The Process for Establishing a New Bank and Guidelines for Bank License Applicants

Introduction

This document presents the policy of the Banking Supervision Department (hereinafter: the Department) that regulates the process of licensing and establishing a new bank in Israel. It specifies the stages of the process of establishing a bank and the actions that the Department and those interested in establishing a bank must take (hereinafter: license applicant). The policy that follows is the product of international experience. In formulating it, publications of supervisory authorities in various countries (including the PRA in the UK and the APRA in Australia) were reviewed, talks with entrepreneurs in the field were held, and adjustments to the local economy were made. The purpose of this document is to create certainty and transparency regarding the process and the main requirements for the establishment of a bank, so that a license applicant may proceed with greater ease.

In recent years, the Department has emphasized the promotion of competition in the providing of credit to the retail and small-business segments by participating in leading structural reforms and removing barriers to entry to the market, among other things. These measures are meant to amplify the competitiveness and competitive comportment among existing players and to increase the number of competitors in the financial-banking market. Technological developments and innovation in the financial world, together with leniencies granted by the Department in its directives in the past two years, make it possible to establish new and innovative banks that will use digital means and cooperate with nonbank entities in order to obviate the need for a broad network of branches.

The process of establishing a bank is not simple; it entails a large investment of resources. The Bank of Israel is aware of the difficulties inherent in the process and understands the need to make it more structured, concise, and simple, to remove entry barriers to the banking system, and to create regulatory certainty for those who wish to establish a bank. Therefore, the Bank of Israel has decided to ease the regulations applying to a new bank significantly, to systematize, shorten, and simplify the bank licensing process, and to create regulatory certainty for license applicants at an early stage in the process.

Within the framework of the regulatory leniencies for new banks, it has been determined that the Proper Conduct of Banking Business Directives and the Reporting to Banking Supervision Directives that apply to banks in Israel shall be tailored to every new bank and set forth commensurate with the scale and complexity of the bank’s expected activity at each stage, the risks inherent in said activity, and the quality of its controls, resulting in the application of risk-adjusted supervision.
Among the regulatory leniencies, a new bank that is expected to engage in non-complex activity (e.g., retail banking) shall be entitled to major leniencies in capital requirements. In its first few years of activity, it will need only NIS 50 million in initial capital. Further on, when its credit risk-weighted assets reach NIS 600 million, it will only have to attain a Common Equity Tier 1 Capital ratio of 8.0 percent and a Total Capital ratio of just 11.5 percent—capital adequacy ratios that are lower than those that currently exist for the banks. A new bank will be allowed to raise initial capital in a staggered manner, commensurate with the extent of its activity, the complexity of its products, its risk profile, and its owner’s financial strength. As the bank’s activity, services, and products expand, some of the leniencies will be downscaled gradually and some limitations that appear in its license will be lifted. This process will be carried out transparently and in coordination with the owner and management of the bank.

In addition, a new bank may be hosted on the IT infrastructure of an existing bank or, alternatively, may rely on the technological infrastructure of the Digital Banking Services Bureau once such a bureau comes into being as specified in the “Letter of Principles for Enhancing Competition in the Financial System” issued by the Ministry of Finance and the Bank of Israel.

To support the establishment of new banks and protect the depositor public, the public’s deposits with a new bank that receives a license from the Bank of Israel will receive infant-industry protections in a structure that will be determined jointly by the Bank of Israel and the Accountant General of the Ministry of Finance.

Bank licensing for a credit-card company: In accordance with the Increasing Competition and Reducing Concentration in the Banking Market in Israel Law (Legislative Amendments), 5777-2017, otherwise known as the “Strum reform,” the country’s two largest banks, Bank Leumi and Bank Hapoalim, will have to sell the credit-card companies that they own. Credit-card companies that are separated from banks will be able to apply for a bank license. Credit-card companies are already active in many of a bank’s areas of business and are subject to many of the Department’s directives. Accordingly, a credit-card company that wishes to become a bank will receive leniencies in capital requirements, only having to attain a Common Equity Tier 1 capital ratio of 8.0 percent and a Total Capital ratio of just 11.5 percent. It may also enjoy further regulatory dispensations at the discretion of the Supervisor of Banks (hereinafter: the Supervisor) under the principle of risk-adjusted supervision, and the licensing process that it will have to clear will be much shorter, as specified below.

