Dissertation

How the Financial Crisis of 2008 and Regulation impacted on economies around the world

A comparative analysis between Ireland and Israel, two countries of similar size and booming economy

By

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Abstract

The global economic crisis of 2008 exposed countless irregularities within financial institutions in many developed countries, including Ireland and Israel. The main factors were poor regulation, bad behaviour on the part of senior executives, weak corporate governance structure within organisations, political and operational factors. In other words, a "*myriad of decisions both large and small, including decisions not to act, all underpinned by implicit and explicit assumptions, led to the global financial crisis and how catastrophic its effects were in Ireland,* (Sibley, Deputy Governor of CBI, 2018). However, while Ireland was severely impacted by the crisis, in Israel, "*the effects were more moderate than other advanced economies, due to the background conditions that were prevalent at the time*" (Buchwald, 2009), and especially due to the country's robust regulation.

The aim of this study is to compare-and-contrast regulation in Israel and Ireland equally whilst analysing the procedures and regulatory pillars to emphasis the crucial differences between the two. These are countries of similar size and small population, both very dependent on trade which experienced sudden economic growth preceding the crisis. Overall, the research will scrutinize the argument that a state with stronger and proactive regulations in place which are actively enforced suffered less financially than a state where supervision and enforcement of financial regulation was weak or even non-existent. To corroborate my research, I will examine the regulatory changes that came with the crisis, more than a decade on, in both Ireland and Israel, aimed at *"stopping a boom and preventing the credit-chasing, prices-chasing kind of bubble*", (Honohan, 2010).

The grounds for comparison anticipate the comparative nature of my thesis but the thesis depends on how the two countries I choose to compare relate to one another. In order to achieve an answer to my research question, this study is analytical in nature and it depends on desk research, using prior literature that includes articles, regulator website information, statements and official reports, to analyse and conclude my findings.

Keywords: Financial Crisis of 2008, Ireland and Israel, Compare-and-Contrast, Effective Financial Regulation, Similarities and Differences

Declaration

National College of Ireland

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Name: Irina Drozan

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(a) I declare that the work has been composed by myself.

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Signature of research student: Irina Drozan

Date: 18/08/2020

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List of Abbreviations

Administrative Sanctions Procedure (ASP)

Bank of Israel (BOI)

Central Bank of Ireland (CBI)

Controlled Functions (“CFs”)

European Banking Authority (EBA)

European Deposit Insurance Scheme (EDIS)

European Insurance and Occupational Pensions Authority (EIOPA)

European Supervisory Authorities (ESA)

European Securities & Markets Authority (ESMA)

European Systemic Risk Board (ESRB)

Federal Reserve (FED)

Financial Services Authority of Ireland (FR)

Financial Stability Board (FSB)

Irish Nationwide Building Society (INBS)

Israel Securities Authority (ISA)

National Macroprudential Authorities (NMA)

Organisation for Economic Co-operation and Development (OECD)

Pre-Approval Controlled Functions (“PCFs”)

Regulated financial service providers (“RFSP”)

Single Supervisory Mechanism (SSM)

Single Resolution Mechanism (SRM)

Chapter 1. Introduction

1.1. Research context

In early 2008, while the U.S. and many European countries including Ireland experienced hard economic times and fell into recession, it seemed that Israel sailed through the global financial crisis relatively smoothly.

Since the early 1990s onwards, according to Regling and Watson (2010), there have been numerous discussions in academic and policy circles with regard to the ways in which regulatory institutions should monitor and supervise financial institutions or financial products as it seemed that the economy was always hit by these "*highly adaptive markets – markets which tended to find ways around any given set of rules*". This statement asks the question, how and why some countries like Ireland manifested these types of market behaviour while other countries like Israel, did not?

In the aftermath of the 2008 financial crisis, the years to follow uncovered broad financial misbehaviour scandals in many financial areas, especially within the banking system where in Ireland, the pre-dominant factor was "*the booming of real estate that affected most commercial banks"* as banks permitted risky loans and in result accumulated large debt that led to the complete fall of the financial system (Rowland, Director General, Financial Conduct at CBI, 2019). Donnery, Deputy Governor at CBI (2018), emphasised that the collapse affected "*almost every aspect of Irish society, Irish economy and primarily the Irish banking system"* and the causes have been well documented in many official reports and articles where the findings were mostly the failure of corporate governance within financial institutions and the lack of enforcement by the financial regulator.

However, Israel did not experience the same issues during the crisis, in fact, sociologist and academic director of the Adva Cente, Dr. Swirski (2011), revealed in one of his speeches that, "*Israeli leaders openly congratulated themselves on the way Israel came out of the crisis only slightly and briefly harmed due to the precautionary measures taken in 2001-2003"*, where the Ministry of Finance [1]embarked upon a major effort to decrease welfare payments, induce greater participation

[1] The Israeli Ministry of Finance is the main economic ministry of the Government of Israel. It is responsible for planning and implementing the Government's overall economic policy

in the labour force, privatize enterprises still owned by government, and reduce both the relative size of the government deficit and the government sector itself. All these factors, together with a firm and effective regulatory system preceding the crisis, not only helped improve the economy but also minimize the impact of the global economic collapse in Israel.

Many experts argue that financial regulation plays a considerable role in the governance of financial institutions, "*with the scope of financial regulation being wider and more robust than in previous years*", especially because of the economic crisis of 2008 (Ciro,2012). Lane, (Governor of CBI, 2017), stresses the importance of regulation in the financial system as its core function is to ensure the protection and fairness of the financial services market for consumers while promoting sound and solvent institutions across the economy and "*this gives depositors and other consumers of financial products confidence that their deposits and investments are safe*".

Keogh and Brassill (2018), studied different economies and argued that "*although Ireland was hit severely, not all small and yet advanced open economies displayed the same exposure to the global financial crisis*". Israel was one economy that did not experience the same impact of the crisis due to the strict regulatory measures taken preceding the crisis and managed to stay strong during the years to come. Keogh & Brassill note that *"some economies had policy levers at their disposal that others did not, e.g. the monetary policy tools available to Israel are different than the tools available to Eurozone economies"*. Overall, Ireland was highly exposed to the global financial crisis due to inadequate or flawed regulation, which resulted in large economic costs in the short-term, but in the longer term, was able to recover from the shock which is reflected in the strong economic growth, due to a more robust and comprehensive regulation and risk management in the financial systems,(ec. Europa, 2020).

1.2. Dissertation Structure

Therefore, the author proposed a research paper dedicated to addressing the gap in the role and outcome financial regulation had in two countries of similar size and thriving economies, in the 2008 financial crisis. To understand why some markets were hit the way they have been while others managed to avoid the collapse altogether, I will start by highlighting several factors that caused the global downfall of the markets, to then focus on the Irish financial crisis in particular. To continue my work, I will present the key role regulation had in the Irish crisis and in Israel separately, the principles and standards that guided the behaviour within i1nstitutions but also the changes that came consequent to the crisis, its new objectives, values and competencies in financial service providers (FSP) instructions, especially banks. This will support my research to observe the similarities and differences in the way the crisis had affected two similar countries in size and population, but different in their regulatory approach. How both countries managed the financial systems before and after the crisis, the regulatory frameworks that were in place and the efficacy of their application, and how these have changed as a result of the economic collapse.

To respond to these questions, I will be conducting a comprehensive literature review from different authors, using the official reports to the Joint Committee of Inquiry into the banking crisis[2], Central Bank of Ireland and Bank of Israel websites, statements, and other relevant sources and analytical literature in order to gain valuable insight into the research topic, followed by the methodology that will be selected, the overall result of the paper, to lead me to the discussion section where I will elaborate the evidence found in a more subjective matter, to answer my research specific objectives and to conclude my findings.

1.3. Research Question and Objective

The purpose of this research is to focus on academic literature to answer two main research questions:

1. Why was the financial regulator in Israel so much more effective than the regulator in Ireland? What were the economic, political, and operational factors which created this outcome - do we see similarities or differences to help back up our research question?
2. By comparing two similar states in size and economy but different in regulatory systems, before and after the crisis, can we answer the question, if a regulatory regime that is more robust and has an enforced regulation that guides financial institutions to be transparent, effective and fair, is in fact a key underpinning of a country's economy - how regulation changed after the crisis, can we see if effective regulation does work to keep a country safe from a potential financial distress?

[2] The Committee of Inquiry into the Banking Crisis, colloquially known as the Banking Inquiry, was a joint committee of the Houses of the Oireachtas. It was formally established in November 2014 under the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013.

For reasons of scale, dependence on international trade, significant presence of US foreign direct investment, rise in house prices preceding the crisis, multiple high-tech industries and expansion of multinational corporations, Israel seems an appropriate comparator to Ireland.

The motivation behind my research topic is to understand how two countries with booming economies, of similar size and population, can have very different outcomes in the 2008 financial crisis. This research is focusing on the role financial regulation played in the crisis, how and why this is important for the well-being of the economy. By comparing Ireland, which displayed less dynamic resilience to the recent global economic crisis and banking crisis – with a deeper decline and greater magnitude of recovery relative to comparator economies which had a less volatile experience such as Israel, I can bring empirical evidence to my research.

Chapter 2. Literature Review

2.1. Introduction

The economic collapse caused by the global financial crisis revealed the importance of effective monitoring and supervision by the financial regulator for its sectoral businesses, where banks suffered most losses due to weak regulation on the part of the regulator and poor corporate governance on the part of the regulated entities. So why is financial regulation so important for banks? Rawlings (2011), argues that banks play a key part in the economy through efficiently allocating resources, increasing capital formation, stimulating productivity growth, and acting as a repository of national savings where "*banks are prone to periods of instability resulting in large and expensive consequences to the wider economy"*, Ireland being a good example of this. Nevertheless, the core of financial regulation is to limit the risk of loss by investors or creditors and maintain confidence in the financial system.

However, Deputy Governor of CBI, Sibley (2019), stresses that financial service providers (FSP) also play a critical role in all our lives because "*modern societies are dependent on financial services as people assume that payments will be made, savings are safe, loans are available, insurance policies will be honoured and while some financial services activity may be considered 'socially useless', our economies are dependent on the effective functioning of the financial system*".

The regulator in Ireland is the Central Bank of Ireland (CBI), whose role is to monitor and enforce the consumer protection framework, conduct of business set of rules, prudential requirements for financial institutions and sets competency obligations for positions of responsibility in firms, (Citizen Information, 2020). In Israel, the bank regulator is the Bank of Israel (BOI), while the Israel Securities Authority (ISA) is the national securities regulator and its mandate is to ensure an efficient capital market based on transparency and fairness, (OECD, 2011).

By contrasting Ireland and Israel, I will analyse each point in the argument that regulation, supervision, and enforcement, is fundamental for the financial system to back up the thesis questions.

2.2. What caused the global 2008 Financial Crisis?

The crash of the financial market started in the United states (U.S.) but affected most countries across the globe, including Ireland and Israel. Although there were many factors that caused the crisis, Ciro (2012), argues that the predominant causes were the housing bubble, U.S. Bank Lehman Brothers[3] bankruptcy, systemic market failure, the sovereign debt and especially an ineffective governance of the market regulation. In a nutshell, the deregulations of financial institutions that permitted loans to people who couldn't afford them, (Claessens, Kose, Laeven & Valencia, 2014). Some legislators blame Fannie Mae, Freddie Mac[4] and their allies in Congress for the entire crisis, but regardless of who was to blame, by the end of 2007, banks accumulated large amounts of debt which led to an irrevocable collapse, (Amadeo, 2020).

Greenspan, then chairman of the U.S. Federal Reserve (FED)[5], observed that "*the financial crisis was a once-in-a-century credit tsunami*," and that there was also a common agreement among economists and policymakers that trust and confidence had a key role in the crisis. Bernanke, the following FED chairman, stressed this statement and further noted, "*As in all past crises, at the root of the problem is a loss of confidence by investors and the public in the strength of key financial institutions and markets*." The banks easy real-estate mortgages boosted the public trust in lending and the public participation in the housing bubble by buying houses they could not afford; this drove

[3] Lehman Brothers Holdings Inc was a global financial services firm founded in 1847. Before filing for bankruptcy in 2008, Lehman was the fourth-largest investment bank in the United State.

