

Jerusalem, June 29, 2023

Circular Number C-06-2752

Attn:

Banking Corporations and Acquirers

Re: Distribution of Credit Cards of Issuers Bound to a Banking Corporation by a Distribution Agreement

(Proper Conduct of Banking Business Directive no. 473)

Introduction

1. In Section 7f of the Banking (Service to the Customer) Law, 5741-1981 (hereinafter: **the Law**), it is stated that when a customer approaches a banking corporation to enter into a credit-card contract with it, or when a banking corporation approaches a customer with an offer to enter into such a contract, the banking corporation must distribute the credit cards of issuers bound to it by a distribution agreement as defined in said Section. The Section was legislated as part of the Increasing Competition and Reducing Concentration in the Banking Sector in Israel (Legislative Amendments) Law, 5777-2017, and is meant to stimulate competition and allow other issuers to reach a broad customer population by using the distribution platforms of the banking corporations, including the branches that they own.
2. In Section 7f(b) of the Law, it is stated that the Supervisor of Banks shall establish in Proper Conduct of Banking Business Directives instructions concerning distribution agreements between banking corporations and the other issuers. Also, it is stated in Section 7f(c) that a banking corporation shall not refuse to enter into a contract with an issuer in a distribution agreement on unreasonable grounds and that the Supervisor may determine which conditions shall be deemed unreasonable for this purpose.
3. In this Directive, instructions are laid down concerning the processes of credit-card distribution under Section 7f of the Law, including matters in which the Supervisor is empowered to lay down instructions under Sections 7f(b) and 7f(c) of the Law. It is stated for clarity that the Directive relates solely to distribution under Section 7f of the Law and not to other agreements between issuers and banking corporations. Furthermore, the Directive does not rule out other or additional contracts between banking corporations and other issuers that do not meet the definition of distribution under the Law.
4. After consulting with the Advisory Committee on Banking Business Affairs and with the approval of the Governor, I have established this Directive. Per decision of the Governor, the regulation was not accompanied by the publication of a report under the Principles of Regulation Law, 5781-2021, in view of significant actions taken before the law went into effect.

Details of the Sections

Chapter A—terms of the distribution agreement

(Sections 7–13)

5. This Directive does not address itself to all details and sections that may exist in a distribution agreement of the sort dealt with in this Directive; instead, it relates only to the matters that are identified as the kind that may lead to controversy between the parties or may obstruct the conclusion of the agreement.
6. In the Directive, it is stated that a credit card issued by another issuer under Section 7f of the Law shall not include markings of a banking corporation and that a banking corporation may not be a party to a credit-card contract concluded between a customer and another issuer.
7. The recompense that the other issuer shall remit to the banking corporation when the banking corporation distributes its credit cards shall be fixed and unrelated to the characteristics of the customer, the way he or she uses the credit card, and services and fees paid to or given by the other issuer to the customer. The reason is that said recompense for the banking corporation is given on account of the distribution efforts and not as a demand for additional payments, which may pose an obstacle to other issuers against entering into distribution agreements. In their distribution agreement, the banking corporation and the issuer shall determine whether the distribution fee shall be paid in a lump sum or in increments. In addition, the parties to the agreement are not enjoined against establishing a differential recompense mechanism, based, for example, on a fixed cost for creating technological interfaces, such that the more distribution takes place, the lower the marginal price will be.
8. In accordance with the Directive, a banking corporation may not demand that the other issuer keep it up-to-date about the customer and his or her use of the credit card. The reason is concern that such updating will result in the use of this information by the banking corporation for purposes other than the benefit of the distribution agreement, impairing the other issuer's competitive efforts. The banking corporation may demand that the other distributor keep it apprised only of such information as is needed to calculate the recompense for distribution.

