



Bank of Israel

**Banking Supervision
Department**

Bank–Customer Relations Division

**Report for 2010
on the
Activity of the Banking Supervision Department in the Handling
of Public Enquiries and Complaints**

April 2011

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Appendix – Explanation of the system for rating the banking corporations

The rating of the banking corporations herein is based only on the information obtained by the Banking Supervision Department in its investigations of complaints and enquiries. The rating does not indicate a comprehensive grade or a rating of banks' overall activities, and thus should not be considered a basis or grounds for any recommendation or proposal.

1. Introduction

The Bank–Customer Relations Division of the Banking Supervision Department acts to maintain fairness in the relations between banking corporations—the banks and the credit card companies—and their customers, while protecting the rights of the banking consumer. It draws conclusions from the information obtained in the course of handling complaints and enquiries.

This activity is carried out by the Unit for Public Enquiries and Bank Fees, and incorporates making decisions on the justification or otherwise of complaints, giving appropriate assistance when necessary, providing information to the banks' customers, with the intention of narrowing the knowledge and information gap between them and the banking corporations, and identifying and dealing with systemic defects.

The Public Enquiries Unit acts by virtue of section 16 of the Banking (Service to Customer) Law, 1981, which empowers the Supervisor of Banks to investigate complaints by members of the public concerning their business with banking corporations. The Unit comprises economists, lawyers and accountants, and it acts as an objective external body in settling disputes between banks and their customers in accordance with judicial principles, and in the light of the fairness in bank–customer relations.

Report for 2010 on the Activity of the Banking Supervision in the Handling of Public Enquiries and Complaints

2. Handling of public enquiries and complaints – General statistics

In 2010, the Banking Supervision dealt with 7,165¹ written enquiries and complaints from customers of the banks and credit card companies (not including enquiries received by telephone, which are estimated at about 20,000 a year), of which 2,757 were complaints and the rest were enquiries and requests. A position was taken on 2,028 complaints (either justified or unjustified) while for the rest no position was taken, primarily due to the inability to decide between two conflicting versions, or the fact that legal action was being taken, or because the bank had in any case decided to accept the customer's request.

Eighty-five percent of the enquiries and complaints submitted to Banking Supervision last year were dealt with within six months. Enquiries from the public that involved questions and requests for information were answered shortly after being received. With respect to complaints, the treatment duration includes the time required to clarify the situation with the banks or credit card companies. Due to the volume of complaints and their complexity, in some cases several attempts at clarification were required in order to decide on a complaint.

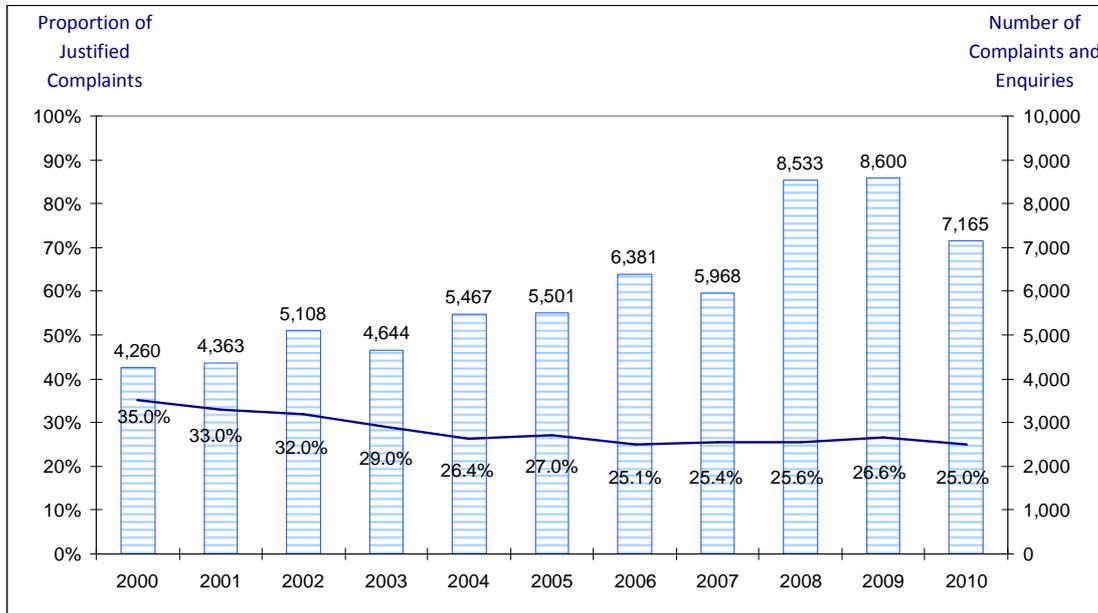
The following is a breakdown of the time it took for the Public Enquiries Unit to deal with enquiries and complaints this year:

Up to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Over 12 months
74%	11%	7%	5%	3%

Twenty-five percent of the complaints against the banks and credit card companies on which a position was taken were found to be justified in 2010, as compared to 26.6 percent in the previous year. As can be seen in Figure 1 below, there was a decline in the proportion of justified complaints during the first half of the decade followed by a leveling off in the second half.

