CHAPTER 6

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BANKING SUPERVISION DEPARTMENT ACTIVITY

In 2023, the Banking Supervision Department focused on strengthening the resilience of the banking system. With the outbreak of the war on October 7, 2023, the banking system demonstrated its preparedness and stability. The year 2023 was also characterized by continued promotion of measures to enhance customers' bargaining power and to increase competition and innovation in the banking industry.

1. THE BANKING SUPERVISION DEPARTMENT'S VISION AND STRATEGIC GOALS

The vision of the Banking Supervision Department is "to promote the public good by ensuring the stability and fairness of the banking system by means of professional, innovative, and transparent supervision." The objectives of the Banking Supervision Department are derived from the Bank of Israel Law, 5770-2010, and from the strategic goals that were adopted to support and assist in achieving that vision. The law stipulates that the Banking Supervision Department must act for the benefit of the public and the economy via three main objectives: preventing harm to the ability of banking corporations to meet their obligations; ensuring the proper functioning of banking corporations and protecting their customers' interests; and supporting the stability of the financial system. At the beginning of 2024, a process was initiated to formulate the Banking Supervision Department's strategy in coming years. This process involved analyzing developments in the economic, technological, and regulatory environment.

The strategic supervisory goals are aligned with the objectives of the Bank of Israel and include:

- Stability: Maintaining the stability of supervised entities, their continuous operation, and the security of depositors' funds, both in normal times and in emergencies.
- Fairness: Instilling a culture of fairness toward customers and providing optimal and inclusive service levels.

Supporting goals were also defined:
- Encouraging competition in the financial system.
- Enhancing the effectiveness of the Banking Supervision Department's work.

These objectives are collectively intended to maintain a robust, fair, and competitive banking environment that can adapt and thrive amidst current challenges and future uncertainties.

2. THE SWORDS OF IRON WAR: BANKING SUPERVISION AND CONDUCT DURING A CRISIS

On October 7, 2023, following a deadly terrorist attack, the State of Israel declared a state of emergency and launched military operations against terrorist organizations in the Gaza Strip while simultaneously managing tensions with Hezbollah in Lebanon. This national crisis highlighted the necessity of maintaining a stable and functioning banking system in light of the challenges that have emerged. Following is an in-depth look at the main actions taken by the Banking Supervision Department during the war:

Business continuity in the banking industry during the Swords of Iron War

The banking system plays a central role in financial intermediation and promoting economic activity in the country, including the proper functioning of payment and clearing systems, providing banking services to the public, and maintaining public trust and the banks' reputation. At the same time, the banking system is exposed to a wide range of threats that can disrupt business operations, such as war, earthquakes, cyber attacks, strikes, etc. Given its importance, the banking system must ensure that it remains resilient to threats and operational disruptions. This principle is established in Proper Conduct of Banking Business Directive no. 355, which defines the management of business continuity that is expected of the banking corporations. Additional supervisory principles can be found in circulars and letters that are distributed to the banking system from time to time.

With the outbreak of the Swords of Iron War and following the Banking Supervision Department's participation in national crisis assessments, guidelines were formulated for the banking system, with the goal of maintaining banking services even in the emergency situation. These included:

- Operation of branches near the areas of conflict according to the policies set by the Home Front Command.
- Activation of the Supervisor of Bank's power to relocate branches and operate mobile branches to serve evacuees, while expanding the range of services provided by mobile branches.
- Publication of a comprehensive relief plan designed to assist various populations in coping with the financial impacts of the war.
- Establishment of an emergency center within the Banking Supervision Department to facilitate interaction with the banking system.
- Conducting proactive visits to evacuee centers to identify their needs.
- Increasing the stock of cash held by the banking corporations to meet branch needs for seven business days, instead of the usual three.
- Preparedness of core branches[1], while ensuring a broad geographical distribution, in order to provide essential banking services in the event of further escalation of the conflict and in light of security tensions on the northern border.

The Swords of Iron War underscored the importance of the functional and business continuity of the banking corporations. At the end of the war, the Banking Supervision Department will conduct an evaluation process both internally and together with the banking corporations, and will participate in the national evaluation process.

[1] A "core" branch is prepared ahead of time for an emergency and all that that implies and has been designated to remain open in an emergency.

Guidelines issued by the Banking Supervision Department to the banking system as a result of the Swords of Iron War

Against the backdrop of Swords of Iron War, the Supervisor of Banks issued a letter to the banking corporations and credit card companies, emphasizing the crucial role of the banking system in emergency situations, with emphasis on the following points:

- The need to provide solid support for customers, while proactively finding solutions and providing relief to customers in distress wherever possible.
- Ensuring the continuity of services in an appropriate and professional manner, including the operation of branches and ATMs.
- Managing the operational and financial risks unique to this period.

Monitoring and evaluation of developing risks related to the Swords of Iron War

With the outbreak of the Swords of Iron War, the Banking Supervision Department began monitoring the war's impacts and the risks facing the banking system. As part of this effort, the Emergency Reporting Directive was activated, and routine monitoring of risk developments in the system was intensified. The Banking Supervision Department evaluated the capital frameworks of the banking corporations, in order to ensure that the banking system has adequate liquidity buffers and that the banking corporations have sufficient reserves to absorb credit losses. The Banking Supervision Department worked to ensure that banking corporations were strengthening their monitoring, reporting, control, and risk management processes and examining the implications of further deterioration in the security and economic situation. All these measures were undertaken in order to identify emerging risk foci and to ensure preparedness for their realization.

Emergency Reporting

The Banking Supervision Department continued this year to strengthen its work processes for analyzing information received regularly from the banking system, while promoting steps to maximize the value of the information and to increase the efficiency of its management and processing. With the outbreak of the Swords of Iron War in October 2023, the Supervisor of Banks decided that, given the scale and severity of the event, it was necessary to activate the Special Situation Reporting Directive (emergency directive) and to request broader and more frequent reporting from banks. This included data on the functioning of the banking system and the economic status of customers, particularly those affected by the war, with the goal of supporting the formulation of measures to assist the public and monitor their implementation (for more details, see Box 5.3 in this survey).

Monitoring Credit Risk

With the outbreak of the Swords of Iron War, the Banking Supervision Department began to monitor more closely the status of borrowers in industries identified as sensitive due to the war and the effectiveness of the banking relief provided to them.

The Banking Supervision Department ensured that the banking corporations updated their credit loss allowances to fully reflect the war's implications. It also acted to ensure comprehensive disclosure in its public reports of the war's impact on the risk levels faced by banking corporations and the measures taken by the banks to support and assist their customers. The Banking Supervision Department also clarified the required accounting treatment and disclosure of measures taken, such as payment deferrals as part of the assistance provided to customers and the economy in order to cope with the war's effects.

Monitoring Cyber Risks

With the outbreak of the Swords of Iron War and the concern that cyber attacks might become part of the battlefield, the Banking Supervision Department intensified its interaction with the banking system on several fronts. This included continuous monitoring and updating of attempted attacks and incidents, including daily cyber protection status reports shared with relevant parties; issuing of guidelines to strengthen defenses and ensure preparedness for events; and providing regulatory relief wherever possible.

Emergency Q&A during the Swords of Iron War

The Banking Supervision Department developed a comprehensive FAQ document to help the public manage their banking needs during the challenging times brought about by the Swords of Iron War and it keeps the document updated. The FAQ document attempts to provide clear and accessible answers to the most common issues faced by banking customers during the war.

Adjustments to Proper Conduct of Banking Business Directives in order to cope with the Swords of Iron War (temporary order)

To assist the banking system and its customers in dealing with the challenges of the situation, during the last quarter of 2023 and early 2024 the Banking Supervision Department formulated a series of exemptions and adjustments to the Banking Supervision Department’s directives as part of a temporary order. The adjustments to the directives were intended to provide banks and credit card companies with the business flexibility to alleviate the difficulties faced by customers as a result of the war. These exemptions and adjustments were made in various areas, such as bank-customer relations, credit provision, operational procedures, and identification requirements when providing certain services.

Examples of prudential exemptions

Housing Credit

An increase in the maximum financing rate for a housing loan secured by a residential property not intended for purchasing an asset (an "all-purpose loan"). In addition, exemptions were provided from various restrictions on the addition of a secure room (*mamad*) in cases where the Home Front Command had eased planning requirements.

Credit Provision

Because it is difficult for borrowers to present updated financial reports, banks were allowed to continue extending credit based on the most recent reports available.

Employee rotation and continuous leave in the banking system

An extension was granted for using vacation time in the case of employees in sensitive jobs and for the maximum duration that a sensitive position can be filled by a manager or worker.

The operations of boards of directors

Due to problems of availability of office holders and employees, several exemptions were decided on for boards of directors, including a loosening of requirements for online meetings and of the minimum requirements for approving minutes, as well as the distribution of the draft document of decisions made at a meeting.

Operational risk management

An extension was granted for conducting the multiyear gap survey of operational risks that banking corporations are required to perform periodically.

Examples of exemptions in compliance

Exemption in identification when issuing a nonbank debit card

The framework for activity with nonbank debit cards that allows for exemptions in identification was expanded from NIS 50,000 to NIS 100,000.

Exemption in identification when opening a clearing account for a business

The framework for activity levels in a clearing account that allows for exemptions in identification was expanded from NIS 50,000 to NIS 200,000, provided the increase in clearing volume is for the purpose of assistance due to the war.

Exemption in identification for payment accounts

The framework for activity levels in a payment account that allows for exemptions in identification was expanded, provided that the increase in volume of activity is for the purpose of assistance due to the war.

Prepaid Cards

The charging limit was expanded on anonymous prepaid cards issued by companies for use in a closed loop of businesses.

Examples of consumer related exemptions

Exemption in credit management of current accounts

A banking corporation was permitted to extend the overdraft credit line for longer than one business day, during which the limit would be formalized with the customer. Nonetheless, the banking corporation was required to formalize the framework as soon as possible, despite the challenges faced by both the bank and the customer due to the war.

Exemptions in Banking (Customer Service)(Disclosure and Submitting of Documents) Rules—1992

To avoid delays in the implementation of special programs for deferral of loan payments put in place during this period, with the goal of assisting banking system customers, it was decided that customer consent could be obtained in various ways, at the discretion of the banking corporation, including a telephone conversation, provided it is documented.

It was also decided that the consent of a borrower who is unable to sign housing loan documents as a result of the war could be obtained in various ways, at the discretion of the banking corporation, after identifying borrowers and documenting their consent, provided that the other borrowers sign the loan documents as required by the regulations. This exemption was intended to assist borrowers in advanced stages of the housing loan process who need to sign the loan documents but find it difficult to get to the bank branch because of the war.

In addition to exemptions provided as a temporary order, the Banking Supervision Department provided exemptions for checks without cover

With the outbreak of Swords of Iron War and the declaration of a state of emergency in the economy, data on NSF checks reported by the banks pointed to significant distress both at the national level and in high-risk regions.[2] The return rate of checks in the third week of the war peaked at 5.22 percent compared to 3.60 percent in routine times, and the proportion of checks returned for lack of cover rose to 1.39 percent, compared to 0.83 percent in routine times.

Based on the presented data and cooperation between the Ministry of Justice and the Bank of Israel, and with the approval of the Constitution, Law and Justice Committee, Minister of Justice Yariv Levin decided, based on his authority according to the Checks Without Cover Law, that checks refused due to lack of funds during October in all current accounts in Israel would not be included

[2] High-risk regions were defined according to the Home Front Command's population defense policy. Upon the publication of the Checks without Cover regulations, the list of high-risk regions was updated in accordance with the list of localities included in the addendum to the Postponement of Deadlines Law (Temporary Order – Operation Swords of Iron War) (Contract, Judgment, or Payment to an Authority), 2023.

in the list of checks leading to account restrictions. Accordingly, these checks were also removed from the list of checks that triggers the sending of a warning after five NSF checks. Furthermore, these exemptions were applied to eligible population groups, such as residents of war-affected communities, reservists and their spouses, missing persons, kidnapped or captured individuals and their families, terrorists' victims and their families, etc., as set out in the regulations, for an additional period through January 21, 2024.

To increase the utilization of rights among eligible populations, the Banking Supervision Department took several steps to raise awareness of the exemptions, including instructions to add relevant information to bank notifications related to check without cover events and by means of publication on commercial bank websites and the Bank of Israel's website.

According to data received by the Banking Supervision Department, 6,123 NSF checks were removed as a result of the regulations. It is estimated that the utilization rate of rights among reservists is currently about 50 percent, representing 1,525 checks that were removed. As a result, the regulations also led to a decrease in the number of customers subject to banking restrictions and the number of restricted accounts in the economy. On April 2, 2024, a letter was sent from the Supervisor of Banks to the banking system with clarifications regarding the implementation of the Checks Without Cover Regulations (for more details, see Box 6.7 in this survey).

3. MAIN ACTIVITIES TO MAINTAIN THE STABILITY OF THE SUPERVISED ENTITIES AND THEIR CONTINUOUS FUNCTIONING AND TO PROTECT THE FUNDS OF DEPOSITORS IN ROUTINE TIMES AND IN AN EMERGENCY

The Banking Supervision Department sought to strengthen the stability and proper functioning of the banking system by means of the following measures:

Supervisory Review and Evaluation Process (SREP)

In 2023, the Banking Supervision Department conducted the Supervisory Review and Evaluation Process (SREP), which included a risk profile assessment of the six banking corporations. For the first time, this process was also expanded to include the three credit card companies. The objectives of this process included identifying and assessing focal points of risk in these entities, evaluating the quality of their management processes, and examining the effectiveness of their corporate governance. This also ensured that the capital ratios of these entities were appropriate to their risk profiles. The results of the process were presented to the management and boards of the banking corporations and credit card companies, and were reflected in summary letters distributed to them. Following this important process, the Banking Supervision Department began updating its risk assessment methodology with the goal of improving its ability to evaluate risk profiles. This updating process is expected to continue into 2024.

The Banking Supervision Department's promotion of the banking system's preparedness for emergencies

Over the past year, the Banking Supervision Department has worked to enhance the preparedness of the banking system for emergencies. This involved integrating supervisory processes within national emergency events and managing the implications of disruptions related to the war. Key activities included:

- Developing a special war scenario for the banking system, which is aligned with the national reference scenario, with the goal of facilitating optimal preparation and response strategies.
- Participating in the comprehensive emergency exercise of the Bank of Israel in June 2023, which focused on a multifront war scenario.
- Collaborating with the Electricity Authority to prioritize the power supply to the banking sector's computing systems in demand management scenarios.
- Involvement of the Banking Supervision Department and the banking system in Home Front Command exercises in the local authorities.

These initiatives are part of a broader supervisory effort to ensure that the banking system remains robust during national emergencies..

Intensifying the monitoring of capital outflows from Israel

During 2023, amid public concerns over the government's legislative processes regarding the judicial system and the potential downgrade of Israel's credit rating, there was an increased fear of significant foreign currency outflows from the country. In response, the Banking Supervision Department intensified its continuous monitoring and tracking of capital outflows from Israel. As part of this effort, banks were required to report capital movements and changes in the level of deposits in the banking system to the Banking Supervision Department more frequently (weekly), and communication with the banking system was intensified so as to ensure close monitoring of capital movements and that the system has adequate liquidity surpluses.

Monitoring and tracking the banking system's exposures to difficulties and failures being experienced by foreign banks

The change in interest rates and the realization of market and liquidity risks have led to significant problems and have impacted the stability of banking corporations worldwide, particularly in the US, resulting in the failure of several banks. Subsequently, difficulties were experienced by several banks in Europe. As a result, the Banking Supervision Department increased its monitoring of Israeli banking corporations' exposure to foreign financial institutions, particularly those in distress. As part of this effort, banks were required to report their exposure to foreign financial institutions to the Banking Supervision Department on a weekly basis, according to an emergency reporting directive that was invoked. The Banking Supervision Department also verified that Israeli bank branches abroad did not have significant direct and indirect exposure to the failure events among US banks. Following these failure events, the Banking Supervision Department also carried out a process to learn the lessons from those events (for more details, see Box 5.2 in this survey).

Assessing the impact of interest rate increases on interest rate risk in the banking portfolio

Against the backdrop of a changing interest rate environment, increased uncertainty, and challenges in predicting the behavior of depositors and borrowers, which provides the basis for exposure assessment models, there was an increase in the banking system's exposure to high interest rate volatility. Consequently, the Banking Supervision Department examined these impacts on the exposure of certain banks to changes in interest rates in key scenarios, including extreme scenarios and close proximity to limits. Risk management aspects were also examined, including board of directors' oversight, risk appetite, and the conservatism of key model assumptions.

Examining the work plans of banking corporations and credit card companies

At the beginning of 2023, and as part of its annual routine, the Banking Supervision Department reviewed the work plans of the banking corporations and credit card companies. The process is intended to understand the initiatives and objectives defined in the work plans and the risks derived from them. This also ensures that the objectives align with the banking corporations' strategies and that the risks derived from the plans do not exceed supervisory risk appetite. Following this process, the Banking Supervision Department considered the need to update the supervisory work plans' tasks in order to align them with the banking system's work plans.

Cross-sectional survey of the effectiveness of the risk management officer in the banking corporations and credit card companies

From January to March 2023, the Banking Supervision Department conducted a survey of the risk management systems in the banking corporations, based on the recognition of their critical role in maintaining stability. This survey assessed several key characteristics of the risk management officer: his status within the organization, his independence, his involvement in processes, his influence on major decision making and his involvement in approving significant credit exposures and the updating of credit policy. Following the survey, the Banking Supervision Department distributed letters to the banking corporations that reported on the effectiveness of their risk management officers and included recommendations for improvements if needed. This process emphasizes the importance of strong risk management in maintaining the stability and integrity of the banking system.

Assessing the effectiveness of the boards of directors of the banking corporations

During 2023, reviews were conducted in various banking corporations in order to assess the effectiveness of their boards of directors. The reviews focused on fulfilling the obligations according to Proper Conduct of Banking Business Directive no. 301. Also examined were the work routines supporting the board in performing those duties. Following the surveys, letters were distributed to the reviewed banking corporations, which called on them to carry out improvements, if needed, based on the findings.

Examinations and reviews of the banking system

The Banking Supervision Department conducts a continuous program of examination tasks[3] by means of its teams of auditors who specialize in the various types of risks. This program is designed to identify and assess the range of risks inherent in the banks' various activities and their compliance with laws and regulations, as well as to examine the functioning of management, control, and corporate governance systems. This audit program is meant not only to detect violations and correct deficiencies but also to refine the supervisory and enforcement strategies of the Banking Supervision Department based on the findings. The annual examination plan is determined after a process that integrates all of the information available to the Banking Supervision Department and is aligned with the principles of risk-focused supervision.[4]

Following are the main areas of focus of the examinations conducted in 2023:

1. **Credit Risk:** In light of the challenges faced by the construction and real estate industry over the past year as a result of rising interest rates and worker shortages due to the war, the Banking Supervision Department continued to focus on credit risk in this industry based on audits of financing provided to the industry's borrowers and continuous monitoring of the banking exposure to this industry according to its risk characteristics.
2. **Public Reporting:** The Banking Supervision Department made adjustments to the reporting regulations related to troubled debt restructuring and the implementation of new rules developed as part of the lessons learned from the COVID-19 crisis in the US. Emphasis was also placed on improving the quality of disclosure regarding interest rate risk and developments in response to the dynamic interest rate environment and global interest rate risk. An additional review was conducted during the year of the implementation of new rules for current expected credit losses (CECL) in the various banks, focusing on parameters used for credit risk management, investment assessment processes and determining the decline in value of investments in nontradable shares, as well as aspects related to interest rate risk and ESG (environmental, social, and governance) disclosures.
3. **Market Risk:** This year saw the voluntary adoption of the FX Global Code, an optimal standard for trading room operations, by Israel's five largest banks. In addition, and following the bank failures in the US at the beginning of the year, the Banking Supervision Department established an internal team to study the events and learn their lessons, resulting in a series of recommendations primarily aimed at strengthening the management of liquidity risk and interest rate risk.
4. **Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT):** The Banking Supervision Department conducted inspections focused on the compliance of banking corporations with anti-terrorism financing regulations and the adequacy of reports

[3] The Banking Supervision Department conducts examinations of various types, with respect to their scope and quality, according to the subject of the examination and its circumstances. These methods are designed to achieve the optimal combination of assessment, coverage, and depth of the investigations.

[4] The work plan can change as a result of developments or changing needs, in accordance with the principle of dynamic supervision.

to the Israel Money Laundering and Terror Financing Prohibition Authority. A review was also carried out of the quality of indicators used by credit card companies to manage and assess money laundering and terrorism financing risks in order to help the banks improve their ability to identify and assess existing and emerging focal points of risk as part of their risk profile assessment in the area of AML/CFT.

In 2023, fines totaling NIS 1.18 million were levied on several banks for violations of the Anti-Money Laundering Law.

5. **Corporate Governance:** As part of efforts to enhance the quality of corporate governance in banking corporations, examinations were conducted in 2023 to evaluate the performance of boards of directors, senior management, risk management, and internal auditing in the large banks' major business processes. These examinations surveyed the decision-making stages, implementation, reporting, and follow-up, focusing on the board's contribution and impact on business policy and the interactions between the different entities.
6. **Model Risks:** The Banking Supervision Department carried out an examination of the adequacy of model risk management in terms of the assimilation of artificial intelligence, which, despite its advantages, may expose banking corporations to new risks or exacerbate existing ones, including bias, explainability, and accountability, among others. Emphasis was placed on planning, designing, and implementing controls in decision-making mechanisms based on these models.

Developing a methodology to assess the risk profile of the credit card companies

Following the transformation of the MAX and Isracard credit card companies into independent entities, and in preparation for the separation of Cal from the Discount Group, the Banking Supervision Department began developing a new methodology for supervising and assessing the risk profile of a credit card company. This methodology is tailored to the business activities and risk characteristics of credit card companies. As part of the development of the methodology, a review was carried out of practices in the supervision of similar independent companies by regulators in other countries. The development of the methodology is expected to be completed during 2024.

Enhancing cybersecurity in the banking system

This year, the Banking Supervision Department continued its efforts to improve and strengthen the cybersecurity of the banking system. This included the implementation of a multiyear plan to upgrade the financial CERT[5], which was approved in 2022 by the Governor of the Bank of Israel, the Supervisor of Banks, and other financial regulatory bodies, as well as senior officials in the National Cyber Directorate and the Ministry of Finance. The financial CERT is designed to address unique cyber threats to the financial system and to provide an additional layer of protection (without reducing the existing obligations and responsibilities of banking corporations), including the promotion of defense capabilities that cannot be independently implemented at the level of an individual banking corporation or that should be implemented at the national level as part

[5] Computer Emergency Response Team.

of a national protection umbrella for the entire economy. The Banking Supervision Department ensures that the banking system's needs with respect to state-level cyber protection are part of the upgrade plan and that the various tasks are progressing as planned.

As part of the Banking Supervision Department's activities to promote cyber resilience, regular meetings of the Interbank Cyber Protection Forum are held, including meetings during the initial months of the Swords of Iron War.

In addition, routine monitoring and assessment activities were conducted together with the banking corporations in the area of cybersecurity, particularly in domains with elevated cyber risk. This includes the periodic operation of an external scanning tool provided by the National Cyber Directorate for use by the Banking Supervision Department. This tool provides a status overview of the level of cybersecurity and information security in the supervised entities in terms of their external visibility.

A systemic review of cybersecurity strategy and policy in the banking system was also conducted, and cybersecurity aspects were included as part of the establishment of a new banking corporation. Steps were also taken to update cybersecurity regulation, including the drafting of a directive on information technology, information security, and cybersecurity. These steps are part of a broader strategy to ensure the resilience of the banking system against cyber threats.

Updating the regulatory framework for IT risk management

The banking industry is experiencing rapid change in its technological landscape, with increasing interdependency and complexity in information technology systems. Many banking corporations are undergoing a digital transformation that will enhance their efficiency and provide better and more diverse services to their customers. However, while digital transformation brings numerous benefits to the financial ecosystem, it also exposes banking corporations to various information technology risks, and primarily cybersecurity risks.

Recognizing the need to keep pace with these changes and adapt the current regulatory framework for managing technological risks to the evolving technological environment, changing threats, and globally accepted regulations, the Banking Supervision Department is preparing to update the regulatory framework governing technological risk management. This new directive aims to provide a unified and updated regulatory stance to better mitigate and manage the risks associated with advanced digital operations in the banking system.

The “Distressed Bank” and “Bank in Failure” Project

In 2023, the Banking Supervision Department established a dedicated working team to examine the barriers preventing the advancement of legislation related to the management of failing banks and deployment of tools for a solution. This initiative stemmed from recommendations by a team of economists at the International Monetary Fund (IMF), which emphasize the need for a structured approach in Israel to the handling of failing banks. The team is examining existing arrangements worldwide for managing failing banking corporations and recent legislative amendments in the areas of insolvency and economic rehabilitation, as well as changes and developments in the financial sector, including lessons from the global banking crisis in 2023. The team will formulate recommendations for a comprehensive framework to deal with a distressed bank and a bank in a state of failure.

Handling and monitoring of compliance issues in Israel and bank branches abroad

Compliance issues, AML/CFT, and cross-border risks continue to pose significant challenges to the banking system. This is particularly relevant in the context of tightened global regulations, including the sanctions imposed on Russia following the outbreak of the war in Ukraine. In 2023, the Banking Supervision Department engaged in enforcement efforts to ensure that banks comply with the standards. These included, among other things, reviewing reports from an independent committee appointed at the Banking Supervision Department's request in connection with proceedings against certain banks; monitoring the implementation of various compliance programs and adjustments made to relevant policy documents and procedures; and taking steps to ensure improvements in automated systems used in risk management, in the controls environment, and in manpower.

Monitoring the reduction of the international footprint of banking corporations through their branches and subsidiaries

During 2023, the banking system continued to reduce its international footprint by selling operations, closing branches, and returning banking licenses. In May 2023, a structural transition was completed by Bank Leumi's UK subsidiary (BLUK), which included returning BLUK's banking license to the UK regulator. This move, approved by the Banking Supervision Department in 2022, transformed BLUK into a credit company and reduced its exposure to compliance and regulatory risks.

In July 2023, Bank Hapoalim Switzerland's banking license was returned with the approval of the Swiss regulatory authority (FINMA), thus ending Swiss regulatory supervision over it. In September 2023, Bank Hapoalim completed the sale of Bank Pozitif, resulting in the cancellation of the bank's permit to hold the controlling shares in the corporation. The Banking Supervision Department monitored the completion of the aforementioned steps.

