Bank of Israel
Payment and Settlement Systems Department



Overview of the Payments System in Israel

August 2024

Data for 2021–2022
with updates from 2023

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Foreword by the Director of Payment and Settlement Systems



The payments market in Israel has developed rapidly in recent years, and its continued development is a strategic target for the Bank of Israel. The Payment and Settlement Systems Department's critical work, including its actions during the complex period of the Swords of Iron War, while making the necessary adjustments to the needs arising from the market, is essential for supporting the Israeli economy, and is designed to reinforce the stability, efficiency, innovation, competition, and business continuity of the payment systems.

During the reviewed period, the Bank of Israel led a series of measures to advance the payments landscape. Among other things, these measures included opening designated payment systems to direct or indirect participation by domestic and international nonbank entities; deploying new, robust, and advanced infrastructure in a critical core system—ZAHAV (RTGS); introducing advanced payment methods and upgrading existing payment methods, such as contactless payments using digital wallets; faster payments; enabling closed loop payment methods such as gift cards in more open payment terminals; exploring how to streamline cross-border payments in the Israel market; developing marketwide agreement on a scheme for digital checks (known as "digital authorized debits"); increasing the cap on mobile check deposits by scanning and check truncation; expanding existing standards for information security, cyber security, fraud prevention, and business continuity with respect to payment cards; and adopting new global standards in Israel, especially the global ISO 20022 standard, which enables international entities to offer local value propositions more easily, encourages Israel-based players to launch their solutions in the Israel market even before they are launched abroad, and facilitates the availability of advanced payments services. In addition, we have almost completed a multi-year project to create a Business Intelligence (BI) platform that will enable internal Bank of Israel teams to use rapid and up-to-date aggregated data from payment systems to perform the Bank of Israel's various functions.

Alongside all these, together with local players we completed implementation of a new market-wide architecture for local payment systems and their inter-connectedness, including launch of the new ZAHAV system; implementation of loss sharing arrangements for retail payment systems operated by the companies SHVA (Automatic Bank Services Ltd.) and MASAV (Banking Settlement Center Ltd.), which we supervise; as well as independent and direct connection between those systems to ZAHAV via the SWIFT infrastructure; and more. We have also continued to closely oversee the process of separating the payment systems managed by SHVA and MASAV, which will continue in the coming years.

All of these processes, and those that presented in further detail in this report, are expected to increase the supply of innovative, diverse, and more rapid payment services, and encourage the development of new and advanced payment services and solutions, while lowering costs for consumers and merchants, and maintaining the high level of availability of Israel's payment systems. Furthermore, the increase in the number of participants in the financial sector in general, and in the payments field in particular, is expected

to reduce market concentration and thereby strengthen the economy's financial stability.

The natural commercial evolution of some of the firms providing payment services is to expand their services to provide additional financial services. In our view, developing the payments landscape in Israel and opening accessto nonbank entities is likely also to lead to increased competition and new value offerings in all financial services.

I am honored to lead a Department whose work yields a more efficient and more digital payments landscape in Israel.

We look forward to continuing fruitful cooperation in the coming years.

With wishes for quieter days and more peaceful times,

Sincerely,



Oded Salomy

Director of the Payment and Settlement Systems Department
Member of Management
Bank of Israel

Executive Summary

This survey outlines the payment and settlement systems in Israel and the main developments in the field in terms of innovation, competition, and regulation, and also reviews the activities of the payment systems and their infrastructure, and the development of various means of payment and payment services. The survey also discusses the challenges facing the Bank of Israel's Payment and Settlement Systems Department as it strives to advance and develop the country's payments array, and includes a review of the activity of the Israeli payments array during the Swords of Iron War.

The data presented in this survey are for the years 2021–2022, but there is also discussion of activity in the field in 2023, because many of the reforms discussed herein were launched or matured in 2023 and will continue to evolve in the coming years as well.

The chapters of the review discuss the main developments in recent years; trends in the payment systems and in means of payment; and institutional aspects that affect the payment systems.



