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Lack of Competition in the Banking Sector In Israel: Primary Shortcomings and Recommended Improvements

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Lack of Competition in the Banking Sector in Israel: Primary Shortcomings and Recommended Improvements

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Most of the Israeli banking sector's shortcomings can be traced to its cartelized structure and the resulting lack of competition. Those most victimized by the situation are small banking customers who lack bargaining power and real incentive to "shop around." This article will discuss two of the banking system's main shortcomings—excessive fees and high interest rates—and suggest means of correcting or substantially mitigating their consequences.

Charges and Interest

The very worst of cartelization and lack of competition reveals itself in the excessive bank charges that smaller consumers are forced to pay. Sans the competitive environment that would, in order to attract and keep customers, force banks both to drop the number of fees levied and lower the amounts charged, small and medium-sized bank clients have no choice but to pay whatever the banks charge. By contrast, competition would force the market to strike a balance between what clients demand and what banks want. In such an environment, consumers would be unlikely to move between banks, since market competition would naturally create equilibrium: Most banks would end up charging the same prices, thus eliminating the incentive to swap banks.

Ostensibly, this is the situation in Israel: All banks charge similar—even sometimes identical—rates, and consumers rarely switch banks. But this is not the result of genuine competition. Every budding economist knows that there are two possible reasons for price uniformity: Competitive equilibrium or cartelized price fixing. As we will see, Israel's price uniformity stems from the latter—cartelization—while the low incidence of switching banks is attributable to the fact that not only are there costs associated with switching banks, but customers face the same fees at each one. Consumers are therefore the banks' prisoners; there is nothing they can do about the excessive charges they must pay.

The 2002 annual survey of the banking system recently published by the Bank of Israel contained some startling data on bank fees. According to the survey, the total operating revenue of the five largest banks in 2002 was NIS 9.905 billion, of which revenue from operating charges comprised NIS 8.405 billion, or approximately 85 percent. Yet an examination of the financial reports of each of the world's largest banks paints a totally different picture, as the following table shows:

Table 1[1]

Bank	Operating charges as a percentage of operating revenue
Deutsche Bank – Germany	13.3%
Barclays - UK	34.4%*
UBS - Switzerland	2%
Wells Fargo - USA	7.7%
JP Morgan Chase - USA	36.3%*

*The data includes charges that are not operating charges.

Another indication of the heavy burden of operating charges in Israel is the relationship between them and the profit from financial brokerage. According to the same 2002 annual survey, the 2002 profits from financial brokerage at Israel's five largest banks was NIS 17 billion, and NIS 10 billion after provision for doubtful debts. Total revenue from operating charges was NIS 8.4 billion, approximately 84 percent of the banks' profit from financing activities—an incredible statistic that has no parallel in any of the world's large banks. For example, revenue from operating charges at Bank of America accounted for less than 50 percent of profits, and operating charges at Switzerland's UBS were less than 10 percent of profits.[2] Previous years' annual surveys reveal a similar picture: In 2001, the operating charges of Israel's five largest banks were 82.2 percent of operating revenue and 65 percent of the profit after provision for doubtful debt; the corresponding figures for 2000 were 81.4 percent and 60 percent respectively.[3]

This year's operating cover ratio (operating and other revenues divided by operating and other costs) was 0.5, similar to the ratio worldwide.[4] In terms of operating efficiency, Israel's rank is about average, yet, in contrast with other countries, this component of operating revenue is also the most lucrative source of profit, for two reasons: High charges on the one hand, and provision for doubtful debts on the other. In other words, because of the high fees paid by retail account holders, the banks' profits were positive even after the substantial provision for doubtful debts. In the last two years, Israeli banks have been largely remiss in assessing risk factors. In managing them, they have left only narrow margins for negative scenarios to materialize. This irresponsible lending policy is the reason Israeli banks have difficulty in making a profit from financial brokerage. An exception to this is Bank Mizrachi, the most cautious of all the banks in granting credit. For example, when we look at the annual cost of doubtful debts as a percentage of total credit, we see that the average for the five big banks in 2002 was 1.32 percent, whereas Bank Mizrachi's percentage was 0.52 percent.[5] Concerning the proportion of non-revenue producing credit in the bank's equity, Bank Mizrachi is once again at the bottom of the list—26.6 percent, compared to an average of 33.6 percent for the five big banks. In this respect, Bank

Discount fares the worst – in excess of 50 percent.[6] The problem of doubtful debts and problematic credit is therefore a significant one for even the most careful of banks—Bank Mizrachi—and unquestionably for the banking sector as a whole.