[4] Fannie Mae and Freddie Mac are two entities established by the government to boost the housing market. Fannie Mae and Freddie Mac bought mortgages from lenders and either hold these mortgages in their portfolios or package the loans into mortgage-backed securities that may be sold. That made the secondary mortgage market more liquid and helped lower the interest rates paid by homeowners and other mortgage borrowers

[5] The Federal Reserve System is the central banking system of the United States of America. It was created on December 23, 1913, with the enactment of the Federal Reserve Act, after a series of financial panics led to the desire for central control of the monetary system to alleviate financial crises

up the prices of houses and increased confidence in buying. Nevertheless, the confidence and trust in banks led to borrowing that people could no longer repay and resulted in massive debt for banks and finally led to the irrevocable economic collapse, (Earle, 2009).

In Europe, the crisis was about over-leveraged countries and individuals accumulating excessive debt, a problem worsened by Europe's easy access to credit when a state joined the Eurozone at the lowest interest rates in history. In this narrative, the crisis led to massive build-up of debt in Spain, Italy, Greece, Ireland and others by companies and individuals who borrowed more than they could afford and used the money "*to buy houses and automobiles or luxurious vacations*", (Esposito, 2014).

In Ireland, the fall in the economy began in 2006, where unlike U.S. or Britain, the banking exposure was almost entirely related to unchecked domestic and commercial real-estate bubble, lack of supervision from the regulator and poor internal corporate governance structures, (Blanaid, Hardiman, 2012). At the fore of all banks manifesting high-risk behaviour was Anglo Irish Bank[6] who approved "*almost any type of lending to any mortgage demand"* which led to many homeowners with high risk credit, because *"banks had allowed loans for 100% or more of the value of their new properties",* (Kacperczyk, Schnabl, 2010). As a result, other banks came under pressure, not least from their own shareholders, to go easy on their loan approvals and risk assessment process, to stand a chance in competing with "*Anglo's fast pace performances and apparently stellar growth",* where essentially banks underwrote loans with the expectation that another party would likely bear the risk of default, creating a moral hazard reaction and eventually contributing to the mortgage crisis, (Blanaid, Hardiman, 2012).

Israel was not immune from the global economic crisis set off by the U.S. banking and real estate disaster. However, it had less of an impact on the country's economy and Israel managed very well before and during the crisis compared to other developed economies and certainly as compared to the PIIGS[7] countries and the U.S. The issue in Israel was the stock market, which experienced a fall in prices but also a fall in real estate prices. Even so, Buchwald (Exec. Director for the Central Atlantic Region of the America-Israel Chamber of Commerce, 2009), comments that "*the economy did not crash like they did elsewhere and the banks also appeared to be sound in the midst of the global collapse*".

[6] Anglo Irish Bank was an Irish bank headquartered in Dublin from 1964 to 2011. It began to wind down after nationalisation in 2009. In July 2011 Anglo Irish merged with the Irish Nationwide Building Society, forming a new company named the Irish Bank Resolution Corporation

[7] PIIGS is an acronym for Portugal, Italy, Ireland, Greece, and Spain, which were the weakest economies in the eurozone during the European debt crisis

2.3. The severe impact the crisis had on the Irish economy

On March 17, 2008, stock markets around the world tumbled and the banking system and several corporations collapsed - including Dublin's ISEQ index[8] and Anglo Irish Bank. The following morning, most newspapers were writing that "*the share price of Anglo Irish Bank had collapsed by 15pc on a day that became known as the St Patrick's Day massacre*. On November 21, 2008, Brian Lenihan, Minister of Finance at the time, applies for a €67.5bn international bailout for the State. Second day, *"hell at the gates"*, the Irish bailout is agreed and includes "*punitively high interest rates"*, that taxpayers will have to pay over the years to come, and with this, Ireland became one of the first Eurozone countries to slide into recession, (Bielenberg, Independent, 2018).

When the Irish economist, David McWilliams (2015), was interviewed by the Joint Committee, he said that *"the Irish banking system, and by extension the rest of the Irish economy, was set up to fail*" given the signs from the period in question, starting with 2000 and going up to 2008 and beyond, because of the Irish housing market which was *"a credit bubble and credit bubbles bust and it is not a matter of if they bust but when they bust*". He also commented that "*the problem is, if there is no housing boom, there will be no banking boom. If there is no banking boom, there will be no banking crisis. All these things are the consequence of bad economic policy, not the cause.* McWilliams, stresses that this is what happens in banks when "*they get out of control"*, they all end in *"bank runs"* which means that people take their money out and the whole system can collapse.

In the aftermath of the Irish crisis, many reports and case studies were written by experts to discuss the shortcomings of financial regulation, corporate governance and the roots that caused the systemic collapse. At the core of these are the official reports to the Joint Committee of Inquiry into the Banking Crisis released by Regling and Watson in 2010, Honohan in 2010, and Nyberg in 2011, with the purpose of analysing the reasons why Ireland experienced a systemic banking crisis, including the political, economic, social, cultural, financial and behavioural factors and policies which impacted on or contributed to the crisis and the preventative reforms implemented in the wake of the crisis, (Houses of the Oireachtas, 2013).

[8] The ISEQ is a benchmark stock market index composed of companies that trade on Euronext Dublin. The index comprises the 20 companies with the highest trading volume and market capitalisation contained within the ISEQ Overall Index

In their 2010 report, 'A Preliminary Report on The Sources of Ireland's Banking Crisis', economists Regling and Watson, indicated some of the main factors behind the financial crisis such as: regulation being inadequate or faulty, there was a lack of supervision from the supervisory bodies, the risks banks were taking were misjudged and there was an "*unwarranted confidence that they were too big to fail'*, house prices were overestimated, rating agencies were faulty, there was a reckless behaviour on senior management part and exaggerated bonus compensations which generally led to bad behaviour.

Regling and Watson found evidence that "*heavy reliance*" on commercial property lending had developed and "*it appeared*" that "*internal governance and risk management procedures were overridden, sometimes systematically*". For example, the entry of foreign banks in Ireland intensified competition in lending and the readiness of Irish banks to accept higher risks by providing more and higher loans led to poor corporate governance as the internal processes and safeguards were no longer followed, (Condren, Independent, 2015).

Patrick Honohan who was the Central Bank of Ireland Governor appointed shortly after the crisis broke, identified five main roots to the problem in his formal report in 2010, 'The Irish Banking Crisis Regulatory and Financial Stability Policy 2003-2008'.

- *"Macroeconomic and budgetary policies that contributed to the economic overheating, and which relied to an unsustainable extent on the construction sector and other transient sources for Government revenue*
- *Comprehensive failure of bank management to maintain safe and sound banking practices*
- *A regulatory approach which was too deferential and accommodating, insufficiently challenging and not persistent enough*
- *An under-resourced approach to bank supervision that, by relying on governance and risk-management procedures*
- *An unwillingness to take on board sufficiently the real risk of a looming problem and act with sufficient decisiveness and force to head it off in time."*

Holohan found that the regulator "*appeared reluctant"* to uncover the real risks of what was evident an emerging problem and did not attempt to put a stop to the severe irregularities building up in most Irish banks. Similar, banking governance also "*fell short of best practice"* and even though it seemed that there were procedures and processes place, in many cases they were not properly implemented or followed in practice as seen in **Figure 1**. The figure shows a radical decrease in the standards for credit loans which meant that anyone could borrow money while proper checks and processes were ignored, (Honohan, 2010).

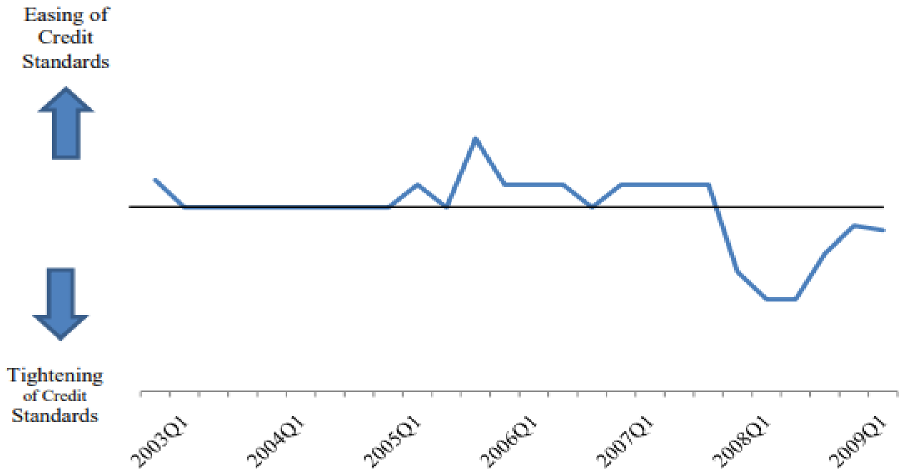

Figure 1. Credit Supply Conditions for House Purchase Loans, source: Honohan Report

Honohan argues that, the failure of the Irish economy was of a systemic nature rather than related to any one individual. It seemed that the regulator relied on a regulatory philosophy "*emphasizing process over outcomes*" while only a few numbers of staff within the Financial Regulator (FR) [9], were directly involved in prudential supervision of credit institutions – no more than two per major firm. The Honohan report writes that, "*there is prima facie evidence of a comprehensive failure of bank management and direction to maintain safe and sound banking practices".* A proper regulatory intervention for the system was "*delayed and timid*", and if a greater increase in capital requirements on risky loans would have been implemented several years earlier, it would have made a major difference, (Irish Times, 2010).

Nyberg (2011), presented in his report to the Committee, 'Report of the commission of investigation into the banking sector in Ireland', several failures in Irish institutions such as reckless decisions and bad behaviour on the management part "*the behaviour of management showed bandwagon effects both between institutions (herding) and within them (groupthink)* ", and there was a common belief that the financial markets are "*too efficient to fall"*. Nyberg provided strong evidence that bank executives were "*heavily incentivised"* to lend to unworthy creditors and what was then a "*prosperous*" commercial property sector. This led to two effects: it meant "*senior bank executives were blind to the risks they were taking*" and also allowed junior staff to act inappropriately by not following their internal code of conduct which led to weak corporate governance and risk management.

[9] The Financial Regulator, officially the Irish Financial Services Regulatory Authority, was the single regulator of all financial institutions in Ireland from May 2003 until October 2010 and was a "constituent part" of the Central Bank of Ireland

But the heavy bonuses were not restricted to senior management, this was extended throughout the banking organisations. This created agency problems, where the principals' goal (shareholders) differ from that of the agent (executives/management), because an agent can use its power for its own personal gain (high salary, large bonuses, perks), rather than that of the principal (wealth maximisation for shareholders), (Mishra, Heide & Cort, 2010).

Another major factor were the external auditors, who had many opportunities to detect and evaluate assets and funding risks. The access to the bank's documentation was provided to the auditors and they would have had every chance to confirm the accuracy of their accounts on the basis that the bank would remain solvent a year forward. Even though the auditors role was to "*make judgements on the sustainability of the bank's business model and strategy, which they fulfilled, but they did not feel that commenting on the business model problems was part of their job, so, on those issues they generally stayed silent"*. Nyberg, (2011) argues that the auditors also utterly failed to report excesses on lending limits to the financial regulator, but even if they did, "*the FR was already aware of these excesses and did not do much about it*".

Kevin Cardiff (2008), former Department of Finance senior official, said in an interview for the Irish Journal that "*obviously, there was an assumption that a falling market would continue to fall for some period but there is no information available to us that suggested that this was likely to be of a scale that would be as catastrophic as it turned out to be*". This was a statement of how everyone was aware of what was happening in Ireland, but no one was saying anything about it, not the banks, not the auditor or the regulator.

2.4. Financial crisis mild effect in Israel economy

In late 2008, as some of the world's financial giants began to stumble and markets around the world seemed on the verge of collapse, Israel seemed potentially fragile as an export-based economy. Nevertheless, Israel showed its economic strength lay not only in its capability for expansion during the boom years, but in its resilience during times of economic contraction, (Embassy.Gov, 2010).

