Journal of Co-operative Studies

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How to cite this article:

Solel, Y. (2015). "This is Our Money” – The struggle to start a co-operative bank in Israel. *Journal of Co-operative Studies, 48*(1), 42-45.

# “This is Our Money” – The Struggle to Start a Co-operative Bank in Israel

**Yifat Solel**

“This is Our Money” was one of the leading slogans called out in the social protest that took over Israel’s streets in the summer of 2011. The social protest brought thousands of people to tent encampments around the country and hundreds of thousands to demonstrations against the outrageous cost of living and the deteriorating state provided services — consequences of a decades old Neo-Liberal policies joint with a highly centralised market.

The Israeli banking system is highly centralised — there are five major banking groups that hold 93% of the market, three of which hold 72% of it. The banks operate in accordance to their strength — the costs of banking services are very high and many households and small businesses suffer from lack of accessibility to credit.

One of the outcomes of the protest was a new co-operative movement, within it an initiative to start a co-operative bank in Israel for the first time. It was obvious that a change could not emerge without challenging the system and that the only fruitful way to do so is through constructing a substantial alternative — one that operates in favour of public interests, owned by its customers, not for maximisation of profits — a co-operative. The OFEK co-operative society started in 2012 setting a goal of starting a co-operative bank.

## Background — The Social Protest, Israel 2011

Many thought it came out of nowhere, but the social protest that swept through the streets of Israel in the summer of 2011 was long time due. It was a thirty years’ process in which the neo-liberal governments allowed the gaps between the rich and the poor to increase, the middle class to deteriorate and the capital and power to be concentrated in the hands of the few. The protest’s first outcry was about unaffordable housing costs. Thousands moved into tent encampments on the cities’ streets. But it was not just the housing costs, it was a realisation that the cost of living in Israel is higher than it ever was and the prices are much higher than in most countries.

To add to that, the labour market had changed in a few decades so that more than 30% of the workers were no longer ‘employees’, but ‘free lancers’, ‘out source contractors’, and other creative definitions designed to avoid collective agreements and job security — thus denying basic workers’ rights. While according to the official statistics, the average salaries are constantly rising, it covers less and less of the market. Within the younger generation, people out of universities, with high level professions find themselves in part-time — non-guaranteed and hours-based positions.

On top of those, privatisation processes took over major social services, making those both scarce and expensive.

The banking system was one of the focal points of the protest due to its centralised nature[1], high commissions and enormous profits — amounting to billions of NIS[2].

All those and more brought, for the first time, the Israeli masses to the streets. Thousands of people were staying in tent encampments first in Tel-Aviv and then all around the country in what can be described as a festival of activism and education. The whole country was filled with discussions about social justice, economic models and democracy. Every Saturday, all through the summer, dozens of thousands went to the streets[3], in what, percentage-wise was the biggest social protest in the world.

Journal of Co-operative Studies, 48:1, Summer 2015: 42-45 ISSN 0961 5784

But then the summer ended, the tent encampments were dismantled, and nothing had changed, except the newly gained public awareness.

## The Financial Market in Israel

The banking market in Israel is highly centralised. Five banking groups hold 93% of the market, three of which hold 72%. All those banking groups are conducted as profit maximisation companies[4], their commission rates are suspiciously similar, and the customers' costs are dramatically higher than in other countries — on average the equivalent of about $800 a year for a household[5]. The lack of competition had harsh ramifications, mostly on small businesses, who are struggling both with high commissions and shortage of accessibility to capital.

The profits of the banks kept rising, the CEOs' salaries became outrageous, and even though the Bank of Israel applied concrete restrictions on commission rates, and issued warnings against un-lawful coordination, the system kept inventing schemes meant to gain profits at the public expense.

In 2009 the five major Israeli banks had profits of NIS 5.35 billion[6], in 2010 — NIS 6.6 billion, in 2011 — NIS 7 billion, 2012 — BIS 5.9[7], in 2013 — 7.05 billion. On average the banks' revenues on commissions amounted to about NIS14 billion a year.

The salaries cost of the banks' CEOs was NIS 4-9.5 million a year[8].

The government appointed committee — the Trachtenberg Committee, that was instructed to file a report about the cost of living, declared the banking market as one of the most problematic fields, mostly due to its centralised nature[9]. To follow the Trachtenberg Committee the government appointed a public officials committee, headed by the Supervisor of Banks, in the Bank of Israel, whose role was to submit concrete recommendations for solving the problems the Trachtenberg Committee detected[10]. One of the committee's recommendations was, surprisingly: "Promote the establishment of credit unions".

What was supposed to be a legal struggle in order to start a financial co-operative institution became all of a sudden a joint target of the new co-operative initiatives and the official authorities. Or so it seemed.