¹ This figure includes complaints regarding the collapse of the Hephzibah Company. The rest of the statistics presented in this report do not include these complaints, which will be described in a separate document.

Figure 1: Number of complaints and enquiries dealt with and the proportion of justified complaints since 2000



The banks refunded a total of about NIS 6.2 million in 2010 to customers as a result of the intervention of the Banking Supervision (both as a result of individual complaints and systemic problems that were identified).

The total amount of refunds and compensation paid to customers as a result of individual enquiries and complaints totaled about NIS 2.4 million in 2010. Of this, about NIS 750,000 was paid by the banks even though the complaint or enquiry was not classified as justified. This is an indication of the willingness of the banks to investigate each case on its own and in certain cases to compensate customers even when their complaint was not justified.

Complaints and enquiries are also used to identify and correct system-wide problems in the banking system. In 2010, about 30 such problems were dealt with. As a result, the banks were required to take various steps, including: the addition or amendment of work procedures, the improvement of processes or service and refunds to groups of customers. Total refunds to groups of customers as a result of information from complaints stood at NIS 3.8 million in 2010.

3. Description of the complaints against the banks

In 2010, the treatment of customers by the five banking groups² and the five largest banks, as reflected in the enquiries and complaints dealt with by the Banking Supervision, were evaluated according to four criteria, based on data accumulated by the Banking Supervision:

- a. The proportion of justified complaints within total complaints on which a position was taken;³
- b. The ratio between the bank's share of justified complaints and its weight in the banking system;⁴
- c. The proportion of enquiries and complaints dealt with in a satisfactory manner by the bank within the total enquiries and complaints which the Unit investigated with the bank;
- d. The proportion of enquiries and complaints in which the bank accepted the customer's claim even though it was not classified as justified.

In previous years, the banks were evaluated only according to the proportion of justified complaints (criterion a. above). Following a reevaluation, it was decided that the Banking Supervision would expand its database to evaluate and included additional relevant information obtained from the handling of public complaints.

Based on the abovementioned criteria, the banks were rated according to the following scale, as is common practice in the evaluation of a bank's management and control:

- i. Particularly good
- ii. Good
- iii. Adequate
- iv. Needs improvement
- v. Needs significant improvement
- vi. Deficient

For a description of the rating system using the various criteria and their weights, see Appendix which is attached.

² The five banking groups: **Leumi Group** (Bank Leumi Le-Israel Ltd., Leumi Mortgage Bank Ltd., Arab-Israeli Bank and the Leumicard company), **Hapoalim Group** (Bank Hapoalim Ltd. and Isracard Ltd.), **Mizrahi-Tephahot Group** (Mizrahi-Tephahot Bank Ltd. and Bank Yahav Ltd), **Discount Group** (Israel Discount Bank Ltd, Discount Mortgage Bank Ltd, Mercantile Discount Bank Ltd., Israel Credit Cards Ltd. and Diners Club Ltd) and **First International Group** (First International Bank Ltd., Bank Otsar Ha'hayal Ltd., Poalei Agudat Israel Bank Ltd. and Bank Massad Ltd.).

³ Complaints on which a position was taken were classified as justified or unjustified.

⁴ Total assets, less business credit, which is a relevant indicator of a bank's size with respect to retail activity.

3.1 Overall Ratings

3.1.1 Following are the overall ratings of the **five banking groups** (based on the weighting of the four criteria listed above):

Group	Rating
Leumi	Good
Hapoalim	Good
Discount	Adequate
Mizrahi-Tephahot	Needs improvement
First International	Needs significant improvement

3.1.2 Following are the overall ratings of the **five largest banks** (based on the weighting of the four criteria listed above):

Group	Rating
Leumi	Good
Hapoalim	Adequate
Discount	Adequate
Mizrahi-Tephahot	Needs improving
First International	Needs improving

3.2 Explanation of how the ratings are determined

3.2.1 Proportion of justified complaints within total complaints on which a position was taken

As can be seen from Table 1 below, the lowest proportion of justified complaints (15.7 percent) from among the five largest banks was recorded by Bank Leumi Le-Israel Ltd., a position it has maintained for a couple of years.