Marzuk (2010), writes for the Bank of International Settlement, that the banks in Israel had a "*strong uptrend in profitability"* from 2003 until late 2007 and even though in September 2008, Israeli banks experienced some losses from their exposure to Lehman Brothers, as well as to other failed financial institutions, most if not all banks *"have remained sound and stable and there have never been any* *concerns that a local bank might fail"*. Compared to most countries, the Israeli banking system "*has at no time experienced liquidity shortages"*, even more, the system has enjoyed a high level of liquidity in both local and foreign currency and benefit net inflows of foreign currency during 2008.

A major factor that diminished the impact the crisis had on Israel were the measurements taken in 2000-2003, due to the Intifada[10]. In early 2000's Israel plunged into a deep and long economic contraction. There was a fall in tourism, foreign investments, local consumption, and rise in military expenditure. Swirski (2010), argues that the government reacted by "*cutting social expenditures* "– on several areas such as; education, healthcare, unemployment benefits, child allowances and income maintenance payments. But in 2001-2003, the government*, "seized the opportunity created by an atmosphere of national crisis to enact a series of steps: downsize the state, cut down the state's budget, lower workers' compensation, minimize the cost of the safety net, privatize governmental functions*". Nevertheless, on the long-term, the shock of the Intifada helped to put the economy in Israel back on track, (Swirski, 2010).

Buchwald, (Exec. Director for the Central Atlantic Region of the America-Israel Chamber of Commerce, 2009), writes that "*the 2001-2003 recession led to GDP growth exceeded 6 % on average in 2004-07"*. The unemployment rate peaked at 11 % in 2003. This was evident in the stock indices, growth rates, and unemployment rates. The global economic crisis impacted Israel mainly by the decline in its growth rate- drop from 5.7% to 1.8 %, and in export growth from 8.6 % to -44.8 %, while import growth dropped about 9% percent in 2008[11].(BOI, 2008 Annual Report).

In the aftermath of the crisis, the Israeli financial system experienced a great upheaval, as prices of shares and corporate bonds decreased, and spreads in the credit market widened considerably. Yet, most financial institutions, including banks, showed resilience. The most impact of the crisis was seen in the nonbank credit market[12]as showed in **figure 3** below. Nonbanks became the principal risk of the financial system and the main cause of the contraction of the supply of credit. Marzuk, (2010) comments for the Bank of International Settlements, that "*Israeli non-bank lenders, notably provident funds and insurance companies, suffered heavy losses in the final months of 2008, as the price of many bonds, which they had eagerly snapped up during the boom period, collapsed"*,

[10] An Intifada is a rebellion or uprising, or a resistance movement. It is a key concept in contemporary Arabic usage referring to a legitimate uprising against oppression.
11 All figures retrieved from IMF Regional Economic Outlook: EUROPE Building confidence; October 2010- Table 1. European Countries: Real GDP Growth and CPI Inflation, 2007–11
[12] Nonbank banks are financial institutions that are not considered full-scale banks because they do not offer both lending and depositing services. Nonbank banks can engage in credit card operations or other lending services, provided they do not also accept deposits

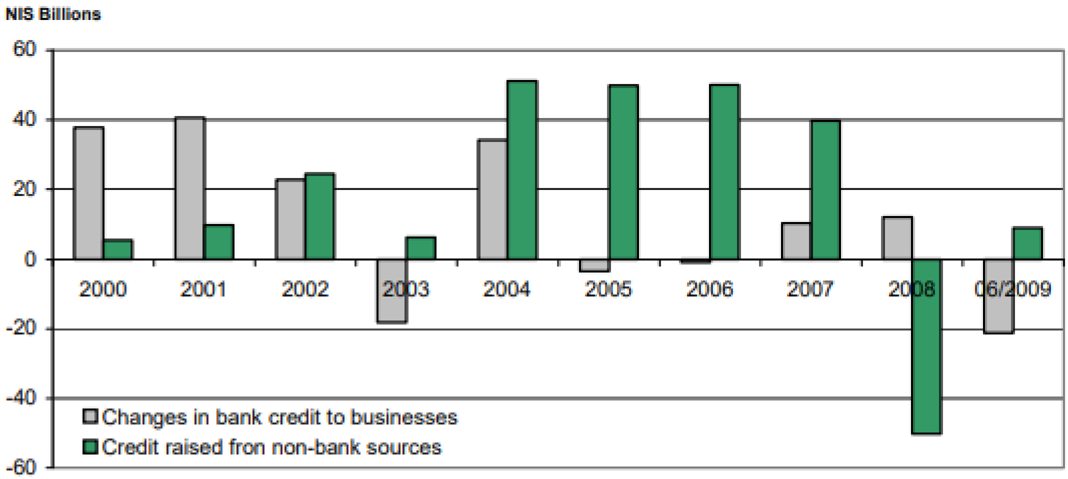

Figure 3. Changes in credit to the business sector from non-bank and bank sources, source: David Marzuk, BIS Paper, 2010

The banks have experienced a mild effect from the crisis where there was a risk of a rise in loans, a "*characteristic feature"* in periods of slowdown in economic growth. Even so, the stability of the banking system was being maintained, and the exposure to the financial storm was somewhat controlled. Then Governor of BOI, Stanley Fischer, (2008), commented that this was attributed to the "*high level of professionalism"* from the supervisor of banks and its staff, the effective regulatory framework that was place, but also due to the safety measurements taken by the Israeli banks, relative to that in many other countries and this was "*due to that conservatism that the dangerous developments that occurred in the area of mortgages in the US and other countries have hardly been seen here.*".

It seemed that Israel was "*well prepared"* when in 2008, across world economies, the effects of the financial crisis began to show severe outcomes as Israel found itself in a very strongest position from a macroeconomic perspective. This was due to several factors, including the budget deficit which "*had been largely reined in and the national debt was greatly reduced, thanks to aggressive spending cuts and increased tax revenues"* but also because Israel was considered a good market for foreign investment and was enjoying a positive trade balance for the first time in its history. Even though the economy had suffered during the crisis, the country quickly regained economic momentum, shown first in a stock market which outperformed all Western bourses in 2009, and "*later finding expression in increased exports, declining unemployment and robust consumer demand"*, (Israel Ministry of foreign affairs, 2010).

2.5. The shortcomings of regulation in the Irish crisis

The Central Bank of Ireland (CBI) defines financial regulation as *"part of ensuring the safety and soundness of the financial system and protecting consumers. Financial regulation refers to the rules and laws firms operating in the financial industry, such as banks, credit unions, insurance companies, financial brokers and asset managers must follow. However financial regulation is more than just having rules in place – it is also about the ongoing oversight and enforcement of these rules*", (Central Bank Website).

The process of implementing regulations and law starts with the parliament, who is the one that enacts laws, while the regulators has the role to interpret and enforce them through directives and regulations, so that in result, it gives the supervisors the job to prevent financial institutions, particularly banks, from taking excessive risk (Goodhart, Hartmann, Llewellyn, Rojas-Suarez and Weisbrod, 2005). Gai, Kemp, Serrano & Schnabel (2019), argue for the 'Reports of the Advisory Scientific Committees' that *"if regulatory framework is well designed, it can induce senior management within banks to act in a responsible way"* and in return, it can reduce or even avoid a possible systematic risk on the financial system as a whole.

In Ireland, the Central Bank supervises and ensures that banks and financial service providers comply with all the standards, codes and regulations requirements that are applicable to their business activities, (CBI, Behavior and Culture of Irish Retail Banks, 2018). During the era of light touch financial regulation, de facto probably the decade prior to 2007, the Central Bank failed to assess the financial stability of such institutions as Anglo-Irish Bank and Irish Nationwide Building Society[13], even though the Central Bank had the power to do so, but there was no record of trying to direct the activities of the banks. It was found that regulation by the Central Bank was "*very indulgent, and failed to fulfil its oversight mandate"*, (Nyberg, 2011). Honohan (2012), said in his speech at the CBI Stakeholder Conference that "*the location of the flaw in the policy approach to regulation as lying in the presumption that the instinct for self-preservation of well-governed firms would be sufficient to protect the system, thereby allowing light-touch regulation*". But the presumption was mistaken: the banks were not well-managed from the risk point of view.

[13] Irish Nationwide Building Society was a financial institution in Ireland from 1873 to 2011. It ceased to exist when its assets, liabilities and branch network were transferred to Anglo Irish Bank due to the 2008 financial crisis.

The financial regulator adopted and published nine principles (as set out below) to reflect what they wanted from the financial institutions but it seemed that application of the nine principles were not the focus of any systematic checks and were never incorporated into a unitary Code and so breaches of the general principles for financial institutions were not subject to the Administrative Sanctions Procedure (ASP)[14], (Honohan, 2010).

The nine principles advise that financial institutions should:

1. "Conduct their functions in a transparent and accountable manner.

2. Act with prudence and integrity and in the best interests of their customers at all times.

3. Maintain at all times sufficient financial resources to meet their commitments.

4. Have in place sound corporate governance structures.

5. Have oversight and reporting systems that allow board and management to monitor and control all operations.

6. Have in place internal controls that are adequate for the nature, scale and complexity of their operations.

7. Have risk management policies systems appropriate to the nature, scale, and complexity of their operations.

8. Comply with any regulatory rules set down by the Financial Regulator in relation to, for example, solvency and capital adequacy, segregation of client funds, consumer protection codes.

9. When required, to produce accurate, complete and timely information. "

After his review of the banking crisis, Honohan (2010) said in his report that, in December 2007 *"there was enough information available from a broad exercise"* made by the financial regulator when assessing the multiple relationships between five big property developers across the five main lenders to signal that "*these banks were in trouble*" and suggests failures of effective supervision and enforcement of regulatory provisions on the part of the financial regulator. In one of his speeches for the CBI Stakeholder Conference, Honohan (2012), comments that the supervisory resources *"brought to bear on banking in Ireland were insufficient"* and this prevented *"a sufficient flow of information that could have made top decision makers aware not only of the possibility that there could be a property bust"*. Furthermore, Ireland's financial crisis was a perfect storm embodying both regulatory failure and market failure.

[14] Part IIIC of the Act provides the Central Bank with the power to administer sanctions in respect of the commission of prescribed contravention(s) by regulated financial service providers.

According to Nyberg (2011), the financial regulator failed to require financial institutions to provide Directors' Compliance Statements[15], even though this statement would have establish if in fact the regulated services provider "*had complied with its obligations"* which meant that the external auditors would have been required to report this. The ability to require a compliance statement would have been an "*effective tool"* in raising the accountability of management and boards for the affirmations they may have given, but this too failed.

Economists Regling and Watson (2010), emphasis the key factors, usually combined, that discouraged the regulators from taking forceful action to restrain the banks:

- *"They did not consider it their job to react to the macroeconomic component of the problems that were potentially building up.*
- *Liquidity (as opposed to solvency) supervision had been off the core Basel[16] agenda for decades; and few regulators, if any, performed stress tests that combined asset market with funding shocks. It was unclear to many supervisors what instruments to use to counter macro-financial risks.*
- *A few acted to limit loan-to-value ratios; increased reserve requirements, where there was national autonomy to do this; imposed heavier provisioning as risks built up; or prevented a shift of assets to "capital lite" vehicles.*
- *As noted above, many supervisors – faced with complex assets and operations, and with banks' ability to work around specific rules – moved to rely more on banks' own risk assessment systems and to supervise processes and principles, with some moving very far in the direction not just of "principles-based" but of "light-touch" supervision."*

In their 2009 annual report, The Financial Services Consultative Consumer Panel[17] criticised the regulator for "*failing in its prudential supervision role"* and "*letting down"* consumers as the financial regulator "*utterly failed to protect the Irish consumer during the banking crisis"*, according to a consultative panel tasked with monitoring the authority's performance, (Madden, Irish Times, 2010).

[15] The requirement - directors must include a statement in their Directors' Report that: acknowledges responsibility for securing compliance with the relevant obligations, and. confirms that certain things have been done, or provides explanations as to why those things have not been done.
[16] The Basel Committee on Banking Supervision is a committee of banking supervisory authorities that was established by the central bank governors of the Group of Ten countries in 1974
[17] The members of the Consultative Consumer Panel were appointed by the Minister for Finance after consulting the Minister for Enterprise, Trade and Employment and those organisations that, in the opinion of the Minister for Finance, represent the interests of consumers. The role is to advise the Central Bank on the performance of its functions and the exercise of its powers in relation to consumers of financial services.

