

## **ACTIVITY OF A BANKING CORPORATION IN A CLOSED SYSTEM**

### **Introduction**

1. (a) With the technological advances worldwide in the areas of communications and information technology, branches of banking corporations no longer constitute the sole focus of customers' activities.
- (b) Due to these changes, and in order to encourage competition within the banking system in general and the private customer segment in particular, the activity of a banking corporation within a closed system, as defined in Section 2 below, is set out herewith, with the goal of making it easier for customers to deposit money or carry out activities in joint units in a banking corporation in which their day to day banking activity is not conducted.
- (c) The aforesaid arrangement enables a customer to open and manage an account in a closed system, as defined below, in any banking corporation without having to enter the transferee banking corporation's branch or open a current account there.
- (d) Money shall be transferred by means of e-banking services, which are occupying an increasingly prominent place in the area of transactions, and provided that in the process of transferring the money sufficient particulars are noted to ensure that the person requesting to carry out activities in a closed system is also the holder of the source account.
- (e) The basic condition for a closed system is the return of the money or joint units to the source account.

### **Definitions**

2. **"E-banking"** As defined in Section 19(a) of Proper Conduct of Banking Business Directive no. 357;
- "Directive 357"** - Proper Conduct of Banking Business Directive no. 357 on "Information Technology Management";
- "The Order"** - The Prohibition on Money Laundering (The Banking Corporations' Requirements regarding Identification, Reporting, and Record-Keeping for the Prevention of Money Laundering and the Financing of Terrorism) Order, 5761-2001;

**ONLY THE HEBREW VERSION IS BINDING**

- “Account in a closed system”**- As defined in Section 5b(a) of the Order;
- “Source account”** - As defined in Section 5b(a) of the Order;
- “Joint unit”** - As defined in Section 5b(a) of the Order;
- “Activity in a closed system”** - Opening and closing an account in a closed system;
- “Customer”** - An Individual as defined in Section 1 of the Order;
- “Transferring bank”** - The banking corporation in which the source account is situated;
- “Transferee bank”** - The banking corporation in which the account in a closed system is opened;

**Opening an account in a closed system**

3. (a) The transferee banking corporation shall require the customer to sign a deposit agreement as required under the Banking (Service to Customer)(Full Disclosure and Submission of Documents), 5742–1992 Rules, and shall record the customer’s identification particulars as detailed in Section 2(a) of the Order, as submitted to it.
- The documents shall be submitted to the customer for signing by being sent to the customer’s address by means of the regular mail delivery service, by fax, by a print-out at one of the terminals of the transferee banking corporation, or by e-mail via the Internet and printed on the customer’s printer.
- (a1) The Customer is to sign the agreement and return it, signed, to the transferee banking corporation, via one of the ways listed in Section (a) above.
- (a2) Notwithstanding the provisions of Sections (a) and (a1) above, the transferee banking corporation may conclude an agreement online with a Customer, as noted in Section 20(b) of Proper Conduct of Banking Business Directive no. 357.
- (b) The agreement shall include an explicit and emphasized instruction regarding the return of the money or joint units to the source account, and regarding the inability of the customer to give instructions for the transfer of the money or joint units to another account except in the cases specified in Section 5 below.
- (b1) The agreement shall include an explicit and emphasized instruction regarding the ability to transfer money or to execute transactions in joint units in an account in a closed system via e-banking.

- (c) The money or joint units deposited in the account in a closed system shall not be subject to pledging or offsetting; the agreement shall include an explicit instruction to this effect.

**Transferring money or joint units**

- 4. (a) The money or joint units shall be transferred from the transferring banking corporation to the transferee banking corporation through the generally accepted methods, provided that the method enables the transferee banking corporation to verify that the particulars of the customer as they appear in its records are identical with those of the holder of the source account, and at least: first name, last name, and source account details.
- (b) Without derogating from the provisions of the Banking (Service to Customer) Law, 5741-1981, and the rules that were implemented under its authority, the transferring bank shall not charge a fee in respect of the transfers noted in Section (a) in an amount that exceeds the amount of the fee it would have charged in respect of a similar transfer to an account that is not an account in a closed system.
- (c) The provisions of Chapter G in Proper Conduct of Banking Business Directive no. 357 shall apply to transfers noted in Section (a) that are executed in an e-banking framework.

**Returning money or joint units to the source account**

- 5. (a) The transferee banking corporation is to return the money or joint units, at the request of the Customer or at the end of the deposit period, to the source account.
- (b) If the Customer notifies the transferee banking corporation that he or she closed the source account and provides confirmation of this from the transferring banking corporation, the transferee banking corporation shall authenticate this as noted in Subsection (c)(3) below, prior to returning the money or joint units to the Customer.
- (c) In cases where it is not possible to return the deposit money or joint units to the source account due to its being closed, the following should be done:
  - (1) The transferee banking corporation shall invest the money as established in the Banking (Inactive deposits) Order, 5760-2000.
  - (2) The transferee banking corporation shall take measures to locate the Customer as follows:
    - a. The transferee banking corporation shall attempt to contact the Customer by sending a notice to the Customer's address as it appears in its records.
    - b. If there is no response from the Customer by two weeks from when the notice is sent, the transferee banking corporation shall contact

- the transferring banking corporation to clarify the address left by the Customer for sending notices regarding the source account that was closed, and shall attempt to contact the Customer at that address.
- c. If there is no response from the Customer by two weeks from when the notice is sent as per Section (b) above, the transferee banking corporation shall contact the Population Registry with a request to receive the Customer's address and shall send a notice to that address, to the extent that it is different from the address listed in the records of the transferring banking corporation.
  - d. If the address listed in the Population Registry is identical to the address listed in the records of the transferee banking corporation, or if no response is received to the notice sent to the address appearing in the Population Registry's records, the banking corporation shall attempt to contact the Customer once every six months by sending a notice to the most up to date address appearing in the transferee banking corporation's records.
  - e. If the transferee banking corporation did not succeed in contacting the Customer within a year from the deposit's maturity date, the transferee banking corporation shall publish an appropriate notice, among other things on the banking corporation's website, through which it requests that the customer contact the transferee banking corporation.
  - f. The transferee banking corporation may deduct the actual cost paid for publishing the notice in a newspaper from the money in the deposit or from the joint units.
- (3) If the transferee banking corporation locates the customer, it shall record and verify the customer's identification details in accordance with what is set in the Order prior to transferring to the customer's custody ensure the money or the joint units.

#### **Informing the Supervisor of Banks**

10. If a banking corporation is about to offer banking activity in accordance with this Directive, it shall inform the Supervisor of Banks of this in writing at least 60 days in advance.

#### **Internal control**

11. The management of the transferee banking corporation shall establish procedures for the appropriate internal control of adherence to the provisions of this Directive, and for minimizing the transferee banking corporation's exposure to the risks associated with activity undertaken in accordance with this Directive.

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**Updates**

<b>Circular 06 no.</b>	<b>Version</b>	<b>Details</b>	<b>Date</b>
2055	1	Original circular	January 6, 2002
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