Financial Penalty for Violation of the Anti-Money Laundering Law

Under 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, there is an obligation to retain copies of identification documents when opening bank accounts. This requirement is a critical component of the anti-money laundering and anti-terrorist financing regime. According to the international standards set by the FATF, documenting and retaining identification documents is meant not only to satisfy the needs of the bank or of the Banking Supervision Department but also and primarily to meet the needs of the country's enforcement authorities.

Two separate technological malfunctions that occurred within Bank Leumi's digital platform

("Pepper") led to a significant breach of the obligation to retain documents in the case of numerous online account openings during 2021.

In accordance with the law, a financial penalty of NIS 2.26 million can be imposed for each violation. The Banking Corporation[6] Sanctions Committee decided to reduce the penalty amount relative to the maximum amount specified by law because the bank independently discovered the violations, reported them to the Banking Supervision Department, and acted to correct the deficiencies. Therefore, it was determined that the penalty for the first violation would be approximately NIS 0.75 million, and that for the second would be NIS 1.13 million. Thus, the total financial penalty after the reduction was set at NIS 1.88 million. The decision was published on February 1, 2023.

Implementation of the Principles of Regulation Law

The Principles of Regulation Law, 5782-2021, which came into effect on January 1, 2023, defines the Bank of Israel as a public corporation for the exercise of powers to regulate banking activity, clearing houses, and credit data sharing. The purpose of this law is to promote optimal regulation of government bodies and public corporations in order to achieve a clear objective that is anchored in the regulator's powers and to provide high-quality regulation without imposing excessive regulatory burdens. Following its activities last year, the Banking Supervision Department continued its preparations to implement all the obligations imposed on it by the law. In February 2024 (after a postponement due to the Swords of Iron War), the Banking Supervision Department published an annual regulatory plan. In 2024, the Banking Supervision Department is expected to begin publishing regulatory impact assessments (RIA), and its directives will relate to periodic reviews of regulation, as required by the law.

Prudential regulation

One of the key measures intended to strengthen the stability of the banking system and ensure its proper functioning is the issuing of directives on financial risk management and the limitation of financial risk (hereinafter: stability). The Banking Supervision Department adopts internationally accepted standards for prudential regulation, particularly those established by the Basel Committee and the FATF (in the AML/CFT area). Following are the main areas in which the Banking Supervision Department has acted in the area of prudential regulation:

Update of the directive on interest rate risk management in the banking portfolio

In response to evolving market conditions, the Banking Supervision Department issued a new directive on interest rate risk in the banking portfolio in December 2023, thus adopting the Basel directive on the subject. The directive includes qualitative guidelines for risk management and instructions on how the Supervisor of Banks is to assess an outlier bank in terms of interest rate risk exposure in the banking portfolio. The identification of the outlier bank is based on estimating the impact of six standard interest rate shock scenarios on the economic value of the bank’s equity,

[6] The Banking Corporations Sanctions Committee (hereinafter: the Committee) is a committee established under the Prohibition on Money Laundering Law – 2000 (hereinafter: the Law). It has the authority, as part of enforcement of the prohibition of money laundering, to impose financial penalties on banking corporations (of up to NIS 2.26 million per violation) for violations of the Law, and of directives and regulations issued on the basis of its authority.

with the worst outcome measured against Tier 1 capital. The effects of two standard interest rate shock scenarios on net interest income are also measured. Estimating the impact of standard interest rate shock scenarios makes it possible to compare risk levels across banking corporations and clearing houses. The directive will go into effect on July 1, 2025, and corresponding changes will be made to public reporting requirements in order to ensure consistency in the terms and scenarios used.

The activity of banking corporations as broker-dealers

In July 2023, following public consultations, a new Proper Conduct of Banking Business Directive was issued regarding the activity of banking corporations as broker-dealers. This directive regulates the activities of banking corporations in financial intermediation—receiving and transmitting orders to execute securities transactions for customers—both in their role as intermediaries and through proprietary trading. The directive seeks to protect investors, maintain market efficiency and fairness, and reduce risks to banking corporations and in particular operational risks in trading rooms. The directive goes into effect on August 1, 2025.

Management of financial risks related to climate and the environment

The Bank Supervision Department continues to promote the preparedness of the banking system and the Banking Supervision Department for financial risks stemming from climate and environmental change. This issue is addressed on several levels, including the adoption of international standards for effective management of financial risks related to climate by means of a Proper Conduct of Banking Business directive, issued in June 2023 following public consultations and that will go into effect in June 2025.[7] The directive includes: the adoption of best practices in public and regulatory reporting; the buildup of supervisory and systemic capabilities to conduct stress tests; participation in inter-ministerial and cross-divisional forums that are intended to address data and information barriers; accumulation of knowledge by monitoring publications and professional literature, working papers, and policy documents published by leading financial regulatory authorities and international bodies; and membership in the NGFS (Network for Greening the Financial System) working groups and plenum.[8]

Adoption of Basel guidelines on large exposures

The Basel guideline on large exposures was translated and discussed in the Banking Advisory Committee. In parallel, a survey was conducted to examine its quantitative impact, with focus on its implications for the level of concentration in the banking system. A public comment phase is planned for 2024.

Credit risk management

To improve risk management among the banks and enhance the work of the risk manager, an amendment was added to Proper Conduct of Banking Business Directive no. 311—“Credit Risk

7 There are internal discussions in the Banking Supervision Department with regard to the deferral of implementation.

8 Network for Greening the Financial System—An international organization of 138 banks and supervisory authorities from various countries (and another 21 observers) that cooperate in making the financial system greener.

Management", such that the definition of "significant credit exposure" will be reduced in scope so as to require the involvement of the risk manager in credit exposures starting from a higher threshold.

Leverage ratio

The updated Basel guideline on the leverage ratio was translated in preparation for initial discussions with the banking system. As part of the adoption of the guideline, the rates of the leverage ratios and their mix are also being examined. In light of this, the relief granted during the COVID-19 period was extended and anchored as a temporary order within Proper Conduct of Banking Business Directive 218.

Measurement of capital and capital adequacy—operational risk

The Banking Supervision Department is in the advanced stages of adopting the updated Basel Committee guideline on the calculation of capital requirements against operational risk, which is part of what has become known as Basel IV. This directive, expected to be finalized in 2024, is planned for implementation starting in 2026.

Management of anti-money laundering and countering financing of terrorism risks

Directive 411 on "Management of anti-money laundering and countering financing of terrorism risks" was updated in June 2023 to address the following issues:

1. Adding new guidelines aimed at correcting a number of gaps identified by an audit conducted by the FATF (Financial Action Task Force).
2. Expansion of the arrangement appearing in Appendix 2.2 of the directive, which will permit the use of means of payment issued by entities licensed under the Control of Financial Services (Regulated Financial Services) Law, 5776-2016, and that are subject to the Anti-Money Laundering Order as part of the arrangement. This follows requests received and an assessment of the anti-money laundering risks involved in providing payment services.
3. Addition of Appendix 2.5 to the directive, which allows customers to open an account with a banking corporation using an immigration certificate up to 90 days from its issuance, instead of verification using an ID card. This is a temporary provision that will expire on December 31, 2023. The aim is to accommodate new immigrants from Russia as much as possible in their dealings with the banking system in Israel, given their situation as a result of the Russia-Ukraine war.
4. In January 2024, Appendix 2.5 was updated so as to extend the period during which a bank account can be opened using an immigration certificate up to 90 days from its issuance up until the end of June 2024. This is in order not to delay the account opening process for new immigrants who have not yet received their ID cards.

Crypto activities

In February 2023, an update to the directive on "Risk Management" was published. It requires banking corporations to report in advance to the Supervisor of Banks regarding their activities in cryptographic assets. At the same time, a supervisory letter was sent regarding banking corporations' activities in financial-cryptographic assets (hereinafter: crypto). It outlines the main risks arising from crypto activities, requires the banking corporation to treat it as a product that necessitates a new product review process, and defines the requirements that are incumbent on the banking corporation in this matter (for further details, see Box 7.3 in Israel's Banking System 2022).[9]

Adjustments to the Proper Conduct of Banking Business directives that are applicable to a government corporation

On October 21, 2018, the government approved the establishment of Correspondent Services Ltd. as a government corporation, in accordance with a government decision.[10] According to this decision, the objectives of the company and its areas of activity are the providing of representation services to the banks operating in the Palestinian Authority via the Palestine Monetary Authority or directly to these banks for the purpose of executing payment instructions or a payment transaction or clearing a payment transaction, all in new shekels only. It was also decided that the company's activities would be supervised by the Governor of the Bank of Israel and the Supervisor of Banks according to the powers granted to them by law. In view of the above, in September 2023, a draft of Proper Conduct of Banking Business Directive no. 482 on "Adjustments to the Proper Conduct of Banking Business directives applicable to government corporations" was published for public comment. This directive will go into effect subject to the granting of supervisory powers over the company by law and after the Supervisor of Banks announces the commencement of services by the company.

Reporting directives for new technology

The Supervisor of Banks places emphasis on the competent management of information technology in order to facilitate the development of banking corporations and their achievement of strategic goals while preventing operational failures and ensuring the stability of their services. To this end, a new Prudential Reporting Directive on technological metrics was established. The main topics in the reporting directive include: stability and availability; business continuity; cloud computing; resources, lines of defense, and controls; strategic projects; and artificial intelligence. This reporting will be used to assess the technological risk of banking corporations. Reporting began in April 2024.

[9] See here.

[10] Decision 4207 made on October 21, 2018, as amended in Decision 1608 in June 2022.

4. THE MAIN ACTIVITIES TO INTEGRATE A CULTURE OF FAIRNESS TOWARD CUSTOMERS THAT IS INCLUSIVE AND IMPACTFUL

Consumer related Regulation

Management of a customer service and support system – publication of a new Proper Conduct of Banking Business directive (501)

The Banking Supervision Department encourages the promotion of fairness and equity in the banking system and outlines ways to address the new challenges faced by customers and banking corporations within a "customer-centric" approach. One of the primary goals of the Banking Supervision Department is to "embed a fair, inclusive, and impactful culture towards customers," and from the Banking Supervision Department's perspective, the provision of appropriate service to customers is a central component of fair conduct towards them.

Proper Conduct of Banking Business Directive no. 501 – "Managing the customer service and support system" is part of a planned comprehensive initiative aimed at establishing guidelines and standards for providing service and support to banking customers based on various service channels. The directive defines the obligations in the areas of corporate governance and operational processes that are designed to promote an organizational culture that emphasizes the quality and availability of customer service and support. Most parts of the directive were meant to go into effect one year after the publication date, but due to the war, they were postponed to June 2024.

In the context of publishing this directive, indirect amendments were made to other directives, including Directive 401, which deals with the business days of banking corporation offices. An additional section was added with an explicit instruction that customers cannot be denied service at a branch, including in cases where the banking corporation operates an appointment system for professional services provided at the branch and the customer did not schedule an appointment. This is intended to guarantee appropriate service, avoid service barriers, and prevent harm, deception, difficulty and excessive cost resulting from lack of service. This part of the directive took effect on the date of its publication.

Adoption of consumer related measures in a changing financial environment

On February 26, 2023, the Supervisor of Banks published a letter to the CEOs of the banking corporations and credit card companies that specifically addressed changes in the interest rate environment and rising inflation, which are contributing to increased household expenditure. Notably, the letter highlighted the burden on consumers with outstanding loans, especially mortgages, whose monthly repayments have risen.

In the letter, the Supervisor of Banks made it clear that banking corporations are expected to act with elevated sensitivity and to prioritize their customers' interests and needs. It emphasized that banks should continue to refine their products and services to meet consumer needs. Special attention is directed toward raising consumer awareness of banking investment products, which will allow them to deposit their funds according to their needs and in line with the full terms of the investment products.

The letter also emphasized the importance of banking corporations providing appropriate and professional service in light of the aforementioned changes, helping customers derive maximal benefits from banking products and services, ensuring transparency regarding the impacts and consequences of changes in the interest rate and inflation on their financial liabilities and assets, and ensuring informed utilization by customers that is aligned with their needs.

Opening a current account with no credit facility and managing an account

The Banking Supervision Department views the providing of service to all customers, especially the most vulnerable ones, as a key component of a fair and equitable culture within the banking corporations. This perspective is embodied in Directive no. 422, which describes the circumstances under which banks cannot reasonably refuse to open or manage such an account by means of basic payment services.

In the update to this directive, the scope of the obligation to facilitate account management with basic payment services was expanded to include remote transactions. This obligation will now apply not only to managing a checking account with a positive balance but also to managing one with a negative balance that does not exceed the approved credit limit.

Furthermore, the updated directive emphasizes the egalitarian provision of banking services to all customers. It is designed to avoid creating blanket rules that block basic payment methods or a customer's account activity based solely on their membership in a specific population group. The directive requires evaluating each customer's request individually, compelling banks to use their judgement.

Finally, the scope of basic payment services defined in the directive was broadened, reflecting a greater commitment to banking accessibility. While the directive was meant to come into effect one year after its publication, its implementation was postponed until June 2024 due to disruptions caused by the war.

Opening and managing a checking account with a positive balance for financial entities

In recent years, licensing and supervision obligations have been defined for entities providing nonbank financial services in Israel. To carry out their operations, these entities need to manage a checking account in a banking corporation. Moreover, an amendment to the Banking (Service to the Customer) Law stipulates that if a banking corporation refuses to provide a financial entity with the service described in Section 2(a)(2), namely opening and managing a checking account for itself or its customers, or fails to provide such service within three months from the financial entity's initial request to open and manage an account, the banking corporation must notify the Supervisor of Banks and explain the reasons for the refusal or delay.

In view of the above, Proper Conduct of Banking Business directive no. 424 – “Opening and Managing a Checking Account with a Positive Balance for Financial Entities” was issued. It describes the requirements that apply to banking corporations when opening and managing accounts for nonbank entities providing financial services. Among other things, and in addition to the obligation to report any refusal or delay in providing the service listed in Section 2(a)(2) of the law to the Supervisor of Banks, the directive also establishes requirements for providing a written explanation to the financial entity in cases of refusal to open an account or delays exceeding three months.

Monthly statements of fees and interest rates

As part of an amendment to the Banking (Service to the Customer) Law, which is to be implemented in stages (on January 1, 2024, and June 2, 2024), banks are required to send monthly statements to their customers detailing the total amounts charged in the previous month for fees and interest. These statements will also inform customers of their options to obtain further details regarding the fees and interest charged to them.

This legislative amendment is meant to improve the transparency and accessibility of financial information for bank customers by providing regular and clear updates on the costs associated with their bank accounts and to motivate them toward making informed decisions that can improve their financial situation. The law was initiated by the Ministry of Finance, with the Banking Supervision Department participating in its formulation during Knesset discussions.

Providing of services to customers of the banking system in Israel against the backdrop of the Russia-Ukraine war

On February 2, 2023, in the midst of the ongoing war between Russia and Ukraine, the Supervisor of Banks issued a letter to the CEOs of the banking corporations in Israel that addresses the challenges faced by the banking system in providing services to its customers during this period. The war between Russia and Ukraine has led to a significant influx of new immigrants to Israel, many of whom are seeking to relocate to Israel. The sanction regimes put in place by foreign countries and international organizations as a result of the war, and consequently the policies and procedures established by the banking corporations with respect to the use of the sanction lists, have impacted on the providing of banking services to customers, including the opening of accounts and the execution of fund transfers. In his letter, the Supervisor reiterated that banking corporations must continue to operate with heightened sensitivity to the situation of the new immigrants, in order to ease the immigration and absorption process for this population to whatever extent possible.

Joint accounts – the survivorship clause

Joint accounts often include a survivorship clause, which is important for account holders to understand in view of the sensitive and complex nature of managing these accounts after the death of one of the account holders. This clause essentially allows the surviving spouse to continue accessing and using the account without interruption, which is especially important during a period of mourning and adjustment.

Before this amendment, Proper Conduct of Banking Management Directive no. 434 did not adequately address the importance of raising account holders' awareness of the implications of the survivorship clause and the decision required of the account holders as to whether they want to allow the surviving partner to continue operating the account after their death.

The update of the directive is intended to strengthen the understanding among joint account holders of the survivorship clause in their account opening agreements. This is intended to ensure that the application or non-application of this clause aligns with their wishes concerning the rights of the surviving partner to operate the account after their death. Additionally, the update is intended to make it easier for the surviving partner to handle the existing obligations associated with payment methods previously approved for use by the deceased partner. Although the provisions of this updated directive were initially set to take effect one year after publication, their implementation has been deferred until September 2024 due to disruptions caused by the war.

Procedures for the providing of housing loans

The latest update focuses primarily on streamlining the early repayment process for housing loans, including by way of another banking corporation or an institutional lender that is not a banking corporation (loan refinancing). According to the update, borrowers can now notify the bank online or by phone of their intention to make an early loan repayment and will be able to receive all the necessary information and documents related to the loan, as dictated by the relevant directive clauses, in ways that suit the borrowers' preferences, including online. These documents are provided in a format that allows easy saving and printing, thus increasing convenience for borrowers.

To further facilitate the loan refinancing process, borrowers can directly notify the original banking corporation of their intention to make an early repayment or this can be done through the new banking corporation. This flexibility simplifies the process and reduces the logistical burden on borrowers. Importantly, borrowers are no longer required to visit the original bank branch to collect the necessary documents for loan refinancing; instead, these documents can be transferred directly from the original banking corporation to the new lender, thereby streamlining the entire process.

These updates establish clear guidelines intended to make it easier for borrowers to make early repayment of housing loans, including those involving loan refinancing. Although the directive was supposed to take effect one year after its publication, its implementation has been postponed to October 2024 due to disruptions caused by the war.

Examinations of fairness

The Supervisor of Banks uses special examination teams that are responsible for the ongoing program to identify and assess risks inherent in various banking activities and for ensuring compliance with laws and regulations having to do with fairness. Examinations have been conducted on credit card companies’ handling of businesses suspected of defrauding credit card customers. Among other things, consideration was given to a directive requiring the companies to take steps that would prevent them from working with businesses suspected of such fraud or even to terminate the relationship with them under certain conditions. These measures are part of a broader initiative by the Banking Supervision Department and other entities to combat fraud committed by criminal elements by means of credit cards.

In addition to focusing on fraud prevention, the Banking Supervision Department rigorously examines the marketing practices of credit card companies, particularly those related to "revolving credit" products. Revolving credit refers to a credit line that accrues interest and is repaid monthly according to an amount determined by the customer, with the remaining balance carrying over and accruing interest. The examinations assess the service’s characteristics, the company's marketing policies, and how these services are marketed with the goal of ensuring that standards of integrity and fairness toward customers are maintained.

Consumer related monitoring and handling of significant systemic deficiencies

- Handling public enquiries provides an opportunity to correct defects and deficiencies, to address existing issues on a systemic basis, and to learn lessons that can generate significant improvements in the services provided by banking corporations to their customers. The Banking Supervision Department also conducts proactive inspections and investigations aimed at increasing consumer related compliance. In cases where significant deficiencies are identified based on public enquiries and their investigation, the Banking Supervision Department orders the correction of these deficiencies, including monetary restitution to groups of customers. Within this framework, approximately NIS 30 million was refunded to customers from 2022 until the publication of this survey. Issues addressed include failure to provide promised benefits to customers affiliated with a club, or contradictory offers published by the bank and improper fee collection.
- In 2023, three processes were initiated to impose financial sanctions as a result of consumer related examinations that identified deficiencies: Bank Leumi was fined NIS 1 million for two violations in the reporting of revenues received from the Enforcement and Collection Authority and delays in reporting debt restructuring to the Enforcement and Collection Authority, contrary to Directive no. 450 on "Debt Collection Proceedings". Bank Hapoalim was fined NIS 1 million for not admitting customers without an appointment to a branch. Finally, Isracard was fined NIS 250,000 for exceeding mandated response times at its call center. Details of these sanctions, including the justification for their imposition and the arguments presented by the penalized companies, are available to the public on the Bank of Israel's website.

Periodic publications aimed at increasing fairness toward banking system customers

Telephone response: periodic report to the Knesset Finance Committee on the compliance of banking corporations with the directives on wait times for a professional human response

In July 2023, the Banking Supervision Department published a periodic report that is submitted to the Knesset Finance Committee on the compliance of banking corporations with the guidelines for wait times to obtain a professional human response. The report provides comparative data on response times across the banking corporations and presents an overview for the reporting period.

Periodic report on the prices of the most common banking services used by households, 2022

The Banking Supervision Department submitted a periodic report to the Knesset Finance Committee that details the prices of the most common banking services used by households. The report is based on the actual revenue reports for fees collected during the reporting year by the banking corporations and credit card companies.

Handling of public enquiries by the Banking Supervision Department in 2023[11]

The Consumer Enquiries and Inspections Unit of the Banking Supervision Department handles enquiries regarding the activities of the banks and credit card companies. The unit operates on the

[11] A review of public enquiries submitted to the Banking Supervision Department and of consumer protection measures, which includes actions taken by the Banking Supervision Department in response to the enquiries, as well as enforcement activity and the correction of systemic problems in the banking system, is published annually on the Bank of Israel's website.

level of the individual consumer and on a broader systemic level, with the goal of identifying and rectifying any deficiencies in the banking system's operations.

In 2023, the Consumer Enquiries and Inspections Unit handled approximately 9,900 requests for information and complaints from the public. In addition, the unit's call center responded to more than 15,000 phone enquiries.

Following is a breakdown of how the enquiries and complaints were handled:

1. **Direct handling:** The unit directly handled approximately 6,300 enquiries, which included around 1,300 complaints and about 5,000 requests for information.
2. **Handling through the complaint resolution process:** About 3,600 complaints received by the Banking Supervision Department were forwarded to the public complaints officers in the banking corporations and credit card companies for a direct response, in accordance with the guidelines established in Proper Conduct of Banking Business Directive 308A – “Handling of public complaints”.

The handling of public complaints includes checking them in accordance with the relevant legislation and deciding on remedies for customers when called for. As part of this process, approximately NIS 1.4 million was refunded to customers in 2023 as part of the direct handling of individual enquiries.

Restricted accounts

At the end of 2023, the number of restricted accounts in the economy stood at 503,946, a decrease from 528,416 at the beginning of the year. In addition, the number of restricted customers due to the writing of checks without cover ("banking restriction") decreased from 19,927 before the outbreak of the war to 18,873 by the end of 2023.

Overall, by the end of 2023, the total number of customers with restrictions imposed on them stood at 252,825. Of these, 233,952 were subject to "special restrictions" imposed by various enforcement bodies, such as the Enforcement and Collection Authority, the Official Receiver, the Collection and Fines Center, and the Rabbinical Court. At the beginning of the year, the number of restricted customers was 264,906, of which 18,761 were subject to banking restrictions and 246,145 were subject to special restrictions.

Financial Accessibility Charter

The Financial Accessibility Charter was launched in January 2016 with the goal of addressing the consequences of financial violence against battered women residing in shelters and halfway houses. The framework was later expanded to include clients of domestic violence treatment centers across the country. The charter provides tailored financial solutions to meet the needs of these women, with the goal of enabling them to start anew. Since its launch, the charter has assisted 2,465 women in dealing with financial violence, including opening new bank accounts, debt restructuring and investigation of liens, mortgage freezes, requests to exit a joint account, removal of owners from an account, cancellation of credit cards, etc. In March 2023, the charter was further expanded to assist the population of former prostitutes.

In March 2024, the annual conference of the Financial Accessibility Charter was held under the theme Crisis within Crisis. The conference was intended to raise awareness of the problems faced by battered women during the war, while emphasizing the complex challenges these women currently face and explaining the support provided by the banking system. It also addressed the broader impacts of post-traumatic stress disorder on the family unit and raised awareness of the complex needs of families affected by these situations and the vital role financial institutions play in addressing them.

Surveys of satisfaction among households and small and micro business owners

In March 2024, the Banking Supervision Department published the findings of the 2023 surveys of customer satisfaction with the service provided by the banking system. The goal of conducting these surveys and publishing their findings is to enhance fairness and competition in customer service by providing an overview from the perspective of banking system customers. The findings make it possible to highlight areas that need improvement, thereby incentivizing banks to enhance the service they provide to their customers.

Following are the main findings from the 2023 household satisfaction survey, as compared to the 2022 survey:

- Willingness to recommend the bank to a friend or family member remains low.
- Perception of the bank's fairness remains low.
- Satisfaction with the use of bank websites remains high.
- Satisfaction with the use of bank apps remains high.

With regard to the willingness to recommend the bank and satisfaction with the call center, the results were similar to those of the previous survey. However, on questions about satisfaction with services provided on the website and app, satisfaction was low relative to the nondigital banking system. In the survey of satisfaction among the self-employed, small businesses, and micro businesses, there was a decline in satisfaction on most questions, except for the service provided on the website and the app.

The survey findings were communicated to the bank managements and subsequently published.

Raising awareness of digital fraud

In order to raise public awareness of financial fraud, the Banking Supervision Department initiated the Digital Fraud Awareness Week. This was the second consecutive year of the project and it was carried out in cooperation with the Association of Banks in Israel, the banking system, the credit card companies, and the Israel Police. It consisted of about 100 lectures in dozens of cities and towns across the country, as well as two online webinars in Hebrew and Russian, attended by thousands of participants. The awareness campaign was accompanied by a promotional campaign inviting the public to participate in the lectures, and a dedicated website with relevant materials was created.

5. THE MAIN ACTIVITIES TO CREATE A MORE COMPETITIVE AND ADVANCED FINANCIAL SYSTEM FOR THE BENEFIT OF CUSTOMERS

The Bank of Israel is committed to fostering a competitive and advanced financial environment that benefits the customer. In recent years, several key initiatives have been promoted with the goal of creating an environment conducive to the establishment of new banks. These initiatives include the creation of a credit database, a technological service bureau, a "click-to-switch" bank account transition system, open banking, regulatory relief, and the development of processes and an organizational framework to support the establishment of new banks.

Completion of the establishment process of One Zero Digital Bank Ltd.

After more than 41 years during which no banking licenses were issued in Israel, a banking license was granted to One Zero Digital Bank Ltd. on December 13, 2019.The license was originally subject to restrictions, which were removed on January 9, 2022, after the bank achieved the required milestones. In August 2022, One Zero Digital Bank officially opened its doors to the public. Ongoing supervision of this new bank includes making supervisory adjustments to its operations, with the aim of promoting competition and allowing the bank to establish its business model. The Banking Supervision Department closely monitors the new bank's activities, within a framework adapted to a small new bank. This includes monitoring the risks to which the bank is exposed and overseeing the implementation of its work plans.