To create transparency for a license applicant, the Department promulgates herewith a policy document that regulates the process of licensing and establishing a new bank. Within the context of the policy and to create regulatory certainty for a license applicant, a bank license allowing limited activity for a limited period of time will be issued in the first stage. The limited license will be given after the Department finishes its review of the owner’s honesty, integrity, and financial strength and vets the prospective bank’s business plan and viability. The limited license will allow the license applicant to engage in limited activity of extending credit and accepting deposits before it completes all requisite preparations. In this manner, the limited license will give applicants certainty at an early stage of the process and allow them to complete the costly preparations for permanent licensing after receiving a limited license. Thus, license applicants may more easily complete their capital raising, hire staff, invest in infrastructure and technological systems, and contract with service providers. The business plan of a new bank may include several stages in the development of activity, so that in the first stage the new bank would offer considerably downscaled services and may even direct them at one segment of customers, such as households or small businesses, and expand its purview of activity in the second stage.

The process presented in this document is systematic and structured, composed of five main stages. The document defines the measures that the applicant and the Department must take and caps the
review of the license application to a period of about half a year from the time the requisite
documents are submitted. As the process moves ahead, the Department will steward and guide
the license applicant in all stages relating to the establishment of the bank until the permanent
license is given.

The requisite processes, terms, and documents attending to the licensing process should be
considered guidelines that shall be implemented with discretion in accordance with the particulars
of the license applicant and the controlling parties.

This document repeals the document titled “Licensing Process for the Establishment of a Virtual
Bank in Israel—Charter,” published in July 2013, and the draft outline for the establishment of
a new bank in Israel—a new policy of the Banking Supervision Department for removing
barriers to entry, published in June 2016.

Below is a summary of the five-stage process by which a new bank shall be established:

Stage 1: Decision to establish a bank—At this stage, the license applicant determines whether he
has the knowledge, tools, and resources with which to establish a bank, and draws up a proposal for
the establishment of a bank ahead of a getting-acquainted meeting with the Department.

Stage 2: Getting-acquainted meeting—Here the Department gains an understanding of the
project and its viability and explains the licensing process to the applicant. After the meeting, the
license applicant presents the Department with a preliminary application for a limited bank
license and a permit to control a banking corporation.

Stage 3: Preliminary dialogue—This stage comprises several meetings with the Department,
during which the license applicant continues to develop the business plan and satisfy the
requirements for the submission of an official application for a limited bank license and a permit
to control a banking corporation. In addition, the license applicant prepares an outline of milestones
and timetables for the completion of preparations for permanent licensing. At the end of this stage,
the Department gives the license applicant a go-ahead in principle to submit an official application.

Stage 4: Application for a limited bank license and a permit to control a banking
corporation—At this stage, the license applicant presents, after having attached it to its official
application for a limited bank license and a permit to control a banking corporation, an outline
with milestones and timetables for the completion of the preparations. The Department reviews
the application and presents it to the Governor of the Bank of Israel (hereinafter: the Governor),
who, after consulting with the Licenses Committee, makes a decision. At the end of the process,
the corporation receives a limited bank license and its owner receives a permit to control, and to
hold means of control in, a banking corporation.

Stage 5: Completion of preparations for permanent licensing—The new bank begins to operate
under a limited license and acts concurrently to complete its operational, administrative, and
regulatory preparations in accordance with the milestones and timetables that have been set forth. A
bank that completes its preparations shall receive permanent licensing; a bank that fails to do so
shall propose an alternative outline for the Department’s approval. If the bank fails to implement
the alternative outline, its license shall be voided. The duration of this stage depends on the
applicant and on the attainment of milestones stipulated with the Department for the completion of
preparations for full activity.

A credit-card company that wishes to obtain a bank license shall not have to go through all
the stages of licensing; it may begin the process at Stage 4. The company shall present
application documents on a smaller scale than those required for a new bank that starts from the
ground up, as relevant. Once the Governor approves the application after consulting with the
Licenses Committee, the company will receive a permanent license as opposed to a limited one
and, therefore, will not need to carry out Stage 5 of the process. When the controlling shareholders of a credit-card company are vetted, account will be taken of the amount of time and the changes that took place in their situation after they were approved when they bought the company from the bank. The background for this dispensation is that credit-card companies are supervised by the Department and already carry out a wide variety of banking activities, in which they apply the Department’s banking conduct directives.

A corporation that receives a bank license will be required to maintain a physical presence in Israel that will manage its banking activity in Israel. This is consistent with, among other things, the principles of the Financial Action Task Force (FATF), the international organization combatting money laundering and terrorism financing.