CHAPTER 1
MAIN DEVELOPMENTS IN RECENT YEARS



In the 24 months prior to July 2023, the volume of payments made using digital wallets in Israel grew by more than 13-fold to NIS 3.586 billion, constituting 8.71 percent of total payment card expenses (July 2023). The average daily expenditure using digital wallets reached NIS 115.7 million — 6 times higher than in December 2021, when the average was NIS 19.2 million.



The volume of smart transaction payments using the EMV standard in July 2023 was 96.2 percent of the volume of payment card transactions: NIS 39.6 billion, out of a total of NIS 41.2 billion. Payments using digital wallets in that month accounted for more than 21 percent of total expenditures by the Israeli public.



About 65.8 percent of payment card transactions made physically at the merchant's premises in July 2023 were made using smart transactions (contactless transactions and transactions using digital wallets and smart watches), totaling NIS 11.218 billion.

In 2023, all controlled payment systems and systems operated by the Bank of Israel showed very high availability and stability levels:

- **The ZAHAV system** availability level of 99.905 percent.
- **Credits Debits and Transfers system operated by MASAV** availability level of 100 percent.
- **ATM system** availability level of 100 percent.
- **Payment cards system** availability level of 100 percent.
- **Paper-Based (Checks) Clearinghouse** availability level of 100 percent.



In November 2023, the Bank of Israel raised the ceiling for depositing a check through a mobile application from NIS 50,000 to NIS 100,000. The move affects about 1.65 million checks per year (an average of about 137,000 checks per month).

CHAPTER 1 – MAIN DEVELOPMENTS IN RECENT YEARS

As part of the realization of the Bank of Israel's vision and strategy, the Payment and Settlement Systems Department constantly works to advance the field of payments in Israel and to increase activity and competition on the part of all types of participant, advance and develop financial infrastructure, and assimilate digital means of payment in the Israeli economy. Encouraging competition and innovation in the financial system, and diversifying digital means of payment, are essential tools in reinforcing the robustness of Israel's financial system and maintaining its stability and its efficiency.

The development of payment applications, digital wallets, and smart payments

The Bank of Israel uses a variety of tools to introduce advanced financial technologies into the payment systems. These include the removal of regulatory barriers, the application of new types of regulation, support for innovation, and encouragement of collaboration between the traditional financial system and technology firms. Alongside the desire for accelerated growth of the payments market, the Bank of Israel plays a vital role in safely and responsibly leading the financial sector, while managing all risks, with the aim of maintaining stability. One of the advantages of the use of technology is the ability to help marginalized population groups overcome obstacles and adopt advanced financial tools. Financial technology has the potential to serve as a main conduit for increasing financial inclusion, reducing inequality, and diminishing the unreported economy.

In recent years, the Bank of Israel has taken steps to advance innovation and competition in the payments market in order to benefit the public. These steps are taken while closely monitoring developments in the payments market in general, and in the digital payment wallets market in particular, making sure to maintain a balance that provides various participants with the opportunities to develop innovation and competition in the market, while ensuring the customers' benefit and adapting the participants' contributions to the Israeli payments system. These initiatives are made possible partly thanks to the assimilation of the EMV[1] standard in merchants' terminals—a process led by the Bank of Israel with the cooperation of all market participants. Among other things, this standard enables contactless payments and payments through digital wallets.

In 2021, several digital wallets were launched, including those of international firms, which enable mobile phone proximity payments, based on the new protocol.

The use of digital wallets has accelerated greatly since the introduction of such wallets by international technology firms. In July 2021, when digital wallets came into use in Israel, monthly transactions through digital wallets totaled NIS 274.6 million. In the following 24 months, the volume of payments using digital wallets in Israel grew by more than 13-fold, to NIS 3.586 billion, constituting 8.71 percent of total payment card transactions. Average daily transactions using digital wallets reached NIS 115.7 million—six times higher than the average in December 2021 (NIS 19.2 million).[2]

[1] Initials for the three major international credit companies: Europay, MasterCard, and Visa.
[2] Source: SHVA..

