

## Bank of Israel

Accounting, Payment and Settlement Systems Department  
Payment and Settlement Systems Division



Wednesday, November 15, 2017

## Public Consultation on the Establishment of an Infrastructure for Immediate Payment in Israel

The Bank of Israel is working to enhance the competition and efficiency in the payment systems, and to promote reliable and effective means of payment. This includes ensuring the existence of means of payment that are cash substitutes, such as immediate retail payment systems, as is generally accepted worldwide.

Accordingly, the Bank of Israel is publishing a Public Consultation for submitting proposals for the advancement of at least<sup>1</sup> one infrastructure—centralized or distributed—that will support immediate payments in Israel.

It should be clarified that at this stage the Bank of Israel does not plan to set up and/or operate an infrastructure for immediate payments, and does not plan to finance it.

**The public is invited to respond to this Public Consultation by December 17, 2017**

**Via email: [nir.levy@boi.org.il](mailto:nir.levy@boi.org.il)**

The Public Consultation is open for the reference of the general public.

In addition, business entities are invited to submit proposals for the establishment and operation of the infrastructure for immediate payments in Israel.<sup>2</sup> The proposal is to also include the following details, if they are relevant:

1. Description of the entity, emphasizing the business structure and experience in the field of payment and settlement systems; Similar projects that the entity brought into being (project name, year, activity, technological infrastructure, and the stage at which it is now—planning or production); and contact person for the entity.
2. Initial proposal for the business model of the project, and a discussion of its business viability. This section is to include reference both the establishment and implementation stage for the main -principles noted below as well as the stage of ongoing production.
3. Estimated timetables for implementing the solution.

<sup>1</sup> That is, it may be that in the end, several infrastructures supporting immediate payments in Israel will be set up.

<sup>2</sup> It should be noted in the letter whether its contents include proprietary information or trade secrets.

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4. Detailed description of the challenges inherent in developing an infrastructure for immediate payments in Israel, including the legal, regulatory, technological and other challenges.
5. Relevant notes and comments.

### **Introduction: What are immediate payments?**

Immediate payment has several main features, including:

- ✓ New means of payment
- ✓ Similar to cash: the initiator of the payment is debited immediately, and the beneficiary is credited within a very short period of time. That is, several seconds pass from the moment the payment is made until the funds are received in the account of the beneficiary and are made available for use.
- ✓ Based on a payment account: the customer has an account for conducting payment transactions in which the customer's funds are gathered.
- ✓ Available 24/7/365, except for extraordinary cases.
- ✓ Allows payments to be made via teller, phone instruction, Internet account page, or payment application.
- ✓ After approval of the payment by the entity where the customer manages an account, the payment instruction is irrevocable.
- ✓ Very convenient to use: Allows payments to be made via a designated payment application while using a unique identifier.

### **Immediate payments: The global situation**

An international review indicates that various countries have an infrastructure for immediate retail payments.<sup>3</sup> In the **UK**, a sophisticated infrastructure for clearing immediate payments was established<sup>4</sup>; **Singapore** implemented an infrastructure for

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<sup>3</sup> The UK, Iceland, Poland, Sweden, India, China, Japan, Nigeria, South Africa, Mexico, Brazil, Switzerland, South Korea, Singapore, Denmark, Taiwan, Turkey and Chile.

<sup>4</sup> The Faster Payment payments system set up with VocaLink in 2008. The system operates 24/7, serves private and business customers, and payment instructions for up to £250,000 can be transferred on it, though every participant in the system has the right to establish a lower maximum. Four types of payments can be transferred via the system: (a) single immediate payment (b) future payment (c)

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clearing immediate payments through the upgrade of its existing retail payments system<sup>5</sup>; and **Poland** has two infrastructures for clearing immediate payments.<sup>6</sup> In addition, there are countries that are in the process of examining, planning, or setting up such an infrastructure—**Australia** led a broad reform of all aspects of transferring data in real time, and included in it an infrastructure for clearing immediate payments<sup>7</sup>, and the **ECB** is promoting the establishment of a pan-European infrastructure for clearing immediate payments within the SEPA (Single Euro Payment Area) vision.<sup>8</sup>

The review also indicates that around the world there are two main approaches to promoting infrastructure for clearing immediate payments. These are:

- Setting up a new and designated payments system.
- Upgrading retail payments systems that already exist in the payment system.

