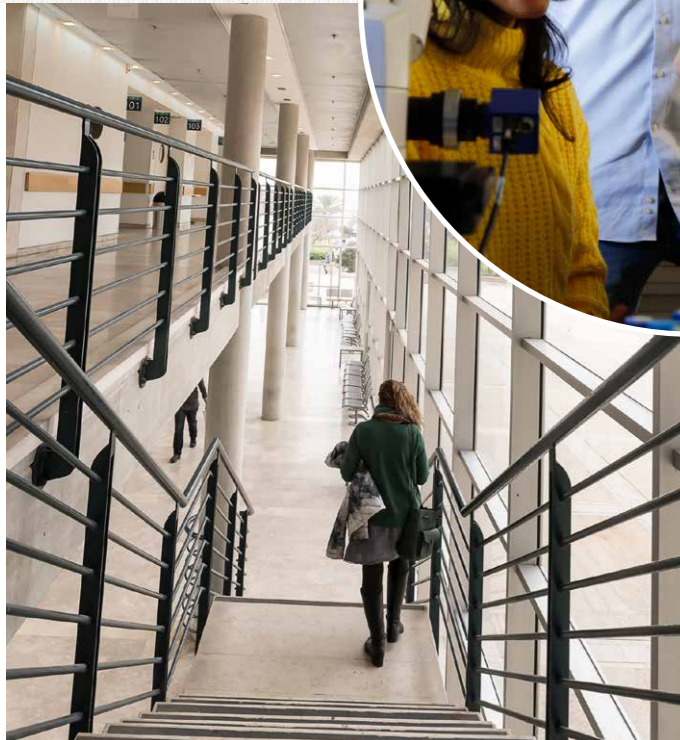
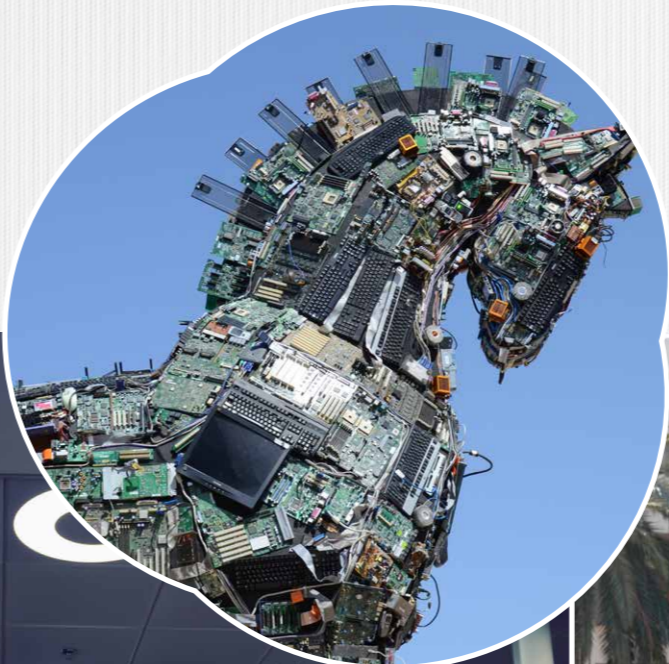
**The Vicky and Joseph Safra Research Institute  
for Banking and Financial Intermediation  
Coller School of Management**  
Tel Aviv University

# DIGITAL BANKS: A NEW ERA OR JUST MORE OF THE SAME?

A conference with the senior financial  
industry executives

May 2023







was that they see their entry into the market as a catalyst for reshaping the relationship between the bank and the client. Beyond the various advantages enabled by technological innovation, the main message is to redesign this relationship in a way that eliminates conflict of interests and build trust with customers in a way that is not being currently realized.

Executives from the “traditional banks” emphasized the significance they attribute to technological innovation but expressed reservations about the claims made by digital bank managers regarding the relationship with customers. They believe that the traditional banks will be at the center of the technological progress. Traditional banks will adapt to the changing reality, adopt various technological capabilities, and continue to be the primary address for the public in terms of financial services. A similar message was also heard from the fintech company executives and academics who participated in the discussions.