According to data from SHVA, 96.2 percent of all payment card transactions in July 2023— NIS 39.593 billion out of a total of NIS 41.177 billion—and 65.8 percent (NIS 11.218 billion) of all in-person payment card transactions used smart transactions in the EMV system (contactless payments and payments using digital wallets and smart watches). Expenditures using digital wallets in that month accounted for more than 21 percent of total in-person expenditures at Israeli merchants. The rapid growth in the Israeli public's use of contactless payments and digital wallets is expected to continue in the coming months, as the EMV protocol becomes mandatory across the entire economy—including fuel stations, which were exempt in 2023.

Increasing competition in the payments and settlements field

The traditional participants in the payments array are mainly the banks and credit card companies, which operate based on a license they have received. In recent years, this trend has changed in many countries, as new payment service providers have joined the payments market. This has been due to technological developments that enable a leaner expense structure, together with the adaptation of regulation through licensing that enables these entities to participate in the payment systems. As a result, consumers obtain value through improved efficiency and availability of means of payment and payment services, effectively making these payment service providers competitors with the traditional payment services providers.

The Bank of Israel is working on several levels to advance similar processes in Israel:

The Regulation of Payment Services and Payment Initiation Law, 5783–2023[3] enables nonbank entities to obtain a license and to participate in the payments array. The law was passed in May 2023, and enables the Israel Securities Authority to issue licenses to nonbank entities to function as payment service providers. The Bank of Israel guided the legislation through the regulation of licensing, amendments to the Wage Protection Law, 5718–1958 to allow the payment of wages to an account managed at a nonbank payment service provider, and regulation of payment initiation licenses.

In addition to that law, in September 2022, the Bank of Israel, together with the Capital Market, Insurance and Savings Authority, formulated a regulatory framework that sets out additional criteria, beyond the normal terms of the license for entities regulated by the Authority, so that they can participate in the payment systems. Thanks to the legislation and the memorandum of understandings, all nonbank entities operating in the payments array will be able to obtain a license enabling them to meet the binding criteria for connecting to the payment systems.

Expanding access options to the payment systems for nonbank entities

The Payment and Settlement Systems Department is working to grant nonbank payment service providers expanded access to the ZAHAV payment system, the Credits Debits and Transfers system and the Faster Payments system operated by MASAV, and the payment cards and ATM systems operated by SHVA. The expansion is part of a series of measures intended to make the Israeli payments market more competitive, fairer, and more efficient. In June 2023, the Payment and Settlement Systems Department published the Payment Systems Access Guide[4], which explains how nonbank entities, including domestic

[3] The law was officially published on June 6, 2023, and took effect on June 6, 2024.
[4] https://www.boi.org.il/en/communication-and-publications/press-releases/64139

and international fintech companies, can join the core systems of Israel's financial sector, alongside the banks, and offer services to the public. The guide describes the various payment systems and the possible types of participation in each system. It also contains a visual flowchart formulated by the Bank of Israel that describes the process for new entities to join the controlled payment systems, including the stages and requirements with regard to each of the relevant bodies. The Bank of Israel believes that it ensuring the transparency of the requirements and the alternatives for participation in Israel's payment systems, is vital in order to facilitate the employment process and enable the new entities to offer advanced and innovative payment solutions, and to play a significant role in the payments array, while reducing the public's dependence on the banking system.