The picture, then, is not a flattering one for Israeli banks: They fail to make a profit from financial brokerage despite their operating in a non-competitive environment, one that should, in fact, be helping them to make higher-than-normal profits. In this they do not fulfill the classic role of a bank, instead collecting payments from their customers for ancillary services. To put it another way, instead of making their profits from differences in interest rates, Israeli banks make them from the fees they charge for the pens and paper their clerks use.

The following table is a comparison of the main charges (in shekels, except where noted) at the beginning of 2002, as published by the Bank of Israel.[7]

Table 2:

	Hapoalim	Leumi	Discount	Mizrachi	Beinleumi
Entering a transaction in an account (per entry)	1.21	1.21	1.21	1.21	1.21
Current account service charges (per month)	10	10	10	10	10
Commercial current loan account service charges (per quarter)	150	150	148	150	149
Cost of a check (supervision charge)	0.36	0.36	0.36	0.36	0.36
Deposit of post-dated check	10.2	10.3	10.3	10.3	10.3
Return of check to drawer because of insufficient funds	43	45.2	45	45	45
Return of check to depositor	14	13.8	13.75	13.8	13.7
Payment of account at counter	4.95	5	5	5	4.95
Statement – charge for current account statement	1.5	1.5	1.5	1.5	1.5
Number of current account statements provided free each month	6	6	6	7	7
Number of non-current account statements provided free each month	0	0	2	0	0
Buy/sell equities (first level – up to NIS 10,000	0.7%	0.7%	0.7%	0.6%	0.7%
Service charge for depositing equities (per quarter)	0.125%	0.125%	0.125%	0.125%	0.125%
Exchange (minimum charge)	$6.3	$6.3	$6.3	$6	$6.25
ATM card (per annum)	23	24.5	23	24.5	24.5

This is not a mere case of bank fees being similar; often, the fees are simply identical. When examining the fee schedules, it is difficult to not be struck by the banks' uniformity. In contrast, although the competitive market leads to similarities in their service charges, banks abroad have clear disparities in commission rates. One of the reasons for this is niche markets (for example, a bank seeking a more established clientele will demand higher fees that act as a kind of "filter" for unwelcome clients), but its primary cause is the lack of collusion between banks. One example that demonstrates both the absence of collusion and the effect of competition is the variety of amounts different banks require as a minimum deposit to exempt customers from service charges: The Swiss bank UBS requires CHF 10,000 for an exemption, compared to the 15,000 demanded by Credit Suisse; Bank of America requires $5,000 compared to $6,000 for Citibank.

Economic theory's conventional index for testing the level of competition in a sector is the comparison between the product's price and its marginal cost. The fact that the marginal cost of supplying the service is a great deal less than the cost of each of these charges[8] is a clear symptom of the cartelization sickness that affects the Israeli banking system. To explain this in greater detail: When deciding whether or not to manufacture a new unit, a firm will choose to do so only if the unit's market price exceeds the cost of producing it (the marginal cost). If the unit price exceeds the marginal cost, then the firm will profit by making the new unit—since profit is equal to the difference between the price it earns on the market and the cost of making it. Since the marginal cost increases[9]—i.e. making each marginal unit is more expensive than making the unit that preceded it—a firm operating in a free market will make more and more units until the marginal cost equals the market price. Competition, then, ensures that there is parity between the price of a product and its marginal cost. A market that is not characterized by this parity is not a competitive market, and this is precisely the case with the Israeli banking sector: Consumers pay exorbitant charges that are totally out of line with the cost of the transactions for which they are levied.

Moreover, it is worth noting that the fee index reflecting the average cost of 15 of the most common bank charges at the five big banks rose by 3.1 percent in real terms from the first half of 1999 through the first half of 2003; thus, during a recession period—both in Israel and the rest of the world—households faced a bigger burden of bank charges.