Continuation of the process to establish Bank Esh Israel (in formation) Ltd.

Another significant development was the granting of a conditional banking license to Bank Esh Israel (in formation) Ltd. on December 25, 2022. The bank is diligently working to complete the installation of the necessary technological, administrative, regulatory, and operational infrastructures. With the approval of the Banking Supervision Department, the bank has commenced a limited internal pilot. The Bank of Israel is closely monitoring the bank's progress through these stages.

Enhanced transparency through the publication of comparative data

The Banking Supervision Department works to enhance transparency by expanding the data available to the public. In 2023, new dashboards were published on the Bank of Israel website, containing comparative data on interest rates for mortgage loans, financial report data, and data related to the interest rates in current accounts and credit cards (for further discussion see Box 6.4 in this Survey).

Increasing transparency through comparative data that is made available to the public

The Banking Supervision Department works to enhance transparency by expanding the information available to the public. In 2023, new dashboards were installed on the Bank of Israel's website, including comparative data on mortgage interest rates, financial report data, and information regarding interest rates for checking accounts and credit cards (for further details, see Box 6.4 in this survey).

Promoting a phased framework for granting banking corporation licenses to nonbank entities and credit card companies

As part of the Bank of Israel's efforts to promote competition in the banking system, the Bank of Israel is calling for the adoption of a phased framework for granting banking corporation licenses to nonbank entities, including credit card companies. This initiative involves a policy according to which bank licensing and supervision are modified according to the activities and risk levels of the entity seeking the license. The policy proposes three levels of banking licenses, in accordance with the existing authority of the Governor of the Bank of Israel under current licensing legislation. In addition, legislation and regulation will be proposed that is tailored to the scope and complexity of the activities of the banking license applicant so that it can attract depositors and provide credit (for further details, see Box 1.1 in this survey).

Updating the policy for granting holding permits to entities managing customer funds

In recent months, the Bank of Israel has updated its policy for granting holding permits for banking corporations and clearing houses and their holding companies to entities managing customer funds. The updated policy allows controlling shareholders in entities managing customer funds to apply to the Governor of the Bank of Israel for a permit to hold up to 7.5 percent of a bank or clearing house and their holding companies. This is designed to increase investment by the public, via the entities under their control, in the shares of those corporations. The changes, which are based on accumulated experience and recent legislative revisions, do not alter the fundamental essence of the policy but rather enhance its implementation. The key amendments to the policy include extending the validity of permits until December 2029, adding a requirement for reporting in a standardized format, requiring permit holders to continuously monitor and track their holdings, and establishing a condition whereby any deviation from the permit terms constitutes grounds for its revocation.

Granting a control permit in Isracard to the controlling shareholders of Harel Investments

On February 16, 2023, the controlling shareholders of Harel Insurance Investments and Financial Services Ltd. (hereinafter: Harel Investments) requested a control permit for the Isracard Ltd. credit card company (hereinafter: Isracard), which is a public company without controlling shareholders that is traded on the Tel Aviv Stock Exchange. Harel Investments sought to merge Isracard with a private subsidiary. After reviewing the request, the Banking Supervision Department granted a control permit, similar to the one granted to Clal Holdings in the case of MAX. However, due to the opposition of the Competition Authority to the transaction, Harel Investments decided to withdraw from the transaction.

Removal of a restriction on Bank Yahav's providing of credit to businesses

In 2023, a major change was made to Bank Yahav's operating license which removed a previously existing restriction on its activities related to the volume of credit provided to businesses. This change followed an in-depth review by the Banking Supervision Department, confirming that Bank Yahav has the appropriate infrastructure to manage the activity and has adequately prepared for the expansion and the accompanying changes that are part of the license modification. This removal of restrictions on credit provision is seen as creating a potential growth engine for Bank Yahav, especially in retail credit and business banking services, and is expected to increase competition in the small business credit sector.

The Bank of Israel joins the Basel Consultative Group (BCG) as a member of the advisory committee

In May 2023, the Bank of Israel (through the Banking Supervision Department) became a full member of the Basel Consultative Group (BCG), one of the four working groups of the Basel Committee on Banking Supervision (BCBS). The BCG serves as a forum for cooperation among bank supervisors worldwide on banking issues and promotes dialogue between the Basel Committee and nonmember countries on various new initiatives that are on the committee's agenda. As of the time of writing, the advisory committee comprises central banks and supervisory authorities from about 30 countries, alongside 13 supervisory groups and international bodies represented by senior officials in each organization. Joining the BCG is another step in the Banking Supervision Department's efforts to strengthen the Bank of Israel's international connections with leading financial institutions and advanced financial supervisory authorities worldwide.

Promoting a free trade agreement in financial services between Israel and the UK

Negotiations are currently underway between Israel and the UK to upgrade the existing free trade agreement between the two countries, in order to update the agreement and make it more relevant to the current economic reality. The upgrade is aimed at increasing and facilitating trade between the two entities by eliminating trade barriers, establishing investor protection, creating regulatory certainty, etc. Notably, this updated agreement is expected to be groundbreaking for Israel since it will include, for the first time, a unique section dedicated to financial services.

The financial team is led and coordinated by the Director of Foreign Trade at the Ministry of the Economy and includes the Ministry of Finance, the Israel Securities Authority, the Capital Market Authority, the Bank of Israel, and the Banking Supervision Department. In addition to interministerial cooperation, a special internal team at the Bank of Israel is promoting this agreement. The team includes members from the Banking Supervision Department, the Legal Department, the Payment Systems Department, and the Credit Data Database. The negotiation teams are working under ambitious timelines and are driven by a strong commitment from the political leadership on both sides to expedite the process and quickly finalize the agreement.

Box 6.1

Consumer measures taken by banks and regulatory entities worldwide following extreme events

- The Banking Supervision Department protects the interests of the Israeli banking system's consumers both in times of routine and in times of emergencies. As part of its role and in accordance with its mandate, the Banking Supervision Department ensures that banking services are provided fairly and with appropriate sensitivity. The fairness of banking corporations is important both from a prudential perspective and a consumer protection perspective, as the financial players' conduct toward their customers is critical in maintaining public trust in the financial system and ensuring the proper functioning of the market.
- Following the events of October 7th and the outbreak of the Swords of Iron War, the Banking Supervision Department implemented a series of policy measures aimed at encouraging banks to act with the appropriate sensitivity and to assist customers and the public in coping with the crisis. The Banking Supervision Department also maintained continuous communication with the banks, conveying the supervisory expectation to use various tools to ensure that customers receive appropriate service during the crisis (for further details, see Chapter 6 in this survey).
- In order to learn from international experience, the Banking Supervision Department examined consumer measures taken by banks and regulatory entities around the world following extreme events, such as natural disasters.
- Despite the differences between the two, the survey of measures adopted in other countries following natural disasters was conducted due to the similarities between those events and the events that occurred on October 7th and the following period in Israel. Similarities include the scale of the disaster, the severity of the damage to life, body and property, and the significant variation in impact on the public.
- The best consumer protection practices adopted by banks worldwide following extreme events primarily include loan deferrals and the waiving of certain fees. In addition, banks publish consumer guides for smart consumer behavior during a crisis ("checklists"), provide comprehensive and tailored financial advice services to each customer, and deploy "mobile bank branches" in areas to which disaster victims have been evacuated. It is evident that banks worldwide take a proactive approach in times of crises, demonstrating social responsibility and offering strong community support.
- During the war, the Banking Supervision Department has conveyed its supervisory expectation to the banking corporations that they should continue to learn from international experience, while adapting consumer measures to the best practices mentioned above and to the changing environment.

- Banks and credit card companies in Israel have assisted customers and the public by adopting the frameworks proposed by the Banking Supervision Department regarding loan deferrals and fee reductions, as well as adopting various consumer-oriented measures.
- The Banking Supervision Department encourages the banks and credit card companies to continue taking actions tailored to customer needs and to assist the public according to the evolving situation and the changing circumstances.

Background

The Banking Supervision Department uses a variety of means to ensure that customers of the Israeli banking system and credit card companies are treated fairly and with the appropriate sensitivity, both in normal times and in times of emergencies. Through various policy measures, the Banking Supervision Department protects consumers' interests and ensures that consumers receive response to their emerging needs, thus strengthening public trust in the system and supporting the continued proper functioning of the market.

Following the events of October 7th and the outbreak of the Swords of Iron War, the Banking Supervision Department defined three supervisory objectives for the Israeli banking system: first, to maintain the operational and business continuity of the banking system; second, to provide assistance and relief to customers affected by the war, whether directly or indirectly, and with heightened sensitivity; and third, to manage the range of financial and nonfinancial risks, with an emphasis on unique risks emerging during wartime. In order to achieve the second objective, namely sensitivity and flexibility in customer service, the Banking Supervision Department implemented a series of policy measures designed to encourage the banks to act with high sensitivity and to protect consumers' interests. For example, the Banking Supervision Department announced large-scale assistance programs for loan deferrals, the handling of checks returned due to lack of cover, and the waiving of fees. Additionally, an emergency center was established to handle public enquiries, and visits were made to hotels that are housing evacuees.[1] The Banking Supervision Department conveyed its supervisory expectation to the banking corporations that they should consider using various tools to ensure that customers receive appropriate service. Given the crisis and the public's changing needs, the service provided by banks and credit card companies should involve and be continuously updated in a sensitive and responsive manner. In order to learn from international experience, the Banking Supervision Department examined how banks, regulatory authorities, and government entities in various countries responded to wars as well as to natural disasters, such as hurricanes and forest fires.

[1] For further details on the activities of the Banking Supervision Department during the war, see Chapter 6 in this survey).

Despite the distinct differences between these events, the survey of the consumer measures implemented by banks and regulatory authorities worldwide in response to extreme events, such as natural disasters, was conducted in view of the similarities between them and the events of October 7th and the following period. First, in both cases most of the victims are residents of a specific geographical area. Second, the damages themselves are extremely severe—loss of life, physical harm, and property damage. Third, victims of natural disasters are evacuated from their homes to another less-affected geographical area within the country, as in the case of the Swords of Iron War. Additionally, there is wide variation in the impact of these events on the public—while some parts of the population are seriously affected, others remain largely untouched. Finally, both types of disasters are localized regional events. Therefore, even though the war in Israel is unique in terms of its scope and impact on the general population, the accumulated global experience in responding to natural disasters provides a valuable source of knowledge for improving the assistance provided to customers.[2] The Banking Supervision Department's survey focused on the United States, Canada, and Australia—countries that have had to deal with extreme climate events and natural disasters in recent years.

Findings of the International Survey

The international survey examined the measures taken by banks and regulatory authorities worldwide following extreme events such as natural disasters, with an emphasis on best consumer practices that have not yet been fully implemented in Israel. It was found that some countries have a structured protocol for dealing with natural disasters—either by virtue of specific legislation or because the regulator or government have a consistent response approach.[3] In addition, it appears that the most common consumer measures used in other countries in response to natural disasters include loan payment deferrals or reductions, as well as exemptions related to fees and checks, which are similar to those adopted in Israel (for further details, see Chapter 6 of this survey). The international survey focused on best consumer protection practices adopted by banks in other countries in addition to loan deferral programs and waiving of fees. For example, some banks publish consumer guides for prudent behavior during a crisis (a "checklist"); others provide comprehensive, tailored financial services to individual customers; and some deploy mobile bank branches, thus providing assistance to victims in the areas where they have been relocated. It is evident that when an extreme event occurs, banks in other countries take a proactive approach, demonstrating high social involvement and community support. The assistance they

2 It should be noted that the accumulated experience and lessons learned from the COVID-19 pandemic also influenced the assistance provided to customers during the war. Nonetheless, and in contrast to the Swords of Iron War, the COVID-19 pandemic was a global event and its impact on the public was relatively uniform.

3 See, for example, the following publication issued jointly by US regulatory entities following Hurricane Ian, which includes a letter addressed to the banking system describing regulatory relief measures, similar to the information sheets prepared for other natural disasters. https://www.fdic.gov/news/disaster/ian.html

provide to consumers is not just financial and goes beyond the regulator's frameworks, thus providing broader solutions that are tailored to the needs that arise in the field.

Following are the best consumer protection practices adopted by banks in other countries following natural disasters, excluding loan deferrals and waiving of fees (which, as mentioned, are the main consumer measures adopted both in Israel and other countries; for further details, see Chapter 6 of this survey).

1. Publication of consumer guides for smart consumer behavior during a crisis (a checklist)

Many banking and financial institutions around the world publish a series of recommendations for informed consumer conduct, with the goal of providing disaster victims with basic tips and tools on how to financially recover from disasters.[4] The publications vary in content and target audience: some are intended for households, while others are intended for small businesses.[5] Some offer guidance on how to cope following a particular extreme event (such as a hurricane) or focus on specific issues (such as fraud prevention); others provide general guidelines for prudent behavior. Although the publications vary, they often address one or more of the following issues:

- A consolidated list of all financial institutions that individuals should contact during a crisis in order to receive financial assistance (such as insurance claim payments, grants, and loan deferrals) and to inform them of difficulties in meeting existing obligations.[6]
- Recommendations for responsible financial conduct during a crisis, such as adopting a proactive approach (including notifying financial institutions and others about their situation), assessing financial capabilities after the crisis, adjusting outgoing cash flow to match expected income, keeping receipts, and documenting conversations with financial institutions.[7]
- Increasing consumer awareness of fraud, as various types of scammers exploit the disruption of normal routines and distress caused by disasters in order to carry out fraudulent activities. In addition to raising public awareness about the heightened risk, corporations publish lists of warning signs, common examples of fraud, and recommendations for cautious behavior (such as verifying the legitimacy of the entities with which individuals are dealing with and closely monitoring billing statements).[8]

4 In addition to the publications from regulatory bodies on the subject, see Footnote 7 for an example.

5 For instance, CPA Australia published a "do's and don'ts" list for small businesses (see https://www.cpaaustralia.com.au/-/media/project/cpa/corporate/documents/tools-and-resources/disaster-recovery/disaster-recovery-toolkit) and JPMorgan Chase published a "do's and don'ts" list for property owners (see https://www.jpmorgan.com/insights/real-estate/commercial-term-lending/emergency-preparedness-gude-for-property-managers).

6 For example, US Bank's "do's and don'ts" list advises disaster victims to first contact their insurance company and also lists several organizations that provide financial assistance: https://www.usbank.com/financialiq/manage-your-household-life-events/natural-disasters-recovery-financial-checklist-after-natural-disaster.html

7 For further details on recommendations for responsible financial behavior after a crisis, see the guidelines published by the FDIC for households and business owners: https://www.fdic.gov/news/disaster/consumers.html

8 Following is a link to the "do's and don'ts" list published by Commerce Bank (in the US), in which it warns

- Listing links to websites providing information and assistance and directing the public to government authorities, banks, regulatory authorities, and even charities that are offering aid to victims of natural disasters.[9]

2. Provision of inclusive and tailored financial services to bank customers

Another tool through which banks in other countries assist customers affected by natural disasters is the provision of free tailored financial advice. As part of this service, the advisor assesses the client's new situation, including an examination of estimated income and expenses, expected grants on the one hand and the expected obligations on the other, and provides comprehensive financial advice (that is, advice that also includes reference to nonbanking products such as insurance and investment instruments). The goal is to enable those affected by extreme events to make informed financial decisions in a complex and uncertain reality and to avoid hasty decisions that cause harm in the long term. The duration of the service varies: it can be one-time assistance or ongoing (i.e., lasting for longer than a year). In some cases, the bank creates a new advisory service tailored to the economic needs of the disaster victims.[10] The advisory services are provided to a variety of populations: households, small businesses, and sometimes even the bank's employees.[11] Clearly, banks in other countries encourage customers to consult with them on financial management issues following natural disasters, to discuss the difficulties they are facing and to receive a personalized response tailored to their needs.

3. Deploying mobile bank branches in areas to which disaster victims have been evacuated

Consumers affected by natural disasters may not receive the relief for which they are eligible, whether it is due to information gaps (often the victims are not even aware of their eligibility for assistance and benefits) or due to a lack of access to a banker. This occurs because victims are often relocated to other parts of the country following a disaster which are far from their bank branch, and are therefore unable to carry out certain banking operations. The consumer initiative of "bringing the bank to the customer" addresses these needs specifically. A bank representative visits areas with a concentration of evacuees in order to provide them with an immediate and comprehensive response to their needs and to inform them about their rights and the potential banking services available to them.

customers about fraud, provides basic knowledge about common post-crisis fraud, and refers to a detailed "do's and don'ts" list published by the CFPB (Consumer Financial Protection Bureau): https://www.commercebank.com/personal/ideas-and-tips/2022/how-to-prepare-your-finances-for-a-natural-disaster

9 See the “do’s and don’ts” list of Citibank Australia which refers customers to government authorities and assistance organizations, such as the Red Cross: http://www1.citibank.com.au/help-and-support/disaster-and-crisis-support

10 For example, Regions Bank (a US bank) established three dedicated advisory teams in the areas of mortgages, consumer credit, and other services, to which customers are directed based on the type of enquiry. https://ir.regions.com/news-events/press-releases/news-events/2020/Regions-Bank-Announces-Disaster-Recovery-Financial-Services-Following-Hurricane-Delta-10-13-2020/default.aspx

11 See also the publication by TD Bank (a Canadian bank), which provided this service to customers and bank employees following a fire that broke out in 2017: https://stories.td.com/ca/en/news/2017-07-25-td-provides-increased-advice-and-assistance-for-employees-an

An example is the operation of mobile branches. To assist the public as much as possible, banks monitor the activity of the mobile branch and operate it for an extended period—it essentially becomes a "permanent branch" for the disaster victims until they return to their homes.[12] Another example is the establishment of financial assistance centers by banks and insurance companies in the areas where the evacuees are located.[13]

Measures taken by Israeli banks

During the Swords of Iron War, the Banking Supervision Department conveyed its supervisory expectations to the banking corporations that they should continue to learn from international experience, while adapting consumer measures to the best practices and to the changing environment. It also conducted examinations to ensure that banks were acting fairly and with high sensitivity. Israeli banks and credit card companies assisted their customers and the public throughout the war by immediately adopting the Banking Supervision Department's deferral programs and by taking various voluntary consumer relief measures. For example, most banks granted evacuees an exemption from one or more mortgage payment and established dedicated relief funds that amounted to tens or even hundreds of millions of shekels, and that were earmarked for populations affected by the war (such as a fund for the rehabilitation of communities near the Gaza Strip or a fund for children and youth affected by the war). Other consumer measures taken by Israeli banks included the granting of scholarships to students who volunteered in agriculture and the operation of trucks that function as "mobile stores" for business owners from the North and South of Israel. In line with the aforementioned best practices, Israeli banks operated mobile branches in the hotels that are housing evacuees, and some provided their customers with financial management advice during the crisis.[14]

The Banking Supervision Department encourages banks and credit card companies to continue taking steps that are tailored to the changing needs of customers and to assist the public, both in normal periods and in times of emergencies, with heightened sensitivity to the circumstances. The assistance of banking corporations and others is essential at this time, given the scale and magnitude of the events of October 7th and the Swords of Iron War. Customer needs are evolving rapidly in response to the developments of the war, which calls for continuous adaptation and updates of consumer measures. The Banking Supervision Department expects banks and credit card companies to continue learning from international experience with regard to the scope and type of assistance provided to the public and to align their activity with best global consumer protection practices.

[12] Following is a link to Wells Fargo's announcement regarding the operation of mobile branches in areas to which victims of Hurricane Michael were evacuated: https://newsroom.wf.com/English/news-releases/news-release-details/2018/Wells-Fargo-Deploys-Mobile-Response-Unit-to-Panhandle-to-Help-Customers-Impacted-by-Hurricane-Michael/default.aspx

[13] For example, such a center was established in Hawaii following the wildfires that occurred there this past summer. See:

[14] The operation of mobile branches by Israeli banks was subject to the permit granted by the Banking Supervision Department.

Box 6.2

Programs for Easing the Burden of Credit and Banking Fees

- Shortly after the outbreak of the Swords of Iron War, the Banking Supervision Department developed several programs to ease the burden of credit costs and banking fees in order to assist households and businesses that were coping with the repercussions of the war. The programs were adopted by the banks and the credit card companies.
- The first program, which was developed one week after the outbreak of the war, helps customers deal with cash flow problems resulting from the war and its implications, and relieves them of some of the financial stress in the current complex situation.
- In order to help households and businesses cope with the effects of the war, the programs were extended and expanded during the war, in response to needs that were expressed by the affected households and businesses.
- From the outbreak of the war until the end of April 2024, the banks and credit card companies deferred approximately NIS 8 billion in payments for 406,000 loans. Currently, approximately NIS 3.5 billion in loan payments remain deferred (in approximately 139,000 loans).

The following information summarizes the details of these program in chronological order:

October 15, 2023 –	The Banking Supervision Department develops a comprehensive program for loan repayment deferral and concessions on credit terms and bank fees, which was adopted by the banking system.
October 23, 2023 –	The Banking Supervision Department develops a comprehensive program for loan repayment deferral and concessions on credit terms and bank fees, which was adopted by the credit card companies.
November 8, 2023 –	The programs adopted by the banking system and the credit card companies were expanded and extended to include evacuees from northern Israel.

December 17, 2023 –	Extension and expansion of the program for loan repayment deferral and concessions on credit terms and bank fees that was adopted by the banking system.

December 26, 2023 –	Extension and expansion of the program for loan repayment deferral and concessions on credit terms and bank fees that was adopted by the credit card companies.

March 4, 2024 –	Extension and expansion of the program for loan repayment deferral and concessions on credit terms and bank fees that was adopted by the banking system.

Comprehensive program for loan repayment deferral and concessions on credit terms and bank fees, which was adopted by the banking system – October 2023[1]

Within a week after the outbreak of the Swords of Iron War, the Banking Supervision Department developed a comprehensive program to ease the burden of credit and banking fees for households and businesses. The program was adopted by all the banks, with the intention of helping customers cope with cash flow issues and the effects of the war.

To focus the assistance, the program defined two population groups: The first group, **"first-degree customers,"** were defined as:

- Anyone who was directly harmed by the war, including residents of towns and cities within 30 km from the Gaza Strip border and business owners in this area;
- People who were evacuated from their homes by an official government agency;
- Citizens who were called up for reserve duty on an Order 8 call-up;
- First-degree relatives of a person killed in the war, an abductee, or missing person.

This group was entitled to a deferral of loan payments,[2] without interest or additional fees in three types of consumer activities (mortgages, consumer credit, and business credit), an exemption from interest on overdrawn current accounts (excluding reservists), and an exemption from most bank fees.

Regarding the loan deferral method, banks could choose from three deferral methods with

[1] For the conditions of the program, see https://www.boi.org.il/publications/pressreleases/b15-10-23 (Hebrew).
[2] Mortgages in unlimited amounts; total consumer credit of up to NIS 100,000; business credit up to NIS 2 million.

respect to mortgages: (a) the deferred payments are added to the end of the mortgage period; (b) the deferred payments are distributed over the balance of the remaining mortgage period; (c) a new interest-free loan is granted in the amount of the deferred payments for a period of four year, with payments due beginning from one year after the loan grant date. With respect to consumer and business loans, deferred payments were added to the end of the original loan period.

The loan deferment program was also offered to the second group, which included all remaining bank customers ("Second-circle customers"), who could elect to receive a 3-month deferral of their loan repayments[3] in three areas (mortgages, consumer credit, and bank credit). The deferred payments bore interest (that could not exceed the interest rate in the original loan agreement). Three deferral methods (described above) were available for mortgages, while deferrals of consumer and business loans were added to the end of the original loan periods. Customers were not charged any fee for these deferrals. Since the deferred payments accrued interest in the deferral period, in its communications with the banks the Banking Supervision Department emphasized that before making a decision, it was important that customers consider the implications of the deferral, including its financial cost (the cost of the interest, the monthly repayment amount after the deferral, and other consideration) so that they might make an informed decision about the deferral.

The Banking Supervision Department stressed that the program contains the minimum conditions for loan repayment deferrals and other measures to assist customers, and the Department encouraged the banks to offer their customers assistance that extends beyond the program. Indeed, most of the banks did so.

[3] Mortgages in unlimited amounts; total consumer credit of up to NIS 100,000; business credit up to NIS 2 million.

Comprehensive program for loan repayment deferral and fee relief, adopted by credit card companies – October 2023[4]

Following the Banking Supervision Department's program to ease the burden of credit costs and bank for customers who were dealing with the effects of the war, which was adopted by the banks, the Banking Supervision Department announced a second assistance program for customers of the credit card companies, whose measures were adjusted to the profile of these customers.

The program adopted by the credit card companies was essentially similar to the program adopted by the banks, and included the necessary adjustments pertaining the definition of the relevant target populations,[5] and the scope and nature of their activities.[6] This group was also given an exemption from some fees.

Also in this program, the Banking Supervision Department stressed that the program contains the minimum concessions that credit card companies can offer, and that the credit card companies were permitted to extend the program in the interests of the customers and at the their customers' request.

Expansion of assistance measures adopted by the banking system and the credit card companies – November 2023[7]

In view of the evacuation of the residents of Israel's northern towns and settlements, the assistance programs adopted by the banking system and the credit card companies were extended to include residents who live or whose business is located in a northern settlement that appears in the lists posted on the Bank of Israel website and who were evacuated by an official government agency before or on November 7, 2023.

The assistance programs were further extended in coordination with the Accountant General of the Ministry of Finance, by including loans that had been granted through the Small and Medium Business Fund and guaranteed by the government. These loans were added to the loan repayment deferral programs adopted by the banks and credit card companies.

[4] For the conditions of the program, see https://www.boi.org.il/publications/pressreleases/23-10-23 (Hebrew)

[5] Individuals and small businesses whose total annual amount settled by the credit card company does not exceed NIS 2 million.

[6] Total balance of consumer credit of up to NIS 100,000; Balance of business credit of up to NIS 300,000.

[7] For the complete terms of the program, see: https://www.boi.org.il/publications/pressreleases/08-11-23

Extension and Expansion of assistance program adopted by the banking system and the credit card companies – December 2023[8,9]

Following status assessments performed by the Banking Supervision Department, and in view of the continuation of the war and its financial impact on many customers, the assistance programs adopted by the banks and the credit card companies were extended for an additional three months for both groups of customers — first-circle customers and second-circle customers — beginning on January 1, 2024. The definition of first-degree customers was also extended to include the following groups:

- Accounts of abductees and missing persons (who were included in the original program)
- Accounts of siblings of abductees and missing persons
- Accounts of attendees of the Nova Festival in Kibbutz Reim.