There was a decline in the proportion of justified complaints in all of the five largest banks. The Banking Supervision attributes this decline to, among other things, its activity in identifying and correcting systemic problems and its regulatory activity in the area of bank-customer relations, as well as the efforts invested by the banks to

improve customer service in general and the handling of customer complaints in particular.

Among the mid-sized and small banks, the lowest proportion of justified complaints (17.5 percent) was recorded by Bank Yahav.

There was a relatively low number of complaints regarding the activity of credit card companies, which can be attributed to the comprehensive legal framework put in place by the Debit Cards Law – 1986 and the compliance, in general, with the law's instructions by the credit card companies.

Table 1: Number of complaints and proportion of justified complaints in the banking system⁵

Bank	Complaints on which a position was taken	Justified complaints	Proportion of justified complaints within total complaints on which a position was taken
Hapoalim	470	121	25.7%
Mizrahi-Tephahot	348	99	28.4%
Leumi	268	42	15.7%
Discount	264	58	22.0%
First International	159	50	31.4%
Otzar Hahayal	78	28	35.9%
Yahav	63	11	17.5%
Leumi Mortgages	44	10	22.7%
Discount Mortgages	64	19	29.7%
Mercantile	42	17	40.5%
Discount Union	43	12	27.9%
Cal	40	8	
Isracard	29	7	
Leumicard	27	5	
Massad	26	8	
Pagi	25	3	
Jerusalem	25	6	
Arab Israeli	6	3	
Diners Club	7	0	
Proportion of justified complaints 2010	2028	507	25%
Proportion of			26.6%

⁵ The report does not include the proportion of justified complaints against the banks for which the number of complaints in which a position was taken is relatively small (less than 40). This applies to all the statistics presented in this report.

justified complaints 2009

3.2.2 The ratio of the share of each bank within justified complaints to its weight in the banking system

The share of Bank Leumi in justified complaints is noticeably lower than its weight in the banking system. The Banking Supervision sees this ratio as an indicator of the appropriate handling of customer complaints by a bank in its branches and in the designated department that handles customers complaints.

Table 2: The ratio of the share of the bank in justified complaints to its weight in the banking system, according to the criteria for size within the system⁶

Bank	Proportion of justified complaints	The bank's weight in the banking system	Ratio of the proportion of justified complaints to the bank's weight in the banking system
Hapoalim	23.9%	23.9%	1.0
Mizrachi-Tephahot	19.5%	13.2%	1.5
Leumi	8.3%	25.0%	0.3
Discount	11.4%	10.7%	1.1
First International	9.9%	6.1%	1.6

3.2.3 Proportion of enquiries and complaints handled satisfactorily by a bank within total enquiries and complaints for which the bank was contacted

During the handling of customers' complaints, the Banking Supervision also rates the manner in which the complaint was dealt with by the bank. In the view of the Banking Supervision, the manner in which a bank deals with the enquiries and complaints referred to it by the Banking Supervision reflects how it treats customer complaints and enquiries in general and those received from the Banking Supervision in particular. This statistic is also an indicator of the importance attributed by the bank to the satisfactory handling of customer complaints. For this reason, the figures are weighted by the evaluation given to the bank by the Banking Supervision. According to this criterion, of the five largest banks, Bank Leumi had the best performance in 2010, with about 98 percent of the enquiries and complaints received from the Banking Supervision being dealt with satisfactorily.

⁶ Total assets, less business credit, which is a relevant indicator of a bank's size with respect to retail activity

Among the credit card companies, Cal had the best performance with about 98 percent of its total enquiries and complaints being dealt with satisfactorily.