The Bank Examiner at the Bank of Israel has not taken any action to counter this phenomenon in some time. In addition to other arguments, the office maintained that it should not intervene in the banks' commercial considerations[10]—even though every beginner's course in pricing theory teaches that it is one of the regulator's jobs to fix price ceilings. The new Bank Examiner, Yoav Lehman, recently voiced some objections to the existing fee structure. Both as price leader and following some inauspicious financial results, Bank Leumi tried to increase charges in July 2003 but relented—thanks in large part to the Examiner's objections. There is no doubt that, had the charges been increased, the other banks would have quickly "leveled off" with Bank Leumi. The evidence: The moment Bank Leumi announced its intention to increase charges, Mercantile Bank, Bank Igud, and the Industrial Development Bank also announced increases in a number of charges. Had not been for the Examiner's objections and Leumi's subsequent capitulation, it can be safely assumed that the trend toward higher prices would have resulted in Bank Hapoalim's raising its rates, as well.

In other countries with competitive banking environments, Israeli bank subsidiaries behave differently. For instance, the ratio of charges to the profit from financial brokerage is far lower than in Israel: The ratio for Bank Leumi in the United States is 23.6 percent; for Bank Hapoalim in Switzerland, it is 26.1 percent.[11] These ratios compare to the aforementioned ratio in Israel of 84 percent.

It is important to note that the word "charges" means something different in Israel than it does abroad. Most of the charges abroad are not operating charges, but brokerage, asset service, and depository charges. As a proportion of overall charges, operating charges are extremely small. In Deutsche Bank, for example, the proportion is less than 25 percent, and in UBS less than 7 percent.[12] (The Swiss banking system stands out in the area of small operating charges, since a substantial portion of its activities are in asset management, and not necessarily for Swiss residents.) An additional difference is the number of charges: The consumer in Israel is debited with more than 200 different charges. In other countries, a significant portion of these charges—for example, entering a transaction in an account—are completely non-existent.

Whatever the reason for the disparity between Israel and other countries, the bottom line is clear: Israeli consumers pay far more for banking services than do consumers in other countries—especially if that Israeli is a small consumer. Take, for example, the service charges for a stock mutual fund: Most funds in Israel charge their customers high service charges—sometimes more than 4 percent. Only a handful of funds charge less than 1 percent. Contrast that to American funds, which charge an average of only 1.5 percent[13]; Fidelity Fund–the largest of them–charges a mere 1.1 percent. Moreover, front-end charges are common in Israel; while most of the funds' fees are low, they can go as high as 1 percent—even 2 percent for some of them.

No less important than quantitative data and numerical comparisons are the bank's attitude towards its customers. Contrary to the view in Israel, the basic model abroad is that the customer does not pay charges. Whereas Israeli customers get charged at every turn, customers in other countries go to banks for financial brokerage services (from which the bank profits) and only pay charges afterward, if at all. Monthly charges on current accounts are a prime example: So long as customers in other countries meet certain minimal conditions, they are exempt from these charges.[14] At Citibank, for example, a customer whose assets total $6,000—not necessarily in the current account—does not have to pay service charges. That is a reasonable criterion, even by Israeli standards—and all the more so when it is viewed in relative terms, since the American GDP is double that of Israel.[15]

Lack of competition is evident not only in bank fees. At 2.3 percent, the financial spread in Israel is the highest of any Western country.[16] In the United States, for example, it is 1.6 percent; in Holland, Austria, Canada, and the United Kingdom, it is 1.5 percent-2.00 percent; in Switzerland and Germany, it is only 0.8 percent. In fact, the shekel spread is far higher than the overall spread. This can be assessed in a number of ways, such as by calculating the difference between interest on unlinked shekel savings and interest on overdrafts. In the second half of 2003, customers with 100,000 shekels in unlinked savings plans earned 4.5 percent interest, while the interest they earned varied between prime plus 0.5 percent and prime plus 7 percent, with an average of prime plus 3 percent. The financial spread in this case is approximately 6 percent. What is more, if a customer exceeds the credit limit on his overdraft, he ends up paying far higher interest rates—meaning an even greater financial spread. The annual nominal interest charged for exceeding the credit limit runs as high as 18-19 percent. Assuming that interest on savings is 5 percent, this gives us a financial spread of more than 13 percent. Once again, domestic customers—and mainly the weakest ones—are most likely to exceed their credit limits and therefore end up paying the highest prices. Banks obviously benefit from the exorbitant charges paid by domestic customers. Yet this is an anomaly that can be corrected: In the United States, for example, there is no possibility of overdraft. The high interest rates paid by domestic customers in Israel—particularly in shekel accounts—are not only the result of the Bank of Israel's interest rates (over which the banks have no control and which are set in order to achieve macro-economic objectives like encouraging growth or curbing inflation), but also result from the fact that the capital market is neither open nor free. The vast majority of financial activity in Israel is done through the banks; they are the most important factor in the capital market and face no competition whatsoever, at least insofar as the average household is concerned. This phenomenon has become slightly less pronounced in the last decade as non-banking institutions—insurance companies, for example—have entered the area of finance. Consumers now can get a mortgage from insurance companies, not only from the mortgage banks (which are subsidiaries of the commercial banks). Private brokers also are active in the capital market, although their share is small in comparison with the banks. In short, the banks continue to be the dominant force in the capital market. The market is not competitive and the banks therefore allow themselves to charge their