The program was also extended to include the following additional concessions for people in the first-degree group:

- Businesses with a turnover of up to NIS 5 million and whose account was overdrawn on the day before the extension was announced were eligible for a 3-month exemption on interest on the debit balance of up to NIS 30,000 in their business account
- The Banking Supervision further clarified the options of repayment deferral options for mortgages: In addition to the option of distributing the deferred payments over the remaining mortgage term or extending the mortgage term, customers also had the option of receiving a new interest-free 4-year loan in the amount of the deferred payments, and the first payment on the loan would be due after one year. The Banking Supervision Department clarified that a bank may grant non-interest-bearing loans for a longer period than the period indicated in the original program, or choose one of the other options, whichever best benefited the customer and subject to the customer’s consent.

Extension and Expansion of assistance program to ease the burden of credit costs and bank fees adopted by the banking system – March 2024[10]

In view of the continuation of the war and its effects on customers’ financial conduct, and to grant unique concessions to reservists, the assistance program that was adopted by the banks was extended for an additional three-month period. Therefore, on April 1, 2024, the program was extended for three additional months for first-circle and second-circle customers, on

8 For the complete terms of the program for bank customers, see: https://www.boi.org.il/publications/pressreleases/17-12-23 (Hebrew)

9 For the complete terms of the program for credit card company customers, see https://www.boi.org.il/publications/pressreleases/b26-12-23/ (Hebrew)

10 For the complete terms of the program, see: https://www.boi.org.il/publications/pressreleases/04-03-2024 (Hebrew).

the same terms as the original program. The definition of first-circle customers was also further extended to include the following groups:

- Accounts of the residents of right settlement in northern Israel that the government decided to evacuate although they were not effectively evacuated[11]
- Reservists hospitalized for a period of at least seven days due to an injury they sustained during the war
- Injured attendees of the "Psyduck" party and the preparation session for the Midburn Festival.

The terms of the program were also extended for an additional three-month period for first-circle customers, entitling reservists for an exemption from interest on overdrawn accounts, if the account was overdrawn on March 3, 2024, on the day before publication of the current extension, up to an overdrawn balance of NIS 10,000, based on the actual overdrawn amount in the account. The extension also determined that an account would be identified as a reservist's account if the reserve service grant was paid into that account in January 2024.

The program also determined that the banks would proactively grant the concessions to which reservists were entitled — the exemption from bank fees and interest on overdrawn account in consumer and business accounts, similarly to the banks' practice with respect to other target groups whose members were identifiable without a need for additional documentation. Also in the case of reservists, accounts were identified according to the reserve service grant that was paid into the account in January 2024.

Referring to the additional extension to the program, the Banking Supervision Department emphasized that as the total deferral period may be relatively long, customers should carefully review their need for a deferral of their loan repayments, even if the deferral does not entail interest or fees, and should take steps to return to a regular payment schedule.

General

Information to the general public

The information concerning the terms of the assistance programs was published in press releases and on a special page on the Bank of Israel's website, where FAQs about the programs were posted. Informative digital and radio campaigns were conducted to inform the public about the availability of the assistance programs, information sheets using friendly language that included the terms of the programs were designed and distributed (see Appendix). In conjunction with other government ministries, the Banking Supervision Department held

[11] Abirim, Avadon, Alma, Kerem Ben Zimra, Alkosh, Pasuta, Horfeish, Rihaniya, based on the list that appears on the Bank of Israel website.

an online conference on the financial concessions and possible compensation for small businesses that were harmed by the effects of the Swords of Iron War.[12]

Accounting clarifications

The Banking Supervision Department took steps to verify that the banking corporations are revising their provisions for expected credit losses in order to give full disclosure to the effects of the war. The Department is taking steps to ensure that their reports to the public contain a comprehensive disclosure on the effects of the war, the degree of risk to which the banking corporations are subject, and a disclosure of the measures they took to support and assist their customers and ease their financial burden. The Banking Supervision Department also clarified the required accounting treatment and disclosures required with respect to the loan repayments that deferred as part of their assistance to their customers and to the economy, to contribute to their ability to better cope with the implications of the war.

The Supervisor of Credit Data Sharing at the Bank of Israel also issued instructions on deferring reports of arrears in customers' loan payments to the Credit Data Register, in order to isolate the war's effects on credit data.[13]

Loan Repayment Deferral Data

In addition to developing and publishing the assistance programs, the Banking Supervision Department requested that the banks and credit card companies report various data concerning the deferred loans. From the beginning of the war to the end of April 2024, the banks and credit card companies deferred approximately 406,500 loans (approximately 139,000 are still in deferral), and the deferred payments totaled approximately NIS 8 billion. The payments for the loans that remain in deferral totaled approximately NIS 3.5 billion. The majority of the deferred loans were to households (credit for housing and consumer credit, see Figure 6.1),[14] and deferred amounts were most significant in housing credit and business credit (especially in the small business sector, see Figure 6.2). The deferred loan amounts were more significant in these sectors due to the different features of the loans and the number of months of deferral in the different sectors (Figure 6.3). Approximately 33 percent of the deferrals were made by first-circle customers,[15] that is, customers who were charged no interest nor bank fees on the deferral. Because the majority of the deferrals involved loans granted by banks (approximately 93 percent of the loans and 98 percent of the amount deferred), the following analysis will concentrate on the deferral data reported by the banks (and does not include the deferrals reports by the credit card companies).

[12] See the press release on this topic: https://www.boi.org.il/publications/pressreleases/10-12-23
[13] See the press release on this topic: https://www.boi.org.il/publications/pressreleases/13-11-23
[14] Note that approximately 1.5 percent of the deferred loans were in arrears for more than 30 days before a deferral was approved (mainly housing credit).
[15] Estimated, calculated on the basis of deferral figures of each month since the outbreak of the war. The first-circle group comprises individuals who were directly affected by the war. Additional information appears above.

Most of the deferrals were made by households, and included housing credit and consumer credit, yet the deferred amounts were larger deferrals of housing credit and business credit.

Figure 6.1

Number of Deferred Loans (Cumulative), Banking System and Credit Card Companies, April 30, 2024 (thousand)

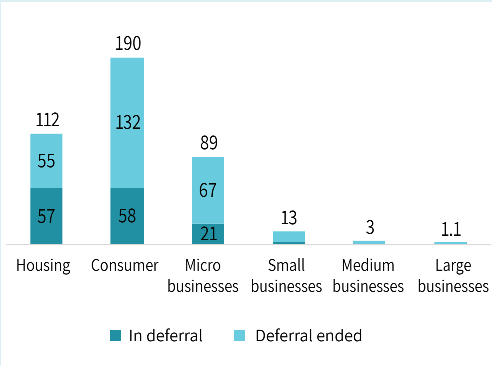
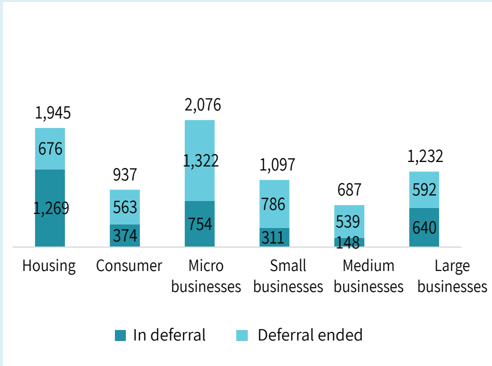


Figure 6.2

Payment Amounts Deferred (Cumulative), Banking System and Credit Card Companies, April 30, 2024 (NIS million)

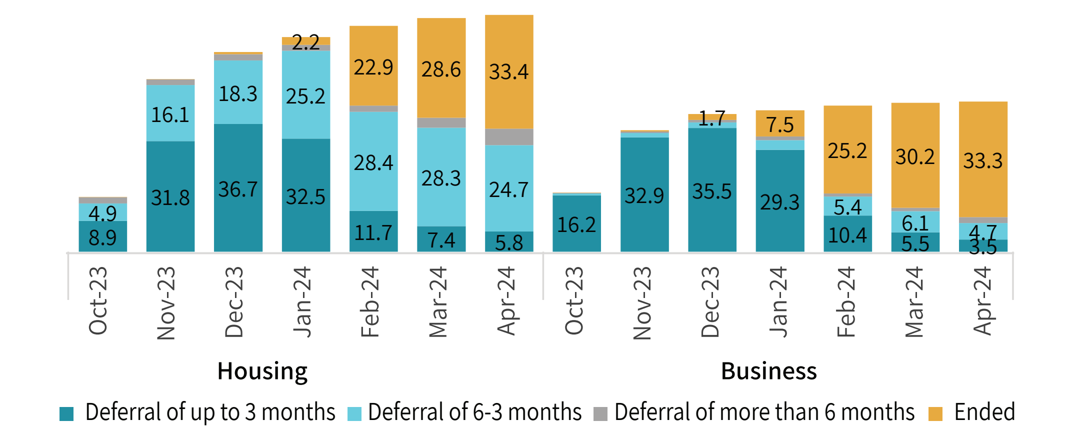


SOURCE: Based on reports to the Banking Supervision Department.

As the programs were repeatedly increased and in view of the fact that some of the banks permitted deferrals of longer periods compared to the original program terms, the deferral period also lengthened (Figure 3) and a portion of the deferrals ended. For example, most of the housing credit loans that were deferred at the beginning of the war were deferred for three months, and the deferral period increased as the war continued and the programs were extended. In contrast, the deferrals on most of the business loans ended and were not extended.

Program extensions mainly affected the deferral duration of housing credit loans

Figure 6.3 **Balance of loans by deferral duration, banking system, October 2023—April 2024** (NIS billions)



SOURCE: Based on reports to the Banking Supervision Department.

With respect to deferred loans whose deferral period ended, the vast majority of customers returned to a regular repayment schedule. However, in a small proportion of the deferred loans whose deferral period ended, customers were unable to keep up their payments and the loans entered arrears. The majority of loans that entered arrears belonged to households (housing credit and consumer credit), and only a minority of these loans were business loans, which is consistent with each sector's share in the deferrals.

In conclusion, the balance of loans that are currently deferred is approximately NIS 48.4 billion. Most of this amount refers to housing credit (Figure 4). As a result, and in view of the average loan amount in housing credit, deferred housing credit loans account for a relatively higher proportion of all deferred loans than other sectors (Figure 5).

The main part of the balance of loans that remain deferred involve housing credit and accordingly, the balance of deferred housing credit loans account for a relatively higher proportion of the total housing credit balance compared to other sectors.

Figures 6.4

Balance of Loans in Deferral, Total Banking System, April 30, 2024 (NIS billion)

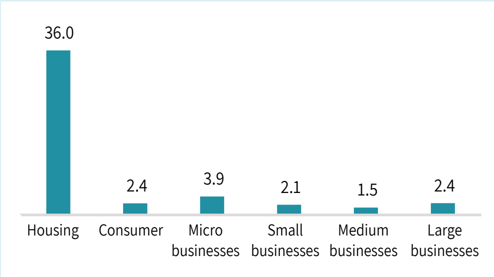
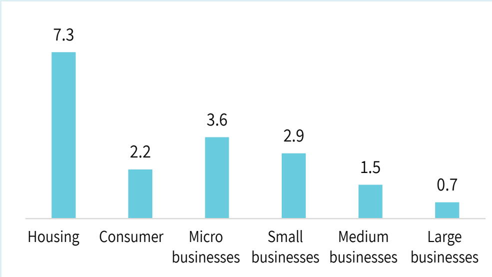


Figure 6.5

Balance of Loans in Deferral as a Share of Total Balance-Sheet Gross Balance, Total Banking System, April 30, 2024 (percent)



SOURCE: Based on reports to the Banking Supervision Department.

See Table 1 for additional data on loans deferred by the banking system.

In addition to the Bank of Israel's assistance programs, additional assistance was extended to borrowers in various sectors. The Bank of Israel and the Ministry of Finance took focused measures targeting the small and micro business sector. The banks and credit card companies also developed programs and offered additional concessions to borrowers. These measures helped borrowers, and prevented a significant decline in the quality of the credit portfolios. For example, deferred loans were not classified as loans in arrears, and the banks did not initiation collection proceedings for those loans. As a result, although the amounts were written off, problematic credit increased only slightly (For additional information see Chapters 3 and 5.2 of the Israel's Banking System 2023 Survey).

Table 1: Additional Data on Loan Deferrals in the Banking System

	Deferred loans			Loans whose deferral ended						Total (Deferred loans and loans whose deferral ended)		
	No. of loans	Loan amount	Loan balance	No. of loans		Loan amount		Loan balance		No. of loans	Loan amount	Loan balance
		NIS thousands	NIS thousands		%	NIS thousands	%	NIS thousands	Of which, % of the credit entered arrears of 30 days or more when the deferral period ended %		NIS thousands	NIS thousands
Housing	57,359	1,269,104	36,035,863	54,537	49	676,138	35	33,384,392	1.30	111,896	1,945,242	69,420,255
Consumer	50,029	356,288	2,410,070	114,456	70	520,890	59	5,990,839	3.75	164,485	877,177	8,400,909
Micro businesses	21,112	753,534	3,929,170	66,953	76	1,316,503	64	11,258,490	2.00	88,065	2,070,037	15,187,660
Small businesses	2,486	307,533	2,096,546	9,532	79	757,890	71	7,286,608	1.04	12,018	1,065,423	9,383,154
Medium-sized businesses	307	145,636	1,496,874	2,220	88	523,369	78	6,831,408	0.17	2,527	669,005	8,328,282
Large businesses	138	640,277	2,438,387	938	87	583,808	48	7,905,093	0.00	1,076	1,224,084	10,343,480
Total	**131,431**	**3,472,372**	**48,406,910**	**248,636**	**65**	**4,378,597**	**56**	**72,656,830**	**1.31**	**380,067**	**7,850,969**	**121,063,740**

Source: Source: Reports to the Banking Supervision Department. Data processed by the Banking Supervision Department.

Appendix Information Sheet including Program Terms

מתווה בנק ישראל שאומץ ע"י הבנקים לסיוע ללקוחות בהתמודדות עם השלכות מלחמת **"חרבות הברזל"**

מעגל ראשון
קבוצת הלקוחות הבאה

1. המתגוררים או פועלים במרחק של עד 30 ק"מ מרצועת עזה*
2. פונו על ידי גורם רשמי מביתם בהתאם לרשימה שתתעדכן מעת לעת*
3. בעלת קרבה ראשונה (בני זוג, הורים וילדים) לחללי המלחמה או לחטופים או לנעדרים**
4. משרתי המילואים ומגויסי צו 8**

אופן קבלת מידע לגבי שיוך לקבוצה: * בהתאם לרשימה מגורם מוסמך שתועבר לבנקים. ** לפי פנייה מלקוח.

	סוג האשראי	תקופת דחיית התשלומים	שיעור ריבית מקסימאלי	אופן פריסת התשלומים
הקלות בתחום האשראי	משכנתאות[3]	3 חודשים[4] (לאחר תקופה זאת תבחן הארכה נוספת)	לא תהיה כל עלות ריבית בגין סכום הדחייה	משכנתאות **שלוש חלופות לבחירת הבנק:** • הוספת התשלומים בסוף תקופת המשכנתא. • פריסת התשלומים לאורך יתרת תקופת המשכנתא. • העמדת הלוואה, בסכום הדחייה, ללא ריבית, לתקופה של 4 שנים, שמועד פירעונה יחל בחלוף שנה. **אשראי צרכני ואשראי עסקי:** הוספת התשלומים בסוף תקופת ההלוואה.
	אשראי צרכני מצטבר בסכום של עד 100,000 ₪			
	אשראי עסקי[5] עד סכום של 2 מיליון ₪			
	יתרת חובה (אוברדרפט), בחשבון עו"ש של משקי בית, עד סכום של 10,000 ₪		0% ריבית	**הבהרה:** ההטבה תינתן לקבוצת לקוחות 1-3 המוגדרת לעיל בלבד. ההטבה תחול על לקוחות שערב פרסום המתווה חשבון העו"ש שלהם היה ביתרת חובה.[6]
הקלות בתחום העמלות[7]	**פטור לתקופה של 3 חודשים** מגביית עמלות בגין פעולות שיבצעו לקוחות המשתייכים למעגל הראשון, למעט פעילות מט"ח, ני"ע, סחר חוץ, יהלומים (כמפורט בהערת השוליים).			

מעגל שני
כל יתר לקוחות הבנקים

	סוג האשראי	תקופת דחיית התשלומים	שיעור ריבית מקסימאלי	אופן פריסת התשלומים
הקלות בתחום האשראי	משכנתאות[8]	3 חודשים (לאחר תקופה זאת תבחן הארכה נוספת)	הריבית ההסכמית[9]	הוספת התשלומים בסוף תקופת ההלוואה.[10]
	אשראי צרכני מצטבר בסכום של עד 100,000 ₪			
	אשראי עסקי עד סכום של 2 מיליון ₪			
	עמלות	דחיית התשלומים תבוצע ללא חיוב בעמלות.		

הבהרות:

- מועד הכניסה לתוקף של המתווה הוא לכל המאוחר עד לתאריך 31.10.23 לטובת היערכות נדרשת של כל בנק, ולמשך התקופה הקצובה במתווה החל ממועד כניסה לתוקף בפועל.
- דחיית תשלומים מצריכה פניה מצד לקוח לבנק והגשת בקשת באופן שנקבע על ידי הבנק.
- האמור לא חל על לווה שנמצא בהליך משפטי. לגבי לווה שהיה בפיגור במועד פרסום המתווה תתאפשר דחייה עד לתקופה שלא עולה על 180 יום מיום תחילת הפיגור.
- ככל שניתן לייתר פניה יזומה של לקוח ליישום המתווה, לרבות בתחום העמלות, יש לתת לכך עדיפות.
- אוכלוסיית משרתי המילואים ומגויסי צו 8 תהא זכאית להטבות עם המצאת אסמכתא או הצהרת לקוח.
- המתווה שגובש מציג את תנאי המינימום וכל בנק רשאי להרחיבו לטובת לקוחותיו ולבקשתם.

[3] בהתייחס לדירה ראשונה ומשפרי דיור בלבד.
[4] יובהר כי המתווה הוא בנוסף לקבוע בסעיף 9ח2 לחוק הבנקאות (שירות ללקוח) התשמ"א 1981- ואינו מחליף אותו.
[5] אשראי עסקי עם מחזור פעילות עד 25 מיליון ₪, לא כולל הלוואות בשת"פ מסחרי עם צד שלישי. לגבי אשראי עסקי שיתרת תקופתו לפירעון עולה על 3 שנים, ניתן לבצע פריסת תשלומים באופן הקבוע ביחס למשכנתאות.
[6] יתרת חובה שהינה חלק מהמסגרת המאושרת על ידי הבנק.
[7] העמלות המופיעות בפרקים הבאים, בהתייחס לבנקים, בכללי הבנקאות (שירות ללקוח)(עמלות), התשס"ח, 2008:
חלק 1 - חשבון עובר ושב (כולו)
חלק 2 - מידע, הודעות והתראות (כולו)
חלק 3 - אשראי (כולו)
חלק 6 - כרטיסי אשראי (כולו, למעט עמלות - (7) עסקאות במט"ח, (8) משיכת מט"ח בחו"ל, (9) רכישת מט"ח מחו"ל)
חלק 9 - עמלת טיפול בירושות ועזבונות, עמלות משיכת מזומן (ממכשיר מרוחק וע"י כרטיס נטען).
[8] בהתייחס לדירה ראשונה בלבד ומשפרי דיור.
[9] דחיית התשלומים כרוכה בריבית על תקופת הדחיה. לכן, טרם קבלת החלטה על דחיית תשלומים, חשוב לבחון את השלכות הדחייה, לרבות המחיר הכלכלי של הדחייה (מבחינת עלות הריבית, סכום חיוב חודשי לחיוב לאחר הדחייה וכיו"ב), לצורך קבלת החלטה מושכלת.
[10] אופן פריסת ההלוואה היא בכפוף למגבלות טכניות הנובעות ממערך המחשוב של הבנק.

בנק ישראל מאריך ומרחיב בפעם השלישית את מתווה הסיוע המקיף שאומץ על ידי הבנקים בהתמודדות עם השלכות מלחמת "חרבות ברזל"

המתווה ייכנס לתוקף החל מתאריך 1.4.24. ניתן להגיש בקשה להיכלל במתווה זה בתאריכים 1.4.24-30.6.24 לפי החלוקה הבאה:

- אוכלוסייה המתגוררת או בעל עסק במרחק של עד 30 ק"מ מרצועת עזה.
- אוכלוסייה שפונתה על ידי גורם רשמי, או שמתגוררת ביישובים שטרם פונו רשמית בפועל*
- חשבונות חטופים או של נעדרים*
- אוכלוסייה שהיא בעלת קרבה ראשונה (בני זוג, הורים, אחים וילדים) להרוגי המלחמה או לחטופים או לנעדרים
- אוכלוסיית משרתי המילואים ומגויסי צו 8**
- חיילי מילואים שאושפזו לתקופה של 7 ימים לפחות בשל פציעה שנגרמה להם מהמלחמה
- אוכלוסיית נפגעי המסיבות - נפגעי מסיבת "נובה" ברעים; נפגעי מסיבת "פסיידאק"; נפגעי מפגש ההיערכות לפסטיבל "מידברן"*

הקלות שניתנות לקבוצות אלו לתקופה נוספת של 3 חודשים:

- אפשרות לדחיית תשלומי משכנתאות, ללא מגבלת סכום, ללא חיוב בריבית ובעמלות;
- אפשרות לדחיית הלוואות צרכניות בסכום מצטבר של עד 100,000 ₪, ללא חיוב בריבית ובעמלות;
- אפשרות לדחיית הלוואות עסקיות, בסכום מצטבר של עד 2 מיליון ₪, ללא חיוב בריבית ובעמלות;
- פטור מתשלום ריבית על יתרת החובה בחשבונות העו"ש של משקי הבית עד לסכומים קצובים;
- פטור מתשלום ריבית על יתרת החובה בחשבונות העו"ש של עסקים קטנים עד לסכומים קצובים;
- פטור מתשלום מרבית העמלות;
- ההטבות לחיילי המילואים יינתנו באופן יזום על ידי הבנק וללא צורך בהמצאת אסמכתה.

הקלות ליתר הלקוחות, לתקופה נוספת של 3 חודשים:

- אפשרות לדחיית תשלומי משכנתאות, הלוואות צרכניות והלוואות עסקיות, ללא חיוב בעמלות, ובשיעור הריבית המקורי של ההלוואה,

לתנאים המלאים, ניתן להיכנס לאתר בנק ישראל

*בהתאם להחלטות הממשלה והרשימות המופיעות באתר בנק ישראל.

Box 6.3

Data during a Crisis

- To carry out its functions, the Banking Supervision Department analyzes and monitors developments in banking system data with respect to stability, fairness, and competition. For this purpose, it manages three types of reports:
  - o **Periodic reports**—received at various frequencies based on the directives for reporting to the Banking Supervision Department and to the public;
  - o **Temporary reports**—a request for data on a specific phenomenon for a one-time review;
  - o **Reports in special (emergency) situations**—a specific reporting directive for special situations that allows the Supervisor of Banks to define, according to the circumstances, the specific data that the corporations must report with greater frequency or for the first time.
- With the outbreak of the Swords of Iron War on October 7, 2023, the Supervisor of Banks decided to partially implement the emergency reporting directives. As the extent and severity of the event became clear, the emergency reporting directive was expanded, and the banks were required to report a greater amount of data more frequently with respect to their stability and functioning.

  The activation of the special situation reporting directive in the early stages of the Swords of Iron War allowed the Bank of Israel and the Banking Supervision Department to obtain a large amount of information, which was reported through regular reporting channels. This workflow facilitates the processing, analysis, and graphical presentation of the information to users in a flexible, efficient, and timely manner.
- The periodically reported information, and in particular the rapidly reported information received as a result of the activation of the special situation reporting directive, was used by the Banking Supervision Department to monitor the stability and functioning of the banking system, as well as to make information accessible to the general public. The emergency data served as the basis for internal discussions of measures to be implemented by the Banking Supervision Department and enabled the Supervisor of Banks and the Governor of the Bank of Israel to make real-time decisions regarding assistance programs and to identify the target populations. Later on, the emergency data served as a tool for monitoring the implementation of these measures and measuring their efficiency and effectiveness.

Background

The Banking Supervision Department carries out its functions by monitoring and analyzing the developments in banking system data with regard to stability, fairness, and competition.

This process is based on ongoing analysis of up to date data received from corporations in the banking system (banks and acquirers) and the data reported to the Banking Supervision Department at the Bank of Israel under the Banking Ordinance (1941).[1]

The Banking Supervision Department manages three types of reports:

Periodic reports[2] —received monthly, quarterly, semiannually, or annually. The reporting directive specifies the scope of the report, the level of detail (customer/transaction/reporting corporation), reporting deadlines, and the precise structure in which the banks and acquirers are required to submit the data.

Temporary reports/one-time reporting requirements—A request to submit data on a specific phenomenon for the purpose of in-depth examination of a particular issue or a one-time review. If after a certain amount of time, it becomes clear that the one-time requirement includes data that are needed on a regular basis, it may be considered for inclusion as an ongoing reporting instruction. For example, state-backed loan programs were instituted for small businesses during the COVID-19 crisis and the Swords of Iron War, and banks were asked to submit temporary reports to the Banking Supervision Department regarding the loans granted under this program.

During the past year, the Banking Supervision Department issued a reporting requirement in the form of a temporary directive. This reporting requirement includes data that are uniquely relevant to the special situation currently faced by the Israeli economy. After a certain amount of time, the data reported under this temporary directive are reviewed, and data that remain relevant become part of a periodic report or emergency report, while data that are no longer relevant cease to be reported.

Special situation (emergency) reporting—This involves a specific reporting instruction for special situations, in which the Supervisor of Banks can define the specific data each corporation must report with increased frequency relative to periodic reporting. The emergency reporting instruction also includes new reporting requirements that go beyond the routine reports and are specific to the particular emergency. For example, during the COVID-19 crisis and the Swords of Iron War, banking institutions were asked to report data on loan payment deferrals to the Banking Supervision Department. These data helped to shape and validate the frameworks for deferring bank loan payments.