Chapter B—method of distribution

(Sections 14–16)

9. In accordance with the Law, a banking corporation shall present the customer, whether it is the customer who approaches the banking corporation or vice versa, with information about credit cards of other issuers with which the banking corporation has entered into a distribution agreement, all in such a way as will promote the goals of Section 7f of the Law. For example, a banking corporation shall present the other distributor's cards in a neutral manner and in a way that will not impair the attractiveness of these cards. Furthermore, a banking corporation may concentrate all offers of other issuers' credit cards in one document and present said document to the customer. Such a condensed document shall present the details set forth in Section 17 of the Directive at the very least.
10. An issuer may ask a banking corporation not to market its cards in all ways in which the banking corporation distributes the cards that it issues. For example, the issuer may ask that its cards be distributed only on internet channels and not at the branches of the banking corporation, and this,

in view of the issuer's marketing strategy or due to the costs that the issuer would incur if it distributes on all channels, making the use of a banking corporation as a distributor less worthwhile.

11. The Directive prohibits the presentation of warnings to a customer in regard to another distributor's cards; this is done in order to promote the goals of the Law and prevent a situation where the banking corporation will try to influence the customer's decision to acquire another issuer's credit card or exchange a credit card issued by the banking corporation for one issued by the other issuer.

Chapter C—compulsory sharing of details by banking corporation with customer

(Sections 17–18)

12. This chapter defines the information that a banking corporation must share with a customer when it offers a credit card issued by another issuer, provided this information be shared with the banking corporation by the other distributor. Insofar as the other distributor does not share certain information about the cards distributed, the banking corporation may present said information about the cards that it issues. For the sake of clarity, there is no impediment to a banking corporation's presenting a customer with additional information from the other issuer, insofar as such is agreed between the parties to the distribution agreement.
13. In cases where a customer requests additional details that are not in the banking corporation's possession, for example, the size of the credit facility, the interest rate, additional benefits given for the use of the card, and so on, the banking corporation shall approach the other distributor or propose that it share its details with the other distributor so that it may contact the customer directly and give him or her the missing details. It is stated for clarity that the foregoing does not oblige a banking corporation to do personal underwriting with the other issuer for the customer. Also, it does not prevent the sides from reaching an agreement on additional services to be given between them.

Chapter D—unreasonable refusal

(Sections 19–20)

14. In Section 7f(c), it is stated that a banking corporation shall not refuse on unreasonable grounds to conclude a distribution agreement with an issuer under the provisions of this Section of the Law. It is further stated in the Law that the Supervisor may specify conditions that shall be considered unreasonable for the purpose of this Section. To eliminate doubt, it is stated for clarity that the conditions set forth in Chapter D of the Directive shall not derogate from the provisions of the Law in this matter and that additional circumstances that will fall within the bounds of Subsection (c) may come about.
15. In accordance with the powers of the Supervisor, it is stated in Section 19 of the Directive that insofar as a banking corporation sets conditions on the sections specified in the Directive and does not enter into a distribution agreement with the other issuer for this reason, this shall be considered unreasonable refusal. It is further stated in Section 20 of the Directive that if a banking corporation sets a condition by which the distribution of a credit card under the distribution agreement shall be carried out vis-à-vis all customers of the banking corporation, said condition

shall not be considered an unreasonable condition. The reason is that downsizing the population of customers to whom a credit card will be distributed under the distribution agreement may impose unreasonable development costs on the banking corporation, and the language of the law also indicates that this Section of the Law is meant to allow all customers of the banking organization, and not certain population groups alone, to be approached.

Chapter E—reporting

(Sections 21–24)

16. This chapter specifies the reports that a banking corporation and other issuers supervised by the Banking Supervision Department must submit. Given In the sensitivity of these agreements, the Department wishes to keep track of them on a regular basis.

Beginning date and transitional provisions

17. This Directive shall go into effect on the day that it is promulgated. Every distribution agreement to be signed from this date onward shall comply with all rules in this Directive.

18. Distribution agreements concluded before this Directive goes into effect shall be adjusted by the sides within a period that shall not exceed six months.

File update

1. Update pages for the Proper Conduct of Banking Business Directives file are attached. The following are the update instructions:

Remove page

Insert page

473-1-3 [1] (06/23)

Respectfully,

Daniel Hahiashvili
Supervisor of Banks