Table 3: Proportion of enquiries and complaints dealt with satisfactorily by the bank

Bank	Enquires and complaints for which the bank was contacted	Enquiries and complaints that were dealt with satisfactorily	Enquires and complaints that were dealt with particularly well	Enquiries and complaints that were dealt with in a deficient manner	Percentage of enquiries and complaints that were dealt with satisfactorily or particularly well
Hapoalim	682	554	81	47	93.1%
Mizrahi-Tephahot	529	428	44	57	89.2%
Leumi Le-Israel	418	370	39	9	97.8%
Israel Discount	387	330	32	25	93.5%
First International	223	177	13	33	85.2%
Otsar Hahayal	118	92	13	13	89.0%
Yahav	94	85	5	4	95.7%
Leumi Mortgages	94	76	14	4	95.7%
Discount Mortgages	90	72	6	12	86.7%
Union	76	64	7	5	93.4%
Mercantile Discount	73	62	8	3	95.9%
Isracard	57	50	2	5	91.2%
Cal	56	55	0	1	98.2%
Leumicard	52	40	2	10	80.8%
Massad	40	31	3	6	85.0%
Pagi	34	24	1	9	
Jerusalem	32	27	1	4	
Diners Club	11	10	0	1	
Arab Israeli	11	8	1	2	
Total enquiries and complaints that were handled satisfactorily in the banking system in 2010	3077	2555	272	250	91.9%
Total enquiries and					86%

complaints that were handled satisfactorily in the banking system in 2009

3.2.4 The proportion of enquiries and complaints in which the bank accepted the claim of the customer even it was not classified as justified

In certain situations, the banks are willing to give special consideration to a case and to accept the customer's claim even if it was not found to be justified. These instances involve giving the customer the benefit of the doubt, deciding in favor of the customer for humanitarian reasons and in some cases adopting a higher than usual standard of fairness.

Table 4: Proportion of complaints and enquiries that were not classified as justified in which the bank accepted the customer's claim

Bank	Enquiries and complaints submitted to the bank which were not classified as justified	Enquires and complaints that were not classified as justified in which the bank accepted the customer's claim	Proportion of these enquiries and complaints within the total number of enquiries that were not classified as justified
Hapoalim	562	104	18.5%
Mizrachi-Tephahot	430	87	20.2%
Leumi Le-Israel	376	52	13.8%
Israel Discount	329	70	21.3%
First International	173	19	11.0%
Otsar Hahayal	90	11	12.2%
Yahav	83	14	16.9%
Leumi Mortgages	84	12	14.3%
Discount Mortgages	71	11	15.5%
Mercantile Discount	56	19	33.9%
Union	64	14	21.9%
Cal	48	19	39.6%
Isracard	50	13	26.0%
Leumicard	47	9	19.1%
Massad	32	6	
Pagi	31	0	
Jerusalem	26	3	
Arab Israeli	8	1	
Diners Club	11	1	
Total	2571	465	18.1%

3.3 Review of housing loans activity

In view of the fact that a large proportion of the complaints submitted to the Banking Supervision are related to housing loans, we chose to devote a separate section to this issue. To this end, we focused on the activity of the mortgage banks and the housing loans activity of the commercial banks. The statistics presented below were calculated on the basis of enquiries and complaints related to housing loans only.

For the three criteria listed below, Leumi Mortgage Bank presented the best results (see Table 5 and 6 below):

- a. The proportion of justified complaints within total complaints on which a position was taken;
- b. The ratio of the bank's share of justified complaints to its weight in the banking system;
- c. The proportion of complaints and enquiries dealt with satisfactorily by the banks.

The data also show that Bank Mizrahi-Tephahot was particularly willing to accept the customer's claims even when it was not found to be justified (criteria d.). See Table 7 below.

Table 5: Proportion of justified complaints within total complaints on which a position was taken, number of justified complaints and the ratio of the bank's share in justified complaints and its weight in the banking system with respect to housing loans⁷

Bank	Number of complaints on which a position was taken	Number of justified complaints	Proportion of justified complaints within total complaints on which a position was taken	The bank's proportion of justified complaints (housing loans)	The banks weight in the banking system (housing loans)
Mizrahi-Tephahot	126	45	35.7%	41.7%	32.3%
Leumi Mortgages	42	10	23.8%	9.3%	23%
Hapoalim	51	18	35.3%	16.7%	21.9%
Discount Mortgages	61	17	27.9%	15.7%	8.6%
First International	37	14			6.5%

⁷ Calculated according to total housing loans as of December 31, 2010.