The Banking Supervision Department also conducts annual emergency exercises in which the reporting corporations are required to simulate emergency reporting according to the scenario decided upon that year.

1 Paragraph 5a.
2 For details on the Directive for Reporting to the Banking Supervision Department: https://www.boi.org.il/media/1akczevu/801_1-4.pdf [Hebrew]

Reporting directives for special (emergency) situations—a historical perspective

In order to monitor the activities of the banking system during emergencies and following Operation Pillar of Defense, the Bank of Israel and the Banking Supervision Department decided that data are required more frequently, more rapidly and on a larger scale in an emergency. The Banking Supervision Department therefore issued the Special Situation (Emergency) Reporting Directive.[3] The directive specifies the required reporting frequency and the type of data included in the emergency reports: balance sheet data, future cash flows, reports on checks without cover, a daily snapshot of the banking services provided by the bank, reporting on outlying events, and details regarding branch status, ATM status, and mobile branches.

With the occurrence of further emergency events, such as Operation Protective Edge, Operation Guardian of the Walls, and the COVID-19 pandemic, the Supervisor of Banks decided to activate the Emergency Reporting Directive in order to receive more extensive information at a higher frequency, with the goal of obtaining a clearer picture of the banking system's stability and operations during these special situations.

In 2020, and in light of the extended duration of the COVID-19 pandemic and its impact on Israel's financial system—and as the result of lessons learned regarding the emergency data collected during the pandemic—the need arose to upgrade the data received by the Banking Supervision Department from regulated institutions during special situations, based on a long-term perspective. A team was created to examine and expand the reporting requirements for banks in emergency situations. At the same time, a balance was sought between the Banking Supervision Department's need for data from the various domains affected by the emergency and the resources required in the banking institutions and the Banking Supervision Department to generate and process the data during an emergency.

The team's conclusions included the following:

- To add new areas for reporting, including: credit, markets, capital, regulatory relations, and cyber risk.
- To expand the reporting requirements related to liquidity and checks without cover.

In addition, and based on the understanding that while we are well-prepared for previous crises, it is impossible to predict the nature of future crises, the directive's framework was changed so that data could be included in the reporting requirement in a modular fashion, depending on the scenario that is unfolding, rather than activating the entire directive as one unified package. In May 2022, the team's recommendations were implemented, and the updated Special Situation (Emergency) Reporting Directive was issued.

[3] https://www.boi.org.il/media/ki2hdlrl/889.pdf [Hebrew]

With the outbreak of the Swords of Iron War on October 7, 2023, the Supervisor of Banks decided that, given the scope and severity of the event, the Special Situation (Emergency) Reporting Directive is to be activated.

Emergency reporting during the Swords of Iron War

The activation of the Special Situation Reporting Directive during the early stages of the Swords of Iron War allowed the Bank of Israel and the Banking Supervision Department to receive detailed and extensive information at a high frequency, which was reported through the regular channels. Thus, the rapidly reported information followed the same path as routinely reported data, while using automation as much as possible: intake into the Banking Supervision Department's systems, validation checks, logical data testing by the reporting entity, transfer to the Bank of Israel's data series database[4], and the implementation of calculations and indices based on the raw data.

This workflow makes it possible to process, analyze, and present information graphically in a flexible, efficient, and rapid manner. It also allows the efficient flow of information to internal users—such as the economists of the Banking Supervision Department, the Supervisor of Banks, and other entities within the Bank of Israel—as well as external users, and including the general public.

In the initial phase, and in the immediate term, the Banking Supervision Department activated the Special Situation Reporting Directive with respect to branch operations, in order to monitor their availability and to make the information accessible to the public on the Bank of Israel's website. Upon the activation of the directive, the banks were also asked to provide data on check transactions, including the number of checks presented and returned (sorted by reason) and broken down by locality. These data helped the Banking Supervision Department monitor liquidity challenges faced by customers in different regions of the country (for further details, see Box 6.7 in this review).

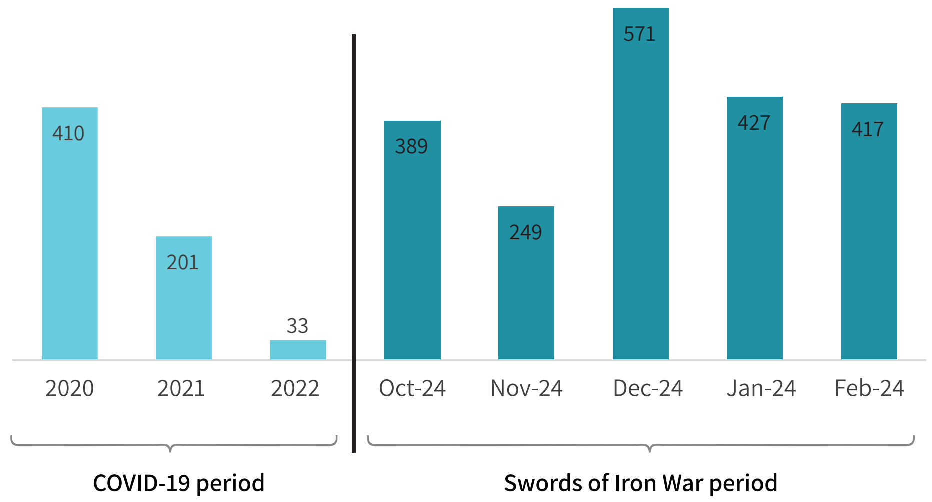
About a week after the war began, as the severity of the event became clearer, the banks were asked to report additional data as outlined in the directive. This data included information on credit, liquidity, capital adequacy, and payment deferrals. At a later stage, the banks were requested to report additional data specific to the Swords of Iron War, such as the costs of implementing the various assistance measures announced by the Bank of Israel during the war, data on loans granted to businesses and funded by the Bank of Israel, and loans backed by government guarantees.

[4] For further information on the data series repository, see the box entitled "Managing Supervisory Information and Maximizing its Value" in Survey of Israel's Banking System 2021. Link to the data series repository on the Bank of Israel site: https://edge.boi.gov.il/?locale=en [Hebrew]

Between the outbreak of the war and the end of February 2024, approximately 2,200 regular reports were submitted under the emergency reporting framework, with daily, weekly, or monthly frequency. These reports included around 2 million data points.[5] For comparison, during the three years between 2020 and 2022, and in the context of the COVID-19 crisis, over 2,600 reports were submitted by about 13 entities as part of the emergency reporting framework. These reports involved five different reporting requirements with varying frequencies and included approximately 600,000 data points (see Figure 6.6).

Between the outbreak of the Swords of Iron War and February 2024, about 2 million data points were reported under the emergency reporting framework. This is markedly larger than the number reported during the previous emergency period (the COVID-19 pandemic).

Figure 6.6 **Number of Emergency Data Points Reported to the Banking Supervision Department, 2020–2024** (thousand)



SOURCE: Banking Supervision Department calculations.

The use of information for supervisory purposes and publication

The routine information, particularly the rapidly received data under the Special Situation Reporting Directive, was used by the Banking Supervision Department to monitor the functioning and stability of the banking system, to assess risks, and to make information available to the public. Analyses of credit data, deposits, bank liquidity, and more were made accessible through the internal supervisory information systems. These systems

5 Validated data that are free from errors which would require the reporting bodies to submit corrected reports.

present the data and allow for analysis at both the individual bank level and across the entire banking system. Data on the availability and operation of branches was received daily and published on the Bank of Israel's website for public consumption.

The emergency data also served as the basis for internal discussions on measures to be instituted by the Banking Supervision Department and enabled the Supervisor of Banks and the Governor of the Bank of Israel to make real-time decisions on the implementation of assistance programs. The emergency data further serve as an important tool for monitoring the implementation of those measures and evaluating their efficiency and effectiveness. For example, weekly credit deferral data helped assess the impact of the war on the financial situation of customers and assisted in tracking the implementation of the comprehensive assistance plan adopted by the banks, which allowed for the deferral of loan repayments (for more details, see Box 6.2 in this review).

These analyses are automatically updated as new data are received, providing users with advanced, flexible display capabilities that can be used to analyze the current situation and to generate insights.

Conclusion

The Banking Supervision Department views the information reported regularly during normal periods, and more intensively during emergencies, as a primary tool for monitoring and tracking the developments in the banking system.

The generation of a precise and comprehensive picture to support the decision making process is made possible by the regulation of how information is received during emergencies, along with its changing content based on the emergency situation. This is combined with the implementation of processes and solutions that allow for efficient and rapid data collection and management, and the preparedness of the banks for the increased reporting requirements during emergencies.

We are continuing to learn the lessons of past experience, which may result in changes to the emergency reporting framework, and perhaps also periodic reporting, including the expansion of data reporting requirements during normal periods based on the data received during emergencies. Furthermore, the emergency data, which was made accessible to internal users through display solutions developed during the war, will remain available as long as needed.

Box 6.4

Transparency and Accessibility of Interest Rate Information

- To carry out its functions, the Banking Supervision Department analyzes and monitors developments in banking system data with regard to stability, competition, and innovation.
- By making price data accessible on the Bank of Israel's website and by increasing transparency, the Banking Supervision Department works to empower customers and assist them in financial conduct.
- The Banking Supervision Department has published a dashboard on the Bank of Israel website that displays the interest rate data for banking corporations, with the goal of enhancing consumer transparency and improving access to price-related data in the evolving financial environment.
- The Banking Supervision Department uses Google Analytics as a tool to monitor dashboard usage and analyze social media discussions. This tool helps to identify user behavior patterns and to improve user experience by tailoring content and providing more useful and accessible financial information to users.

Background

To fulfill its functions, the Banking Supervision Department carefully analyzes and monitors developments in the banking system, focusing on stability, competition, and innovation. This process relies on the ongoing analysis of up-to-date data received from corporations within the banking system (banking corporations, clearing houses, and foreign banks). Technological advancements and the growth in available information sources have led to a significant expansion in the volume, variety, and quality of the data. As a result, there is an increasing need and interest in sharing this information with the general public in a way that can generate insights and contribute to informed financial decision making. The Banking Supervision Department makes extensive information available to the public on the Bank of Israel's website, offering a comprehensive view of the banking system's activities and providing tools to assist in financial management. This information is presented through dashboards, spreadsheets, graphs, and the data series interface[1] on the website.

[1] Data Series Interface on the Bank of Israel website [Hebrew]

Part I Consumer transparency in a changing financial environment—publication of banking corporations' interest rates, accessible by means of a dedicated dashboard on the Bank of Israel website

As a result of changes in the interest rate and inflation environment, which began in 2022 after many years of relative stability, the Supervisor of Banks sent a letter to the banks, emphasizing the expectation that they will adjust their investment products to the evolving interest rate environment and the changing needs of customers.[2] He also highlighted in the letter that "in continuation of the various reforms led by the Bank of Israel in recent years to increase transparency and strengthen the customer's bargaining power, the Banking Supervision Department intends to publish the interest rates on household credit and deposits."

For the first time, specific bank interest rates are now available to the public, providing a simple tool for the general public to compare prices and choose suitable financial products. The interest rate comparison dashboard for deposits and credit, launched in October 2022, increases transparency for bank customers and enhances competition in the deposit and credit markets.

The dashboard allows users to compare the interest rates offered by banks on deposit products for households (both fixed and variable interest rates). It is based on data that are regularly reported to the Banking Supervision Department on the average interest rates actually paid on deposits and credit in Israeli currency that is not indexed to the CPI. These data are updated monthly.

This initiative not only provides a better understanding of deposit characteristics but also empowers customers by enabling them to make informed decisions through easy, accessible, and convenient comparisons of interest rates across different banks. Plans are in place to enhance the dashboard with additional information and improve its usability and efficiency this year.

Below is a breakdown of the information available on the dashboard as of April 2024:

Interest rates on deposits:

- Fixed-rate and variable-rate deposits – a breakdown of the interest rates actually paid on deposits, by time period of the deposit. The dashboard provides data on both the average and median interest rates.[3]

2 Fairness to Consumers in a Changing Financial Environment [Hebrew]

3 The median interest rate is the rate at which half of the loans (or deposits) were provided (or received) at an interest rate equal to or higher than that rate, and half at an interest rate equal to or lower than it. The information on the median interest rate neutralizes the impact of the loan or deposit amount on pricing, providing a clearer picture of the typical interest rate without being skewed by larger or smaller amounts.

- The interest rate data is available in a summarized table display as well as in charts.

The interest rates on consumer credit (loans to households):

- A comparison of the average and median interest rates actually charged on loans provided during the month.
- Interest rate ranges – information on interest rates based on percentiles:[4]
  1. Average interest rate in the upper quartile – representing the top 25% of loans according to interest rate.
  2. Average interest rate in the lower quartile – representing the bottom 25% of loans according to interest rate.

Due to the variation in interest rates on consumer loans across customers, the information was expanded to show not only the average or median interest rate but also the range of interest rates. Interest rates offered to customers are influenced by several factors, including the borrower's risk level, the loan amount, and the loan term.

The median interest rate allows each consumer to better understand their position relative to other consumers who have received loans or made deposits. The difference between the median interest rate and the average interest rate is that the average is influenced by amounts of the deposits or loans (weighted by the actual amounts), while the median is not.

Interest rates on current account balances:

- A comparison of the average interest rate charged by banks on current account balances that are in overdraft, though within the authorized credit limit.

Interest rates on credit card transactions:

- Comparison of the average interest rate charged on credit transactions (transactions where the customer requests to spread the payment over multiple installments).
- Comparison of the average interest rate charged for revolving credit when the monthly charge on the credit card is limited.

[4] Interest rates by percentiles: When analyzing a group of 100 loans, if 30 of them share the lowest interest rate, then they are classified based on their position within this subset for reporting purposes. Specifically, the 25 leading loans among these 30 (which represent the highest interest rates in this lowest type) fall into the 75th percentile. Meanwhile, the five remaining loans with the lowest interest rates in this group fall between the 25th and 50th percentiles. This approach provides a detailed breakdown of how loans are distributed across different interest rates.

Publication of a draft Proper Conduct of Banking Business Directive – Publishing of Interest Rates on Deposits and Positive Account Balances"

The Bank of Israel and the Banking Supervision Department are actively working to encourage competition in the banking system, to enhance transparency for the public and to empower customers. As part of these efforts, the Banking Supervision Department continues to expand the variety of information available to the public, providing customers with tools to help them make informed decisions about their financial assets and liabilities.

In this context, on February 28, 2024, a draft Proper Conduct of Banking Business Directive was published, marking a significant step toward increasing the transparency and competitiveness of the banking system. The directive, entitled "Publication of Interest Rates on Deposits and Positive Account Balances," complements the existing Banking (Service to Customer) (Disclosure and Document Delivery) Rules from 1992. It establishes guidelines for publishing interest rates on deposits and credit balances in current accounts.

This directive simplifies and significantly expands the disclosure of interest rates on deposits and positive balances, thereby fostering competition in the banking system, enhancing transparency regarding deposit interest rates, and improving the usefulness of the information made available to the public. It also strengthens a customer's ability to compare the various offerings from different banking corporations in the deposit market.

The directive establishes uniform rules and a consistent framework for publishing the minimum interest rates on deposits and positive account balances that banks are required to pay, while also defining the characteristics to be displayed for each type of deposit. It also includes provisions for the consolidated presentation of interest rates for standard deposit types, in a uniform format and along with information on additional deposit products the bank might offer.

The standard deposit types and their characteristics were determined based on an outlining conducted by the Banking Supervision Department of the existing deposit products in the market. As part of the publication, a link must be provided to the interest rate dashboard that displays the rates based on actual deposits, as published by the Banking Supervision Department (as described above).

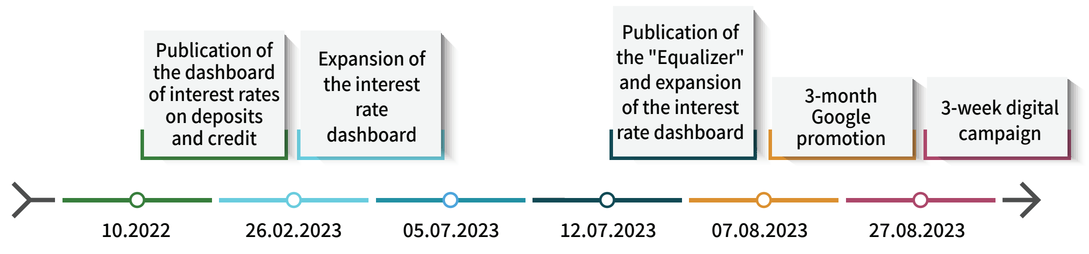
To further enhance the usability of the information, the directive also requires banking corporations to offer customers a search mechanism that enables them to find information on the types of deposits available and the corresponding interest rates.

Part II Analysis of dashboard use and the discourse on social media

In July 2023, the Equator page[5] was launched on the Bank of Israel's website. This page serves as a homepage that provides access to the dashboard of interest rates on deposits and credit, along with other comparative tools and guides that can assist in financial decision making. Following its launch, the Equator page was promoted through marketing campaigns aimed at increasing public awareness (see Figure 6.7).

The Bank of Israel monitors website usage statistics, including information made available by the Banking Supervision Department. Using tools like Google Analytics, the Banking Supervision Department tracks and analyzes indicators of dashboard usage in order to assess how effectively the information is reaching the public and in order to identify opportunities for improving its visibility.

Figure 6.7 Timeline for the publishing of data and the marketing campaigns



Since April 2023, the total number of visits to the interest rate dashboard has reached 197,031. The analysis indicates that the daily views of the dashboard increased following the publication of the Equator page and the launch of the digital campaign (Table 6.2, Figure 6.8).

The impact of these campaigns can also be measured by analyzing the bounce rate, which refers to the percentage of users who left the website after viewing only one page, without taking any further action. This reflects the ratio of visitors who exited the site to the total number of visitors. Over time, there has been a noticeable decrease in the bounce rate, particularly after the launch of the Equator page and the digital campaign (Figure 6.9).

Table 6.2 – Usage indices over time – Dashboard of interest rates on deposits and credit

Total users	Total views[6]	Total return users
120,097	197,031	35,058

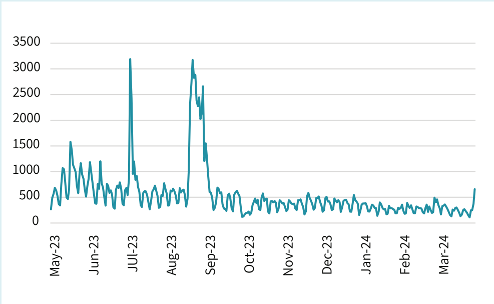
The data presented in the table relate to the 12 months from 4/2023 to 4/2024.

[5] The Bank of Israel's Equator presents the tools currently available on the Bank of Israel site and expands the data that can be used for comparison by consumers.

[6] Views – the number of presentations of pages or particular content on the site.

Figure 6.8

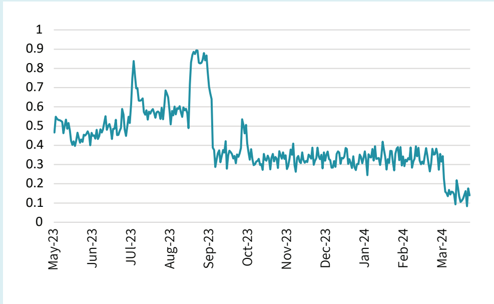
Number of daily views,
May 2023 to March 2024



SOURCE: Google Analytics.

Figure 6.9

Average bounce rate,
May 2023 to March 2024



SOURCE: Google Analytics.

The marketing campaigns conducted alongside the launch of the Equator website led to an increase in dashboard views and heightened media discussion. Following the launch and the advertising campaign, a study was conducted to examine the discourse on social media regarding the Equator website and its ongoing use during the period from July 2023 to February 2024.

The research method involved both quantitative and qualitative analysis, with a sample of 145 mentions related to Equator. The study analyzed discussions across seven different social media platforms.

The analysis concluded that the discourse surrounding Equator was mostly positive, with the majority of the discussions occurring near the time of the platform's launch. Many users expressed satisfaction with the platform and recommended it to others. Criticism of Equator focused on a few main points, primarily its usability for negotiation purposes with banks, and claims that too much information was presented without adequate filtering options, making it difficult to find specific data. These insights will be valuable in improving the website. Suggestions for enhancing Equator include adding comparison data for fees, overdraft interest rates, and money market fund interest rates.

Conclusion

The Banking Supervision Department attributes great importance to providing accessible and high-quality information to the public and is committed to increasing transparency. We continuously monitor various dashboards' usage metrics to determine how to improve the visibility of the comparison tools, enrich them, and make them clearer and more accessible to customers.

The publication of interest rates that banks pay on deposits and the rates charged for credit is an important step toward enhancing transparency. The changes in the interest rate and inflation environment starting in the second half of 2022 have underscored the importance of enabling customers to understand and compare the terms offered by different banks across a range of credit and deposit products. The Banking Supervision Department will continue to work toward making efficient information more accessible to the public.

Box 6.5

International Developments in Customer Protection and their Adoption in Israeli Regulation

- Financial consumer protection has undergone significant development among leading financial regulators around the world. This box presents the international trends in this area, as reflected in the updated guidelines of the G20 Forum and the OECD, and in the new FCA guidelines.[1]
- The Banking Supervision Department has defined fairness as a strategic goal and in this context works to assimilate this principle within the work processes of the banking corporations, by embedding it within their organizational culture.
- The box presents the developments in Israel in the area of customer support and service systems, inspired by the latest international regulatory developments and as reflected in Proper Conduct of Banking Business Directive 501. It constitutes an additional layer in the efforts of the Banking Supervision Department to promote fairness in bank-customer relations, based on the view that fairness in dealings with customers is a prerequisite for public trust in the financial system.
- The box examines the challenges of assimilating the latest developments in products and services, as well as those of providing accessible information and effective disclosure

Introduction

In recent years, the Bank of Israel's Banking Supervision Department has made significant efforts to promote fairness in bank-customer relations. These efforts are in line with the definition of fairness as one of the two strategic supervisory goals that are intended to meet the Bank of Israel's objectives: one to achieve stability[2] and the other to achieve fairness. The first is defined as the integration of an all-encompassing and impactful culture of fairness toward customers. The underlying assumption of this approach is that a stable and sustainable banking system is necessarily based on public trust, with fairness in dealings with customers serving as a prerequisite for public trust in the financial system. The supervisory approach, which places customer protection at its core, has evolved over time and its development has been the result of, among other things, parallel processes in Israel's economic and social spheres; technological developments; trends in the business and competitive world; etc. In this context, account must also be taken of developments in

[1] Financial Conduct Authority – https://www.fca.org.uk

[2] The other strategic goal is stability, namely the protection of depositors' funds, resilience to crises, and ensuring the continuity of service to the public during both normal times and emergencies.

the approach of leading international financial regulatory bodies with respect to fairness, the importance of organizational culture in financial institutions, and the internalization of a commitment and responsibility that will be embedded within their interactions with customers.

In recent years, a shift has occurred in the international supervisory approach to customer protection, placing the customer at the center by changing the organizational culture within financial institutions. The Banking Supervision Department is part of this shift in thinking and, therefore we will examine these changes and the extent to which they are compatible with the business and legal environment in Israel.

This box will describe the changing global trends in consumer protection and will outline the relevant Banking Supervision Department activities.

The G20 and OECD Consumer Protection Principles

More than a decade ago, the Organization for Economic Cooperation and Development (hereinafter: the OECD), together with the G20 Forum,[3] formulated ten principles for financial consumer protection and consumer policy, based on the recognition that regulation and supervision in financial consumer protection address the power imbalances between a consumer and a financial institution and can be used to narrow the information gaps between them. This will increase the consumer's financial well-being and resilience; will strengthen the functioning of the financial system; will increase customer trust and reliance on the financial system; and will reinforce financial stability and promote more inclusive economic growth. The principles address diverse aspects of the problem: establishing a legal, regulatory, and supervisory framework for consumer protection; defining the status and roles of supervisory entities; encouraging responsible behavior towards consumers; promoting competitive and efficient markets; ensuring equal and fair treatment of consumers; facilitating disclosure and transparency of information; protecting the privacy of consumer data; protection against fraud; and handling of public complaints by providing remedies and compensation (Figure 6.10). Adoption of these guidelines is voluntary, but there is an expectation that OECD member countries will actively work to adopt and implement them within their consumer protection frameworks.[4]

The guidelines recently underwent a significant revision that was completed about a year ago. It reflected developments over time in the supervisory approach to financial consumer protection among major financial regulatory bodies worldwide. In updating the principles,

3 A forum for cooperation and consultation on issues related to the international financial system. Its members are the ministers of finance and central bank governors of the 20 leading economies.

4 The Banking Supervision Department operates according to these principles and adopts them as a leading international standard.

emphasis was placed on setting a higher threshold of consumer protection by changing the organizational culture within financial institutions, while also imposing requirements for financial inclusion and promoting financial literacy. The revision included, among other things, the addition of two new guidelines to expand the scope of consumer protection:

The first is Accessibility and Inclusion — According to this guideline, governments, supervisory entities, and financial institutions should strive to facilitate the accessibility of financial products and services for all types of consumers, while taking into consideration their limitations and barriers. They are also expected to work toward promoting an inclusive financial system.

The second is High-Quality Financial Products — According to this guideline, high-quality financial products are those aligned with the interests and objectives of the target consumer audience throughout their lifecycle and will contribute to a consumer's financial well-being. The guideline calls for appropriate supervision and governance of financial products and services, and where relevant, also of intermediaries, in order to ensure that high-quality financial products and services are planned and distributed. It is also stated that in order to promote high-quality financial products that offer value to consumers, a target market for the financial product should be defined, preliminary research and testing should be conducted before the product's launch, and the customers' behavioral biases should be taken into account, with the goal of understanding the target market and appropriately determining the product's level of complexity and risk.

The OECD encourages member countries to disseminate the updated high-level principles and their innovations among relevant stakeholders within each country, to integrate them into the supervisory approach and, accordingly, into their own work processes.

Figure 6.10 The G20 and OECD guidelines for protection of the financial consumer

The FCA

The FCA (Financial Conduct Authority) is the financial regulator in the United Kingdom, established in 2013 under the Financial Services and Markets Act passed by the British Parliament.[5] The organization supervises financial services companies (banks, securities firms, insurance companies, various financial advisors, etc.) in various aspects of business conduct and consumer protection. Its purpose is to protect financial customers, promote fairness in the financial system, strengthen competitiveness in the markets, and promote efficient competition from a consumer perspective.