The table below itemizes the responsibilities of license applicants and the Department in the process of establishing a new bank:

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<th>Process of establishing a new bank in Israel</th>
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<td><strong>Stage 1</strong></td>
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<td>Actions to be taken by license applicant</td>
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| 1. Defining the project and deciding whether to establish a bank.  
  2. Contacting the Department and presenting a proposal document for the establishment of a bank.  |
| Actions to be taken by Banking Supervision Department |
| 1. Reviewing the proposal document to establish a bank and preparing for a getting-acquainted meeting.  
  2. Setting a time for the getting-acquainted meeting.  |

| **Stage 2**                                 |
| Actions to be taken by license applicant    |
| 1. Holding the getting-acquainted meeting.  
  2. Naming a contact person on behalf of the license applicant.  
  3. Presenting a preliminary application for a limited bank license and a permit to control.  |
| Actions to be taken by Banking Supervision Department |
| 1. Holding the getting-acquainted meeting.  
  2. Naming a contact person on behalf of the Department.  
  3. Reviewing the preliminary application.  |

| **Stage 3**                                 |
| Actions to be taken by license applicant    |
| 1. Conducting a dialogue with the Department.  
  2. Developing a business plan, meeting requirements, and issuing an outline with milestones and timetables.  |
| Actions to be taken by Banking Supervision Department |
| 1. Conducting a dialogue with the license applicant.  
  2. Issuing an authorization in principle to submit an official application.  |

| **Stage 4 (ending with issue of limited bank)** |
| Actions to be taken by license applicant    |
| 1. Submitting an official application for a limited bank license and a control permit, attaching milestones and timetables for the  |
| Actions to be taken by Banking Supervision Department |
| 1. Reviewing the official application and receiving the decision of the Governor after  |
1. Completion of preparations for permanent licensing.

2. Stewarding the new bank and monitoring the completion of its preparations.

3. Conducting a comprehensive examination.

4. If the bank fails the examination, an alternative outline is examined; if it cannot comply with the new outline, its license is voided.

The time given for license preparations is limited: up to 3 years, in accordance with the outline and the applicant’s progress in complying with it. (The faster the progress is, the faster the permanent license will be issued.)
The Process of Establishing a Bank

Stage 1: Decision to Establish a Bank

To decide whether to establish a bank, one must understand the full set of considerations and aspects relating to this measure, including what a bank is, whether the intended business activity requires a bank license, the alternative ways in Israel for providing financial services, regulatory requirements that a new bank and its controlling shareholders must satisfy, and the compulsory reviews that precede the approval of the application, including those pertaining to the bank’s senior officers. A license applicant who decides to establish a bank must approach the Banking Supervision Department’s Licensing and New Banks Unit and present it with a document proposing the establishment of the bank. After the Department reviews the document, a getting-acquainted meeting with the license applicant is set up.

Does the intended activity require a bank license?

When the decision to establish a bank is considered, the first thing to determine is whether the intended business activity requires a bank license. The answer is found in the Banking (Licensing) Law, 5741-1981 (hereinafter: the Law), Sections 13, 21, and 49(c).

Banking regulation in Israel

The activities of Israeli banks and credit card companies are supervised by the Banking Supervision Department of the Bank of Israel. The Department’s main goal is to protect the welfare of the public—depositors and the public at large—by keeping the banking system stable and strong, maintaining fairness in bank-customer relations, reinforcing the public’s trust in the banking system, and striving to stimulate more competition in the banking system.

Certain aspects of banks’ activity—e.g., pension consulting, investment consulting, issuance of securities, membership on the Tel Aviv Stock Exchange, and maintaining competition in the banking system—entail the involvement of additional supervisory authorities. These aspects, in the main, are subject to the supervision of other authorities, e.g., the Capital Market Authority, the Israel Securities Authority, and the Antitrust Authority. A bank’s activity may also be subject to other countries’ regulations when the bank approaches foreign customers.

The regulatory framework of banking supervision in Israel includes banking legislation, Proper Conduct of Banking Business Directives, Reporting to the Public Directives, Reporting to Banking Supervision Directives, letters and circulars, and FAQs. These appear on the Bank of Israel site.