Patrick Neary (2008), then chief executive of FR, confirmed before the Oireachtas committee[18] that "*he relied on the banks for analysis of risk management, believing them to be best placed to provide such analysis*." However when asked about the downturn in the property market, Neary said "*warnings that had come from the Central Bank ahead of the crash had been benign"* and the conclusion from a number of bodies was that there would be a "*soft landing*", and the Central Bank's analysis "*gave us comfort*",(Hancock & Minihan, Irish Times, 2015). It was safe to say that many institutions relied on the regulator to guide and advise if there were any systematic problems, and yet the regulator remained silent and choose to ignore all the signs.

2.6. How effective regulation helped Israel in the global financial crisis

In Israel, a bank's activity is "*subject to rules and limitations in the area of effective and responsive management and risk control - rules regarding the structure of the board of directors and how it operates, adequate capital requirements taking into account the extent of the bank's risk-weighted assets, restrictions on the maximum size of loan that can be given to a single borrower and to parties with connections with the bank, etc*.", (Bank of Israel, 2020).

Several statements released by BOI, stress the importance of how institutions are controlled, and this was well highlighted by the way Israel managed in the economic crisis of 2008. The Governor of BOI throughout the crisis, Stanley Fisher (2008), talks about the global banking system "*being at the centre of the crisis*", reflected in the advanced economies not only in sharp falls in prices of shares or bonds, but also in shocks to the banking system, to the extent that more than a few commercial banks and investment banks have actually collapsed world-wide. In Israel, however, the banking system was very robust, and depositors had "*confidence in Israel's banking system"*, this in return helped banks remain strong even after the global financial collapse. Moreover, the supervisor of banks encourages the banks, since Israel recession in 2000s, to be more careful and not to take unnecessary risks, but this too must be to the right degree - strike the correct balance between their credit policies to be cautious, and the needs of the economy, particularly the business sector.

As an outcome of the crisis, in Israel the major risk was the domestic corporate bond market for the local financial system due to its rapid and unbalanced development during recent years, which was reflected by the increasing amount of capital raised for financing investments in real estate abroad—an industry that was initially at the centre of the financial crisis. The banks and insurance companies'

[18] Oireachtas committees advise the Houses of the Oireachtas on a range of specific areas. Committee members include TDs, Senators or both

probability also suffered in comparison with previous years, but even so, despite the decline in their position, most financial institutions in Israel remained resilient compared with those abroad. The reason for this was the favourable situation prior to the crisis as the banking system in Israel was more conservative and operates under comprehensive regulation and close supervision. Another reason for alleviating the unfavourable impact on Israel economy compared with foreign institutions were their "*limited exposure to toxic assets worldwide and their low reliance on the local and international capital markets for raising sources"*, (Bank of Israel, 2008 Annual Report).

Wrobel, (2008) wrote for the Jerusalem Post, that the Israeli public and the political system *"have learned from the experience of the past five years that having a responsible fiscal policy helps the economy in growing and if we prevent banks from taking risks we could be sorry about that*". However, if the financial supervisor wasn't as strict on the banks as it was preceding the crisis, it could have suffered the economic disaster that occurred in the U.S., Greece or Ireland and the bailout that came with it, was not necessary in Israel. The governor of the Bank of Israel from 2005 to 2013, Stanley Fisher commented right after the crisis for the Jerusalem Post that the general complaint from the bankers was that they have been "overregulated" but Fisher's opinion about the crisis in Israel was that "*at the time, the fact that the regulation of the Israeli banks was pretty strict has actually proven to be a good thing and was appreciated rather than regarded as being a problem*", (Wrobel ,2008).

Amir (2019), Governor of Bank of Israel[19] since December 2018, argues that "*the economy in 2008 was robust after four years of rapid growth due to the government conducting a responsible fiscal policy for most of the time, which led to a prolonged decline in the burden of public debt, and the deficit was near zero prior to the crisis"*. This was accompanied by a stricter financial system management, particularly banking system, which was carefully supervised by the regulator. In result, it led to a situation where, in contrast to many countries, there was no development in Israel of over-leveraging or asset price bubbles.

Rosemberg (2010), wrote in his paper for Meria Journal, that "*it seemed that Israel experienced no more than a mild recession"* from the global financial crisis that began in 2007 and that it was "*a testament to policies adopted by the government over the previous decade"*. The policies in question emphasized fiscal restraint, as well as intensifying competition across most of the economy while "*strengthening regulatory restrictions on the banking sector"*. It seemed however, that the only

[19] The Bank of Israel is the Central Bank of the State of Israel.

situation of market failure came in the relatively unregulated Israeli non-bank[20] credit sector, (Rosenberg, 2010).

2.7. The changes in the Irish regulation that came with the crisis

After the financial collapse in 2008, the government and the Irish regulator, CBI, put into effect enforced regulations and processes to control and operate all financial institutions, to "*restore the public's confidence in the financial system"* and ensure "*fair treatment"* for borrowers and lenders through a strong consumer protection framework while ensuring banks are sufficiently capitalised whilst using appropriately conservative provisions, and have proper resolution strategies and operations in place, (Donnery, CBI Deputy Governor, 2019).

In Ireland, the Central Bank Reform Act 2010[21] came into practice and Central Bank of Ireland became a single body, replacing the previous related bodies – the Central Bank (CB) and the Financial Services Authority of Ireland (FR), and took the responsibility for both central banking and financial regulation. With this change, CBI took the role to regulate and supervise several industries such as:

- Banks, credit institutions, stockbrokers, investment intermediaries, financial exchanges, collective investment schemes, funds, investor compensation;
- Credit unions – financial co-operatives that allow people to save and lend in a setting that is fair to the consumer;
- Life insurance;
- Moneylenders, mortgage and credit intermediaries, the monitoring of customer charges by credit institutions.

In 2010, the Fitness and Probity Regime was created., this Code was issued by CBI pursuant to the powers set out in section 50[22] of the Central Bank Reform Act, 2010. This applies to persons in senior positions (referred to in the legislation as Controlled Functions ("CFs") and Pre-Approval Controlled Functions ("PCFs") within regulated financial service providers ("RFSP"), which according to the

[20] A non-banking financial institution or non-bank financial company is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency
[21] Bill entitled an Act to establish the Central Bank of Ireland as a single fully integrated structure with a unitary board
[22] The Bank may issue a code setting out standards of fitness and probity for the purposes of this Part.

Central Bank is designed to "*ensure that senior management within a regulated financial service providers are competent and capable, honest, ethical and of integrity and also financially sound*", (IMF, 2015).

The establishment of the Banking Union[23] in 2012 was a step change in the EU supervisory framework for financial regulation as it introduced not only consistency between the regulatory regimes of EU states[24], including Ireland, but also a number of new elements – such as, a single rulebook for supervision, the Single Supervisory Mechanism (SSM)[25], which became operational in 2014, the Single Resolution Mechanism (SRM)[26], which became operational in 2016, and the European Deposit Insurance Scheme (EDIS)[27]- the scheme will develop in different stages and the contributions of EDIS will progressively increase over time, (Singh, 2015). Progress on EDIS has been stalled due to differences between Member States.

In light of the crisis, the Central Bank, Ireland's supervisor "*helped to shape"* and improve the European legislation as it was developed, in terms of protections for consumers in the areas such as mortgage credit, payment services, insurance distribution and investments. Since then, CBI plays an active role in the work of the three European Supervisory Authorities (ESA) – the European Banking Authority, (EBA), European Securities & Markets Authority, (ESMA) and European Insurance and Occupational Pensions Authority, (EIOPA) - and other international bodies, notably the Basel Committee on Banking Supervision, (Lane, Governor of CBI, 2017).

Recognising the "*severe shortcomings"* in corporate governance and regulatory regime that had been "*standard with ensuing failure to provide the checks and balances that companies and banks need in order to cultivate sound business practice"*, the Organisation for Economic Co-operation and Development[28] launched an ambitious plan in 2009 in Ireland, for a better corporate governance framework to develop a set of recommendations for improvements in areas that required prioritizing

[23] The Banking Union in the European Union is the transfer of responsibility for banking policy from the national to the EU level in several countries of the European Union, initiated in 2012 as a response to the Eurozone crisis
[24] The European Union is a political and economic union of 27 member states that are located primarily in Europe
[25] The Single Supervisory Mechanism is the legislative and institutional framework that grants the European Central Bank sole licensing authority over all banks in participating EU member states and makes it the prudential supervisor of these banks, directly for the larger ones and indirectly for the smaller ones
[26] The Single Resolution Mechanism entered into force on 19 August 2014 and is directly responsible for the resolution of the entities and groups directly supervised by the European Central Bank as well as other cross-border groups
[27] European deposit insurance scheme (EDIS) for bank deposits in the euro area. This proposal was adopted as a part of a broader package of measures to deepen the economic and monetary union, and complete the banking union.
[28] The Organisation for Economic Co-operation and Development is an intergovernmental economic organisation with 37 member countries, founded in 1961 to stimulate economic progress and world trade

such as risk management, board practices and standards but mostly companies' and banks governance overall (OECD, 2009).

The Criminal Justice (Money Laundering and Terrorist Financing) Act was enacted in 2010, to prevent the use of the financial system for the purpose of money laundering and terrorist financing. Hopt (European Corporate Governance Institute, 2015), argues that "*appropriate supervisory law requirements and robust risk management*" is needed for the internal procedures of banks and other financial institutions, to protect the consumer of financial services and to prevent anti-money laundering and terrorist financing.

Sibley (2018), Deputy Governor, Prudential Regulation at CBI, elaborated in his speech for MABS[29], the new improved Customer Protection Code that came into effect in 2015 in areas such as investments, payment services, insurance, and mortgage credit. The Code of Conduct on Mortgage Arrears[30] (CCMA) - which govern how lenders interact with retail borrowers that are in distress, the SME Lending Code and SME Lending Regulations[31] were created to "*strengthen the consumer protection framework"*. Sibley cited that a vast *"alphabet soup"* of regulations and policies, *"surfaced*" after the economic collapse, in order to implement technical standards, accounting and supervisory policies. The list of acronyms can seem confusing and long– CRD/ CRR, BRRD, SSMR, MiFID II, EMIR, IFRS9, GDPR, TRIM, PSD2, etc., but "*the extensive international regulatory response reflects the international nature of the crisis*".

Donnery (2018), CBI Deputy Governor, stresses the argument that generally governance, regulatory and supervisory system was designed in light of the crisis with lines of responsibility "*to manage and mitigate risk effectively*" and that in the banking and financial sector, "*the primary responsibility for risk management in individual financial institutions lies with their executive management and boards of directors*". This is supported by internal audit and compliance functions within the banks, and external auditors, and so regulation is vital for the financial system overall. Rowland (2020), Director general Financial Conduct at CBI, emphasises "*the importance of getting the regulation of banks and financial services right*", by understanding the huge role these services play in financial institutions,

[29] Money Advice and Budgeting Service is the Ireland's money advice service, guiding people through dealing with problem debt for more than twenty years.
[30] Code of Conduct on Mortgage Arrears (CCMA) is the main code of relevance to people whose mortgage is in arrears or in danger of slipping into arrears
[31] SME Regulations set out the treatment of SMEs by banks in relation to various aspects of business lending including the provision of pre-contract and post-sale information, the credit application process, requirements regarding security or collateral, credit refusals/withdrawals, handling complaints

as seen in the financial crash, and that such that strong conduct regulation is a must to sustain the integrity and stability of Irish financial markets.

2.8. How regulation changed in Israel post-crisis

The Bank of Israel (BOI) is the financial regulator in Israel. BOI's key role is to control and supervise the banking system and the financial system overall. The need for regulation is because of "*the vital role that the system plays*", whilst knowing that the "*public's money must be protected*", and that a failure in the system is likely to have a severe impact on the functioning of the economy and on the society as a whole, (BOI, 2019 Annual report).