customers exorbitant interest rates, excessive charges for financial services, etc.
As we have said, despite the high financial spread, Israeli banks' performance has been anything but spectacular, and the banks are in the black thanks only to their exorbitant charges.

Suggested Solutions

One of the reasons for the system's inefficiency is the government's involvement: The government owns two of the five big banks, Leumi and Discount. Another factor is the system's over-centralization. More than 94 percent of the branches belong to the five large banking groups and the average number of residents per branch is 6,242—compared with an average of 2,857 in the 10 industrialized countries (G10), and between 3,963 and 4,389 in Britain, Holland, and Sweden. The high Israeli number testifies to a lack of competition and is an indication of the lax service that Israeli customers are likely to receive, compared to their counterparts in other countries (longer lines, for example). Nor can this be considered a sign of greater efficiency in comparison with banks in the rest of the world—can we be the only country that can get comparable results from a smaller system?

The intense centralization is also evident in the way the credit given to the public is apportioned: The combined debts of 48 percent of borrowers is more than 35 million shekels, and this percentage has been steadily rising over the last few years.[17] As we pointed out at the beginning, the banks owe their predicament to a less than cautious credit policy. As the proportion of large borrowers to small borrowers increases, so do the risks in granting credit: If even one big borrower or group of borrowers encounters difficulties, the bank could be put at risk. The simplest solution certainly is to burden domestic customers with the cost of ensuring a bank's profit. But this also is a blatantly unprofessional policy: Instead of pricing its credit in wiser ways, and reducing expenses–for example, by cutting the salaries of its senior managers–banks that encounter financial trouble hike the fees they charge their small customers. And anyone who expects the banks to behave responsibly during a recession—and belt-tighten—is in for a disappointment. For example, while the chairman and CEO of Bank Leumi each reduced their salaries by 5 percent in 2002, they jacked them up to their previous levels this year.

There is no alternative to less centralization and more competition. Only changes in market conditions will ensure more sensible credit policies and greater benefits for the average household.

Foreign banks that are active in Israel could work wonders in this respect, but, sadly, there does not appear to be any international competition in the offing. Three foreign conglomerates currently are active in Israel, but they do not offer services to retail customers. These banks are Standard Chartered Bank; HSBC Bank plc.; Citibank N.A.; one of them—Standard Chartered Bank—is about to close. Israel's bureaucracy is the primary reason foreign banks are in no hurry to do business here (among other factors). Lack of competition and a cumbersome bureaucracy are two distinct evils, but there is a clear connection between them: When bureaucratic issues make it hard for new companies to enter the market, all but a few will stay out—resulting in a lack of competition. In Israel, this particularly is true since management positions in both government bodies and in the banking systems are concentrated among a relatively small number of people, who frequently move between the two sectors—making it almost impossible "for technical reasons" for outsiders to get in.

While foreign banks find the Israeli market closed to them, subsidiaries of Israeli banks engaged in reasonably widespread activities abroad. In 2002, the overall balance of deposits Israeli banking branches abroad was some 30 billion dollars. As aforementioned, Israeli banks abroad behave entirely differently from the way they do in Israel, particularly when it comes to bank fees. This is a classic case of price discrimination, and price discrimination or inter-market discrimination is a clear indication of lack of competition.

In our opinion, encouragement of competition should be anchored in law as one of the responsibilities of the banking supervisory system[18] for two reasons: the first is to ensure that the consumer benefits. The maximum benefit—for both consumers and the economy as a whole—can be achieved only in a competitive environment (aside from exceptional cases-for example, in the case of public products like security services, the optimum will not be found in a competitive equilibrium). The other reason is that competition, particularly the entry of foreign banks into the local market, is likely to achieve the positive effect of helping to stabilize the banking system. The relationship between the local banking system and foreign banks may well have a positive or negative effect on stability, but, in most cases, the entry of foreign banks encourages stability and not the opposite—and all the more so in Israel, where the capital of any large bank likely to enter the local market is greater than the capital of all the local banks together. We therefore are unlikely to see run-on-the-bank-type phenomena, glimmers of which were seen this year in the Industrial Development Bank.