On May 1, 2023, the Vicky and Joseph Safra Research Institute for Banking and Financial Intermediation hosted senior members of the financial industry in Israel for a conference that focused on recent developments in digital banking, as well as advancements in the financial industry as a whole. The speakers were led by Yair Avidan, the Supervisor of Israeli Banks, and the Chairmen of Israel’s two new digital banks, Shuki Oren and Prof. Shmuel Hauser. They chose to hold their first joint public appearance at the “Safra Institute”. Among the other participants were senior executives from traditional banks, credit card companies, technology firms, and academia.

The conference focused on the customer perspective and aimed to address the key questions posed by the introduction of digital technology into financial services in recent years: Is the entry of digital corporations into banking a transformative event? What will be the main implications? Will digital banking reshape the relationship between customers and financial services providers? To what extent will the entry of new banks affect the structure of the banking system, the identity of the players operating in it, and the level of competition among them?

The primary message conveyed by the Chairmen of the digital banks

The conference was a great success, with over 250 attendees who filled the Leon Hall in the Recanati Building, The largest auditorium of the School of Management, leaving no empty seats. Among the conference guests were current and former bank CEOs and Chairmen, credit card company executives, bank corporate management members, technology division leaders, and academia professionals.



The conference agenda:

- **Prof. Dan Amiram**, Dean, Coller School of Management and Co-Head, Vicky and Joseph Safra Research Institute for Banking and Financial Intermediation – an introduction on the institute and its activities.
- **Mr. Yair Avidan**, Supervisor of Israeli Banks, in a “One-on-One” interview with Moshe Pearl, Director of the Vicky and Joseph Safra Research Institute for Banking and Financial Intermediation.

- **Mr. Shuki Oren**, Chairman, “One Zero” Bank.
- **Prof. Shmuel Hauser**, Chairman, “esh” Bank.
- **Dr. Sivan Frenkel**, Co-Head, the Vicky and Joseph Safra Research Institute for Banking and Financial Intermediation.



• **Panel: Traditional Banks in the Digital Age**

Moderator: Prof. Ruth Pelato-Shinar, Netanya Academic College.

Participants:

- Eyal Efrat, Head of Digital Strategy and Data Division, Bank Leumi.
- Barak Nardi, Head of Strategy, Finance, and Holdings Division, Israel Discount Bank.
- Shirley Shehem-Klein, Director of Digital and Innovation System, First International Bank of Israel Group.
- Gili Hoch, EVP – Head of Strategy and Business Development, IsraCard.

- Daniel Hahiasvili, Deputy Supervisor of Banks, Head of Technology and innovation.
- Ilanit Adsman-Navon CPA, Partner and Head of Fintech, KPMG Israel.

• **Panel: Technological Innovation and the Banking of Tomorrow**

Moderator: Shmuel Ben Tovim, Director, Fintech.IL Innovation Community.

Participants:

- Amalia Avramov, President of the Banking Division, Amdocs.
- Shahaf Erlich, CEO, Tarya.
- Shay Basson, CEO, MalamTeam.
- Avi Gefen, Head of Citi Innovation Lab & R&D Center, TLV.
- Saar Zacharish, CEO, Bizi.
- Moshe Kimhi, CEO, Neema.



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**Prof. Dan Amiram**, Dean, Collier School of Management and Co-Head, Vicky and Joseph Safra Research Institute for Banking and Financial Intermediation

“An increase in competition in the banking system, especially for small and medium enterprise credit and risky consumer credit, is crucial for the economy. Digital banks have the potential to introduce competition because their cost structure is different from traditional banks. However, I believe that we have underestimated the significant cost of customer acquisition. We will have to wait and see if digital banks in Israel and worldwide will be able to achieve a significant scale.”



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**Yair Avidan**, the Supervisor of Banks in a “one on one” interview with **Moshe Pearl**, Director of Vicky and Joseph Safra Research Institute for Banking and Financial Intermediation:

“I am pleased with the entry of new banks with a digital and lean operating model into the industry after many years without new banks in Israel. We have closely accompanied this and allowed lower entry barriers, a more supportive regulatory environment, and more.”

“We will continue to support the establishment and integration of new players in the banking industry. It is still too early to judge their impact on competition and the nature of change, but we are already seeing a change in the competitive landscape and an intensification of competition. I would like to emphasize that the competitive change is not solely due to the entry of a new digital bank but also stems from numerous significant steps and reforms that we have advanced at the Bank of Israel and have recently matured. Examples are the introduction of the interbank transfer system, the enhancement of transparency, the promotion of open banking, and the establishment of a central retail credit registry.”