As part of the measures that are meant to stimulate enhanced competition in the Israeli banking system, new banks will be eligible for significant regulatory leniencies. The directives will be adjusted to what the Department expects of a small new bank that conducts non-complex activity (e.g., retail banking) and is in the midst of its founding and consolidation process, from the perspective of risk-adjusted supervision. Importantly, the Supervisor is entitled to establish additional regulatory requirements or leniencies in accordance with the scale and complexity of the corporation’s activity, the quality of its controls, and its risk profile, as reflected during the review of the application for a limited bank license in Stage 4.

As part of the regulatory leniency, a new bank that engages in non-complex activity will need only NIS 50 million in minimum capital in its first years of operations. Said minimum capital shall include Common Equity Tier 1 instruments as specified in the Proper Conduct of Banking Business Directives concerning measurement and capital adequacy, and it should provide a capital buffers with which to absorb unexpected losses and protect depositors’ money. The bank may raise the initial capital in a staggered fashion commensurate with the extent of its activity, its risk profile, and its owner’s financial strength. Further on, after its activity increases and its credit risk-weighted
assets reach NIS 600 million, it will only have to attain a Common Equity Tier 1 Capital ratio of 8.0 percent and a Total Capital ratio of just 11.5 percent. If the bank has more initial capital, it will be able to engage in broader and more complex activity.

As for infrastructure and digital systems—a new bank may be hosted on the technological infrastructure of an existing bank with which it concludes a contract or it may rely on the technological infrastructure of the Digital Banking Services Bureau once such a bureau comes into being as specified in the “Letter of Principles for Enhancing Competition in the Financial System” issued by the Ministry of Finance and the Bank of Israel. Within this framework, it will be eligible to receive a broad range of banking digitalization services in the retail and securities fields.

To support the establishment of new banks and protect the depositor public, infant-industry protections will be set, in a structure that will be formulated in collaboration with the Bank of Israel and the Accountant General of the Ministry of Finance.

**Compulsory certifications for the establishment of a bank**

**Banking license**: a license applicant who is interested in engaging in banking activity shall, in accordance with Section 4 of the Law, form a corporation and obtain a bank license from the Governor after the latter consults with the Licenses Committee.

Section 6 of the Law specifies the considerations in issuing a bank license, including the license applicant’s action plan and the likelihood of its being fulfilled; the suitability of holders of means of control in the corporation, directors, and executives for their posts; the contribution of the issuance of the license to competition in the capital market and competition and quality of service in the banking system; the government’s economic policy; and the public welfare, including the risk of adverse impact to depositors.

**Permit to control and hold a banking corporation**: Section 34 of the Law states that control of a banking corporation, or holding means of control in a banking corporation at a rate that exceeds 5 percent, requires a permit from the Governor after the latter consults with the Licenses Committee. The Governor’s considerations in reviewing the suitability of a permit applicant fall into four main domains:

1. personal and business honesty and integrity;
2. financial strength;
3. investment strategy;
4. business experience, other occupations and business activities, and potential conflict of interest in the banking corporation.

To receive a control permit, the permit applicant shall fill out a dedicated questionnaire as specified in Stage 4. The criteria for testing the reliability of an applicant for a control or holding permit appear in the joint document of the Ministry of Finance, the Israel Securities Authority, and the Bank of Israel on “Guiding Principles for the Criteria and General Conditions for Requesting a Permit to Control and Hold the Means of Control of Supervised Entities” (appears on the Bank of Israel website, in Hebrew).

An expanded discussion regarding control and holding the means of control in a banking corporation can be found in the document, “Criteria and General Conditions for Requesting a Permit to Control and Hold the Means of Control of a Banking Corporation” (appears on the Bank of Israel website, in Hebrew).
Appointment of officers: To appoint a person to the post of director, Chief Executive Officer, internal auditor, or legal counsel of a bank, and also to appoint up to seven members of management and watchdogs in central positions, the Supervisor must certify that he has no objection to said appointments. In making this decision, the Supervisor shall vet the candidate for reliability, personal probity, reputation, business integrity, suitability, capabilities, and credentials for service in the post at issue, as well as the absence of conflict of interests (“fit and proper”).

Within this framework, the candidate shall fill out a questionnaire and sign before an attorney a declaration that all information that he provides in the questionnaire is complete and accurate and that he agrees to waive all rights to confidentiality or secrecy in respect of any information about him in the possession of police or other state entities in Israel and abroad, supervisory or regulatory authorities in Israel and abroad, tax authorities, and banking corporations or banks abroad.