The Bank Examiner recently took a step towards greater competition, when he ruled that, starting in 2004, all banks would have to make public every charge and its fee before putting it into effect. But we are still a long way from the necessary reform. The Bank Examiner recommends that consumers do market research and compare banks—an absurd suggestion. What use is it to the consumer to compare a 10-shekel payment at Bank Leumi to 10-shekel payment at Bank Hapoalim? The Bank Examiner's job is to supervise (the banks), not to make recommendations (to consumers).

We will now enumerate the needed measures. All are directed at two inter-connected objectives: increasing the number of players in the market and reducing the level of collusion between them.

One important measure the Bank Examiner can take is restricting the amount of credit a bank can give to a group of borrowers to a function of its capital. At present, a bank can lend up to 30 percent of its capital to one group of borrowers. Making the criterion stricter may well lead to a situation in which local banks will not be able to respond to part of the demand from the big borrowers in the economy. Absent other avenues of finance (and as aforementioned, the banks are the main avenue of finance in Israel), those who need it will turn to foreign banks. There, if the credit is granted, it will be more expensive than what they get from the local banks, but it will be granted based on the quality of the investment—not on the family name of the applicant. (As things currently stand in Israel, belonging to one of the seven richest families in the country is sufficient reason to be awarded automatic and cheap credit.) There are two ways in which the criteria can be effectively tightened. One way is to restrict the amount of credit to less than 30 percent of the bank's capital. The other is to calculate the debt of individual borrowers as that of a group, especially if there is a commercial link between them. The first way is more simple and more straightforward, but the other also has advantages. First, it is probably less drastic, and therefore it would be easier (for both the banks and the large borrowers in the economy) to accept and accommodate. Secondly, it is logical to link two loans together if there is a connection between the two borrowers. The Bank Examiner recently proposed just such a procedure, and we can only wish him success.

Apart from foreign banks, the field should be opened to the entry of non-banking institutions. Two current candidates for conversion into commercial banks are the Mortgage Banks (especially Bank Tefahot) and the Post Office Bank.

Regarding the Post Office Bank, Holland has set an interesting precedent. More than a decade ago, two of the largest banks in the country–AMRO and ABN–merged to become ABN AMRO. The government reacted by merging the Nationale-Nederlanden Insurance Company with the Post Office Bank to form the ING group, which was a serious competitor to ABN AMRO. There are certain obvious advantages to turning the Israeli Post Office Bank into a commercial bank. From the point of view of the economy, the entry of a major player with widely spread and well-established branches and infrastructure, and which has no connection—personal or otherwise—with the existing banks, will reduce the inter-institutional dependency currently acting on the market. Moreover, the Post Office Bank has a welcome tradition of not charging commissions. From the government's point of view, the current profits of the Post Office Bank as a commercial bank would be an additional revenue source, and there also is potential for profiting from its privatization.

The entry of mortgage banks into the market also will have a positive influence. Like the Post Office Bank, Bank Tefahot and Bank Mishkan have a widespread infrastructure, would not involve a high investment in real terms for market entry, and could complete the process within a relatively short time. In contrast to the Post Office Bank, there is a disadvantage in this case deriving from the structure of the banking system: The mortgage banks are subsidiaries of the five big banking groups–Tefahot belongs to Bank Mizrachi and Mishkan to Bank Hapoalim. The existing structure guarantees that the banks earn maximum profits: At present, since they are non-competitive and in collusion, Bank Tefahot and Bank Mizrachi each earn more than they would if they were in competition with each other. If, despite this drawback, the mortgage banks were to be licensed to operate as commercial banks, they would benefit (as separate entities from the commercial banks), but consumers would benefit first and foremost.