The objectives of the Regulator, according to its governing law are as follows:

- To maintain price stability, being the main objective,
- To support economic policy and growth, support employment and reducing social gaps,
- To support the stability and orderly activity of the financial system.

The functions of the Banking Supervision Department are:

- *"Supervising the stability of the banking corporations—avoiding excess risks to their stability and protecting depositors' money,*
- *Ensuring that the banking corporations are managed properly,*
- *Maintaining fairness in bank/customer relations"*

In Israel, the regulators have reacted to the crisis by reforming the global prudential framework and by focusing on enhancing supervision and monitoring of financial institutions. The key objective of these reforms has been to "*increase banks' resilience through stronger capital and liquidity buffers and reduce implicit public subsidies and the impact of bank failures on the economy and taxpayers through enhanced recovery and resolution regimes*". Meanwhile, the "*dynamic adaptation of the system and the emergence of new risks warrant ongoing attention*", (Dudley, Chair, Committee on the Global Financial System President, Federal Reserve Bank of New York, BIS 2018).

When author David Marzuk (Bank of International Settlement, 2010), analysed Israel prior to the global financial crisis and in the light of it, found evidence that the banks regulator applied several measures to maintain confidence in the banking markets while increasing Israel's responsiveness in countering the adverse impact of this crisis. Some of the measures are listed below:

- *"Israeli banking groups were expected to reach a total risk-based capital ratio of 12% by year-end 2009. This target is in line with the implementation of the Basel II*[32]*regime in Israel. The Supervisor of Banks strongly encourages Israeli banks to continuously upgrade their risk management systems within the Basel II framework. The Supervisor of Banks established ad hoc task force teams to scrutinise banks' risk exposures and to monitor their operations and liquidity positions. In addition, banks were required to adhere to several guidelines and to enhance the transparency of their financial reporting.*
- *The Supervisor of Banks announced in January 2007 that Israel would adopt the Basel II regime by end-2009. It was anticipated that, during the preliminary phase of the Basel II regime, banks would implement the Standardised Approach*[33] *to credit risk and the Basic Indicator Approach or the Standardised Approach to operational risk. The Supervisor promulgated temporary directives regarding the Basel II framework incorporating national discretions (including the advanced methods for credit risk but not the advanced methods for operational risk)".*

Haim (2010), elaborates for BIS, some of the main steps taken post crisis in terms of data and information on the credit market to strengthen the financial systems in Israel. These include:

- Banks to submit report to BOI from once a month to once every two weeks on the amount of new granted credit to the public and on interest rates.
- After the fall in the market prices of bonds and the loan loss provisions on credit balances reported in the lenders' books (the institutional investors and the banks), it was valuable to differentiate these balances and the value of borrower companies' debts in their books.
- Publication of data was increased from quarterly to monthly on outstanding credit and debt and on the corporate bond market.
- Supervision and monitoring of large companies- analysing data on concerns related to financial strength and the debt of companies if they were unable to repay their debts.
- New monthly management reports to the Governor and to the management of the Bank included credit market indicators, and data on quantitative changes (new credit) and prices (interest rates and margins) relating to credit and its components.
- Issue a press release on credit with the focus on business sector debt to include the most important data and a short analysis of their changes.

[32] Basel II is the second of the Basel Accords, (now extended and partially superseded by Basel III), which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision.
[33] The term standardized approach refers to a set of credit risk measurement techniques proposed under Basel II capital adequacy rules for banking institutions. Under this approach the banks are required to use ratings from External Credit Rating Agencies to quantify required capital for credit risk

The Banking Supervision Department[34] addressed in 2008, numerous significant issues relating to the ongoing stability of the banking system in light of the national and international financial crisis. The supervisor instructed banks to not only increase the frequency of some of their returns, but to introduce new ones, such as:

- Reporting exposures to foreign financial institutions and countries,
- Reporting large exposures directly affected by the global crisis,
- Reporting large customers' exposures to non-bank entities,
- Reporting large customers showing adverse indications,
- Reporting capital market exposures and assessment of the quality of the credit given for the financing of acquisitions of controlling interest, (BOI, 2008 Annual Report).

Fisher, BOI Governor during the crisis (2009), spoke at the 50th Annual Meeting of the Association of Banks, about the "*oft-heard claim*" that banking supervision constitutes a burden on the banking system. He stresses however, "*that entities which are so important, as they hold the public's wealth, yet are so vulnerable, must be under strict supervision and must act with the necessary prudence*" and that the management of banks must always keep in mind when they hear about high rates of return as usually these imply higher risks. Nevertheless, Fisher claims, that the unconventional policy measures taken by the Israeli regulator and supervisor pre and post crisis, "*did in fact work*", as the economy grew and Israel's impact from the crisis was better withstood than in most advanced economies.

2.9. Regulation in Israel today

Amir (2019), Governor of BOI, discusses BOI contribution to reducing volatility and mentions that *"volatility and growth are connected to each other in certain ranges*". The Financial Stability Committee[35] has become increasingly important due to its role to provide an important element in reducing regulatory arbitrage and in the early identification of risks. Amir emphasises that the establishment of the committee "*is a very important step in view of the reforms taking place in the financial system".*

[34] Bank of Israel, Central Bank for Israel State

[35] In accordance with the law, the Financial Stability Committee members are the Governor of the Bank of Israel (who will serve as Chairperson), the Director General of the Finance Ministry (alternate Chairperson), the Deputy Governor, the Finance Ministry's Accountant General, the Supervisor of Banks, the Commissioner of Capital Markets, Insurance, and Savings, the Head of Payment System Oversight at the Bank of Israel, and the Israel Securities Authority Chairman. The Head of the National Economic Council will serve as an observer on the Committee.

How does the Bank of Israel, in practical terms, implement the insights from these analyses and studies to contribute to the stability, prosperity and growth of the Israeli economy?

The BOI examines long-term price stability, as it is an influencer in many decisions and checks that long-term inflation expectations are anchored around the centre of the target range, this would make the bank's policy credible, and in result the ones benefitting from certainty regarding long-term inflation, are the market participants. The enabler of this outcome is the monetary policy which is accompanied by macroprudential measures taken by the bank. This succeeded in not only preventing overleverage despite the low interest rates but also protecting financial stability with a long-term systemic view, and enabling monetary policy to focus on achieving its main objectives. At the same time, BOI is working to "*strengthen the capital buffers in the banking system in order to increase its resilience to crises*", and has increased the foreign exchange reserves to around 30 % of GDP in order to strengthen the economy's financial safety buffer, (BOI, 2019 Annual report).

Today, the main policy lessons taken from the global crisis are to take actions in advance to minimize the risk of crises developing and the intensity of the damage from them. Head of the European Central Bank, Christian Lagarde, described this well by using the expression: "*The time to repair the roof is when the sun is shining*." So when and if a crisis does happen, a rapid and wide-scale response by monetary policy is necessary by using a different tools and take immediate steps to regain financial stability. The Israeli economy today shows that the economy's financial strength is composed of several main layers:

- The credit market and macroprudential measures - to prevent overleveraging despite the low interest rate, and enabled monetary policy to focus on achieving its main goals
- Risk-based supervision of the financial institutions - to strengthen the banking system's capital buffers and its resilience against various shocks is constantly tested by the Department through a variety of stress tests, the findings of which are implemented at the banks under the Department's guidance
- Adapting the regulatory environment to the changing financial environment - to narrow the regulatory gaps and identifying the risks
- Foreign exchange reserves – the financial security buffer for the economy, were increased significantly prior to the crisis
- Fiscal responsibility - the required adjustments are a mix of streamlining, narrowing the increase in expenditures, and increasing revenues, while expenditures that support growth and increased productivity should be kept

Despite these actions, Amir (2019), argues at the Israel Economic Association Conference, that there is still room for taking more effective measures, mainly because "*the credit market is becoming more varied and requires a more integrated regulatory view*". It seemed that the credit issued by nonbank entities has increased over the years, partly due to the reforms in this market. Th risk is higher because the regulation of nonbank financial entities, especially over the granting of consumer credit, *"is not the same as regulation over the banks"*. Although there is a difference between the activities of these entities and normal banks which justifies the differences in regulation, it is essential to "*make sure that these differences do not develop into regulatory arbitrage that could, under certain circumstances, create a systemic risk*."

Israel made significant progress in improving its regulatory policy since the recession in 2003 and the global financial crisis of 2008. The Government enacted stricter rules under the 2014 Resolution[36]- on Israel-Palestine after the Gaza war and the role of the EU, and the RIA guidance[37] was introduced in 2016, to provide a solid basis for a whole-of government regulatory policy. The focus was mostly on reducing regulatory burdens, both through comprehensive reviews of the existing regulations and through ex ante regulatory impact assessment. Currently, the Government is working on reforming the planning system and for a better regulation department's role in regulatory oversight, (OECD, 2018).

Year 2019 was a good year for Israel, as the economy continued to grow at a pace that is in line with its potential growth rate. The unemployment rate declined, inflation is below the lower bound of the target range and credit ratings agencies confirmed Israel's high rating, and noted the contribution of high-tech to economic growth, the economy's ability to withstand shocks. Nevertheless, there were also weaknesses noted such as: government deficit is higher than the target, the developments in asset prices in Israel continue to show a medium risk level, equities market in general are below the long-term average and corporate bond market show that risks are being under-assessed. However, the increase in home prices in recent months, indicates that the housing market is not exposed to volatile behaviour. Israel has also seen a mixed trend with institutional investors' exposure to banks increasing, and mutual exposure between the banks, and the institutional investors and foreign financial institutions declining. Considering the unique characteristics of the Israeli economy as a small and open economy, the regulatory analysis of the Israeli financial system, show resilience

[36] European Parliament resolution on Israel-Palestine after the Gaza war and the role of the EU (2014/2845(RSP)

[37] Regulatory Impact Analysis (RIA) is used by all Government Departments and Offices. and applies to: (i) proposals for primary legislation involving changes to the regulatory framework

during the first half of the year, and the conclusion is that the system remained stable, (BOI, 2019 Financial Stability Report).

When asked at the Annual Conference of the Aaron Institute for Economic Policy, 'whether recent developments in the global economy recall those of 2008?' Yaron Amir (2019), BOI Governor, said that "*from a global point of view, most of the sectors seem less vulnerable than they were prior to the Global Crisis. Regarding Israel, we can say that the economy is in good shape, and the growth forecast currently seems stable. Despite this, there are developments that we must take note of. I previously defined them as 'grey clouds on the horizon' that-should they worsen-could also affect Israel*."

In the light of the new global crisis triggered by COVID-19, in Israel the virus has led the financial system into a deep economic crisis and dealing with this reality requires "*recognizing its significance and taking significant actions"*. The safety net presented and the additional policy steps, taken by the government and BOI, are aimed at precisely that point. Andrew Abir (2020), Deputy Governor of BOI, stresses that "*this is the time to utilize the safety cushions we must ease the negative impact of the crisis and to enable the economy and the public to get through it with minimal adverse impact*". Currently, BOI manages several programs to deal with "*liquidity difficulties that have adversely impacted the financial system due to the coronavirus crisis"*, and ensure a stable functioning of the financial markets, by easing the terms of credit in the economy, and supporting economic activity and financial stability. But while the Israeli financial market is so uncertain, one thing is certain, that BOI is constantly working on protecting the economy and its consumers from any internal or external factors.

2.10. Regulation in Ireland – more than a decade on

Around the world, the 2008 crisis triggered "*widespread policy reforms"*, with Central Banks and financial regulatory mandates taking the role to redress the systemic flaws revealed by the crisis, (Sibley, Deputy Governor Prudential Regulation at CBI, 2018). In Ireland, we can easily observe the impact the crisis had on the economy and employment as seen in **figure 4**, and with this, many reforms and strategies were introduced, to help improve the Irish financial system overall.

Figure 4, Irish economy overall, Source, CSO, Central Bank of Ireland

Despite this, the figure shows that Ireland had a remarkable economic and employment growth over the years to come. This was due, inter alia, to several multinational corporations moving their "*intellectual property*" rights to Ireland, creating new economic opportunities. The growth was also due to a more rigorous and effective regulatory system within Irish organizations, that protected the financial system from irregularities and rash decisions making.