For elaboration on the topic of the board of directors, consult Proper Conduct of Banking Business Directive no. 301, which deals with the duties and authorities of a bank’s board of directors, board committees, mandatory credentials of the board, and other matters. Adjustments and dispensations may be applied to this directive for a new and small bank, as shall be discussed with the license applicant.

Preparations for getting-acquainted meeting

A license applicant who decides to establish a bank shall contact the Department’s Licensing and New Banks Unit. The Licensing and New Banks Unit handles applications that, by law, require licensing from the Governor or the Supervisor. Its activity includes, but is not limited to, reviewing license applications for new banks and for branches and activities of foreign banks, vetting candidates for control of or holding of means of control in banking corporations, and “fit and proper” review of candidates for senior officer positions in banking corporations.

The Licensing and New Banks Unit may be contacted by e-mail: LicensingApplication@boi.org.il.

When contacting the Licensing and New Banks Unit, a license applicant shall attach a document containing a proposal for the establishment of a bank. Said document should include a concise description of the main aspects of the project, including the license applicant’s name, education, and business experience; the business strategy of the project—main characteristics of activity, products, target population, schedule, and so on; the legal structure of the corporation, its management, and its Board of Directors (insofar as these are known), and main details of proposed ownership and control; existing and planned capital, including investors and capital-raising methods; and the proposed computerization approach, including plans to base it on outsourcing.

After the Department reviews the proposal document, a getting-acquainted meeting with the license applicant shall be arranged as specified in Stage 2.

Stage 2: Getting Acquainted Meeting

The purpose of the getting-acquainted meeting is to give the Department an opportunity to understand the planned project, to determine whether it requires receipt of a bank license, to determine whether the plan for establishing a bank and obtaining a license is viable, and to apprise the license applicant of the licensing process and the supervisory requirements. After the getting-acquainted meeting, the license applicant shall prepare a preliminary application for a limited bank license and a permit to control a banking corporation and shall present it to the Department.

Course of the meeting

In the course of the getting-acquainted meeting, the license applicant is asked to present his proposal for the establishment of a bank and provide details about the people behind it; the
structure of the corporation; its controlling shareholders; its investors, the activity, products, and target population of the project; and so on.

Representatives of the Department shall explain the following aspects to the license applicant: the stages of the licensing process, the meaning of obtaining a limited bank license as part of the licensing process, the process for obtaining a permit to control a banking corporation, the supervision-related expectations of the license applicant, the documents and materials that the license applicant must present to the Department, expected timetables, the framework of regulatory requirements that apply to a new bank, and material challenges that the Department’s representatives see in the project.

At the end of the meeting, each party—the Department and the license applicant—shall name a liaison who shall serve as its contact person in the continuation of the process so that a regular channel of communication will exist.

**Limited bank license**

The issuance of a limited bank license is an important stage in the licensing process as it heads toward permanent licensing. It is meant to ease the burden on the license applicant by affording him or her regulatory certainty in establishing a corporation that will be able to start operating, relatively quickly, as a bank that engages in accepting deposits and extending credit. In addition, while it operates as a bank under limited licensing, the corporation can complete its operational and administrative preparations and close regulatory gaps in advance of permanent licensing. The corporation may, for example, finish its capital-raising process (subject to vetting procedures and approval of the Bank of Israel), hiring of staff, investment in infrastructures and technological systems, and contracting with service providers while holding a limited bank license. In return for issuing a limited license at an early stage of the process, the Supervisor will create frameworks for the corporation’s activity at this stage, including restrictions commensurate with the extent of its activity, risk profile, and financial strength at that point in time. During the period of limited licensing, limits shall be set on, for example, the level of deposits that the corporation is allowed to accept, the extent of credit that it may issue, the activities in which it may engage, and the products that it may market to the public.

After the license applicant submits an application for a bank license and the Governor approves it, the corporation shall receive a limited bank license signifying that the Bank of Israel allows it to start operating as a bank and that the license applicant has cleared due diligence. Along with the license, which specifies the restrictions on the corporation’s activity, the license applicant shall receive an accompanying letter that specifies milestones and timetables for the completion of preparations for permanent licensing. The restrictions shall be determined in accordance with the corporation’s business plan, its readiness, and the operational, administrative, and regulatory preparations that it must make. At the end of the preparation period, the new bank shall undergo a comprehensive examination. If the examination results indicate that the bank has completed the preparations as required, it will receive a permanent license. The Department expects a bank that operates under limited licensing to complete its preparations by the deadlines that were set in conjunction with the license applicant in the letter that accompanies the license and within three years of the time it is received. The bank, of course, may shorten this period by reaching the milestones more quickly. If the bank will not succeed in completing the preparations by the specified deadlines, it must approach the Department in advance to explore the possibility of setting new milestones for the completion of the preparations. If the bank remains unable to complete the preparations, the license is voided. For elaboration, see *Stage 5*. 