Table 6: Proportion of enquiries and complaints related to housing loans that were handled satisfactorily by the bank

Bank	Enquiries and complaints for which the bank was contacted	Enquires and complaints dealt with satisfactorily	Enquiries and complaints not dealt with satisfactorily	Proportion of enquires dealt with satisfactorily or particularly well
Mizrahi-Tephahot	199	156	43	78.4%
Leumi Mortgages	83	80	3	96.4%
Hapoalim	88	74	14	84.1%
Discount Mortgages	81	71	10	87.7%
First International	47	33	14	70.2%

Table 7: Proportion of enquiries and complaints related to housing loans that were not classified as justified in which the bank accepted the customer's claim

Bank	Enquiries and complaints for which the bank was contacted and which were not classified as justified	Enquires and complaints that were not classified as justified and in which the bank accepted the customer's claim	Proportion of these enquiries and complaints within total enquires not classified as justified
Mizrahi-Tephahot	154	39	25.3%
Leumi Mortgages	73	10	13.7%
Hapoalim	70	16	22.9%
Discount Mortgages	64	9	14.1%
First International	33	2	

3.4 A view to the future

The Banking Supervision expects that high standards be maintained with respect to the bank's treatment of their customers. This expectation will be manifested in years to come through, among other things, criteria for classifying complaints according to their type and other criteria for classifying the manner in which the banks dealt with complaints. In the future, the Banking Supervision may assign differing weights according to the type of problem and also according to the manner in which the banks handle specific complaints. In addition, the Banking Supervision will continue to attribute a positive weight to the willingness of the banking to deal with customers according to a level of fairness that is beyond the letter of the law.

4. The main types of complaints

An analysis of the complaints indicates that the public's complaints are focused on housing loans, deposits and checking accounts.

4.1 Most common complaints:

4.1.1 Housing loans

Most of the complaints to do with mortgages, that were received by the Unit for Public Enquiries concerned procedures for recycling or early redemption of a housing loan. During the process of early redemption of a housing loan, borrowers often experience delays in the issue of related documents, such as confirmation of loan retirement, agreement to Perry Peso, a letter of intent or confirmation of the cancellation of the lien. In addition, there were many complaints of inaccurate information provided by the bank with respect to the balance of the loan to be retired.

The investigation of the complaints shows that there were delays in issuing various documents in order to terminate a loan, sometimes in violation of the Directives for Proper Banking Management issued by the Banking Supervisor and the instructions of the law. The banks in which there were delays in issuing documents were required to immediately begin operating according to existing regulations and the Banking Supervision is monitoring the banks compliance. In addition, conclusions were drawn regarding the need for future regulations in these areas since it appears that despite the scope of existing regulation, these processes are still problematic in some cases.

An examination of the complaints regarding the receipt of information needed to terminate or recycle the loan indicates that a large proportion of customers are not aware that the balance for loan termination changes daily and that the fee for early redemption is dependent upon, among other things, the announced average interest rate on mortgages. Thus, it was concluded that customers thought that the balance for termination that appears in the letter of intent is valid for a certain amount of time and did not notice the clause stating that on the day of the redemption they should check what the current balance is.

4.1.2 Non-housing credit and loans

An examination of the complaints indicates that there is a lack of clarity regarding the calculation of the fee for early redemption of this type of loan. According to the instructions of the Directive for Proper Banking Management No. 454, there exists a formula for loans of up to NIS 750,000. For larger amounts, the bank has flexibility in carrying out the calculation. The Unit for Public Enquiries checked the reasonability of the calculations and the guidelines set by the bank for the calculation and whether they are consistent with the directive.

4.1.3 Deposits

One of the main complaints made with regard to deposits concerns the willingness of the bank to grant a request to break open a deposit and the interest rate on a rollover deposit. An examination of the complaints reveals that the public is unaware that the bank is not obligated to pay interest on a deposit that is redeemed prior to the date that was set in the deposit agreement. In a rollover deposit, the interest rate is in general guaranteed for the first period of deposit and with the automatic renewal of the deposit a new interest rate applies. In those cases where the interest rate is guaranteed for a number of rollover periods, this is stated in the deposit agreement, a copy of which is given to the customer.

4.1.4 Checking accounts

A large proportion of the complaints regarding checking accounts are to do with the opening of accounts. An examination of the complaints shows that some of the banks refuse to open accounts with a credit balance for certain customers, among them restricted account owners according to the Law of Uncovered Checks or according to a decision by the Debt Collection Office. In the absence of any other reason, we have instructed the banks who refused to grant such requests to do so immediately. The Unit for Public Enquiries gives immediate attention to complaints regarding refusal to open an account in order to provide assistance to these customers and to prevent the repetition of similar cases in the banking system.

5. Systemic issues

As mentioned, complaints and enquires are also used to identify and correct systemic problems in the banking system. In addition, the information obtained from complaints and enquiries is used to identify areas that require regulation through the issue of Directives for Proper Banking Management by the Banking Supervisor or for identifying areas in which a public information campaign is called for.

In 2010, about 30 different systemic problems were dealt with, which required the banks to take a number of measures, such as the addition or amendment of work procedures, improvement of processes or service, etc. The Banking Supervision is monitoring the implementation of these measures.