In 2018, the Behaviour and Culture Reviews report was released by CBI where the Minister for Finance requested CBI to prepare a report on the '*current cultures and behaviours and the associated risks in the retail banks today and the actions that may be taken to ensure that banks prioritise customer interests in the future'*. CBI together with its Dutch counterparts in De Nederlandsche Bank (DNB), has undertaken 'Behaviour and Culture Reviews' at the five main Irish retail banks – AIB Group, Bank of Ireland Group, Permanent tsb, Ulster Bank Ireland and KBC Bank Ireland. The report focused primarily on the executive leadership team, due to the importance of its members in driving effective cultures in which customer interests are adequately identified, discussed and taken into account. The reviews produced "*detailed insights into behavioural and structural patterns in leadership, decision-making, communication, group dynamics and mindset that affect the way consumer needs are considered and taken into account by each of the five banks"*. Findings that relate to the individual banks have been provided to these institutions, and the banks were required to deliver action plans to address the risks identified by the regulator, (CBI, 2018 Behaviour and culture report).

The effects of rash decisions taken in in 2008 would "*have ramifications for the next decade"*, writes Irish Examiner Political Editor, Daniel McConnell, (2018). And so, the excessive indebtedness and regulatory failure in the past, came with a more careful management and oversight plan, alongside an extensive restructuring of the financial system, (CBI Strategic Plan 2019-2021). Now, Central Bank is obliged to prepare and publish a Strategic Plan every three years. The 2016-2018 plan was released to exemplify the new objectives aimed to deliver confidence and transparency in the financial system, (CBI, 2018 Annual Report). This was followed by the 2019-2021 plan where CBI stated that good progress was made across the five strategic themes:

- Strengthening resilience – working on macro-prudential policy, supervision, resolvability, and crisis management. CBI published its new Financial Stability Review in 2019 to strengthen transparency and accountability around the Central Bank's financial stability policies.
- Brexit[38] - ensure that the risks posed to the economy, financial system, regulatory environment, and consumer protection arising from the UK's departure from the EU were understood and mitigated. Yet, not all risks were fully resolved.
- Strengthening consumer protection- the final report of the Tracker Mortgage Examination[39] was published and the Consumer Protection Framework was further strengthened to include new rules relating to the payment of commission to intermediaries, which came into effect in 2020.
- Engaging and influencing - engage with and listen to the public and stakeholders to inform its work and help build trust in, and understanding of, the organisation. In addition, CBI has continued with its work to influence key decisions and policies in Europe.
- Enhancing organisational capability - ensure that its culture, resources, and capabilities support the effective and efficient delivery of its mandate whilst maintaining the highest standards of governance and risk management. CBI was involved in a Great Places to Work survey and a range of improvement initiatives were undertaken in 2019.

The Central Bank key activities and developments in 2019 include: Price Stability, Financial Stability, Conduct and Consumer Protection, Supervision and Enforcement, Regulatory Policy and Supervisory Framework, Payments, Settlements and Currency, Economic Analysis and Statistics, Resolution and Crisis Management, Investment Portfolio Management, People and Knowledge, Information and Resources, Engagement and Transparency and many more, (CBI, 2019 Annual Report). This is a clear statement of the involvement CBI has on the financial system overall and the role it plays to maintain a systematic economic stability. CBI Governor, Gabriel Makhlouf (2019), spoke at

[38] Brexit is the withdrawal of the United Kingdom from the European Union. Following a UK-wide referendum in June 2016, in which 52% voted to leave and 48% voted to remain in the EU, the British government formally announced the country's withdrawal in March 2017, beginning the Brexit process

[39] The Central Bank's Tracker Examination Framework requires lenders to pay any tax charges that may be due as a result of redress, compensation or other payments made to affected customers

Waterford Institute of Technology about the important role CBI has to play in the economy and its responsibility to understand and help to explain the "*transitions that are shaping the world we live in, to assess the risks and to take action where we can*".

Martin Wolf's (Financial Times, 2019), opinion is that the financial system constantly evolves and there is "*a tendency for risk to migrate out of the best regulated parts of the system to less well-regulated parts"*. Even if regulators have the power and drive to keep the pace, there will always be financial innovations that will make this difficult. Wolf stresses the argument that "*the global financial system is complex, adaptable and run by highly motivated people".* The new concept called *'*shadow banking'- the collection of non-bank financial intermediaries that provide services similar to traditional commercial banks but outside normal banking regulations, makes it hard for regulators to catch up with the evolution of it and the risks involved.

Alan McDonnell, a Dublin consultant in this area with good governance solutions, says that "*regulatory oversight of investor stewardship of Irish-listed companies is still non-existent*", and so he asks the question today, *"-How many scandals will it take for Irish banks and corporations to get its act together on corporate governance by adopting the critical parts of the UK's oversight regime that are blatantly missing here?*", (Mark Paul, Irish Times, 2017) .

Gabriel Makhlouf (2020), current Governor of CBI wrote that, while currently Ireland's regulatory approach is more firmer and robust than ever, in the light of the current pandemic global crisis-COVID19, CBI vows to ensure that the financial system can support households and businesses through the crisis and also support the recovery out of the crisis by putting the economy "*on hold*". Mukhlouf cites that "*this is an unprecedented event and the immediate market reaction reflected the repricing of assets amid enormous uncertainty that existed across the world from the pandemic*.". Capital and liquidity buffers have been "*built up"* since the previous crisis for the system to be able to withstand shock and for now, this seemed to have "*paid off*".

2.11. Literature conclusion

The literature can conclude that it was not just an event or decision that led to the failure of the markets preceding the crisis, but rather it was a result of various events and poor decision-making that occurred over several years. Some countries experienced hard financial distress while others were less affected by the crisis. Ireland was one of the countries that was severely impacted by the global financial crisis, due to several factors including, irregularities in the real estate and banking sectors, together with weak internal corporate governance framework and a faulty regulatory system. However, other countries with similar economies, and notably Israel, managed to get out of the crisis almost unshattered, due to a strong banking system and a firm regulatory approach in the financial institutions.

Chapter 3. Research Methodology

3.1. Introduction

There have been many individual pieces of research and case studies on what caused the economic collapse in Ireland, on corporate governance processes, bad behaviour and lack of involvement from the regulator preceding the crisis, but very little on the many changes that came after it, and comparing these findings with another state where regulation was strong and corporate governance framework was followed.

The objective of this study is to examine the comparative studies of financial regulation in Israel and Ireland separately. This section will summarize the method and approaches adopted for this research. I will identify the choice of methodology to examine and analyse the research study objectives and the research design used in this paper.

3.2. Research approach and strategy

The research is analytical in nature and it depends on desk research, which was applied for the writing. Prior literature including articles, public central banks website information and statements were used but also many official reports to analyse and conclude my findings. As a result, the paper used the qualitative method which can be subjective, and documentary analysis by obtaining data from existing documents. The qualitative method used is non-statistical data and is usually unstructured or semi-structured in nature. It is usually categorized based on properties, characteristics, labels, and other identifiers instead of numbers or graphs. It asked the question "why?" to investigate and is often open-ended until further research is conducted. Generating this data from qualitative research is used for theorizations, interpretations, developing hypotheses, and initial understandings which are the core of my paper.
This implies that I used not only concrete literature but also my perspective in the results and discussion section, after carefully gathering evidence on the financial crisis of 2008 and financial regulation in Israel and Ireland, taken both separately and collectively.

The type of literature method used is narrative and traditional that reviews, critiques and summarises a body of literature about the thesis topic. This is to help me find the purpose of a narrative review and give me and the reader a comprehensive overview of the topic and to highlight significant areas of research. Narrative reviews can help to identify gaps in the research and help to refine and define research questions

The most relevant reference for this study were the three official reports written by specialists in Ireland. The first by Klaus Regling and Max Watson to analyse the Irish banking system and its governance, the second by Patrick Honohan to focus on the functions of Central Bank and financial regulator as of 2003 to the end of Sept 2008 and the third by Peter Nyberg that examined why public and private institutions had been so reckless and ineffective preceding the crisis. I used many other articles, journals, and Central Bank official statements to help back up my research objective. In order to find empirical evidence for my research question and use Israel as a comparator to Ireland, I studied Bank of Israel publications, speeches and other papers as a key resource for my paper.

3.3. Research topic grounds of choice

The rationale behind my choice and the grounds for comparison is to observe how financial regulation can impact the financial systems in two similar countries in size and yet different in financial governance and regulation. This was a deliberate and meaningful topic of choice, because of the major effect the financial crisis of 2008 had on many developed countries which I personally found interesting and still current.

Exploring how financial regulation played a major part in the downfall of the markets and how important is for the well-being of the economy is because I used to work in a multinational corporation in Israel, where my role was in Finance and so I witness the mild losses Israel experienced during the crisis. However, since I moved to Ireland 5 years ago and worked in a stockbroker company that deals with financial services and banks, working with various clients I discovered the severe impact of the crisis compared to Israel. The interest in the topic of choice grew since I recently moved to compliance and risk, where I had the chance to learn how a company is regulated and should be compliant to the processes and procedures enforced by the regulator.

3.4. Research limitations

There are various limitations involving my study such as finding factual evidence for Israel, e.g. several relevant articles or publications can be in a different alphabet- Jewish script, square script and block script, is an abjad script used in the writing of the Hebrew language and other Jewish languages and/or much information is hard to find because the country is more secretive in exposing their internal laws and regulations.

There is also the nature of my study, all data is taken from previous literature and the topic of the financial crisis and regulation in both Israel and Ireland is extremely vast and so the researcher would have to limit what information should go in the study and what can be left out.

Chapter 4. Results and Analysis

4.1. Introduction

This section will revisit the previous academic literature analysis undertaken in this research while using qualitative data to ask the question "why?". The research question for this study is 'Why was the financial regulator in Israel so much more effective than FR in Ireland preceding the crisis and what changes came with the crisis in terms of regulation?

4.2. Descriptive data

In 2008, many open economies around the world were severely impacted by the financial crisis. The collapse of U.S. Bank, Lehman Brothers, triggered many other countries, including Ireland, to retreat towards safe assets. This was due to *"lack of transparency and confidence"* in the financial system. Several European countries such as Ireland, Italy, Greece, Spain and others, were facing financial distress due to the massive build-up of debt from corporations, banks and individuals who borrowed more than they could afford. However, Israel showed economic strength and resilience during times of economic contraction. As seen in **Figure 5**, where the U.S. and European countries, including Ireland were the most affected by the crisis, whereas the Middle East including Israel, experienced a lesser economic distress.

Figure 5. Regions of the world most affected by the financial crisis, Source, BBC News, 2008

Over the years, many studies and official reports indicate that in Ireland, the main factors that caused the financial crisis were real estate related, banks accumulating large amount of debt by lending to unworthy creditors, reckless behaviour due to increase competition in the market, various operational factors, and especially an ineffective regulatory system across organizations. Honohan (2010), summarised in his report several key factors that caused the economic crash in Ireland: complete failure of bank management to maintain safe and sound banking practices, macroeconomic and budgetary policies, an accommodating regulatory approach, insufficiently challenging and not persistent enough, a heavy reliance from the bank supervision on governance and risk-management procedures.
However, the external auditors or the public authorities also did nothing to prevent the collapse, even though they had plenty of opportunity to detect and evaluate asset and funding risks that were developing in banks, especially in Anglo Bank and in INBS, they choose to ignore it and "*stay silent*". Nyberg (2010) found that, the external auditors failed to report excesses on lending limits to the FR, but even if they had, it seemed that the FR was already aware of these excesses and *"did nothing about it".*

This shows that the financial collapse was of a systemic nature rather than of an individual institution but even so, most reports concluded that the regulator who had the role to supervise and monitor financial institutions, failed to assess the emerging problem, even though it was known that the banks were struggling, the regulator seemed absent and timid.

Nevertheless, I found that other open economies such as Israel, even though it was not immune to the crisis, was less affected by the collapse, due to a stricter regulatory system and the safety measurements taken preceding the crisis, including decreasing welfare payments, privatization of banks and enterprises still owned by government, and reducing the government deficit.
The global financial crisis did not leave Israel's banking system entirely unscathed, the effects were among other things, in the area of risks confronting non-banks, stock indices, growth rates, and unemployment rates where there was an evident rapid decline as seen in **Figure 6**.