The FCA has the authority to impose binding rules and procedures for the entities it supervises. It is also authorized to carry out enforcement and investigations in the area of financial crime, including: restricting the sale of financial products, setting rules and guidelines for the conduct of financial service providers, and taking steps to punish violations of antitrust regulations. The organization states that it operates according to a

[5] Financial Services and Markets Act – https://www.legislation.gov.uk/ukpga/2000/8/contents

proportionate, risk-based supervisory approach, while taking into account size, complexity, and potential impact on different types of consumers. The organization regularly publishes multiyear metrics to allow assessment of its performance and its achievement of its defined objectives.

The Consumer Duty directive issued by the FCA

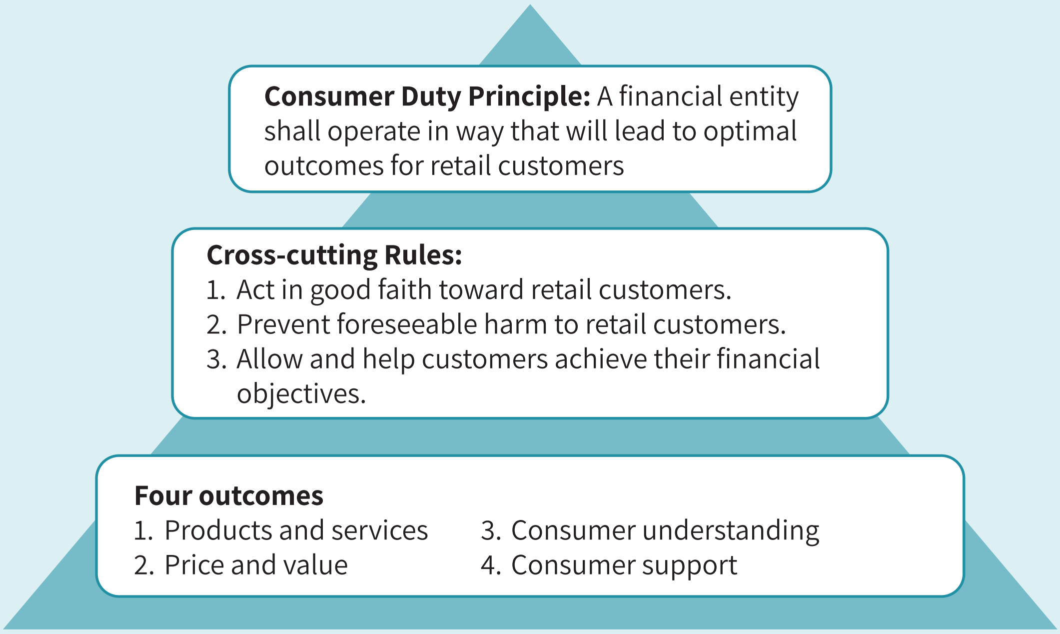
In July 2022, the FCA published its finalized document on Consumer Duty. It was published following a consultation process conducted by the FCA together with entities in the financial system in the UK, consumers, consumer organizations, and others. The document defines the regulatory expectation for a reasonable standard of conduct of regulated entities toward retail customers in the financial markets, with the aim of enhancing customer protection. The document outlines new expectations for financial entities, which can be implemented flexibly and dynamically with respect to products, services, and business models, while also addressing the changing digital environment. It thus provides protection for customers, while providing regulated entities with certainty in financial innovation and with tools to support customer service.

The FCA has stated that under the new rules companies are required to place the customer at the center of their business; to offer products and services that are suited to customer needs; to provide fair value; and to help customers achieve their financial goals without causing them harm.

The Consumer Duty directive reflects a fundamental shift in the FCA's regulatory approach, representing an advanced approach in international regulation that focuses on outcome-based supervision, in contrast to supervision aimed at managing behavioral risk. Under the previous approach, the financial entity was required to act in a way that minimized behavioral risk with the goal of preventing harm to itself. Under the new guidance, there is an expectation that regulated entities will act in a way that does not cause harm to the customer, even if it does not pose a risk to the financial entity. Within the framework of the new policy, the FCA is seeking to change the organizational culture and the manner in which financial entities operate. It targets the core of the business model and strategy of financial entities and seeks to bring about a deep-rooted change in their policies and business processes.

The Consumer Duty directive went into effect in July 2023 for products and services sold to the public from that date onward, and it will come into effect for existing products and services starting in July 2024. Currently, the FCA is addressing issues related to the optimal implementation of the directive and the proper way to enforce it effectively. The FCA is aware of the broad scope of the changes introduced by the new directive and therefore it periodically publishes statements, assessments, and reviews in order to help firms focus on the various issues in implementation and assist them in shaping their decision-making processes.

The structure of the new directive is composed of three levels:



1. A new **Consumer Duty Principle** that sets a threshold of expectations for the proper conduct of the financial entity;

2. A set of **Cross-cutting Rules** that clarify the standards for appropriate conduct expected by the FCA from the supervised bodies toward their customers;

3. **Four Outcomes** that reflect the core issues and the desired interfaces between the financial body and its customers.

The Consumer Duty Principle

The new Consumer Duty Principle[6] establishes that a financial body must act in a way that leads to good outcomes for retail customers. The principle reflects the positivity and proactivity that the FCA expects from financial entities, and the desire that financial institutions will think more deeply about customer outcomes and place customer interests at the center of their operations. The idea is that regulated entities should challenge themselves and ensure that their actions align with customer interests and objectives, while meeting consumer expectations in the relevant target market. This will depend on the nature and quality of the product or service offered to the customer.

6 This principle is added to the other ten specified by the FCA: https://www.handbook.fca.org.uk/handbook/PRIN/2/?view=chapter

The FCA has stated that this overarching principle enforces a higher standard of conduct than in the past, thus expanding the commitments of entities toward customers to beyond the obligations derived from existing consumer principles. It is emphasized that the intention is not for customers to always receive optimal outcomes, nor is there an expectation to assess the needs, characteristics, and goals of each individual customer. Furthermore, it is clarified that this is a general obligation, and that there is no intention to impose specific customer-level solutions on financial institutions. Rather, the expectation is that processes will be established that will impact consumer outcomes and protect consumers from potential harm.

The FCA directive has clarified that the new set of rules does not diminish the responsibility of customers for the choices and decisions they make. However, it is emphasized that customer responsibility only applies where the products or services offered to them are designed to meet their needs and provide value to them, and where entities act in a manner that helps them make decisions aligned with their financial needs and goals. This is based on the assumption that such actions enhance customer confidence and trust in the service provider.

The directive also includes specific references to customers in special populations and makes clear that vulnerable customers have additional needs or are at a higher potential risk of harm. Accordingly, the new rules are designed to provide them with broader protection.

Cross-cutting obligations described in the directive:

1. **Acting in good faith** – A key principle for business conduct and the creation of an environment in which customers can achieve their financial goals. This rule reflects a standard of behavior characterized by honesty and fairness.
2. **Preventing harm to customers** – Financial entities are expected to take proactive steps to prevent harm to customers, to the extent that it is within their control.
3. **Enabling and supporting customers in the achievement of their financial goals** – Regulated entities must foster a supportive environment that allows customers to make decisions aligned with their needs, including identifying a customer’s behavioral biases and operating a customer support center that ensures accessible communication. Entities must ensure that the product or service provides fair value, as declared.

Four Outcomes

1. The Products and Services outcome

Financial products and services are the core of a financial entity's operations. Accordingly, the directive defines essential requirements for the design, development, and planning of products and services that will enable customers to work toward achieving their financial goals. **The Consumer Duty Principle places a requirement on financial entities to conduct a structured process for approving financial products and services offered to customers, ensuring that they meet the defined criteria, including a design that addresses the needs, characteristics, and objectives of the target market.**

The financial entity is also expected to develop a distribution strategy that suits the target market. A structured process is also required whenever significant changes are made to the products or services offered to customers and for any new product or service. As part of this process, the target market must be defined as a group of customers with shared characteristics, whose needs, characteristics, and goals will be met by the product or service.

The FCA directive also states that a financial entity is required to consider the needs of vulnerable customers within its target market and to assess whether the product or service might adversely impact them. The directive specifies that the intention is not that the specific circumstances of each individual customer be ascertained, but rather that entities will help their employees recognize signs of vulnerability.

It is also expected that the financial entity will monitor the outcomes of customers and factor them into the ongoing evaluation process, as mentioned above. All of these requirements apply throughout the entire lifecycle of a product or service.

2. The Price and Value outcome

A standard is defined whereby products and services must offer fair value, not just that reflected in a fair price. The purpose of the rules is to ensure that the price paid by a customer for a product or service is reasonable in relation to the overall benefit derived from it. The financial entity is required to consider price when evaluating fair value, as part of a broader set of considerations. The FCA emphasizes that these rules are not intended to set prices for products and services.

The rules specify factors that a financial entity must take into account when assessing value:

- The nature of the product or service, including the benefits it will provide to the customer;
- The costs incurred by the financial entity in producing and/or distributing the product or service;
- The price of products or services offered by competing financial entities;
- Other products or services offered by the financial entity that are priced significantly lower while offering similar or greater benefits;
- Limitations that are part of the product or service;

- The total expected cost to be paid by the customer, including fees and charges throughout the duration of the relationship between the customer and the financial entity.

The assessment of value must be conducted during the design phase of a product or service, and before being offered to customers. This is necessary to ensure that prices reflect fair value for a reasonable period of time. The definition of this period depends on the nature of the product or service. The value must be monitored throughout the lifecycle of the product or service by conducting regular reviews.

3. The Consumer Understanding outcome

The baseline assumption is that the financial entity has an obligation to provide customers with information that is clear, understandable and fair, and does not mislead. The innovation of the Consumer Duty directive is that entities must assist consumers in understanding a product or service and accordingly equip them with the necessary knowledge to make effective, timely and informed decisions. Accordingly, an effective decision is one that maximizes the likelihood of the customer to achieve good outcomes. The directive states that the financial entity must act in good faith and avoid communication that exploits information asymmetry or a customer's behavioral biases.

Given the understanding that the characteristics of products and services may change over time, the financial entity is expected to communicate with consumers at appropriate times, including when relevant changes have been made, and to advise customers as to whether the products or services still meet their needs and objectives. At the same time, it is stated that the financial entity should consider the impact of overly frequent communication, which may reduce the effectiveness of important communication that requires customer action.

The directive states that the financial entity must be aware of how information is presented, ensuring that key information is clear, visible, and accessible, rather than buried within too much information or is difficult to find on the website. The FCA requires regulated entities to adopt practices that enhance communication clarity.

Moreover, in situations where the financial entity is required to convey complex information to customers, it must consider what steps can be taken to support customer understanding. The directive suggests using information layering to help customers first receive key information in a simple form, with references to more detailed information that they may want to consider later.

The requirement for effective communication is independent of the communication channel, and the financial entity is expected to adapt the communication channel to the information needs of its customers. Special caution should be exercised when communicating with vulnerable customers.

Additionally, it is expected that the financial entity will develop and implement checks and controls to ensure ongoing compliance with the rules over time.

4. Consumer Support outcome

The directive states that firms are expected to provide support that meets their customers' needs in order that they can realize the benefits of the products and services they purchase, achieve their financial goals, and act in their own best interests. The rules within the directive stipulate that a financial entity must design and deliver support that meets customer needs, including those of customers in vulnerable circumstances. The entity must ensure that the communication channels offered to customers in order to receive support indeed meet their needs, including in the case of vulnerable customers.

It is emphasized in the directive that the financial entity must ensure that its products and services are directed at the right customers, that information about channels of support is communicated clearly to customers, and that the support functions effectively. The entity should establish processes for handling exceptions in order to efficiently address outlying cases that may arise in relation to its operations.

Regarding customer interactions with the financial entity, it is expected that the entity will exercise judgment in distinguishing between positive interactions that support good outcomes and those that create unreasonable barriers, which may prevent customers from acting in their own best interest.

The directive also stipulates that the financial entity must ensure that customer support is adequate and does not impose additional costs, delays, or inconveniences. Post-sale support is expected to be as good as the support provided pre-sale.

As with other aspects of the directive, firms are required to implement controls, procedures, and processes to monitor compliance with these rules.

Implementation in Israel

The Banking Supervision Department has already adopted a number of measures in this area over the years and is carefully examining the nature of the innovations described above and their alignment with its regulatory approach toward protection of banking customers. These innovations must of course be integrated within the existing customer protection framework in Israel, which consists of various legal provisions, regulations, rules, Proper Conduct of Banking Business Directives, and court rulings over the years.

As noted in the introduction, the regulatory approach to financial consumer protection in Israel has evolved over the years and been revised a number of times. In this context, the Banking Supervision Department is examining the fundamental changes that have occurred in the international regulatory framework for customer protection, as described above. These changes represent a significant milestone with important implications for the status of banking customers, their rights, and their ability to exercise them. In this context, the Banking Supervision Department is focused on optimally establishing and formalizing its expectations of regulated entities, defining governance obligations, and outlining principles for customer protection.

Below, we will describe how the new approach is being implemented in Israel:

1. Implementation of "Management of Customer Service and Support Array" – Proper Conduct of Banking Business Directive 501[7]

The quality of service and support provided to customers, according to the policy of the Banking Supervision Department (which is similar to the FCA's approach outlined above), are key components that impact customer satisfaction and public trust in the banking system. Providing appropriate, accessible, effective, and high-quality professional service to customers is a central element in this policy, playing a crucial role in creating a positive customer experience when carrying out financial activities and enabling the customer to derive maximum benefit from the services and products offered.

Given the critical importance of service quality and availability, and based on the evolving international regulatory approach to financial consumer protection, as reviewed above, and recognizing the need to expand the normative framework for customer protection, the Banking Supervision Department has decided to formalize its policy and regulatory expectations in the area of customer service and support. This has been done through the issuance of a new and dedicated Proper Conduct of Banking Business Directive, which is focused on managing the customer service and support framework and establishing the obligations of banking corporations in this area.

The publication of Proper Conduct of Banking Business Directive no. 501, "Managing the Customer Service and Support Array," on March 26, 2023 marked a significant step toward strengthening the quality of service in the banking system. The directive's implementation will be gradual, with its main provisions taking effect on June 26, 2024. The purpose of the directive is to ensure that the service and support provided to customers are of high quality, professional, available, and efficient, and that they meet high professional standards. This,

[7] https://boi.org.il/media/d5slmber/501_et.pdf

in turn, is intended to enhance customer satisfaction and public trust in the banking system, which is essential for maintaining the strength of the financial system.

Due to the importance of the directive and its impact on the service and support systems of banking corporations, the Banking Supervision Department is conducting an oversight process to accompany the implementation of the directive. Banking corporations are required to submit periodic reports on their progress in implementing it.

Following are the main points of the directive:

Corporate governance duties

To improve the quality of service and the customer experience, banking corporations are required to establish a comprehensive organizational infrastructure that emphasizes the importance of customer service and support as a core area of their ongoing operations. The directive sets forth obligations for the board of directors and senior management of a banking corporation, with the aim of ensuring that the area of customer service and support is managed, monitored, and continuously and proactively overseen. This involves establishing management, business, and operational infrastructures and processes at all levels of operation, while allocating the necessary resources to improve service quality and meet the principles for providing service and support to customers.

Principles for providing customer support services

The directive outlines six principles for providing customer service and support, which provide guidance to banking corporations in how to deliver service and support to customers. These principles form the foundation of the directive and reflect the Banking Supervision Department's policy on customer service and support. They establish the standards expected of banking corporations for proper, fair, and honest conduct towards customers.

The banking corporations are required to promote and improve adherence to these principles systematically, consistently, and continuously over time, applying judgment and setting priorities according to their importance for customers, with a focus on households and small businesses. The implementation of the directive is an ongoing process aimed at enhancing and improving the compliance of banking corporations with these principles.

Below is a brief overview of the principles set forth in the directive:

1. <u>Optimal service and support framework</u> – Maintaining appropriate service and support systems that meet customer needs through a variety of service channels; ensuring that services and support are provided to customers in a respectful, clear, professional, accessible, prompt, and efficient manner for all customers.

2. Effective communication – Communication with customers must present clear information and explanations in a timely manner in order to help them make informed decisions and encourage their engagement. This should be in line with the complexity of the products and services offered. Essential information must be presented clearly and prominently, with the option to access additional layers of details, thus enabling consumers to further explore and understand the offer. Steps should be taken to ensure customer comprehension, presenting options clearly and fairly, and ensuring easy and effective navigation through service channels.

3. Prevention of service barriers, harm, or deception – Preventing barriers in service access and avoiding harm, deception, difficulties, or excessive costs. Behavioral biases should be identified and addressed within the service and support framework.

4. Availability and quality throughout the entire relationship – Providing accessible and effective support to customers from the onboarding stage until the end of the relationship (and even after, if necessary). Additionally, ensuring the service and support framework facilitates ongoing, complete, efficient, and transparent handling of customer inquiries throughout the entire process.

5. Tailored service and support for consumers – Providing services based on the characteristics of the products and services; addressing the diverse and changing needs of customers. This includes meeting the needs of elderly customers, people with disabilities, customers dealing with urgent or exceptional situations, and extreme cases.

6. Proper and high-quality service across multiple channels – Ensuring uniform service standards across all service channels, offering a variety of service and support channels for the benefit of customers, promoting the digitization of banking services, and providing customers with tools and information about how to access services through different channels.

Creating a service covenant and publication of information about customer service and support

To further enhance transparency for customers, strengthen their trust in the banking corporation, and deepen the corporation's commitment to providing high-quality service, banking corporations are required to establish and publish a service covenant. This covenant will describe the services offered to customers, the existing service and support channels, the conditions for receiving services through various channels, and the service levels that the banking corporation commits to in each service channel. In order to increase transparency for the public and ensure that banking corporations continuously meet the service levels to which they have committed, while encouraging competition in the service domain, banking corporations are required to publish actual waiting and response times.

2. Products and services with value and benefit to the consumer

Financial products and services are central to the relationship between the bank and its customers, making it a key area of focus for the Banking Supervision Department. There are already mandatory rules and guidelines based on various legislative sources and court rulings concerning the nature of products and services, and which define the obligations that banking corporations must fulfill. In line with the international perspective outlined above, the Banking Supervision Department is currently evaluating whether a unified framework of work processes and minimum conditions is needed in order to strengthen the value and fairness underlying the services and products offered to customers.

One of the main and more complex questions being considered by the Banking Supervision Department is the appropriate level of regulatory involvement with regard to the parameters of value and benefit in products and services. According to the Banking Supervision Department's perspective, the banking corporation, as the entity with which the customer interacts, bears full responsibility for all its actions and decisions, including the pricing of products and services, as well as the value and benefit they provide. Similarly, the Consumer Duty directive does not intervene in pricing per se but outlines new boundaries that anchor stricter supervisory expectations for structured management, planning, and decision-making processes in setting product and service pricing, and the obligation of banking corporations to provide value and benefit to their customers from these products and services.

To provide banking corporations with a clear operational framework for implementing the directives in a way that supports consumers in achieving their financial goals, the Banking Supervision Department is examining whether a new directive is needed. This directive would define obligations in corporate governance and outline principles for product and service suitability. The principles under consideration would formalize the corporation’s commitment, ensuring that products and services are designed and developed to suit different target audiences, that they provide value and benefit to customers, are distributed in ways that meet customers' needs, and are assessed for suitability for vulnerable customer groups.

Additionally, this evaluation addresses the definition of corporate governance obligations, similar to the methodology used in the service directive described above. An example would be the imposition of obligations on various organizational units within the banking corporation that would participate in the process, support the implementation of the directive, and be responsible for execution at the customer level. The idea is that these units can contribute to the process by representing different perspectives, including customer experience, fairness, the implications of pricing decisions on customers, and the need to adjust pricing to frequent changes in the current environment.

3. Accessibility of information and effective disclosure

As described above, one of the FCA's key areas of focus is effective disclosure to customers, which is intended to help achieve better outcomes. Effective disclosure provides customers with clear and understandable information, in order to enhance their comprehension and their ability to make well-informed and timely decisions. Various guidelines already exist within Israeli regulation regarding effective disclosure, specifically in the case of the banking system. Generally, the disclosure rules in Israel are characterized by specific, dedicated instructions based on the nature of the banking service. For example, the Banking (Customer Service) (Proper Disclosure and Document Retention) Rules, 1981[8] outline disclosure obligations during different events, such as depositing into a savings account or receiving credit; Directive no. 425 on "Annual Reports to Customers of the Banking Corporations"[9] mandates the delivery of consolidated information regarding the customer's assets and liabilities with the banking corporation in a uniform format; and the mortgage reform, as regulated in Proper Conduct of Banking Business Directive no. 451 (Procedures for Extending Housing Loans),[10] which establishes the obligation to provide a standard, clear, and comprehensive preliminary approval form containing essential information about the loan.

In recent years, various revisions have been made in the area of information accessibility and disclosure obligations, reflecting the shift in regulatory approach toward adopting overarching principles. For example, Proper Conduct of Banking Business Directive no. 420 on Sending Notices via Means of Communication[11] establishes principles for sending notifications in an efficient manner, which has been reinforced by a supervisory letter on "Improving the Effectiveness of Disclosure in Customer Communications."[12]

Given the numerous and extensive disclosure obligations that already exist—based on both legislation and court rulings—and that Proper Conduct of Banking Business Directive no. 501 (Management of Customer Service and Support Array) includes disclosure obligations within its service principles and corporate governance responsibilities, the Banking Supervision Department is currently evaluating the best way to refine forward-looking disclosure obligations for the benefit of customers. This evaluation takes into account international regulatory developments, as described above, with the aim of strengthening effective disclosure norms that will be implemented across all levels of banking corporations.

8 https://boi.org.il/roles/supervisionregulation/legislation/leg151/ [Hebrew]
9 https://www.boi.org.il/media/jvyet0q3/425_et.pdf
10 https://www.boi.org.il/media/ey2hkpwu/451_et.pdf
11 https://www.boi.org.il/media/5y2nhgzj/420_en.pdf
12 https://boi.org.il/media/c1xjfnyw/202120.pdf [Hebrew]

Box 6.6

Open Banking – Data Analysis

- Open banking allows customers to provide third parties with access to their bank accounts, both to obtain information and to conduct transactions, as well as to obtain information about their payment card transactions. This makes it possible for third parties to offer customers advanced services, such as financial information aggregation, financial insights based on customer data, payment execution, etc.
- The regulation of open banking continues to evolve in Israel. The initial emphasis was on information sharing, which is now expanding to payment initiation. The Regulation of the Engagement in Payment Services and Payment Initiation Law (hereinafter: the Regulation of Payments Law), approved in June 2023, includes regulation on payment initiation.
- The year 2023 was characterized by the stabilization of the open banking system in Israel, especially in terms of technological infrastructure. The year also saw the most significant growth to date, in terms of both the number of active players in the open banking ecosystem and the number of consents[1] and enquiries[2] registered with the ecosystem.
- We expect the continued development of the ecosystem in 2024, including both the entry of new financial entities and an increase in the scope of activity among existing players. The growth in open banking activity is due to the expansion of services, with regard to both information and payments. On the information side, the activity in the securities portfolio, which was only launched recently, is expanding. Besides that, there are now more types of customers who can grant access to their information, including corporate accounts. On the payments side, the access of payment initiators will be expanded to include additional types of payment instructions.

Open banking in Israel – Applications and a strategic perspective

Open banking allows customers to grant third parties access to their bank accounts, both for obtaining information and for conducting transactions, as well as for obtaining information about payment card transactions. This makes it possible to offer customers advanced services, including aggregation of customer information regarding their bank accounts and payment cards; financial insights based on customer data; payment initiation, etc.

From a broader strategic perspective, information sharing through the open banking environment is only the first step toward additional uses that can be built on top of this

1 Consent provided by customers to information sources to provide financial information to providers of financial information services.

2 Enquiries made by financial information providers to information sources in the open banking online interface.

system. Even in information sharing processes, open banking is just the first step toward an open financial system (including various types of financial entities that will be part of the ecosystem), and eventually, the move toward an open data system (including nonfinancial data, such as medical information).
More information can be found in the box on open banking published in Israel's Banking System Annual Review of year 2022.

Regulation of open banking in Israel

The regulation of open banking in Israel, which began in 2017 by the Bank of Israel, continues to evolve. In June 2023, the Regulation of Payments Law was approved, and went into effect in June 2024. The law regulates payment initiation, among other things, and expands the services provided in open banking beyond what is currently available.

Open banking in Israel – Data analysis

There are several types of entities operating in the open banking ecosystem:

Information sources, which are financial entities that provide information about the customer. Currently, these include only banks and credit card companies operating in Israel;

Financial information service providers that collect information about the customer. These include five banks and two credit card companies supervised by the Banking Supervision Department, three entities supervised by the Capital Market, Insurance and Savings Authority, and another 17 financial technology (Fintech) companies supervised by the Israel Securities Authority;

Payment account managers, which are financial entities that manage payment accounts for their customers and provide access to payment initiators. Currently, these only include banks;

Payment initiators, which are entities that issue payment instructions on behalf of the customer. So far, two banks have received approval to operate in payment initiation, along with three Fintech companies supervised by the Israel Securities Authority.[3] Details on the identity of these entities are available on the open banking page of the Bank of Israel's website, including a link to the websites of additional regulators.[4]

The year 2023 was characterized by the stabilization of the open banking system in Israel, especially in terms of technological infrastructure. That year also saw the most significant growth to date, in terms of both the number of active players in the open banking ecosystem and the number of consents and enquiries recorded in the Application Programming

3 The data on the number of service providers and initiators are as of January 2024.
4 https://www.boi.org.il/roles/supervisionregulation/bank-sup/open-banking/ [Hebrew]

Interface (API) systems of the information sources (for more details, see Box 7.1 on open banking in Israel's Banking System 2022). Since the beginning of 2023, financial information service providers have had access to customer data for the following baskets: "Current account – transactions and balances," "Payment cards," "Loans", and "Deposits." Starting from September 2023, data for the "Securities" information basket also became available. This information relates to both individual customers and small businesses.[5]

We anticipate the continued development of the ecosystem in 2024, due to both the entry of new financial entities and the increase in activity within open banking among existing players. The expansion in activity is partly driven by the additional types of customer information that can now be accessed and the increase in the number of customers they serve. Starting in April 2024, financial information service providers will be able to access corporate data for all the aforementioned information baskets. Additionally, and in line with the Regulation of Payments Law, payment services that can be executed via open banking will expand to beyond the current offerings by the end of 2024. Payment initiators will be able to issue requests to pay (RTP), which will include future payments, recurring payments, and other payment types.