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Preliminary application

After the meeting, the license applicant shall draw up a preliminary application for a limited bank license and a permit to control a banking corporation and present it to the Department. Said preliminary application shall serve as a basis for discussions that shall take place in Stage 3 between representatives of the Department and the license applicant.

The Department expects the preliminary application to be detailed and comprehensive and expects it to relate, to the extent possible, to all aspects that appear in the documents pertaining to the formal application for a limited bank license and a permit to control a banking corporation. If certain matters have not been completed and are in processes of construction and formation, this shall be noted in the application documents and all of the most recent information, including a plan for progress and timetables, should be specified.

The preliminary application shall include, to the extent possible, detailed reference to the following:

- **Business plan**: activity, services, products, deposit and credit underwriting model, pricing of products and services, distribution channels, characteristics of target customers, customer recruitment and retention strategy, SWOT (strengths, weaknesses, opportunities, and threats) analysis, market analysis, and expected sources of earnings;

- **Financial planning**: sources of funding, capital planning to at least four years ahead, and capital and liquidity strategy on the basis of business planning, including sensitivity analyses;

- **Ownership and control**: legal structure of the corporation and details about controlling shareholders, including extent and source of each controlling principal’s capital;

- **Corporate governance**: the organizational structure, board of directors, and senior management of the corporation;

- **Risk strategy**: main foreseen risks inherent in the corporation’s activity, risk detection and management strategy, and intended levels of control;

- **Information technologies**: IT infrastructures and systems, information security, and schedules for testing and application;

- **Outsourcing**: main functions and processes that will be operated by means of outsourcing and details about expected service providers, insofar as these exist at this stage;

- **Customers**: compliance with main consumer directives, handling of complaints from the public, and compliance with anti-money laundering and terror-financing directives, including “Know Your Customer” procedures.

Stage 3: Preliminary Dialogue

The preliminary-dialogue stage is meant to help the license applicant to submit an official application for a limited bank license and a permit to control a banking corporation. It comprises several meetings between representatives of the Department and those of the corporation, in the course of which the business plan and additional matters that entail progress on the corporation’s part shall be discussed. In the preliminary-dialogue stage, the license applicant shall continue to develop the business plan and complete requisite steps for the submission of an official application for a bank license and a permit to control a banking corporation. In addition, the applicant shall prepare an outline with milestones and timetables for the completion of its preparations for permanent licensing. The Department shall review the corporation’s preparations for the
submission of an official application and, at the end of this stage, shall give the license applicant approval in principle to present the application.

Course of the meetings

After the Department reviews the preliminary application, its representatives shall meet with those of the license applicant several times. The meetings will give the license applicant an opportunity to present developments in the business plan, and at this stage it must display thorough understanding and great familiarity with its details. The discussions shall focus on progress in developing the business plan; digital infrastructures and systems; risks inherent in the corporation’s activity; regulatory requirements pertaining to the corporation, its controlling shareholders, and its officers; and any other relevant topic. The number of meetings is set commensurate with need and the pace of the corporation’s progress toward submitting an official application. The license applicant may be required to share additional materials with the Department. Timely and compliant satisfaction of this requirement is crucial for the advancement of the process.

Progress in carrying out the project

During the preliminary-dialogue stage, the license applicant shall continue to develop the business plan and complete its preparations for the presentation of an official application for a limited bank license and a permit to control a banking corporation. The business plan may divide the new bank’s development into several stages, so that the bank will provide limited services and may target one segment of customers in the first stage and will expand its activity in the second stage. In addition, the license applicant must prepare an outline with milestones and timetables for the completion of its preparations during the time of its operation under a limited license and ahead of the receipt of a permanent license. The outline shall include various matters that the corporation will have to complete after it receives the limited license, e.g., capital, staff, infrastructures, processes, policies, regulatory gaps, and other requisites.

Authorization in principle to present an official application

After the license applicant presents all requisite materials, the Department shall review the corporation’s preparations for the submission of an official application for a limited bank license and a permit to control a banking corporation. If the corporation is duly prepared, the Department shall give the license applicant authorization in principle to submit an official application.