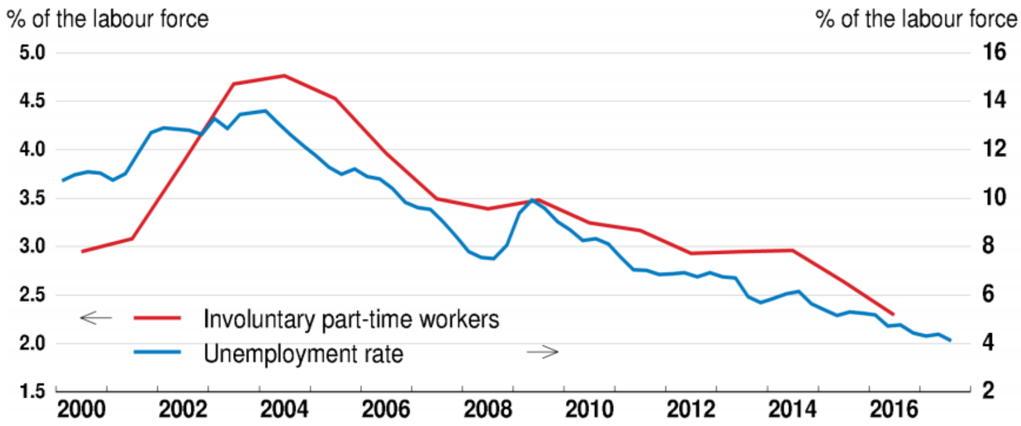

Figure 6, Unemployment rate 2000-2016, Source: OECD (2017), Economic Outlook and Labour Force Statistics Databases

When comparing the outcome of the crisis in Israel with other countries, e.g. PIIGS countries, the Israeli banking system has not experienced the same liquidity shortages, on the contrary, the level of liquidity in both local and foreign currency was high and enjoyed net inflows of foreign currency during 2008. The measurements taken in 2000-2003, due to the Intifada, helped the country to not only sustain the shock of the global financial crisis but from a macroeconomic perspective, to find itself in one of its strongest positions since its inception. This was due to Israel having a more conservative banking system that operates under comprehensive regulation and close supervision, but also to its limited exposure to the *"worldwide toxic assets"* that other countries ventured in.

The macroeconomic approach, on the part of the state, coupled with the effectiveness of the Israeli FR is what ensured that the impact of the financial crisis on Israel was contained. In Ireland, by contrast, the government was relatively inertial about pursuing a countercyclical economic policy.

The crisis revealed the importance of an effective financial regulation for the well-being of the economy. In Ireland, the regulator's prime purpose is to ensure that financial institutions oblige to certain standards, restrictions, and guidelines, aiming to maintain the stability and integrity of the financial system. Yet, the Irish banks "*were not properly monitored* and "*did not receive the necessary attention"* from the financial regulator or the government and a tougher regulatory regime was not viewed as necessary. Furthermore, Ireland's financial crisis was a perfect storm embodying both regulatory failure for failing in its prudential supervision role and market failure for failing to allocate the goods and services to worthy borrowers and stop the economic boom.

In Israel, banks also suffered some losses from their exposure to Lehman Brothers, as well as to other failed financial institutions. Yet, all banks have remained "*sound and stable*" and there were no concerns that a bank might fail, this was due to a more conservative and strict financial regulation that was in place preceding the crisis. In sharp contrast to most other countries, the Israeli banking system remained resilient, and there was no development of over-leveraging or asset price bubbles compared with those abroad. This was accompanied by a more prudent management of the financial system, particularly the banking system, which was closely supervised by the regulator in Israel.

While exploring the financial crisis in both Israel and Ireland separately , I found many articles that talk about how as a result of the crisis, regulation changed dramatically, where several new processes, pillars and reforms came to the fore not only in Ireland but Israel too. However, I found that in Ireland, a more assertive, risk based, outcomes-focused and analytical approach to supervision was put in place and enforcement became a valuable tool to effect deterrence, achieve compliance and promote good behaviors. Likewise, in Israel there was a significant progress in improving its regulatory policy and much stricter rules were enacted by the regulator to provide a solid basis for a whole-of government regulatory policy and the focus was mostly on reducing regulatory burdens, both through comprehensive reviews of the existing regulations and through ex ante regulatory impact.

In 2010 in Ireland, the Central Bank Reform Act 2010 came into effect, the Fitness and Probity Regime and the Criminal Justice Act were created, while many other supervisory framework developments such as SSM, SRM, EIOPA, EBA, etc. were introduced, to strengthen the financial system and restore the public confidence in the Irish economy.
In 2015 a new improved Customer Protection Code came into practice and a Code of Conduct on Mortgage Arrears was created, to improve the way the banking system works when it comes to lending while protecting the customer interest because preceding the crisis, everyone was buying houses, and realistically, most could not afford the payments, as seen in **figure 7.** and this left the banks exposed to many risks.

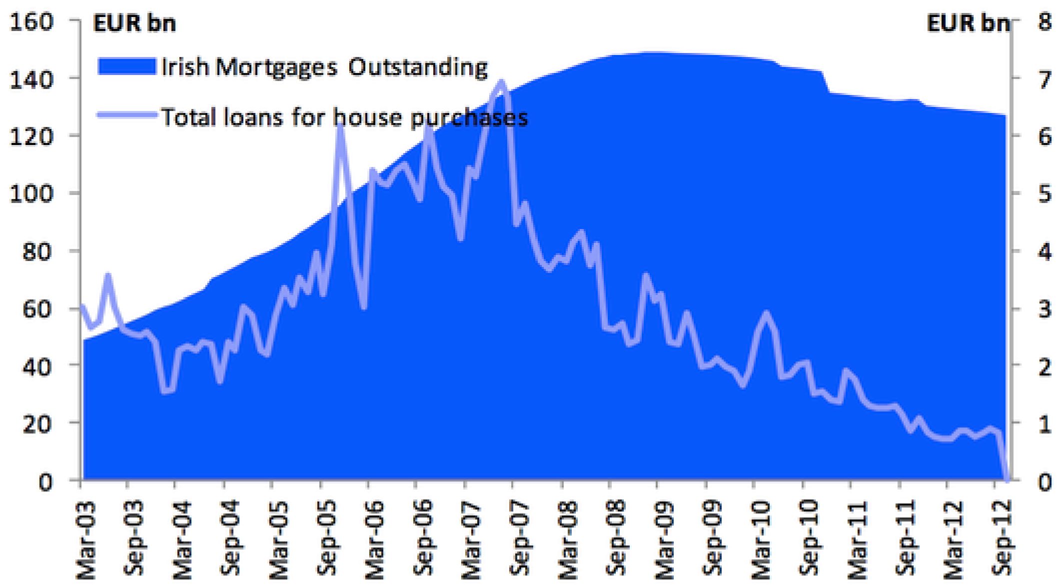

Figure 7. Irish mortgage lending 2003 - 2012, source: The Atlantic, Phillips, 2013

Israel however, implemented numerous new measurements in the light of the crisis, to maintain the confidence in the banking markets by continuously upgrading their risk management systems within the Basel II framework. Few key goals were introduced by the regulator to *increase "banks resilience"* while having a sturdier capital and liquidity buffers and reduce the impact of bank failures on the economy and taxpayers through *"enhanced recovery and resolution regimes"*.
BOI, the supervisor in Israel, initiated a new system where it started not only monitoring banks closely but large companies too. This was to gather concerns of their financial strength and identify if there were any issues in repaying their debts. New reports were proposed to monitor credit market indicators, and data on quantitative changes relating to credit and its constituents.

Today Israel has made significant progress in improving its regulatory regime to be more confident and stricter since the global financial crisis of 2008. This came with the introduction of the 2014 Resolution and the RIA guidance in 2016, to deliver a more solid regulatory policy for the Israeli economy. Nevertheless, BOI is constantly working on implementing a more robust planning system for better supervision and monitoring of all financial organization to protect the economy and the consumer for any adverse shock that might surface, such as COVID-19 which currently led the country in an economic crisis and the outcome of it is still uncertain.

However, when looking at Ireland more than a decade on, the economy is outperforming most other Eurozone countries, even though it was among the nations hardest hit by the 2008 economic crisis.

The country's economic growth did not happen overnight, there were many significant changes made by the regulator to help govern financial institutions to act accordingly. New regulatory systems and laws were undertaken through risk-based supervision, underpinned by a credible threat of enforcement. CBI objective to ensure financial stability, consumer protection and market integrity was achieved, and to continue this, CBI has several regulatory powers in the areas of authorisation, supervision, and enforcement. Today, similar to Israel, Ireland is also badly hit by the new pandemic crisis but due to a more robust supervisory system, CBI seemed more prepared and confident than ever.

Chapter 5. Discussion

5.1 Introduction

This chapter provides a discussion of how the results relate to the literature, the significance of the findings and the implications for practice. Potential interrelationships will be discussed, as well as the comparative factor. The discussion section will commence with the findings relating to the outcome of the financial crisis in two states of similar size and economy, to follow the role regulation had in the crisis in Ireland and Israel separately , the changes that came with it and where it is today. Within each of these sections, factors of significant similarities and differences across both countries will be addressed.

5.2. The comparative factor

The main research question of this paper is as follows:

1. Why was the financial regulator in Israel so much more effective than the regulator in Ireland? What were the economic, political, and operational factors which created this outcome - do we see similarities or differences to help back up our research question?

In order to provide answers to the research question, I will illustrate the comparative analysis of two similar countries in size, population and booming economy, dependent on multinational companies, international trading and high-tech corporations establishments, that had a different outcome in the financial crisis, due to their dissimilar regulatory framework and norms. The participant focus on

Ireland and Israel was taken separately. This was for the purpose of qualitative primary research to demonstrate a variant of similar and differential responses.

During the economic boom from year 2000 onwards, in Ireland, most banks and corporations followed cumulative profit growth strategies to keep up with the markets but while doing that, risks were ignored, there was a complete abandonment of internal regulatory policies and processes , followed by a lack of involvement from the regulator, or other authority bodies that are meant to supervise and ensure the protection and fairness of the financial services market . The outcome of all these factors was the downfall of the Irish economy.
Despite this, I found that Israel, a booming economy like Ireland, had a much lesser impact during the market crash. This was due to all the safety measures taken in previous years by implementing a more robust regulatory framework and enhancing supervision, to maintain confidence in the banking system and enhance Israel's receptiveness countering the adverse impact of a possible crisis.

While analysing Israel and Ireland separately, I found that Ireland was more open to engage in different complex instruments that surfaced during the economic upswing, compared to Israel which was more conservative in the risks it was willing to take. Irish banks especially were displaying high-risk behaviour and seemed keen on lending to unworthy creditors in order to keep up with the competitors on the market. While doing that, their loan approvals criteria and risk assessment process were ignored, whereas the Israeli banks remained sound and stable because their risk processes and loan assessments were firm to the point they were considered "*overregulated*".

Compared to how badly Ireland was affected by the global crash, Israeli leaders openly "*congratulated themselves"* on the way the country came out of the crisis due to the strict regulatory measurements taken in 2000-2003, such as, decreasing welfare payments, increase participation in the labour force, cutting social expenditures, privatize enterprises still owned by government, minimizing the cost of the safety net, etc. All these factors helped the Israeli economy alleviate the severe impact of the crisis and no bank suffered liquidity shortages, whereas Irish financial institutions faced almost imminent collapse due to insolvency and in response, the Irish government instigated banks bailout.

In 2008, when the effects of the financial crisis began to take over Ireland's economy, it seemed that Israel was "*well prepared"* to manage the shock that came with the crisis. In Israel, financial institutions operated under comprehensive regulation and close supervision compared to Ireland where the regulator was absent and more optional. While in Ireland the common belief was that the financial markets are too efficient to fall, there was no evidence that this was the case in Israel as banks operated the same way since its recession. Many reports also concluded that bank executives were "*heavily incentivised"* to lend to any type of creditors, indifferent of the risk involved, whereas in Israel, the lending valuation was stricter, and the risk assessment criteria was prioritised and effective.