5.1 Correction of systemic problems that led to refunds to customers groups

Among other correctional measures that the banks are required to adopt, there may be a need to refund groups of customers who suffered a loss due to the some problem in the system. Total refunds to groups of customers as a result of information gained from complaints totaled about NIS 3.8 million in 2010. Following is a breakdown.

Issue	Bank	Amount of refund (Thousands of NIS)
Value day fee	Discount	651
Retirement fee	Mizrahi-Tephahot	580
Standing order cancellation fee	Mizrahi-Tephahot	746
Credit card fee	Cal	15
Conversion fee	Cal	45
Rollover credit card	Cal	59
Non-provision of a discount for the early redemption of a “supplementary loan”	Mizrahi-Tephahot	1,773
Total		3,869

5.1.1 Collection of value day fees as a percentage of the transaction

An examination of enquiries from the public showed that when depositing or cashing a check in foreign currency, Bank Discount collected a fee of 0.7 percent for “value days” which is in addition to the fee on the transaction in foreign currency. According to the list of fees, “value days” is not calculated as a percentage of the transaction but rather according to the number of days required by the bank in order to carry out the transfer or deposit for the customer, and therefore in the fee list there is a referral to the "value days" appendix. In accordance with the position of the Banking Supervision, Bank Discount has discontinued the collection of this fee and has returned NIS 651,000 to customers from whom it was incorrectly collected.

5.1.2 Creation of a new fee for the clearing of mutual funds

Bank Mizrahi-Tephahot requested permission to charge a new fee which involves the reimbursement of expenses in the clearing of mutual funds in the amount of 0.003 percent. The Banking Supervision opposed the addition of this fee since these costs are included in a different fee that is collected for this transaction. According to law, a new fee requires the approval of the Banking Supervision. In accordance with the position of the Banking Supervision, the bank discontinued the collection of the fee and refunded an amount of about NIS 580,000 to its customers.

5.1.3 Collection of a fee to cancel a standing order

When the reform of fees came into effect, the fee for cancellation of a standing order to debit an account was cancelled and only in the case that such a standing order is cancelled before 6 debits are made is the bank permitted to collect a minimum fee equivalent to that for 6 transactions through a direct channel. As the result of an enquiry from the public, it was discovered that Bank Mizrahi-Tephahot collected cancellation fees in spite of the aforementioned. The intervention of the Banking

Supervision led to the bank discontinuing the collection of this fee and the refund to its customers in the amount of about NIS 746,000.

5.1.4 Collection of a credit card fee despite an exemption

Due to an error, an exemption from a credit card fee was not reported for one of the customer clubs for July, 2008. As a result of an enquiry from a customer on this issue, our intervention led to a refund of about NIS 15,000 to Cal customers.

5.1.5 Non-disclosure of the collection of a conversion fee

The investigation of an enquiry received by the Banking Supervision showed that during a certain month, due to an error in the bank statement, there was a lack of full disclosure with regard to a conversion fee collected on transactions in shekels carried out abroad (involving payments through Paypal on the Internet). Total refunds to Cal customers totaled about NIS 45,000.

5.1.6 Rollover credit cards

An investigation of enquiries submitted to the Unit for Public Enquiries at the Bank of Israel showed that customers who made use of a rollover credit card were informed of the rate of interest, which is particularly high, at the time the card was debited in the case of a debt that was rolled over to the next month. The investigation indicated that the customers did not understand the type of service this type of card provided or the manner in which to use the card and had not considered whether the card was appropriate to their needs. Cal was required to retroactively reduce the interest rate to all the customers who canceled their card or who stopped using the card to obtain credit during the six months from the first transaction with the card. The credit company credited their customers in the amount of NIS 59,141.

5.1.7 Non-provision of a discount for the early redemption of a “supplementary loan”

The investigation of a complaint showed that a customer was debited for an early redemption fee in the redemption of a “supplementary loan” without receiving a discount as specified in the Banking Ordinance (early redemption fees), 2002. The investigation showed that as a result of a mistake in the Mizrahi-Tephahot systems, the loans were not defined as “supplementary loans” on certain dates. The bank corrected the error and credited customers who had made an early redemption during the years 2009-10 in the amount of about NIS 1.7 million.

5.2 Examples of the correction of other systemic problems

As a result of the investigation of enquiries, various types of problems are sometimes discovered that are related to the bank’s management of its operations and in these cases the banks are required to correct these problems. These include the correction of work processes and the improvement of customer service. The Unit for Public Enquiries monitors the implementation of this process.