There are situations in which a license applicant will be prepared to submit the documents for a permit to control a banking corporation before it is ready to present the documents for a limited bank license. In such a case, it shall receive approval in principle to submit the control-permit documents at an earlier stage, and the review of the documents and approval of the application shall take place in accordance with the timing of their submission. The permit for control, however, shall actually be given to the owner only when the corporation is issued with a limited bank license.

Stage 4: Application for Limited Banking License and Permit to Control a Banking Corporation

After it receives authorization in principle, the license applicant shall submit to the Department an official application for a limited bank license and a permit to control a banking corporation. The review of the application is likely to take approximately six months from the time the Department confirms having received all the requisite documents. At the end of the review, the Supervisor shall make a recommendation to the Governor regarding the issuance of the permit, and the Governor, after consulting with the Licenses Committee, shall make a decision. If the Governor approves the application, the corporation will receive a limited bank license for a period that shall not exceed three years, and the owner of the corporation will receive a permit to
control and hold means of control in the new bank. In addition, milestones and timetables shall be set for completing the new bank’s preparations for permanent licensing.

**Submitting an official application for a limited bank license and a permit to control a banking corporation**

Before the official application is submitted, it is important to make sure that all requisite actions have been taken in full and that all remarks made by the Department in the preliminary application stage have been acted upon. All questions appearing on the application documents must be answered reliably, fully, and accurately, and all relevant original documents must be attached. Withholding information or providing incomplete information may affect the duration of the review and the approval of the application. Any matters in doubt should be dealt with before the application is presented.

The required application documents are the following:

- application for limited bank license;
- application for a permit to control a banking corporation.

The application documents, signed in the original, must be sent to the Department in duplicate at one of the following address:

Bank of Israel, Kiryat ha-Mada 3, Jerusalem, 9777603; or Yavne 20, Tel Aviv, 6579124, with an additional electronic copy sent to LicensingApplication@boi.org.il

In addition, to appoint officers for the corporation, every applicant must fill out a questionnaire and sign a declaration before an attorney. These documents also appear at the Bank of Israel web site and in Appendix A of Proper Conduct of Banking Business Directive 301.

**Review of limited bank license application documents**

The documents pertaining to the limited bank license application shall be reviewed in respect of:

- the viability and reasonability of the business plan;
- the corporation’s ability to act prudently, steadily, and equitably while protecting depositors’ money;
- capital and liquidity planning, and a review of their adequacy in consideration of sensitivity analyses;
- IT infrastructure and systems and information-security;
- risks inhering to the bank’s activity, including credit risks, market risks, liquidity risks, operational risks, compliance and AML/CFT risks, cyber threats and IT risks, and the corporation’s ability to detect and manage all the above;
- ability to comply with regulatory provisions and reporting requirements as are tailored to a small bank that engages in non-complex activity; in this matter, a dialogue shall take place with the license applicant in order to adjust the regulatory requirements to the level of risk.
- the corporation’s intended levels of control;
- the bank’s contribution to competition in the banking system, quality of service in the system, and the public welfare, in the short, medium, and long terms.

As the limited bank license application is being reviewed, representatives of the Department may visit the offices of the corporation, meet with its functions and officers, and, farther on, conduct
examinations in various matters. In addition, the license applicant may be asked to furnish the Department with additional information or documents.

On the basis of the corporation’s capital and liquidity planning, risk profile, scale, and complexity, final determinations will be made as to its liquidity targets and leverage ratios, a roadmap to compliance with the capital target, the extent of reporting to the Department and to the public, and additional regulatory demands.

**Review of banking corporation control permit application**

The criteria for the issue of a permit for control appear in “Criteria and General Conditions for Requesting a Permit to Control and Hold the Means of Control of a Banking Corporation” (appears on the Bank of Israel website, in Hebrew).

The review of the documents pertaining to the application for a permit to control a banking corporation focuses on the following:

- the personal and business honesty and integrity of the license applicant, the controlling shareholders, and officers;
- the background, experience, and education of the controlling shareholders and officers;
- the corporation’s ownership structure and chain of holdings; a simple, clear, and transparent structure of holdings is important;
- the controlling shareholders’ financial strength and source of capital;
- potential conflicts of interest at the corporation.