The expansion of access includes permitting the nonbank entities to manage a settlement account in the ZAHAV system. This enables these payment service providers, such as merchant acquirers, to operate in the retail payment systems as well as direct participants, and to settle their operations directly in the system without needing to rely on another participant to represent them. In 2022, the following steps were taken in this area:

- In August, the Governor of the Bank of Israel declared the "EMV Payment Cards Protocol" system, operated by the Association for Management of EMV Protocol Terminals in Israel, as a controlled system pursuant to the Payment Systems Law. The EMV Protocol serves as the gateway to the payment card field in Israel for a range of bank and nonbank market participants—including manufacturers, aggregators, gateway companies[5]switches, and processors. The declaration regarding the EMV protocol makes it possible to continue advancing the payment cards market and to ensure its continued orderly functioning and compliance with international standards, while facilitating the integration of new participants.
- In January 2023, payment system operators received an instruction to publish the dates on which new participants could coordinate their accession to the payment systems under their authority. The payment system operators published the following dates[6]:
    - **ZAHAV system:** In April and November 2023, and in June and November 2024.
    - **Credits, Debits and Transfers system and Faster Payments system:** In April and November 2023 and in April and November 2024.
    - **Payment card systems and ATM systems:** in January and July 2023 and in January and July 2024.

Giving international payment service providers access to controlled payment systems in Israel

The Bank of Israel issued a framework[7] for opening the controlled payment systems in Israel to international payment service providers. The framework is based on an exemption granted to entities licensed in recognized countries[8] according to established by Ministry of Finance regulations[9] specifying conditions

[5] A gateway is a network intersection (with an IP address) intended to connect various systems. It generally involves a link to systems that operate under various standards and protocols, or that are under the responsibility of various entities.
[6] The dates on which fintech and other firms can begin operating in the various payment systems.
[7] The opening of the payment systems is divided into two tracks, as published on the Bank of Israel website: https://www.boi.org.il/en/communication-and-publications/press-releases/providing-international-payment-service-providers-access-to-israeli-payment-systems/
[8] As defined in the Minister of Finance's Regulations: UK, EU countries, or the US.
[9] Section 3(7) of the Financial Services (Controlled Financial Services) (Licensing Requirement Exemption) Regulation, 5783–2022, which, as of now, is valid until January 1, 2024.

for providing licensing exemptions for the provision of financial asset services in Israel. It thereby enables these entities to make technological preparations for connecting to regulated payment systems, and allows some of them to operate fully in such systems, based on their foreign-issued license.

The opening of the payment systems to international payment service providers is contributing to advancing competition and to larger, more diversified supply of innovative payment services, and will ultimately contribute to the development of new financial services that will be based on payment services.

New participants have already joined or applied to join the payment systems.

The Bank of Israel has been working in the past few years to increase the number of participants in the market, partly by removing entry barriers for new payment service providers and making relevant regulatory adjustments. At the same time, the technological developments of recent years are continuing. The access enabled by the Banking Supervision Department, which is advancing the establishment of new banks, is also contributing to increased competition in the payments and settlements field, similar to other financial services provided to the public. Thanks to these processes, the payments market in Israel is narrowing the gaps vis-à-vis other countries at an accelerated pace. These measures have led to private initiatives to establish a digital bank, in a process closely guided by the Bank of Israel, which began operating in the payment systems in 2021.

In addition to the digital bank, new entities have received identification codes that identify them as participants in the payment systems. These include Correspondent Services Ltd. (government corporation), Ofek Credit Union Ltd., Bank Esh Israel Ltd. (in setup), Tranzila Ltd., Cardcom Acquiring Ltd., "Grow" by Meshulam Payment Solutions Ltd., Global Remit Currency Services, Ltd., and ATMS Matrix Ltd. These entities will be added to the payment systems according to timetables worked out with them. For instance: Bank Esh was connected to the ZAHAV system in November 2023. Aside from these entities, fintech firms from various countries are in contact with the Bank of Israel to explore options for accessing the Israeli payment systems, various access models, and licensing aspects of their participation in the systems.

Expansion of advanced digital services from the customer's standpoint

Support for "smart payments"

The framework being led by the Bank of Israel to move payment card activity to the EMV standard aligns with other advanced economies, and enables innovative value propositions. The last milestone in the implementation of the EMV framework, requiring all merchants to complete the transition to the new standard, was completed in July 2022. Completion of this milestone signaled that the infrastructure for the entry of advanced payment services and new payment service providers is now in place.