5.2.1 “Approval in principle” for a housing loan

As part of the investigation of an enquiry that reached the Unit for Public Enquiries, a number of problems were discovered at one of the banks in the issuing of an “approval in principle” for a housing loan. The bank was required to correct the problem and to operate according to the Directives for Proper Banking Management with regard to housing loans.

5.2.2 Retirement of a housing loan

As part of the investigation of enquiries arriving at the Unit for Public Enquiries, problems were found in the process of retiring a loan. The bank was required to correct these problems and to work to improve service.

5.2.3 Rollover credit cards

With respect to the issue described in sub-section 4.1.6 above, a credit card company is required to make full disclosure of the credit card’s characteristics and the rate of interest at which the customer will be debited already at the stage when the customer signs up for the service and no later than the receipt of the card by the customer.

6. Handling of complaints by the purchasers of apartments against the Hephzibah company

The handling of enquiries by purchasers of Hephzibah apartments by the Banking Supervision began soon after the collapse of the company in August 2007. After the announcement of the collapse, the Banking Supervision began to gather information from the banks and from apartment purchasers, with the goal of deciding on the scope of its intervention in this area. Following the information-gathering stage, it was decided that the Banking Supervision would first act to provide assistance to the apartment purchasers in order to minimize their losses, subject to the powers granted to the Banking Supervision.

In 2010, the Banking Supervision completed the processing of all the enquiries and complaints submitted to it by the apartment purchasers during the years since the collapse. The findings from the process were submitted to the special manager appointed by the official receiver, Attorney Yitzhak Molcho. During this period, the Banking Supervision received 1655 enquiries concerning 890 apartment purchases. As part of the processing of the enquiries, each payment made by the purchasers toward their apartments was traced.

As part of the assistance to the purchasers of Hephzibah apartments, a total of about NIS 287 million was distributed, as follows:

- With respect to payments in the amount of about NIS 60 million, which was deposited in the accounts of the Hephzibah projects, guarantees were issued as a result of the intervention by the Banking Supervision.
- With respect to payments in the amount of about NIS 98 million, which were backed up by guarantees according to the Law of Contingent Sale, their

contingency was canceled, in accordance with the position of the Banking Supervision.

- Payments of about NIS 77 million, which were deposited in various Hephzibah accounts, were transferred to the project accounts following the intervention of the Banking Supervision.
- With respect to payments transferred to the project accounts, following the intervention of the Banking Supervision, guarantees were issued in the amount of about NIS 44 million.
- Payments in the amount of about NIS 8 million, which were deposited in various Hephzibah accounts, in cases where there was no financing bank, were returned to the apartment purchasers following the intervention of the Banking Supervision.

In recognition of the importance of this issue for the public and from the point of view of consumers, the Banking Supervision utilized its resources and powers throughout the period starting from the collapse of the company until the completion of the processing of all enquires and complaints. In addition to the significant assistance provided, with the help of the Banking Supervision, to the apartment purchasers themselves, the Banking Supervision also worked to implement the lessons learned within the banking system. This was accomplished through the issue of instructions to the banks and of Directive #326 for Proper Banking Management with respect to “construction financing” and Directive #456, which provided a standard text for a letter of guarantee according to the Law of Sale (housing), as well as participation in the process to amend the Law of Sale. The regulatory activity in this area was primarily intended to reduce the possibility of a similar incident in the future.

Appendix – Explanation of the system for rating the banks with respect to their treatment of customers

Starting from 2010, the Unit for Public Enquiries and Bank Fees of the Bank-Customer Relations Division of the Banking Supervision rates the largest five banks in Israel with respect to their treatment of customers.

The main goal of the rating system is to evaluate the quality of the treatment of customers and their complaints, as reflected in the enquiries and the complaints dealt with by the Banking Supervision. This includes service, compliance with consumer regulations and standards of fairness that form the foundation of correct bank-customer relations.

The rating of the banks with respect to their treatment of customers is done by a system of weighting the following four criteria:

- e. The proportion of justified complaints within the total number of complaints against a bank on which a position was taken;
- f. The ratio between the bank's share of justified complaints and its weight in the banking system;
- g. The proportion of enquiries and complaints dealt with in a satisfactory manner by the bank within the total number of enquiries and complaints submitted to the bank by the Unit;
- h. The proportion of enquiries and complaints in which the bank accepted the customer's claim even though it was not classified as justified by the Unit.