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**Shuki Oren, Chairman of ONE ZERO Bank:**

“Our model is the ‘Uber’ of taxis. Today, the relationship between banks and their customers resembles a tourist getting into a taxi and paying according to the meter. The tourist doesn’t know the way, and throughout the entire ride he is worried that the driver might be taking a longer route to earn more. That’s exactly how it works in banks today - an income model based on multiple transactions that inherently creates a conflict of interest.”

“What did start-ups like Uber do? They broke this conflict of interest. The customer knows in advance exactly how much the ride will cost before ordering it, so when they get into the car, they are calm and trust the driver. At ONE ZERO, we came to solve the biggest pain in the financial system - the complexity of money management. In order for us to succeed in doing that and help our customers make sound financial decisions, for them to trust our recommendations, we understood that we must break the existing model. We do this through a fixed and transparent monthly pricing. Our customers know that our recommendations work solely for their benefit.”



**Professor Shmuel Hauser, Chairman of Esh Bank:**

“There is no meaning to the ‘digitalization’ of banks if it doesn’t herald change! This change cannot happen without an economic model that inherently benefits the bank’s customers.”

“A group of bankers together with experienced and successful technology professionals have built our operating system, Esh OS, which generates exceptional operational efficiency. It allows us to adopt an economic model with a customer-centric perspective, where what’s good for us is good for the customer, and what’s good for the customer is good for us.”







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**Dr. Sivan Frenkel, Co-Head, the Vicky and Joseph Safra Research Institute for Banking and Financial Intermediation:**

“The transition to digital banking is not a new process, but we are at the beginning of a new stage in it. The integration of artificial intelligence, big data, and open banking will bring about changes in the banking institution and the banking system. Many factors, especially the nature of regulation, will determine the structure of the new market. It is important to note that these processes can have a significant impact on the stability of the system, both in terms of its resilience to shocks and the magnitude of those shocks.”



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**Eyal Efrat, Head of Digital Strategy and Data Division, Bank Leumi:**

“Traditional banks have a significant advantage in the digital world. This is particularly evident in Bank Leumi. It takes a great deal of knowledge, experience, and professionalism to build a true digital product that provides a comprehensive end-to-end solution. Knowledge in regulatory, legal, and financial risk management is necessary, and it is not a trivial matter. In the digital and data world, a substantial amount of resources is required to keep up with the pace of innovation. These are systems that require constant analysis, adaptation, and development.”

“To build a genuine digital solution, it is essential to have big high-quality data. Without it, it is impossible to build and train models that will allow automation in the digital channel!”

“Looking ahead, I predict that service channels will continue to develop digitally, particularly in the realms of chat and video, as demonstrated by our launch of the “Bank on Zoom” service at Bank Leumi. Data will evolve in a way that will allow us to be more pro-active with our customers and to tailor personalized services.”



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**Daniel Hahashvili**, Deputy Supervisor of Banks, Head of Technology and innovation:

“The supervision of banks took several significant steps to encourage digital banking, based on an understanding of the disruptive potential of the new players, the required adaptation of traditional institutions, and the derived value for the consumer from these changes. The Open Banking project led by the Bank of Israel, among other initiatives, serves as an important infrastructure for financial innovation. In the future of banking, we expect to see increased collaboration between traditional banks, fintech companies, and digital banks, which will ultimately lead to a higher level of service for customers.”



**Saar Zacharish, CEO, Bizi:**

“Technological innovation, together with regulatory steps such as the establishment of a credit database and the promotion of the open banking reform, allow customers to share their private information with supervised companies. This allows us to perform real-time underwriting, approve new customers within minutes, and operate with 24/7 availability. As a result, small businesses who are cash-flow constrained can easily and quickly establish a credit framework using a digital process, up to a limit of 500,000 ILS. Such businesses cannot get such required flexibility from the traditional banking system.”

“This is indeed a new era, not in the sense of an ‘immediate replacement’ of the traditional banking system with a different one, but rather in the creation of an additional and complementary system that offers an alternative that the banking system cannot or does not want to provide to customers. It increases the customer’s bargaining power against the bank and sets a new standard of service that does not exist in the market.”



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ביש







*thank you*



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