Another step the Bank Examiner should take is fixing maximum rates for some of the fees. The fee for making an entry to an account, for example, should be dropped entirely, or should at least be reduced to a few agurot; in any case, it cannot remain at the inflated level of 1.21 shekels. Tens of percents should also be reduced from fees for things like current account statements, counter services, and charges on the return of uncovered checks. Today, if a customer deposits a check that—unbeknownst to him, bounces—the transaction costs about 14 shekels. Like the other fees mentioned above, it is unreasonable and should be reduced/ Another fee that should be reduced substantially is the one on depositing securities. The quarterly rate in Israel is 0.125 percent, or half of 1 percent per annum. A customer with securities earning 4.5 percent will pay one-half of 1 percent to the bank–that is to say, 10 percent of the profits. There is no such charge in the United States, where the customer pays only for buying and selling securities. This charge therefore should be reduced to a level no greater than 0.1 percent-0.5 percent per annum.

None of the measures proposed here can be introduced without a comprehensive reform of the capital market–reform to streamline it and that primarily will be aimed at reducing the relative importance of the banks. In particular, inducements should be applied to private brokers as well as to banks—tax incentives, for example—to split banks off from trust funds and similar financial frameworks. Reforms in that spirit recently were proposed in the Ministry of Finance program to rescue the pension funds. The plan's key components include a freeze on issuing debentures intended for mutual funds, a ceiling on the amount of government bonds a given mutual fund can purchase, and pushing mutual funds towards the free market. Both the Bank Examiner and the Finance Ministry's Capital Market, Insurance, and Savings Department need to take similar measures to contribute to the market's activities. Changes in the capital market need to be discussed separately, but are an obvious prerequisite for the success of any banking sector reform.

Recently, the governor of the Bank of Israel and the chairman of Bank Discount discussed the need for a third banking group to break the existing duopoly of Bank Leumi and Bank Hapoalim. According to the proposal, the group would include smaller banks like Bank Igud, Bank Beinleumi, and the Jerusalem Bank, and would have Bank Discount at its center. This is not, however, a legitimate proposal—particularly since it was raised by one of the interested parties. To begin with, there already are five dominant banking groups in the economy—the alleged "duopoly" does not exist; domestic customers already pay the same fees and receive the same service from each of the five big banks. Even if Leumi and Hapoalim did control the sector on their own, which they do not, there is no guarantee that introducing a third big bank would help. The two in question already engage in price fixing. Why would adding a third big bank end the collusion? Second, there is no merit to merging banks for size advantage—when the resulting merged bank will up on a level roughly between Bank Discount and Bank Mizrachi. Third, even if its purpose is to contribute to stability, such a merger is pointless: a larger bank is not necessarily more stable. Bad management caused the troubles gripping the bank of Industrial Development's and the collapse of the Bank of Commerce—not small size. During the bank shares crisis of 1983, the only bank that did not go into liquidation was Bank Beinleumi, which was not the largest bank at the time. Bank Mizrachi offers a more up-to-date example that shows that there is not necessarily a connection between size and profitability: In 2000—a year considered by everyone to be a peak year for the banks—Bank Mizrachi showed a return on capital of 13.2 percent, the second largest return among the five largest banks.

In conclusion, Israel's banking system needs to be streamlined and decentralized. At present, customers are the banks' prisoners and are forced to pay exorbitant fees and colossal interest rates. This situation must end. The vibrancy of a free market brings unparalleled benefits, at least to the financial sector. Healthy competition has the power to improve the lot of consumers. Proof of this is the fact that American consumers who want to switch banks need only go to the bank branch to which they are transferring money. In contrast, Israeli consumers first must go to the bank they want to leave, where they must run a gauntlet of entreaties and attempts at persuasion before they are allowed to go. The American option is better and ought to be the norm here. There should be competition in the Israeli banking system—and the sooner, the better.

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Notes

1. Deutsche Bank – Annual Report 2002,(Frankfurt am Main: Deutsche Bank, 2002), p. 114
Barclays – Annual Report 2002,(London: Barclays PLC, 2002) p. 97
UBS Financial Report 2002, available at: http://www.ubs.com/e/investors/annrep/annualreportingoverview/2002/financial_report.Par.0001.MultiUploadTable.0001.Uploads.0001.File.pdf/FRE02_end.pdf p. 182
Wells Fargo – Annual Report 2001, available at: http://a248.e.akamai.net/7/248/1856/e2eb50e9aeda2c/www.wellsfargo.com/pdf/invest_relations/wf_2001annualreport.pdf. p.40.
JP Morgan Chase – Annual Report 2002, available at: http://ar.jpmorganchase.com/ar2002/pdf/annual2002.pdf p.18

2. Bank of America Annual Report 2002,available at: http://ccbn16.mobular.net/ccbn/7/169/175/ pp. 27, 31

UBS Financial Report 2002, p. 182

3. "The Israeli Banking Sector – Annual Survey 2002",(Jerusalem: Bank of Israel, p. 74); "The Israeli Banking Sector – Annual Survey 2002", p. 70.