Number of recurring consents[6] and number of API enquiries carried out in 2023

The number of recurring consents[7] created with information sources has been on an upward trend since the beginning of open banking operations, and especially in 2023 (see Figure 6.11). The number of consents reached about 12,000 by the end of 2022 and saw a sharp increase to approximately 180,000 by the end of the third quarter of 2023. However, during the fourth quarter of 2023, there was a decline in the number of consents, likely explained by the impact of the Swords of Iron War that broke out in October, which led a slowdown in the rate of new consents by credit card company customers, or by the nonrenewal of consents that expired during the third quarter of 2023.

We expect to see a return to an upward trend in the number of recurring consents during 2024.

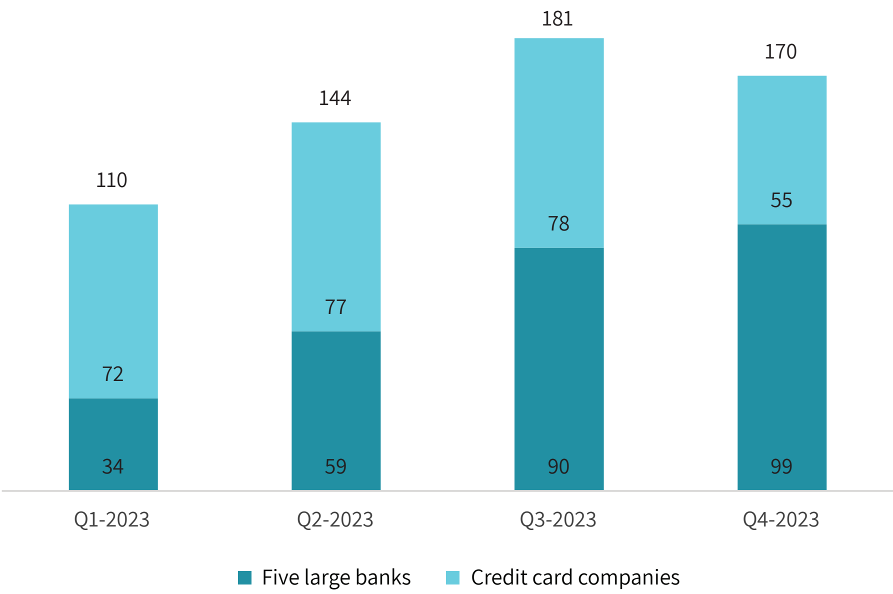
[5] Small businesses – Businesses with a turnover in 2022 of not more than NIS 5 million and that have only one account signatory.

[6] Recurring consent is given for a fixed time period of up to three years, in contrast to a one-time consent.

[7] According to the law, recurring consent is for a period of up to three years.

Total customer consents has been on an upward trend since the beginning of 2023.

Figure 6.11 **Continuing Consents, 2023** (End-of-quarter balance, thousand)



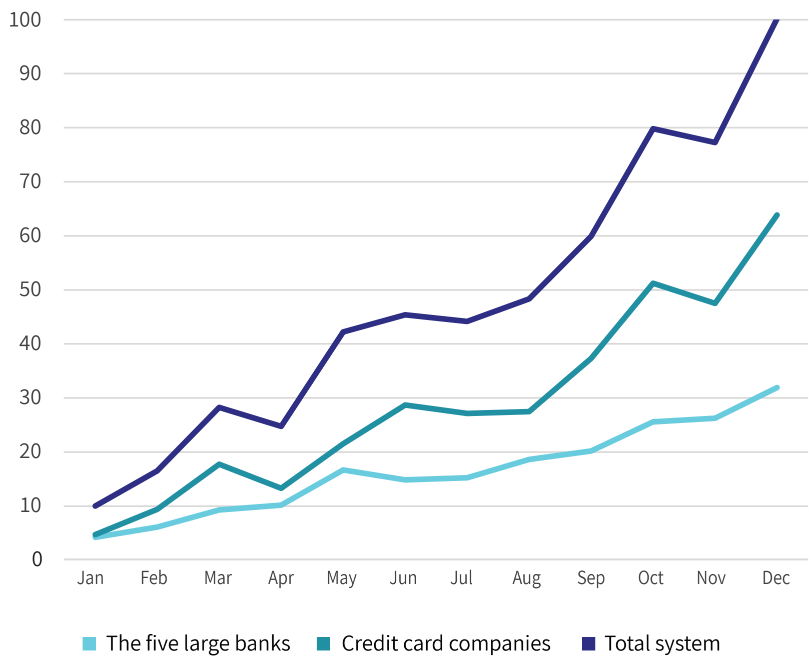
SOURCE: Based on reports to the Banking Supervision Department.

A similar upward trend can be seen in the number of API enquiries for information during 2023. The number of enquiries received by information sources surpassed 100 million in December 2023, compared to approximately 10 million enquiries in January 2023 and 400,000 in July 2022, when the Financial Information Services Law – 2021 came into effect (prior to that, only banking information service providers were active in this ecosystem, under Proper Conduct of Banking Business Directive no. 368; see Figure 6.12). This trend demonstrates the stabilization of the technological interface (in terms of both system availability and stability) and **the increasing customer awareness of the services they can access through open banking, including financial information aggregation services and financial insights based on their own data.**

The accelerated growth in the number of API enquiries started primarily from July 2023, which can be partly attributed to the "How Much-How Much" advertising campaign aimed at the general public on radio and television. The campaign was launched by the Bank of Israel, the Israel Securities Authority, the Capital Market, Insurance and Savings Authority, and the Ministry of Finance in order to raise public awareness of the services made available through open banking.

The number of API enquiries grew significantly during 2023.

Figure 6.12 **Number of API Enquiries Received in 2023** (million)



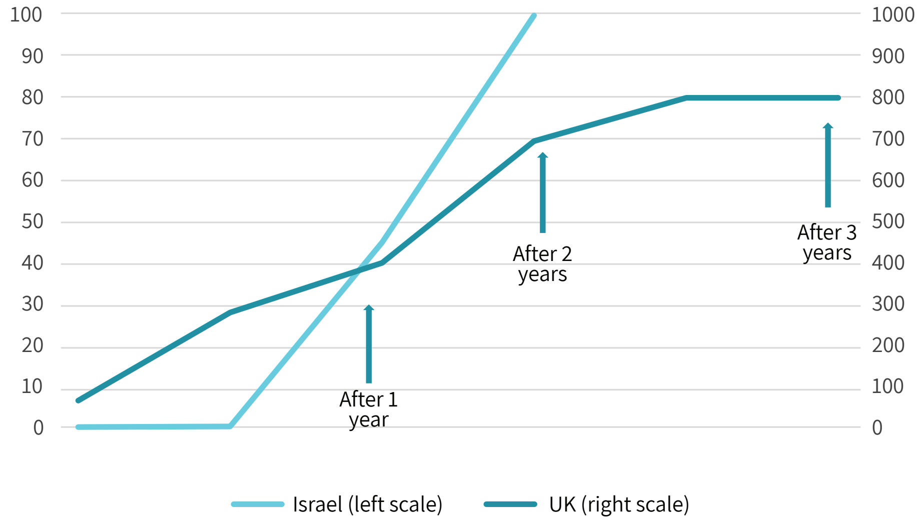
SOURCE: Based on reports to the Banking Supervision Department.

A similar trend occurred in the UK, where open banking was first launched in January 2019. After one year, the number of enquiries in the UK reached 280 million per month, growing to approximately 700 million by the end of the second year. In the third year, the monthly number of enquiries stabilized at around 800 million per month (see Figure 6.13). By January 2024, the number of monthly enquiries had reached approximately 1.4 billion.

Given the growth rate of usage in the UK, a similar increase in the use of open banking in Israel is expected during 2024.

In the UK, the number of enquiries grew sharply during the first two years and stabilized in the third.

Figure 6.13 Increase in the Number of Enquiries in the Initial Years, UK and Israel (million)



SOURCE: Based on reports to the Banking Supervision Department.

Breakdown of API enquiries made during 2023 according to information groups

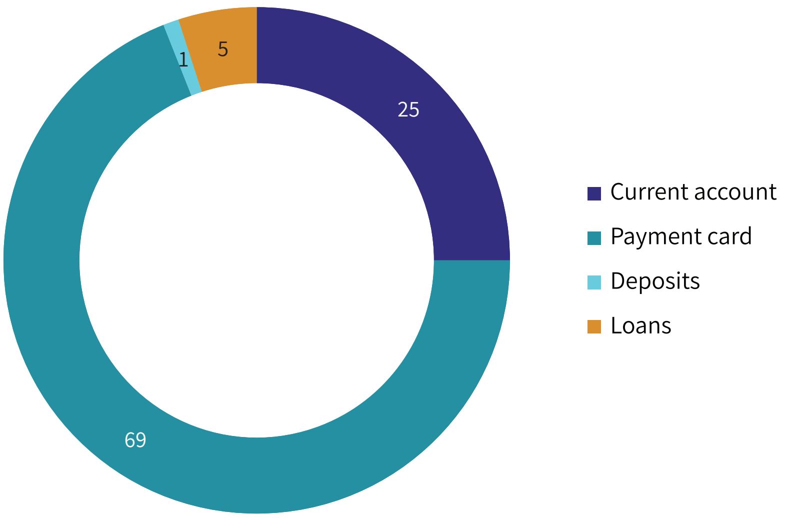
As mentioned above, financial information service providers have had access to customer data in the information baskets for "Current Accounts," "Payment Cards," "Loans", and "Deposits" since the beginning of 2023. Starting in September 2023, data for the "Securities" information basket also became available. Analyzing the distribution of API enquiries received by information sources shows that approximately 70 percent of the enquiries pertain to the "Payment Cards" information basket and about 25 percent to the "Current Accounts" basket, with the remaining enquiries pertaining to the "Loans" and "Deposits" baskets (see Figure 6.14).

One of the reasons for such high demand for information about payment card activity is that this data can provide insights into customers' consumption habits, allowing financial service providers to offer customers value-added services based on their spending patterns. For example, if there are exceptional expenses due to specific circumstances, appropriate credit options can be offered to the customer. Another reason is that Israeli customers typically hold multiple cards in their wallets (physical or virtual), including both bank-issued and non-bank-issued cards, unlike the relatively fewer number of current accounts.

It is also evident that, as of the end of 2023, there is almost no demand among financial information service providers for data related to deposits. Discussions with various industry players suggest that most financial information service providers are not yet ready to analyze deposit data, and therefore they do not request it.

Most API enquiries are concentrated in the payment cards basket.

Figure 6.14 **Distribution of API Requests by Information Basket, 2023** (percent)



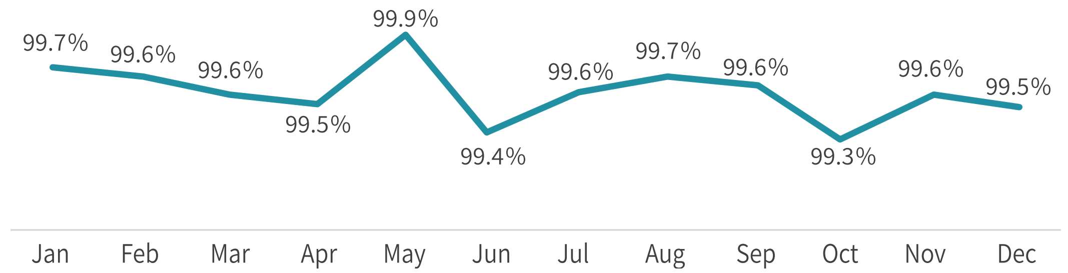
SOURCE: Based on reports to the Banking Supervision Department.

Average availability of the open banking system in Israel

The average monthly availability of the open banking system in Israel is based on reports from each of the information sources. According to the definition of availability in Proper Conduct of Banking Business Directive no. 368, which specifies the open banking standard in Israel, both planned outages and those due to malfunctions are considered to be system unavailability. Despite the growing demand and the expansion of available information baskets in open banking, the average monthly availability remains high, ranging between 99.3 and 99.9 percent (see Figure 6.15).

Despite the growth in use in 2023, the availability of the open banking system remains high.

Figure 6.15 Average Monthly Availability of the Open Banking System in Israel, 2023 (percent)



SOURCE: Based on reports to the Banking Supervision Department.

Average response time of the open banking system in Israel

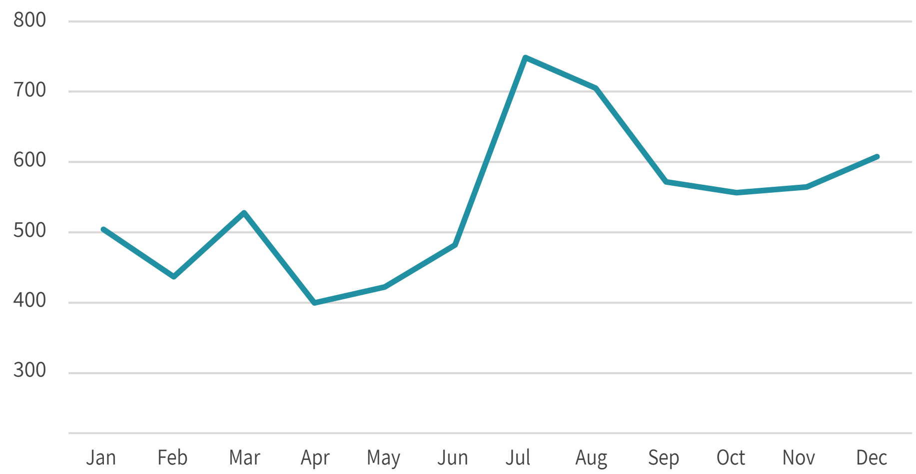
Response time refers to the time it takes for an information source to respond to an API enquiry from a financial information service provider or payment initiator. This metric is recognized in the technology world as the association between website loading speed and the time to the first byte (TTFB - Time to First Byte), measured in milliseconds. Due to the increased activity in the system during 2023, there has also been a rise in response time, reaching a peak in July 2023 (see Figure 6.16). Since then, the system has stabilized, and response time has been on a downward trend, with the average reaching approximately 600 milliseconds in December 2023.

In comparison, the response times of the open banking system in the UK averaged around 375 milliseconds in December 2023.[8] The UK's open banking data also show that in the early years, response times were longer, and as the system stabilized, improvements were made. Accordingly, we expect further improvement in the response time of the system in Israel in coming years.

8 See the UK’s open banking website https://www.openbanking.org.uk/api-performance

As a result of the growing usage in 2023, average response time rose and is now starting to stabilize.

Figure 6.16 Average Response Time for API Requests in 2023 (Ms)



SOURCE: Based on reports to the Banking Supervision Department.

Stabilization of the open banking system

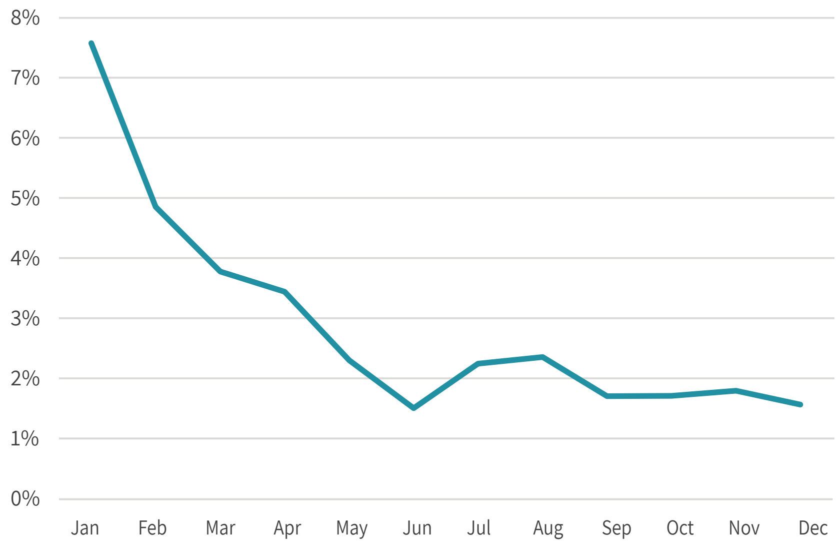
The open banking system in Israel is a new system that is in the process of growth and expansion, in terms of the information baskets, the number of customers, the range of new services, and the number of participants in the ecosystem. As seen in various countries around the world, the establishment of such a system is followed by processes of development, learning, and maturation, involving both information sources on the one hand and financial information service providers and payment initiators on the other.

For example, at the beginning of 2023, the error rate[9] stood at 8 percent, but decreased throughout the year, reaching only 2 percent by the end of the year (see Figure 6.17). This indicates a deeper familiarity with the open banking standard on the part of financial information service providers and an improvement in the systems by the information sources.

[9] The error rate is the number of API enquiries received with errors (such as an incorrect account number) within the total number of API enquiries received.

The system is beginning to stabilize—the percentage of enquiries rejected each month is declining sharply.

Figure 6.17 **API Enquiries as a Share of All Rejected Enquiries, 2023** (percent)



SOURCE: Based on reports to the Banking Supervision Department.

In conclusion, we anticipate the continued development of the open banking ecosystem in 2024, with both the entry of new financial entities and the growth of open banking activity among existing players. The increase in activity levels is driven by the expansion of available services, both on the information side and on the payments side.

On the information side, the expansion includes the securities information basket, which was only recently launched, as well as an expansion in the types of customers who can grant access to their data, such that corporate account information will also be included within open banking. On the payments side, the access for payment initiators will be expanded to include additional types of payment instructions.

Box 6.7

Checks without Cover in Normal Periods and in Emergencies

- Checks constitute an important means of payment in the Israeli economy (52 percent of total payment clearing). The Checks without Cover Law, 5741-1981, protects this important payment method from the increasing issue of checks without cover.
- In periods of crisis, decision makers must balance the need to maintain the reliability of checks and protect check receivers versus the need to shield check drawers from economic deterioration due to liquidity challenges in the economy.
- Following the outbreak of the Swords of Iron War, a spike was observed in new restrictions imposed on customers and in the total number of returned checks in the economy, especially checks without cover. The average percentage of returned checks, which stood at 0.83 percent in normal times, rose to 1.39 percent in the first weeks of the war. These figures indicate a decline in the quality of checks and clear signs of distress across the population. The Banking Supervision Department is working alongside the Ministry of Justice to establish regulations providing relief in this area, with the goal of preventing further deterioration among vulnerable populations and in the economy at large.

Part I

Checks without Cover:[1]

The Checks Without Cover Law, 57471-1981, (hereinafter – the Law) was designed to protect third parties who are receiving payment by check. The Law stipulates that if ten or more checks from any account are returned[2] within 12 months, a "regular" restriction will be imposed on that account (restricted account), and its owner will be considered a "restricted customer" for one year. The law also defines conditions for a "severe" restriction lasting two years, indicating a "chronic" tendency to issue checks without cover, requiring tighter protection against the account owner. A third type of restriction, namely a "special restriction," can be imposed by specific authorities set forth in the law (the Collection Agency and the Center for the Collection of Fines, Fees, and Expenses under the Enforcement and Collection Authority; the Insolvency and Economic Rehabilitation Commissioner in the Ministry of Justice, and rabbinical courts) rather than as a direct result of a returned check, as in the previous two cases.

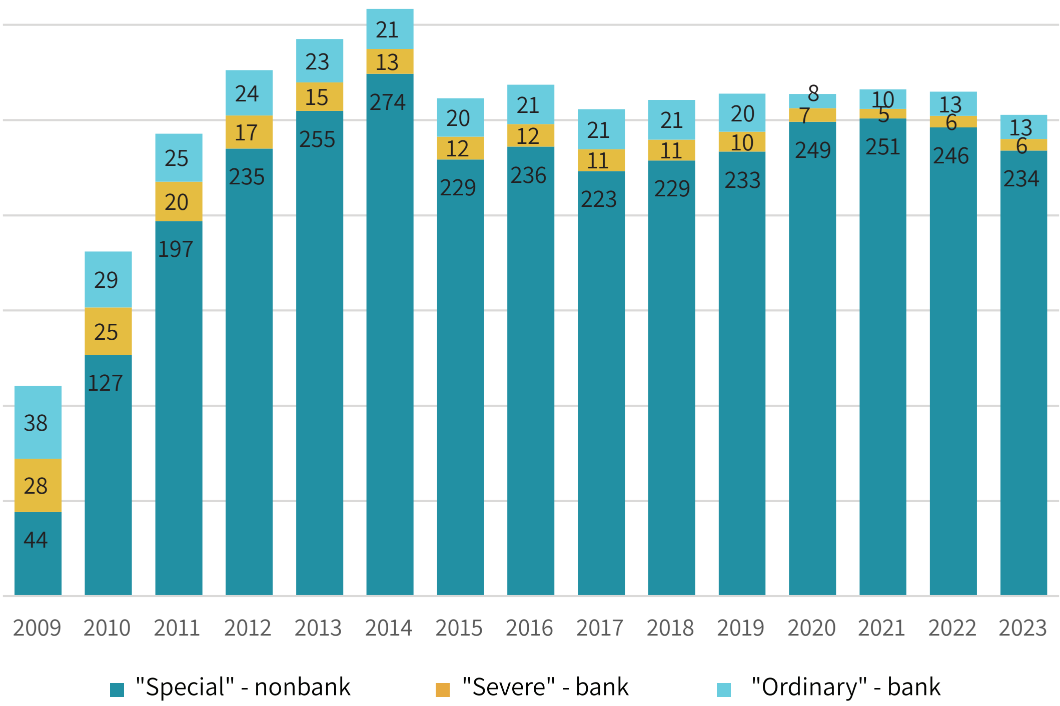
1 For further details on types of restrictions and their implications, see Guide to Restricted Accounts.

2 A returned check was presented on the check's date or subsequently and the bank refused to cash it because of insufficient cover. This is the only reason for returning a check that leads to the imposing of a restriction. However, along with the reason of "insufficient cover", there are of course additional reasons for returning a check (such as: cancellation by the drawer of the check, an unidentified signature, the date on the check has not yet arrived, a mistake, technical reasons, etc.).

The Banking Supervision Department is responsible for managing a database of restricted accounts and customers; it receives reports on restrictions from authorized entities (banks and enforcement authorities); and it tracks the status of relevant customer restrictions and conveys that information as needed to the entities involved in the process. As part of managing this database, the Banking Supervision Department is also responsible for monitoring and ensuring the accuracy of the information; responding to enquiries from the involved entities and providing them with assistance; and handling issues related to the reliability of checks, proposed legislation, regulatory changes, queries from civil society organizations, etc.

The restrictions on bank accounts currently involve hundreds of thousands of customers. This is due to the amendment to the Law in 10/2009,[3] following which the nonbank special restrictions imposed by the Collection Agency increased significantly and the restrictions imposed by the banks due to NSF checks declined in number.

Figure 6.18 **Restricted Customers by Restriction Type, 2009–2023** (thousand)



SOURCE: Based on reports to the Banking Supervision Department.

[3] In 2008, an amendment was made to the Collection Enforcement Law which added a paragraph that make it possible for the Collection Enforcement Registrar to impose a special restriction on a debtor (together with or as a substitute for other restriction types).

Part II

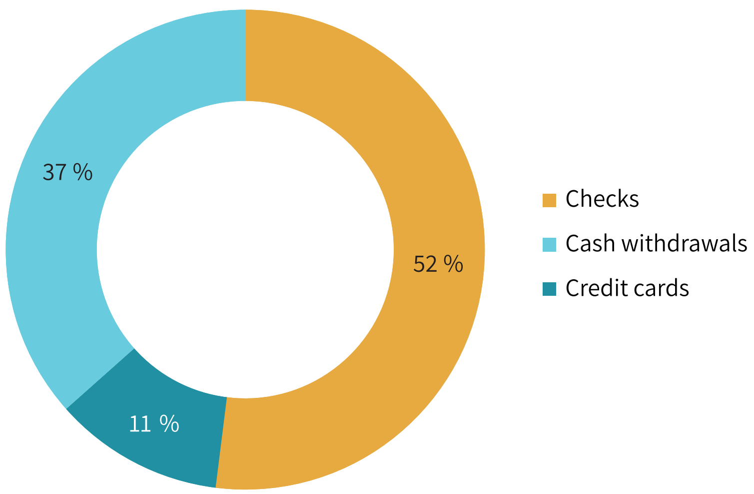
Check activity in the economy

During the past decade, there has been a significant downward trend in the number of checks cleared through the check clearing system. The data[4] shows that in 2013, about 117 million checks were cleared, while in 2023, that number had dropped to about 53 million, a decrease of approximately 50 percent. The most significant decline on an annual basis was observed in 2020 as a result of the COVID-19 pandemic, with a 22 percent decrease relative to 2019. A similar decline was observed in the total value of checks cleared, from approximately NIS 850 billion in 2013 to approximately NIS 641 billion in 2023, a decrease of about 25 percent, while the total value of checks without cover actually recorded an increase of 9 percent. This phenomenon may be due to the fact that checks serve as the exclusive payment method and as a substitute for the credit underwriting process in cases where the drawer lacks the liquidity for immediate payment.

As can be seen in Figure 6.19, checks serve as an important means of payment in the Israeli economy, both in normal periods and in an emergency.

The total value of checks cleared in 2023 was significantly higher than for the other means of payment: cash and credit cards.

Figure 6.19 Distribution of Settlement Amounts by Means of Payment, 2023 (percent)



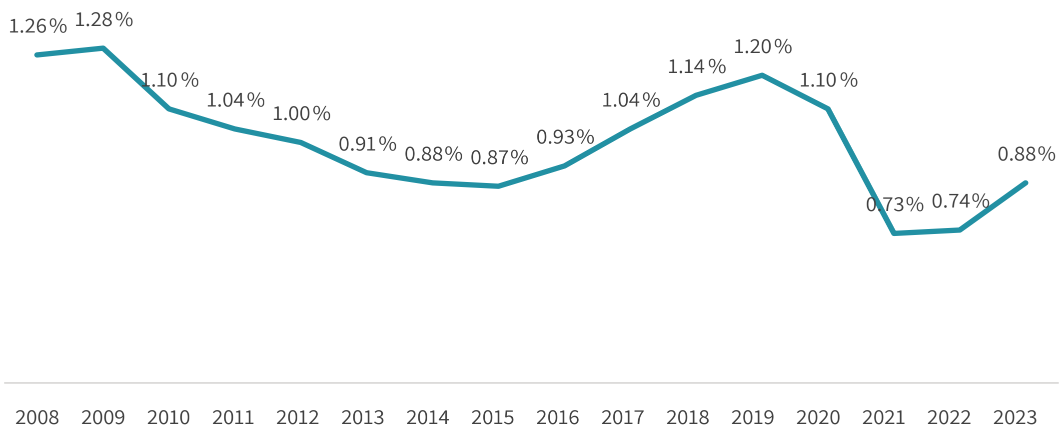
SOURCE: Based on reports to the Banking Supervision Department.