In line with results from the current study , I discovered that Irish banks ignored several key regulatory principles, such as: business have to be transparent and accountable, act in the best interests of the customers in a prudent matter, maintain sufficient financial resources to meet obligations, have appropriate risk management policies systems and comply with any regulatory rules set down by the FR. It seemed that the principles were not the focus of any systematic checks, or were sanctioned if breaches were found, that was because the bank supervisor relied on the banks for analysis of risk management, believing them to be best placed to provide such analysis. This left the Irish banks exposed to the dangerous developments that occurred in the area of mortgages in many global economies. Nonetheless, Israel did not expose itself to these dangerous instruments due to the regulator playing an active role in banks supervision and the key regulatory principles were followed and enforced. This protected the Israeli banking system from taking the same financial risk that could lead to the economic collapse that Ireland experienced.

While researching how Israel and Ireland had very dissimilar regulatory systems in place preceding the crisis and why for that reason, both countries experienced a very different outcome in the crisis, I found verifiable evidence that a country with a more robust, firmer and efficient regulation in financial institutions, especially in banks, such as Israel, can face a lesser financial distress when a global crash happens as they are more resilient and prepared, unlike countries with weaker regulatory framework and inefficient supervisory processes, such as Ireland that was one of the most affected countries when the global crash happened in 2008.

2. By comparing two similar states in size and economy but different in regulatory systems, before and after the crisis, can we answer the question, if a regulatory regime that is more robust and has an enforced regulation that guides financial institutions to be transparent, effective and fair, is in fact a key underpinning of a country's economy - how regulation changed after the crisis, can we see that effective regulation does work to keep a country safe from any potential financial distress?

Since Israel's recession in year 2000, the regulator was stricter on the banks and encouraged them to be more careful in taking unnecessary risks. Even so, during the global crisis, the banks' profitability did suffer, but not to the extent that the Irish banks did. I found that the Israeli banks remained resilient, unlike Irish banks that were badly hit by the crisis, to the point that Anglo Irish Bank completely collapsed. This was due to Israel's favourable situation prior to the crisis and due to its conservative banking system, that operates under comprehensive regulation and close supervision, whereas Irish banks "*utterly failed*" to protect their consumers and the regulatory approach was to rely more on banks' own risk assessment systems instead of the regulator fulfilling its prudential supervision role.

The crisis had a major impact on the Irish economy. Despite this, Ireland had a remarkable economic and employment growth over the years to come. This was due to many multinational corporations moving to Ireland, creating new economic opportunities but also due to a more rigorous and effective regulatory system within Irish organizations which prevented financial institutions from taking the same risks they had previously. After the crisis, regulation changed from being optional and ineffective to being enforced and a supportive pillar for banks and financial institutions across Ireland. A similar effect was noticeable in Israel, where the crisis came with a more robust and even firmer regulatory approach for the Israeli banks and organizations. This was to ensure that the financial system is protected from the irregularities and rash decision-making that occurred during the financial crash.

The regulator is the "safe-keeper" of financial institutions and consumers, to ensure procedures are followed and used as a guide for a fair governance. The study repeatedly showed that a country with an effective supervision, monitoring, sanctions and all the functions that regulation comprises, worked to the benefit of the public as seen in the more positive outcome that the crisis had on the Israeli economy, where in contrast, if a country doesn't have all these functions operational, the financial system and consumers are constantly at risk and the repercussions can lead to a complete market failure like it did in Ireland.

The last years have been a period of significant challenge for the regulator in both Ireland and Israel, but I found that significant progress was made on several issues such as, fair consumer protection, introduction of many new pillars and codes, monitoring and enforcement of regulatory framework for financial service providers and banks. For example, Ireland's regulator has improved the process to banks' credit access- new regulatory rules to provide key safeguards for borrowers came under the CBI Consumer Protection Framework while more effective macro-prudential policies, supervision, resolvability, and crisis management were implemented and induced in financial institutions. Similarly, the regulator in Israel increased the credit market and macroprudential measures and the risk-based supervision of the financial institutions to ensure financial stability and strengthen the capital buffers in the banking system in order to increase its resilience to any potential financial crisis.

But why is effective and fair regulation a key underpinning of a country's economy?
Over the course of this paper, the outcome of the financial crisis highlighted that banks and institutions that were poorly regulated, failed during the economic boom. As seen in Ireland, a country with weak regulatory systems preceding the crisis, several institutions suffered economic distress to the point that the whole market collapsed, whereas in Israel, a country with strong regulation in place, the crisis had a mild impact on the economy. This was mainly due to how banks were managed before the crisis. If a bank fails, it creates problems for the wider economy, people and businesses are in danger of losing money they have placed with the bank and lose confidence in banks so will not bank with them again and interrupt the services, which can lead to a systematic effect as borrowers depend on lenders and lenders on borrowers. And so, the reason to regulate banks is to ensure proper behaviour, and that effective processes are followed in order to limit the risk of loss by depositors and maintain confidence in the financial system.
Financial service providers are regulated to prevent fraud, high incentives that lead to bad behaviour, misconduct from top management up to junior staff, because if organizations go bankrupt, people not only lose their businesses and investments, but can also lose their jobs. And so, to have a supervisory body that monitors, guides and enacts processes and pillars seems vital to all financial organization to protect the economy and the consumer for any adverse shock that might surface. This was well demonstrated all throughout this paper when analysis the financial crisis and regulation in Israel and Ireland separately.

When Brexit happened, consequent to the consultative referendum in the UK in June 2017, Ireland was facing a potential financial distress, estimating that it might result in a deficit of up to 1.5 percent of GDP due to higher subsidy payments in significant sectors of the economy, but this time Ireland was more prepared. In 2019 CBI released a plan to ensure that the risks posed to the economy, financial system, regulatory environment, and consumer protection arising from the UK's departure from the EU were understood and mitigated. This shows a different economic system in Ireland, more efficient and robust compared to previous years. At the same time Israel was dealing with a government deficit higher than the target and the forecasts for continued growth in the reviewed period were revised downward. Israel also faced direct exposure among the financial institutions in Israel, especially to nonbank channel. Even so, the likelihood of financial distress in banks or corporations remains stable and low from an historical perspective. Both countries showed positive change in their regulatory system, more enforced and confident than in previous years.

Today, both Ireland and Israel are dealing with another potential crisis, a world-wide pandemic that affects markets- imports/exports, tourism and overall demand/supply across the globe. In Ireland, CBI vowed that, in light of the COVID-19 pandemic, the regulator works on ensuring an effective management structure to enable containment and mitigate the effects of the virus and thereby sustain and enhance operational resilience in alignment with guidance from the WHO[40]. Likewise, Israel manages several programs to ensure proper functionality of financial markets, to ease the terms of credit in the economy, whilst supporting economic activity and financial stability.

Although today, the regulatory approach in both Ireland and Israel is more elaborate and firmer, many official bodies emphasise the importance of "*getting the regulation of banks and financial services right*". Worldwide, economies need to understand the role regulation has to play in financial institutions and our society, since firms and banks are responsible for selling their customers' products and services, and so it is imperative for these institutions to have effective cultures and set the right standards from corporate governance structures to individual accountability, from risk management to people management, and from internal challenge to day to day corporate governance. It is the regulator's function to enforce all the right standards, in both banks and financial providers, to subject financial institutions to certain requirements, restrictions and guidelines, mutatis mutandi, aiming to maintain the stability and integrity of the financial system and the probity and competence of the people working within it, especially senior decision-takers.

Chapter 6. Conclusion

6.1 – Introduction

The final chapter of this research paper returns to the main findings of this study and highlights the correlation between them and the aims and objectives that were set at the outset of the study. The

[40] The World Health Organization is a specialized agency of the United Nations responsible for international public health.

researcher will be objective and subjective, as appropriate, in drawing conclusions from all the findings and closing out the paper with personal learning reflections.

6.2. Research aim and objective

The main objective of this study was to analyse why the Israeli financial regulator proved to be much more effective than the regulator in Ireland pre crisis – to analyse the economic, political, and operational factors which created this outcome by comparing the two economies.
It is essential to understand if there is in fact a gap when comparing two similar states in size and economy but different in regulatory systems, before and after the crisis, to see if a regulatory regime that is more robust and has regulation that is actively enforced to guide financial institutions to be transparent, effective and fair, is in fact a key underpinning of a country's economy.

The literature illustrates how at certain points, because of the global crisis, banks and institutions in both Ireland and Israel did in fact experience financial hardship but differently. Ireland's collapse during the crisis affected almost every aspect of Irish society, Irish economy and primarily the Irish banking system. In parallel, Israel managed to emerge from the crisis virtually unscathed, banks remained strong and the economy showed no sign of collapsing, the issue was more in the stock market, which experienced a fall in prices but also a fall in real estate prices. The biggest reputational casualty after the crash in Ireland, was the financial regulator, who did nothing to prevent all the irregularities that were occurring in Ireland and failed to anticipate the crisis but was instead party to selling to the public the idea that economies could be managed and that banks knew what they were doing. In contrast Israel prides itself on having a very strict regulatory regime that helped the economy to stay strong and remain confident in the integrity of its financial market.

This study enhances our understanding of this subject in several ways. By comparing the financial regulation in Ireland with Israel, the regulatory processes and pillars that guided the financial institutions before and after the financial crisis of 2008, I observed that if regulation in the financial systems is faulty and weak, as it was in Ireland preceding the crisis, the repercussions are severe on the economy, whereas in Israel, where regulation was strong and robust, the impact of the crisis proved to be less harmful on the Israeli economy.

In conclusion, it was not one factor that caused the financial crisis in Ireland, but several factors such as: an extremely flawed lending system - Anglo Irish Bank and INBS the main culprits, the effect of the herd- other banks followed the bad example to keep up with competition, the regulator -silent observers that did nothing to prevent the collapse, the external auditors - did not react to the emerging problem, and the enablers: there was no involvement coming from the public authorities. Yet from the regulator perspective, the lack of involvement in the Irish financial institutions during the economic boom was to the detriment of the economy, as the regulator had the power and resources to stop the banks and institutions from taking so much risk. Compared to Ireland, in Israel there was not an actual financial crisis but a minor fall in stock prices and banks profitability. In general, financial institutions remained resilient. This was due to the country's banking system which was more conservative and operates under comprehensive regulation and close supervision.

In my opinion as the researcher of this paper, I found that society depends in some way on the financial system and in reverse, the financial system depends on the society. For example, if people wish to save or borrow money, they usually depend on banks to deposit their money or lend the money to them, so the banks in return must have the cash available for consumers if they meet all the regulatory criteria. Another example is, if borrowers want to ask for a mortgage or insurance policy but would need a fair advice on the best product depending on their needs and budget, the bank should be well prepared to offer that by following a fair assessment of the request. Financial service providers must always work in the best interest of the consumer while following proper norms, because if the consumer loses confidence in the financial system, the banks and institutions are exposed to market failure.

Companies could also need the banks to invest money in them or borrow money from them to maintain or develop their business. So similarly, if financial institutions are poorly regulated there is a potential to undermine the stability of the financial system and damage the consumers and their potential to invest in the economy. This would be the main reasons why strong financial regulation is so important – to set clear rules and procedures for a fair financial system, to stop bad behaviour within institutions, especially banks, to safeguard the wider financial system and protect consumers if the system fails.

6.3. Reflection on personal learning

This research was undertaken as a compulsory MSc Finance requirement. I personally had a keen interest in the topic but realised while doing my research that I did not fully appreciate the extent of the issue and how it wasn't fully explored previously. In conclusion, I was pleased to find that regulation not only plays an undeniable role in a country's financial systems but in our society too. Furthermore, I was surprised at the lack of research that had been done in Ireland to compare with other states to explore the outcome of the crisis and the huge role the regulator had in it, how regulation dealt with the crisis and how much it changed. Having initially been quite overwhelmed by how much literature exists in relation to the financial crisis and regulation, the experience was extremely positive, having learnt more about the causes, repercussions and observing the positive changes that came with it.

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