But the recommendation of the Zaken Committee to promote credit unions did not include concrete policies and since a co-operative bank was never founded in Israel, and since the last time any new bank was established was in the 1960s — there was no regulation to determine what it takes in order to start a co-operative bank.

After two years of deliberations — learning the subject, discussing models, meeting people from co-operative banks and regulators — the Bank of Israel published its suggested regulation first in June 2014 and in final draft in May 2015.

The regulation suggested, which was supposed to promote co-operative financial institutions ended up preventing them.

## Pre Required Equity Capital

The first and main obstacle in the regulation is the demand for equity capital of NIS 75 million (about Euro 18 million) that the co-operative society must obtain prior licensing — before starting to provide any banking service. On top of that the co-operative must develop a technological platform meets the Bank of Israel's demands, expenses estimated at dozens of thousands. According to the regulation, in order to start providing banking services it takes at least Euro 40 million.

It is an obstacle the public officials in the Bank of Israel are aware is most likely unbreachable.

## Give Up or Change Course

The OFEK Cooperative Society, which at that point had about 3,500 members (that purchased a members' share for Euro800 each) was at a turning point. As most of the Israeli public conceived it, OFEK was blocked and destined to fail.

On March 2015 the board had resigned, in protest about the regulation suggested.

But many of the members were yet to announce defeat.

The new elected board was willing to confront the new challenges. The first thing the new board decided upon was to no longer linger on the one and only complete desirable outcome — the permit to start a bank. Instead it took up a comprehensive re-evaluation of the market and the original goals of the co-operative — trying to dissect the concrete problems of the Israeli financial market.

One of the main problems was realised to be households' and small businesses' lack of access to credit. The co-operative tried to construct a programme to challenge this concrete failure — realising that lending mechanisms that do not include a deposits component are not considered as 'a Bank' and thus do not require a permit.

At the beginning of December 2015 OFEK's general assembly decided to adopt a new operating methods that would allow OFEK to provide financial-non-banking services, presumably in a matter of months. The plan was designed to start by constructing a peer to peer lending mechanism that would be based on low interest loans, for lenders and loaners, and would include a social added value — creating preference for lending to co-operatives, social businesses and businesses that promote environmental goals. Other platforms that would achieve the co-operative's goals would be considered next.

The new model of operation does not replace the struggle for just regulation that would allow starting a co-operative bank. It is merely a first step within the financial market that has the advantage of not requiring governmental approval. It is a first step that demonstrates that OFEK is here to stay and that the co-operative ideal is not an easy one to break, even in a less favourable environment.

## The Author

Yifat Solel is the chairperson of ILCA — Israeli Cooperatives Alliance for Social, Economic and Environmental Justice, and a board member of OFEK Cooperative Society.

## Notes

1 Only five banks hold 93% of the market, three hold 72% of the market.
2 In 2009 the five major Israeli banks had profits of NIS 5.35 billion, in 2010 — NIS 6.6 billion, in 2011 — NIS 7 billion, 2012 — NIS 5.9 (a 50% drop of profits in National Bank) on 2013 — 7.05 billion. On average the banks' commissions revenues amounts to about 14 Billion NIS.
3 The largest demonstration took place on 3 September 2011 which about 400 thousand people attended in Tel Aviv and about a 100 thousand more at the same time in four other sites around the country. In Israel there are 7 million residents — percentage wise the Israeli social protest was bigger than any that was happening in the world in those years.
4 Even though one of the big banks' majority of stocks is owned by the state.
5 The Trachtenberg Committee.
6 This paper was written in April 2015, when $ 1 equaled a little less than NIS 4 and Euro 1 equaled a little more than NIS4. In the past six years the rates changed between NIS 3.6-4.5 to $ 1 and between NIS 5.5-4.25 to Euro 1.
7 A 50% drop of profits in National Bank.

8 The average salary in Israel in 2014 was a little less than NIS 9,000 a month, the minimum wage NIS 4,300 and the median salary in 2013 was NIS 6,500.

9 The Trachtenberg committee dealt with different aspects regarding social and economic policies in Israel. It was appointed while the protesters were still on the streets on August 2011 and submitted its findings to the government on 24 September 2011. it was headed by an economic professor, who used to work in the Finance Ministry and its 14 members were public officials, academics and private experts. The leaders of the social protest did not accept this committee as relevant to their demands and started an alternative committee in which took place about 140 members — academics and civil society experts. The alternative committee worked for almost a year and on July 2012 published its findings and recommendations, which were later published in a book *To do things Different — A Model For A Well-Ordered Society — The Social Protest 2011-2012*, Yossi Yonah, Avia Spivak (Editors), Kakibutz Hameuchad Publishing House Ltd, Tel-Aviv, 2012.

10 The Zaken Committee — a committee headed by the Supervisor of Banks.