4 Check clearing data in the data series database. It should be noted that the data include only checks that went through the clearing house between the banks (include the Postal Bank), and exclude internal checks that were cleared within the same bank (drawer and receiver from the same bank).

During 2023, 64,967,555 checks[5] were presented to commercial banks, with a return rate of 3.69 percent. Of these, approximately 0.88 percent were due to insufficient funds, 0.43 percent were due to cancellation, and 2.38 percent were due to other reasons (such as invalid signature, a restricted account, a mismatch between the amount in words and the amount in numbers, etc.). In addition, 2,103,422 (3.23 percent) requests for check cancellations were received by the various banks during the year.

The proportion of checks without cover reached a peak in 2019 prior to the COVID-19 pandemic but maintained low rates in subsequent years.

Figure 6.20 **Insufficient Funds (NSF) Rate, 2008–2023** (percent)



SOURCE: Based on reports to the Banking Supervision Department.

A sectoral breakdown of the check data shows that the majority of checks without cover and canceled checks originate from households and small businesses, likely due to the lack of "buffers" and reserves in cases of deviations from regular spending patterns. In contrast, medium and large businesses rarely face issues with coverage or check cancellations.

[5] The data according to Reporting Directive No. 884 include all checks presented to banks (excluding the Postal Bank), including checks presented within the same bank and not processed through the clearing system. As can be seen, the gap between the metric of the check clearing system and the metric of Reporting Directive 884, i.e., approximately 11 million checks, is due to differences in the population and in measurement (footnotes 4 and 5).

Part III

The Checks Without Cover Law during emergencies

The Checks Without Cover Law is intended to ensure that the public can rely on checks as a payment method during normal periods, partly by imposing restrictions on customers who tend to issue checks without sufficient funds to cover. However, during a crisis, customers or businesses that normally operate responsibly and do not issue checks without cover may find themselves in extreme situations that could not have been foreseen. As a result, these entities are at increased risk of financial deterioration and cash flow difficulties during an emergency, which may eventually lead to restrictions on their accounts. This, in turn, can result in a credit crunch, damage to their reputation, and significant challenges due to a long and complex recovery process, even after the emergency has ended. As more restrictions accumulate, this could have a broader economic impact, leading to bankruptcies, a significant increase in cases of debt collection, and an expansion of the population dependent on National Insurance benefits.

This risk was recognized by the legislature, which empowered the Minister of Justice (with the consent of the Minister of Finance and the approval of the Knesset Constitution, Law, and Justice Committee) to enact regulations for the implementation of the Checks without Cover Law and to set limitations on its applicability. In 2008, as part of the lessons learned from the distress experienced by many citizens and businesses during the Second Lebanon War, banks were required, during the declaration of a state of emergency—whether in a specific area or throughout the country—to suspend the imposition of restrictions due to checks returned because of “nonsufficient funds” for a maximum period of 90 days from the declaration of the state of emergency. In parallel, the amendment to the law states that the Minister of Justice can determine exceptions to the application of the Law that will apply during an emergency. To complete this process, the legislature added a section to the law’s definitions which determined that the “declaration of a state of emergency” would include three situations: a declaration of a special situation on the home front, a declaration of a civil emergency, and a call-up of reserves under emergency circumstances or a call-up of reserves under a special situation.

In March 2020, the outbreak of the COVID-19 pandemic had a sudden and major impact on households and many businesses in the economy. New restrictions on accounts began to increase, alongside numerous urgent requests to the Bank of Israel to prevent the imposition of restrictions in order to stop widespread economic deterioration. Bank of Israel management made a strategic decision to provide the population with "first aid" based on the authority of the Supervisor of Banks to suspend the imposition of restrictions, without waiting for the completion of the regulatory process by the Minister of Justice, which also requires the consent of the Minister of Finance and the approval of the Constitution, Law, and Justice Committee. However, the definition of an emergency in the law referred only to security situations, while the crisis in question involved the outbreak of a contagious disease unrelated to any security event. In this complex situation, the Bank of Israel promoted an urgent temporary addition to the definition of “declaration of a state of emergency” in the law, as part of the government's emergency regulations enacted with the outbreak of the pandemic, namely “a declaration under the Public Health Ordinance of a dangerous contagious disease”. This paved the way for the then Supervisor of Banks to declare the suspension of restrictions and prevent significant harm to individuals and numerous businesses in the economy.

In general, crises require decision makers to find a balance between the need to assist normative customers who are affected by the emergency and exposed to the risk of significant financial deterioration, and the protection of beneficiaries who rely on check payments and might also face economic hardship due to the nonpayment of these checks. Additionally, the legislature was aware of the broad economic need to maintain the credibility of checks as a unique payment method in the Israeli economy, particularly given their importance during extreme emergencies when the use of advanced payment methods may be limited or even disrupted. Throughout the emergency period, the Supervisor of Banks monitors key parameters that indicate trends and risks in the use of checks, including data on the rate of returned checks and the restrictions imposed on customers during the relevant period. Together with the Ministry of Justice, steps are being taken to maintain the necessary balances in the economy during these unique times.

A survey of the emergency regulations concerning checks without cover over the years:

As mentioned, the Supervisor of Banks has over the years been required to address the risks faced by various players regarding check payments, based on the tools provided by the legislature to the Supervisor of Banks and the Minister of Justice. Below is a brief historical review of emergency periods in which the Supervisor of Banks was actively involved, in collaboration with the Legal Department and the Ministry of Justice, in the mitigation of damages from a broad economic perspective:[6]

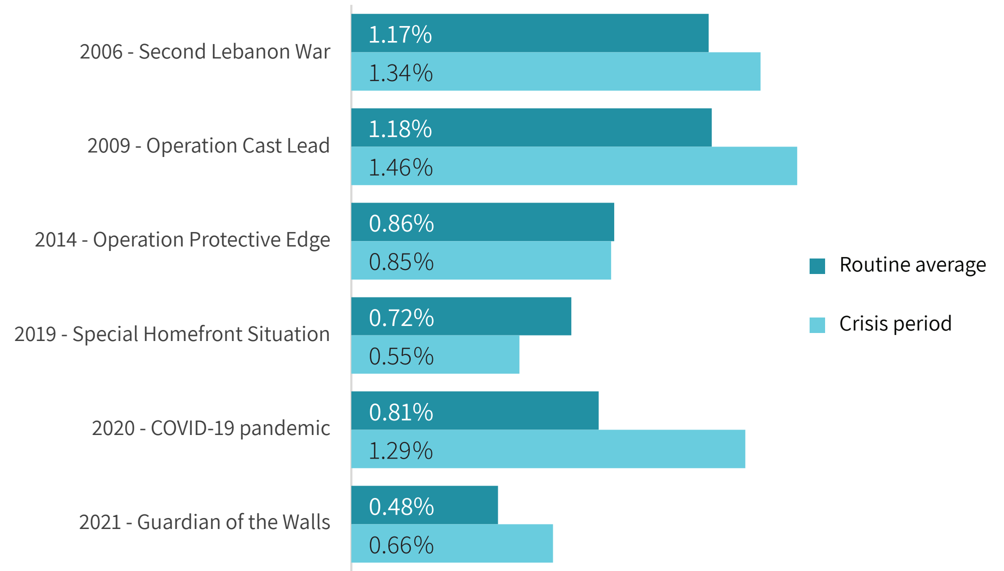
1. **The Second Lebanon War (July 12 to August 14, 2006):** The Minister of Justice, with the consent of the Minister of Finance and the approval of the Knesset's Constitution, Law, and Justice Committee, decided retroactively (about three months after the war's end) that checks returned by the bank during the war would not be counted in the total number of returned checks. The restrictions imposed on customers during the war were lifted.

[6] This survey does not include the Swords of Iron War, which will be dealt with at length later in the box.

2. **Operation Cast Lead (January 8 to February 25, 2009):** For the first time, the Supervisor of Banks utilized the authority granted to him based on the lessons learned from the Second Lebanon War and instructed that bank branches within a 10-kilometer radius of the Gaza Strip should not restrict accounts or account holders in those branches due to returned checks during the conflict.
3. **Operation Protective Edge (July 8 to September 21, 2014):** The Supervisor of Banks instructed that bank branches within a 40-kilometer radius of the Gaza Strip should not restrict accounts or account holders due to returned checks during this period.
4. **Special situation on the home front (November 12 to 14, 2019):** The Supervisor of Banks instructed that checks returned by the bank during the missile attack on Israel be temporarily removed from the count of returned checks for customers whose accounts are managed in areas declared by the Minister of Defense to be part of the special situation on the home front, or for customers whose address was in one of those areas. Due to political instability and the prolonged inability to form a government, regulations that would permanently and completely exclude these checks from the count of returned checks that would lead to restrictions could not be enacted within the 90 days set by law (from the date of the Supervisor's declaration).
5. **Outbreak of the COVID-19 pandemic (March 2020):** As mentioned, the COVID-19 pandemic rapidly initiated an economic crisis, prompting the then Supervisor of Banks to exercise her authority to suspend the imposition of restrictions due to checks without cover for a maximum period of 108 days (according to the 2020 emergency regulations). At a later stage, the Minister of Justice signed regulations under the Checks without Cover Law, according to which returned checks during this period would be excluded from the count of days leading to a restriction. In August 2019, as the crisis continued, the Minister of Justice extended these regulations until August 10, 2020.
6. **Operation Guardian of the Walls (May 10 to 23, 2021):** Following the declaration of a state of emergency, the Minister of Justice signed regulations under the Checks without Cover Law, stating that returned checks in accounts managed in areas declared as a "special situation on the home front" between May 10 and May 23, 2021 would be permanently excluded from the count of returned checks.

During crises, there has been an increase in the rate of returned checks due to insufficient funds.

Figure 6.21 Rate of Checks Returned for Insufficient Funds During Recent Crises (routine vs crisis)



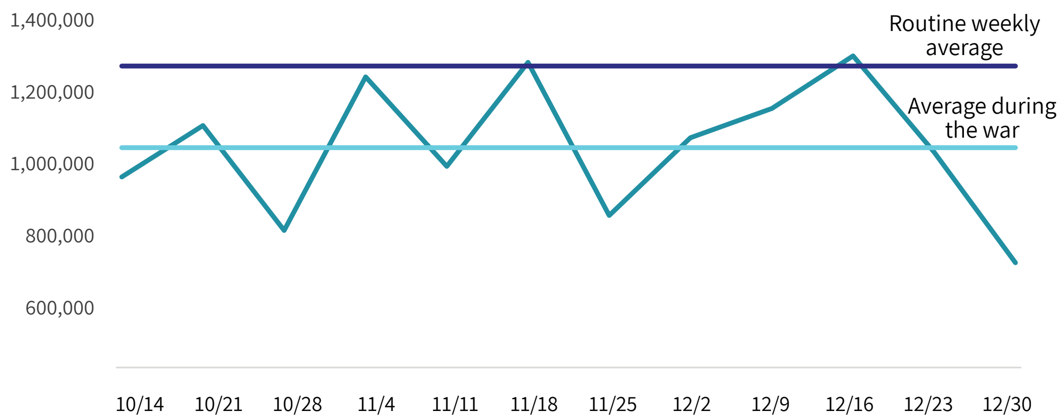
SOURCE: Based on reports to the Banking Supervision Department.

The Swords of Iron War (starting on October 7th, 2023)

Following the outbreak of the Swords of Iron War and the declaration of a "special situation on the home front" by the Minister of Defense, the state authorities and financial systems—including the banking system—were required to immediately adapt to the economic emergency. The daily data received from the banks already showed clear signs of distress from the outset, both in the volume of check clearing, which decreased by an average of 18 percent in the first weeks of the war compared to regular times, and in the rate of returned checks, particularly those returned because of insufficient funds (Figure 6.22 and 6.23). These graphs indicate a deterioration in the overall quality of checks in the economy, as reflected in a reduced ability to rely on their payment. Figure 6.23 shows a sharp increase in the rate of returned checks and checks without cover in the first weeks of the war relative to routine periods. During the crisis, these rates gradually moderated and began to approach the averages typically observed in normal periods, although there was significant volatility from one week to the next.

The number of cleared checks in the economy during the Swords of Iron War was lower than the average during routine periods.

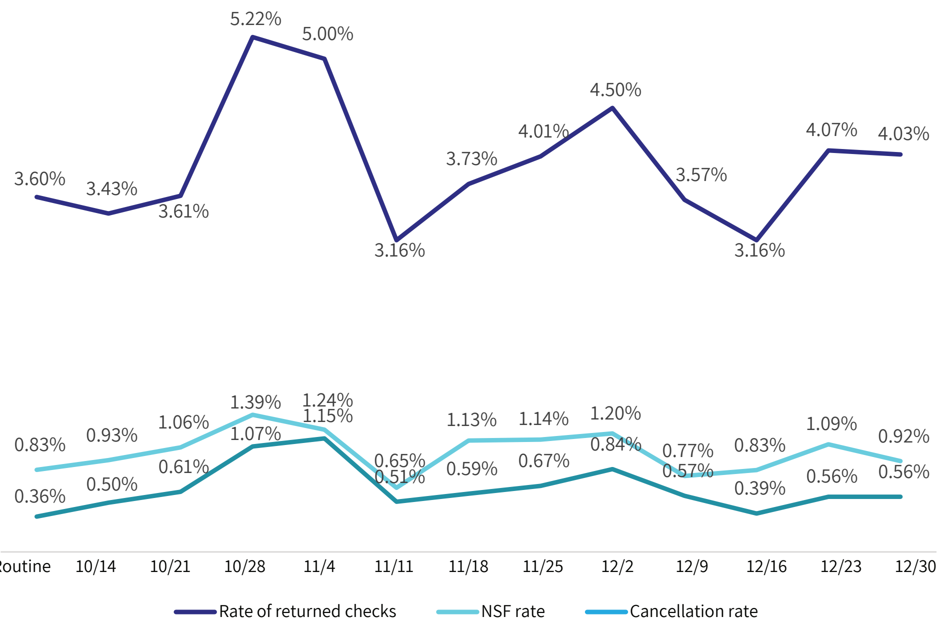
Figure 6.22 **Checks Cleared During the War vs Routine Average, October–December 2023** (weekly data)



SOURCE: Based on reports to the Banking Supervision Department.

The data on returned checks during the Swords of Iron War were higher than during normal periods.

Figure 6.23 Returned Checks During the War and Routine, October–December 2023 (weekly data)



SOURCE: Based on reports to the Banking Supervision Department.

The check data reported to the Supervisor of Banks for high-risk areas reflected a higher level of distress relative to the rest of the country.[7] In the first week of the war, approximately 5 percent of the checks presented for payment in high-risk areas were returned, compared to a rate of 3.40 percent in the rest of the country. In addition, 1.34 percent of the checks presented in high-risk areas were returned due to "insufficient funds," compared to 0.93 percent in the rest of the country. A similar pattern was observed with respect to check cancellations in high-risk areas compared to the rest of the country, as well as in comparison to routine periods in those high-risk areas (Figures 6.24 and 6.25).

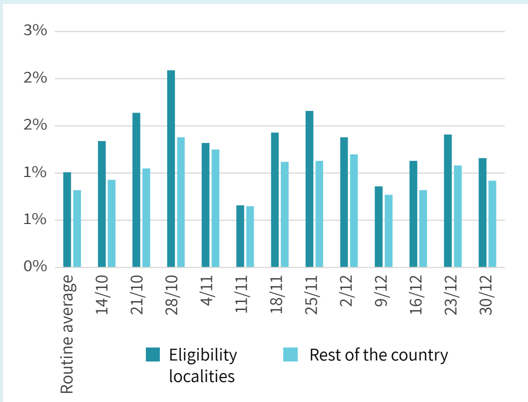
The data for returned checks indicates a higher level of distress in high-risk areas relative to the rest of the country.

Figure 6.24

Rate of Cancelled Checks in Eligibility Localities and the Rest of the Country, Routine vs Emergency, October–December 2023 (weekly data)

Figure 6.25

Rate of NSF Checks in Eligibility Localities and the Rest of the Country, Routine vs Emergency, October–December 2023 (weekly data)



SOURCE: Based on reports to the Banking Supervision Department.

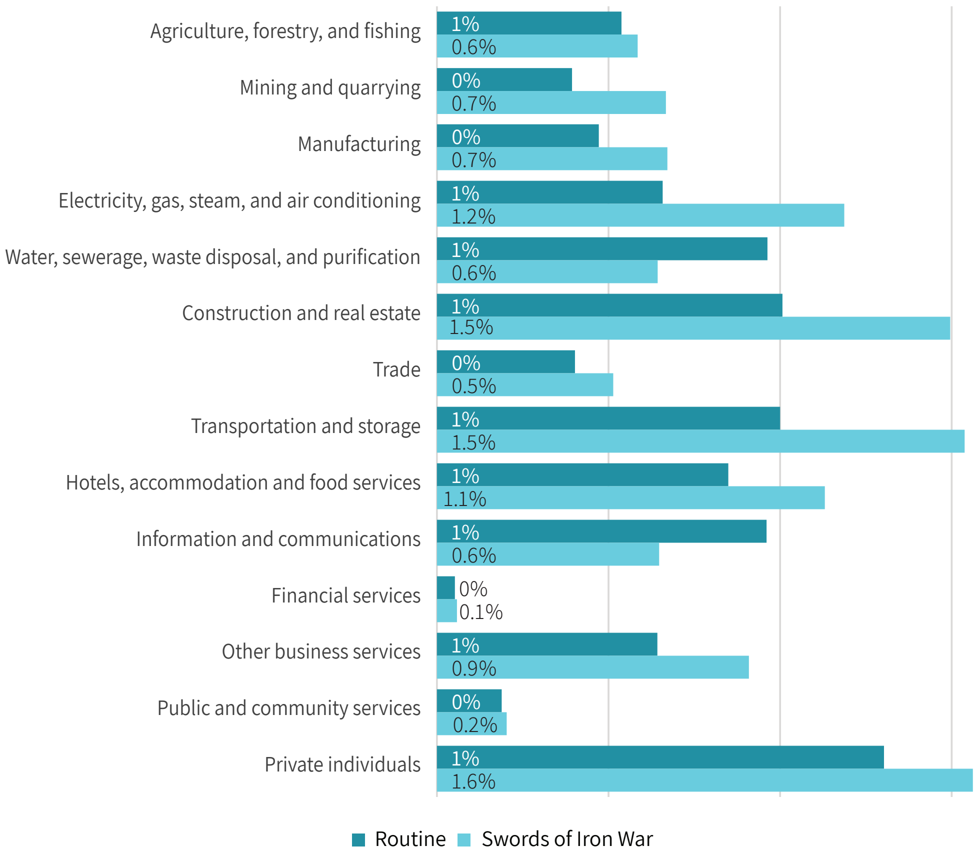
7 The high-risk areas are defined according to the population protection policy of the Home Front Command: the Gaza envelope, the Lachish region, the Negev area, and the northern Golan Heights. With the publication of the checks without cover regulations, the high-risk areas were revised according to the list of localities evacuated by the State, as included in the appendix to the Law on Postponement of Deadlines (Temporary Order – "Swords of Iron") (Contract, Court Ruling, or Payment to Authorities), 2023.

A sectoral breakdown of Banking Supervision Department data shows that micro and small businesses were the first to be affected by the crisis, indicating distress relative to normal periods, both in terms of NSF checks and check cancellations. This is likely due to the lack of financial buffers and a limited ability to raise credit to obtain the liquidity needed during the crisis. The distress of micro and small businesses persisted for several months; however, the data show that by January 2024, there was a significant improvement in their condition. During this period, their share of NSF checks fell by approximately 30 percent below regular levels (25 percent as compared to 35 percent in normal periods). This trend likely indicates that these businesses effectively utilized the aid programs for business owners in response to the Swords of Iron War, which included a compensation fund from the Israel Tax Authority for all businesses in the economy (the Business Continuity Grant), as well as compensation for specific geographic areas (special zones and border towns).

An analysis of checks returned because of insufficient funds according to a breakdown by industry shows that the most significant distress was recorded in construction and real estate, transportation and storage, and electricity and gas supply. Many businesses in these sectors were forced to halt or cut back their operations, not only due to normal structural problems but also because of a shortage of workers who were not allowed to enter the country and because of a decline in demand (Figure 6.26).

The largest increase in the rate of checks returned because of insufficient funds during the war was in construction and real estate, transportation and storage, and electricity and gas supply.

Figure 6.26 Rate of NSF Checks by Industry, Routine vs Swords of Iron War

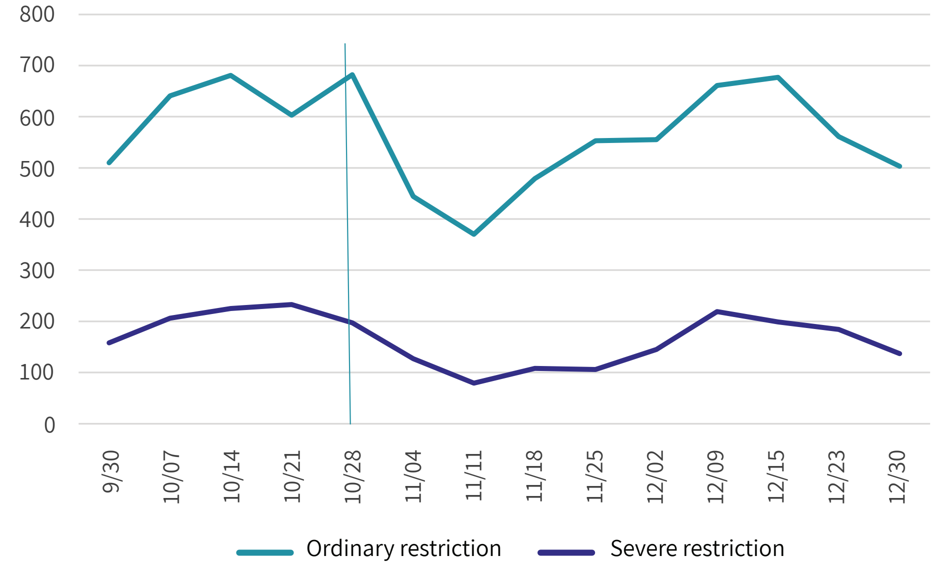


SOURCE: Based on reports to the Banking Supervision Department.

The crisis created by the war was also reflected in the scope of restrictions imposed due to returned checks, which serves as a sign of deteriorating repayment ability among various sectors of the economy. Based on the distribution of customers who had new restrictions imposed on them, there appears to be an upward trend during the initial weeks of the war, with a 34 percent increase compared to the week before the war (Figure 6.27). We assume that this principally involves customers who had an accumulated number of returned checks, and therefore the impact of the emergency worsened their situation more quickly than in the case of customers who had some level of financial stability before the war. Following the aforementioned publication of emergency regulations for relief concerning checks without cover by the Minister of Justice, the number of restrictions returned to regular levels and even below that.

The number of customers who had a new restriction imposed on them rose following the outbreak of the war, up until the publishing of the Checks without Cover regulations. This led to a reduction to average levels during routine periods.

Figure 6.27 **Customers For Whom New Restrictions Were Imposed, by Restriction Type, September–December 2023** (weekly data)



SOURCE: Based on reports to the Banking Supervision Department.

As mentioned, the Bank of Israel, based on the data it had received, recommended already at the beginning of the crisis that the emergency regulations to provide relief for bad checks for eligible populations be amended. This led to the relatively early enactment of emergency regulations regarding NSF checks by the Minister of Justice. These regulations stipulated that, for all customers in the economy, checks returned because of insufficient funds between October 7 and October 31, 2024, would not be included in the list of checks that would lead to a restriction on the account from which they were drawn. These checks were also removed from the list of checks that would trigger a warning following five checks returned due to insufficient funds. In addition, the regulations extended these relief measures from November 1, 2023 to January 21, 2024 for eligible groups, including residents of affected communities in the North and South, reservists and their spouses, missing persons, hostages, prisoners of war and their families, victims of terror attacks and their families, and others, as detailed in the regulations.

To improve the utilization of rights among eligible populations, the Supervisor of Banks took several steps to raise awareness, including a directive to add special information to notices regarding checks returned because of insufficient funds, and by publishing information on the websites of the commercial banks and the Bank of Israel.

According to data received by the Supervisor of Banks, the aforementioned regulations led to the removal of 6,123 checks returned because of insufficient funds in the eligible population. We estimate that the rights utilization rate among reservists currently stands at approximately 50 percent, representing 1,525 checks that have been removed; efforts are ongoing to improve the utilization of rights among this population.

The Check Protection Law – A substitute for the Checks Without Cover Law

Looking ahead, we are utilizing this opportunity to update the public on a legislative initiative currently being formulated to repeal the Checks without Cover Law and the accompanying mechanism for imposing restrictions. This initiative is intended to improve the protection of checks while significantly reducing the negative byproducts under the current system. Under the existing framework, a customer can issue up to ten checks that are returned due to insufficient funds before the restriction is imposed. Once the restriction is imposed, it is reported across the banking system and affects the customer's credit standing across the financial sector. In this situation, the drawer accumulates a relatively long list of debtors and debts that he will have trouble repaying according to the data. Meanwhile, the beneficiary becomes aware of the problem with the checks only once a restriction has been imposed (namely after ten or more checks without cover). In contrast, the proposed model eliminates the imposing of restrictions. Instead, receivers will be able to check (online and in real-time) the drawer's check during a transaction, including details on returned or late-paid checks from the account. Based on this information, the beneficiary can decide whether to accept the check as payment or request an alternative payment method.

In this new model, the drawer will have control over whether to reveal this information to the receiver for a particular transaction. Unlike the current system, alerts about insufficient funds will not be shared with third parties. This approach will provide stronger protection for checks, enable financial recovery, and support smooth financial conduct in both routine periods and in emergencies. We expect that the new model will provide economic benefits on the level of the economy as a whole and in particular a reduction in the volume of checks without cover. This will increase the reliability of checks as a payment method, and will lower overall collection-related costs in the economy.