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standing order (d) direct payment—service for companies. As of 2016, there are 15 banks that are direct participants and hundreds of indirect (hosted) participants.

As of 2014, the PAYM (Mobile payments) system operates on it. It is offered by the various banks participating in the system. The service facilitates the transfer of payments between users' accounts—P2P—based on the customer's mobile phone number.

<sup>5</sup> The FAST (Fast and Secure Transfers) service began operating in 2014, and it operates 24/7 and allows the transfer of payment instructions of up to SGD 50,000 electronically, securely and fast. There are 18 banks that participate in the service, and it is given on the basis of the Interbank GIRP System payments system, operated by Banking Computer Services Pte Ltd. (BCS).

<sup>6</sup> There are two immediate payment systems that operate in the country:

1. Express Elixir System: This infrastructure began to operate in 2012, and is operated by Krajowa Izba Rozliczeniowa (KIR S.A.) it is available 24/7 for executing payments of up to PLN 100,000. There are 11 banks that participate directly in the system, and tens of indirect participants.

Since 2015, it has been operating via the smartphone payment service MP2P.

2. BlueCash System: This infrastructure began to operate in 2012, and is operated by Blue Media SA. It is available 24/7 for the execution of payments up to PLN 20,000. There are 92 banks that participate in the system. The system allows the transfer of payments by customers of other banks as well, that are not participants in the system (both the sender's and receiver's sides can hold an account at a bank that does not participate in the system).

<sup>7</sup> SWIFT set up and operates a new platform for clearing low-value payments, NPP (New Payments Platform). This platform enables people and businesses to transfer, in real time, payments at an unlimited amount, and in addition it allows the transfer of information alongside the payment. The central bank is involved in setting up the platform, and it is set to reach the production stage at the end of 2017.

<sup>8</sup> The ECB is interested in setting up a pan-European infrastructure for executing immediate payments in euros and in other currencies. Accordingly, the bank published in November 2016 a Rulebook for integrating immediate payments in the EU. This followed consultation with the public. They are currently developing the payment system—TARGET Instant Payment Settlement (TIPS), and it is set to begin operating at the end of 2018.

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### General survey of the payment system in Israel<sup>9</sup>

The financial infrastructure in Israel is made up of interbank payment and settlement systems, which are used for transferring payments and clearing them. The main systems are:

- (a) The **Zahav** (the Hebrew acronym for Real Time Gross Settlement) system operated by the Bank of Israel. It is an advanced system for efficient and reliable settlement of shekel payments in the economy, in real time and irrevocable, and it serves as final settlement for all the payment systems in Israel.
- (b) The **Paper-based (Checks) Clearing House** (the Bank Clearing House) is also operated by the Bank of Israel, and it deals with checks and manual vouchers.
- (c) The “**Credits, Debits, and Payment Transfers**” system, which is operated by Masav (Automated Clearing House). This is an electronic system that transfers interbank payments, in shekels, and is not final. It is used for authorized debits in accounts, salary payments, tax payments, and others.
- (d) The “**Payment Card Services**” system, which is operated by Shva (the Hebrew acronym for Automated Bank Services). This system deals with the approval, collection, and processing of transactions carried out in Israel via payment card.
- (e) The “**Automated Bank Machines**” system, also operated by Shva. This system serves as a switch for the ATM networks for cash withdrawal.

### Does Israel need immediate payments?

The Bank of Israel is examining whether there is a need to implement immediate payments in Israel. Among other ways, it does this through a Consumer Survey conducted by an outside company and meetings with stakeholders in Israel’s payment system. The examination indicated, among other things, that Israel’s payment market mainly needs:

1. To execute payments conveniently and efficiently, at all times (24/7), and with low transaction costs. There is also a need to receive the payment rapidly.