**Milestones and timetables**

Apart from the documents pertaining to the application for a limited bank license and a permit to control and hold means of control in a banking corporation, the license applicant must present an outline with milestones and timetables for the completion of its operational and administrative preparations and the closure of regulatory gaps during its period of limited licensing. The Department shall review the viability of the outline and its fit with the corporation’s business plan and risk profile.

If the license applicant presents complete documentation that provides all the requisite information, the review of the application should end within six months of the date on which the Department confirms having received all the requisite documents. At the end of the review, the Department shall issue an opinion and forward it to the Governor.

**Making the decision**

After the Supervisor of Banks makes a recommendation, and after consultation with the Licenses Committee, the Governor shall make a decision on whether to approve the application. If the Governor approves the application, the corporation will receive a limited bank license for a three-year period and the owner of the corporation will receive a permit to control and hold means of control in the new bank. The limited bank license shall specify restrictions on the bank’s activity and shall come with an accompanying letter specifying milestones and timetables for the completion of its preparations for permanent licensing. The license applicant may shorten the term of the limited license and receive permanent licensing after complying with the outline of milestones.

After it issues the license, the Bank of Israel puts out an official announcement concerning the issue of the limited bank license to the corporation and adds the new bank to the list of banking corporations that appear on the Bank of Israel web site.
Any material change in the business plan after submission of the limited banking-license documents, such as products, services, lines of business, investors, ownership and control, officers, and so on, shall require the approval of the Supervisor.

**Stage 5: Completion of Preparations for Permanent Licensing**

After the corporation receives a limited banking-license, it must complete the operational and administrative preparations and close regulatory gaps in accordance with the predetermined milestones and timetables for permanent licensing. The Department shall review the new bank’s preparations and, at the end of the process, perform a comprehensive examination. If the preparation process is concluded as required, the bank will receive a permanent license. If the bank fails to complete its preparations, it may propose an alternative outline that the Supervisor shall approve, and if it fails to comply with the alternative outline as well, its license shall be voided.

**Completion of the preparation process by a new bank**

A corporation that receives limited licensing shall act to complete the operational and administrative preparations and the closure of regulatory gaps in advance of full licensing. The new bank shall carry out these preparations in accordance with the milestones and timetables specified in the letter that accompanies the limited license. These measures may include completing the raising of requisite initial capital (subject to approval of the Bank of Israel); installing technological infrastructure, signing a hosting contract or purchasing infrastructures and technological systems; completing the hiring and training of staff; completing infrastructures for adequate corporate governance, installing internal controls, policies, and processes of activity and risk management; and completing outsourcing arrangements and business-continuity plans. Once per quarter, the bank shall present the Department with an ongoing update in regard to its progress in accordance with the milestones and timetables and, if necessary, it must present additional documents or materials.

The process of preparation by a new bank may entail a notably large investment of resources. It is important to bear in mind that the mandatory initial capital of a new bank is allocated in order to cover unforeseen losses and protect depositors’ money; it cannot be used to cover the costs of establishing the bank or completing its preparations. In addition, at every point in time during the preparation period, a new bank must be in compliance with the capital plan set forth in its license and must not fall short of the threshold requirements that were determined.

**Reviewing the completion of the new bank’s preparations**

In the course of the preparation period, the Department shall review the progress made by the new bank. Within this framework, it shall examine the materials that it received from the bank, meet with representatives of the bank, and perform specific checks in matters such as capital, liquidity, corporate governance, risk management, compliance, and business model. The number and extent of these checks shall be determined in accordance with need and shall be coordinated with the bank. If in the course of said review additional aspects are discovered that entail action or the closing of gaps beyond the provisions of the document of milestones, the bank must deal with these aspects as well.

Toward the end of the preparation process, the bank will undergo a comprehensive examination. If the results of the examination indicate that the bank has completed its preparations as required, the bank will receive a permanent license. A permanent license may restrict the activity of the new bank at the discretion of the Governor.

The Department expects the new bank to complete its preparations in accordance with the timetables set forth in the letter accompanying the limited license and before the passing of three
years after said license is received. If the bank will not succeed in completing its preparations in accordance with the timetables set forth, it must approach the Department in advance to explore the possibility of drawing up a new outline of milestones to complete the preparations. If the bank is unable to complete its preparations, its license shall be voided.

In the event that a bank’s license is voided, the Governor and the Supervisor, in consultation with the Ministry of Finance, shall establish an outline for the closing down of the bank’s activity. In this case, the bank’s initial capital shall be used to terminate activity and to make restitution for the public’s deposits.