Up until 2010, the Banking Supervision evaluated the banks based only on the proportion of justified complaints (criterion a.). As a result of a reevaluation, it was decided to carry out the evaluation based also on other relevant data.

The following is a brief explanation of each of the criteria and the method of implementation:

a. Proportion of justified complaints within the total number of complaints against the bank on which a position was taken

The weight of this criterion in the overall evaluation is 30 percent.

Calculation of the criterion: The number of complaints against the bank found to be justified in 2010, divided by the total number of complaints against the bank, on which a position was taken (either justified or unjustified).

M = number of complaints against the bank, whose handling was completed in 2010 and which were found to be justified.

E = number of complaints against the bank, whose handling was completed in 2010 and on which a position was taken (either justified or unjustified).

$$P1 = M / E$$

b. The ratio of the share of a bank in total justified complaints to its weight in the banking system

The weight of this criterion in the overall evaluation is 30%.

Calculation of the criterion: The ratio of the number of complaints against the bank found to be justified in 2010 to the total number of complaints against all the banks found to be justified in 2010, divided by the ratio of the bank's total assets (less business credit)⁸ to the banking system's total assets (less business credit).

M = number of complaints against the bank, found to be justified in 2010.

ΣM = total complaints against all the banks found to be justified in 2010.

A = Total assets of the bank, less business credit, as of December 2010.

ΣA = Total assets of the banking system, less business credit as of December 2010.

$$P2 = (M/\Sigma M) / (A/\Sigma A)$$

For example, a ratio of less than 1 implies that the share of the bank in total justified complaints (against all the banks) is lower than its weight in the banking system (wholesale and retail banking).

c. Proportion of complaints and enquiries whose handling by the bank was satisfactory within the total number of complaints and enquires for which the bank was contacted by the Unit for Public Enquiries

The weight of this criterion in the overall evaluation is 20%.

⁸ Credit to corporations is subtracted from the bank's total assets (and those of the banking system) since this sector is less relevant for evaluating the bank's treatment of the vast majority of its customers and for the purpose of evaluating the handling of the public's complaints. The data are taken from the reports issued at the end of the third quarter of 2010.

Calculation of the criterion: Number of complaints and enquiries whose handling was completed in 2010 and which were dealt with by the bank in a satisfactory manner,⁹ divided by the total complaints and enquiries whose handling was completed in 2010 and with regard to which the bank was contacted by the Unit.

T = number of complaints and enquiries, whose handling was completed in 2010 and which were dealt with by the bank in a satisfactory manner.

B = Number of complaints and enquiries whose handling was completed in 2010 and with regard to which the bank was contacted by the Unit.

$$P3 = T / B$$

Note: In 2010, in order to assess this criterion, no differentiation was made as to the reason why the bank's handling of the complaint or enquiry was found to be unsatisfactory. Starting from 2011, a differentiation will be made according to why the bank's handling of the complaint or enquiry was unsatisfactory (unjustified delay in responding, lack of relevant documents attached to the response, unsatisfactory content of the response or some particularly serious problem with the response).

d. **The proportion of complaints and enquiries in which the bank accepted the customer's claim even though it was classified by the Unit as unjustified**

The weight of this criterion in the overall evaluation is 20%.

In view of the nature of this criterion (which measures the good will of the bank), the scores "needs improving" or "deficient" were not used in the evaluation in 2010.

Calculation of the criterion: Number of complaints and enquiries, whose handling was completed in 2010 and for which the bank accepted the claim of the customer even though it had been classified by the Unit as unjustified, divided by the number of all complaints and enquiries whose handling was completed in 2010 and with regard to which the bank was contacted by the Unit, less complaints that were found justified.

L = Number of complaints and enquiries, whose handling was completed in 2010, and for which the bank accepted the customer's claim even though it was not classified as justified by the Unit.

B = Number of complaints and enquiries, whose handling was completed in 2010 and with regard to which the bank was contacted by the Unit.

⁹ As differentiated from complaints and enquiries that the bank dealt with in an unsatisfactory manner.

M = Number of complaints against the bank, whose handling was completed in 2010 and which were found to be justified.

$$P4 = L / (B - M)$$

Each criterion (P1, P2, P3 and P4) received a numerical score according to the scale determined by the Banking Supervision.

The overall rating was calculated as follows:

$$G = 0.3*P1 + 0.3*P2 + 0.2*P3 + 0.2*P4$$

Each score received an evaluation as follows: particularly good, good, adequate, needs improvement, needs significant improvement and deficient. The overall evaluation of the bank is presented according to these categories only.