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<sup>9</sup> Comprehensive and broad information on the activity of the main payment and settlement systems in Israel can be found in the 2015–16 Red Book, at <http://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/22-1-17.aspx>

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2. To enhance the competition in the payment system and to improve the service, among other things by the entrance of new participants who will offer immediate payment solutions throughout the transaction execution chain.
3. To reduce the shadow economy in Israel by reducing the use of paper-based means of payment. Immediate payment serves as a substitute for cash, as the money moves from the payment initiator to the payment receiver in a very short period of time of a few seconds, and the receiver of the payment can use it immediately, similar to cash.
4. To increase liquidity and reduce the costs of credit to businesses, by receiving payment in respect of goods or services immediately, as opposed to other non-cash means of payment common in Israel.<sup>10</sup>
5. To create an infrastructure that allows the settlement of advanced means of payment—existing ones and those to be developed in the future—as well as to create an infrastructure that will allow the clearing of payment instructions that were executed via various entities' payment applications.
6. To execute immediate payments of small sums, between people and between a person and a businesses.
7. To enhance the resiliency in Israel's payment system and to maintain the business continuity for means of payment by promoting an additional switch for transactions that will be carried out through advanced means of payment (that are not based on payment cards).

### **Main principles for infrastructures for clearing immediate payments**

1. The infrastructure for clearing immediate payments will be made up of at least the following four modules:
  - 1.1 A switch that approves the payments executed between customers of the system's participants.

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<sup>10</sup> Following are several examples of the time in which the business's account is credited in interbank transfers executed via various means of payment:

1. Bank transfer: Presented in account on day following (T+1) with value date T.
2. Check: Presented in account on day following (T+1) with value date T. However, finality of the payment is received on T+3, so that the business can use the funds three days after the deposit.
3. Deferred debit card: 15–17 days on average
4. Debit card: 3 days from transfer of transaction

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- 1.2 Processing payment instructions that are sent to it by system participants.
- 1.3 A database that will make it possible to execute payments efficiently, fast, and conveniently through the use of a unique identifier.
- 1.4 Direct clearing interface vis-à-vis the Zahav system, since final settlement of payment instructions will occur there.
2. The infrastructure will permit direct or indirect access to a range of entities, in accordance with their characteristics.
3. The infrastructure will provide information security and protection from cyber threats in accordance with international standards and regulatory requirements, including verifications, authorization and non-repudiation mechanisms. It will also provide business continuity for its transactions, including activity in a backup site.
4. The infrastructure will make it possible to execute Person to Person, Person to Business, and Business to Business payments. It will also make it possible to execute payments between large institutions, such as government ministries.
5. The Bank of Israel is of the opinion that the system needs to supply services at very low cost, so as to encourage the broad use of immediate payments and to create a real substitute for existing paper-based means of payment (cash and checks).
6. The infrastructure will allow the limitation of amounts transacted in it, in accordance with the risks of the activity.
7. The infrastructure will comply with international standards for advanced transferring of payments (such as ISO 20022). This will enable it to work in the future with similar infrastructures worldwide, and will make it possible to execute immediate cross-border payments.
8. It is clarified that these principles serve only as general guidelines for an infrastructure for clearing immediate payments in Israel.

### **Clarifications and qualifications**

1. This Public Consultation does not constitute a Request for Information nor a Request for Proposals, and is not part of a tender process. Therefore, it does not in any way create any obligation whatsoever for the bank vis-à-vis any of the respondents to purchase any goods or services, and is not subject to the Tenders Laws effective in Israel. Should there be a tenders process in the future, the Bank will be permitted to change or add conditions or requirements, in accordance with its judgment—professional and in line with its needs.

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2. The respondents to this Public Consultation shall bear the costs of preparing the response, and shall not be eligible for any compensation or indemnification in respect of such expenses.
3. The Bank may respond all, some, or none of the responses received. In any cases, no response of the Bank is valid if it is not in writing.
4. The Bank may respond to all or some of the responses received to this Public Consultation with a request to provide further information or to receive clarifications to the response submitted, or any additional information that the Bank feels will help in understanding the response.
5. The Bank reserves the right to edit or make changes to this Public Consultation, at any time, whether at its own initiative or due to an enquiry by any third party. The changes or amendments in the Public Consultation shall be made in writing and will be published on the Bank's website. It is the respondents' responsibility to periodically check the Bank's website, to check whether there were changes in the version of the Public Consultation and to adjust their response to such changes, should there be any.