4. The weight of operating revenue in the operating expenses in the reference group of 20 countries in 2001 was an average of 66.5 percent. The overall average in the comparative group of eight countries similar to Israel in the value of their GDP and the size of their banking system in the year 2001 was 60.06 percent. In Israel in 2001, the ratio was 55.7 percent and, in 2002, 56.5 percent. The complete data for the countries: "The Israeli Banking Sector – Annual Survey 2002", p. 76.

5. The following table shows the ratio of annual expenses in respect of provision for doubtful debt to the overall credit (as a percentage). From "The Israeli Banking System – Annual Survey 2002" p. 151:

Year	Leumi	Discount	Hapoalim	Mizrachi	Beinleumi	Average
2001	0.93	1.33	0.68	0.53	0.91	0.85
2002	1.11	1.18	1.70	0.52	1.75	1.32

6. The data (in percentages) on the weight of non-revenue producing credit in the bank's equity – "The Israeli Banking Sector – Annual Survey 2002", p. 151:

Year	Leumi	Discount	Hapoalim	Mizrachi	Beinleumi	Average
2001	18	46.7	17.6	15.2	20.4	22.2
2002	29.5	53.1	29.9	26.6	40.7	33.6

7. Bank of Israel – spokespersons and economic information – press release 10.8.2003 available at: http://www.bankisrael.gov.il/press/heb/031008/031008a.htm

8. The clearest example of this is the charge for making an account entry – NIS 1.21 from the start of 2002 – the marginal cost of which is close to zero. Two other outstanding examples of the difference between price and marginal cost are the charges made for making a one-time inter-bank transfer and for depositing a post-dated check. One-time transfer: Bank Hapoalim NIS 41.00, Bank Leumi NIS 43.00, Mizrachi NIS 43.00, Beinleumi NIS 40.00. Depositing a post-dated check: Bank Hapoalim NIS 10.20, Bank Leumi NIS 10.30, Mizrachi NIS 10.30, Beinleumi NIS 10.30.

9. This assumption is by no means unavoidable but it is the popular one.

10. So claimed the Deputy Bank Examiner before the Knesset Committee for State Audit Affairs on July 30, 2003.

11. Leumi USA Annual Report 2002, available at: http://www.leumiusa.com/Article/0,2777,11525,00.html p. 17. Hapoalim Switzerland Annual Report 2002,available at: http://www.hapoalim.ch/downloads/Geschaftsbericht_englisch.pdf p. 8

12. Deutsche Bank Annual report 2002, p. 114; UBS Financial Report 2002, p. 182

13. According to data on the Internet site Banksite, the average was around 1.5 percent. available at: www.banksite.com

14. The minimum conditions for exemption from management charges in some of the large banks are as follows:

Fleet Bank – the most common charges according to the type of account: assets in the bank of $10,000 or $25,000; UBS – full or partial exemption so long as assets in the bank meet or exceed CHF 10,000; Credit Suisse – full exemption conditional on minimum assets in the bank of CHF 15,000, or monthly charge of CFH 3 according to the type of account; Chase Manhattan – exemption conditional on a minimum that varies from state to state.

15. In 2002, GDP in the United States was 34.3 thousand dollars per capita and in Israel 19.6 thousand dollars. GDP in Israel this year dropped to 16.1 thousand dollars. Source: Website of the World Bank. available at: www.worldbank.org

16. The data on the different financial differentials is taken from "The Banking System in Israel – Annual Survey 2002", p. 76.

17. The weight of borrowers above 35 million shekels: in 1998–44.7 percent, in 1999–46.4 percent, in 2000–47.1 percent, in 2001–47.5 percent. Source: "The Banking System in Israel–Annual Survey 2002", p.10.

18. The Bank Examiner is tasked with preserving the stability of the banking system, its sound management, and the propriety of relations between the banks and their customers. These tasks are anchored in several legal frameworks: the Banking Regulation 1941 – a Mandate regulation that has been modified and updated over the years; the Banking Law (registration), 1981; the Banking Law (customer service), 1981; the Dishonoured Cheques Law, 1981.