As of April 2023[10], more than 99 percent of payment terminals have been converted to the EMV standard.[11]

[10] More information regarding the volume of assimilation of the EMV standard in Israel appears on the SHVA website (www.shva.co.il) in Hebrew.

[11] A small share, about 2 percent of merchants that began the transition to the EMV standard, encountered difficulties in implementing the transition. In order to assist those merchants, special outlines were put in place to complete their transition to the standard.

In July 2023, the Bank of Israel instructed SHVA to continue supporting the old payment card standard until December 31, 2024. After that date, it will no longer be possible to conduct transactions in Israel using payment cards that do not meet the EMV standard. This is an important step in making the financial system more sophisticated, increasing competition in the system, and improving consumer well-being.

The move to the EMV standard enables payment service providers to develop more advanced services for consumers, who can now choose from among various payment options: contactless payment (proximity of the payment card to the terminal) for payments up to NIS 300[12]; inserting the payment card into the terminal and entering a PIN code for payments above NIS 300; contactless payment using a digital wallet by holding a smartphone in proximity to the terminal; payment using wearable technology such as a smart watch; and using payment applications.

In order to reduce existing risks in making digital payments—such as fraud, identity theft, forgery, and misuse—and in order to increase the efficiency and security of use of means of payment, the payment cards committee[13] set out several principles for enhanced authentication of payment card users. Enhanced authentication[14] is based on two or more of the following criteria: Something known – information that only the user knows; Something held – something that only the user has; Something built in – including biological, behavioral, or biometric features.

Opening the payments market to gift cards and consumer loyalty clubs

As part of the process to integrate additional entities into the payments system, direct access to the payment cards system was granted to entities that a do not use a 3-party model. These entities operate consumer loyalty clubs using a closed loop payments (CLP) model in which the same entity operates on both sides – both as the issuer of the customer's payment card and as the merchant acquirer, performing settlement and reconciliation activities with the merchants that accept their payment card.

Until the date of the change, CLP entities were required to maintain an independent settlement infrastructure and deploy it with the merchants that join the customer/consumer club. After the change, customer clubs will no longer be required to maintain an independent system, and they will be able to connect to the existing payment card system and settle the customer club cards through the merchants' existing terminals.

This step follows a series of actions that the Bank of Israel has advanced in the payments field, as a result of which these entities will benefit from new technological solutions that are based on access to the payments system, and will be able to offer their customers a wider range of services and greater distribution of merchants that accept their club payment cards. This may trigger the establishment of new customer clubs, which may accelerate competition in this sector. Small merchants will also be able to easily join various customer/consumer clubs without purchasing or connecting to expensive technological devices. Instead, they will be able to use the POS terminals that they already have, and will also be able to offer more

[12] With the exception of payment at fuel station pumps and merchants whose volume of customer-not-present activity exceeds 90 percent of their payment card revenue.
[13] The payment cards committee is a market committee that discusses broad issues concerning the payment cards market.
[14] Principles for implementing enhanced authentication.

advanced products so that the public benefits from wider geographic distribution of customer clubs and a range of discounts. It will also help small merchants increase their sales and cash flows, improve customer recruitment, and reinforce their ability to compete with large chain stores.

Faster payments

Faster payments are a means of transferring a payment from one account to another, 24 hours a day, 7 days a week, in which the money is available for immediate use by the beneficiary. An immediate credit, for example, allows the beneficiary to immediately use the money credited to their account as if the payment was made in cash. This is in contrast to most means of payment that are popular in Israel today (checks, bank transfers, deferred debit cards, etc.), where the money is not available for immediate use by the beneficiary. The Bank of Israel has taken steps in recent years to promote faster payments to meet the needs of the market, and to adjust faster payments to international standards and to global developments.[15]

The system that transfers faster payments in Israel has been in operation for three years. Tens of millions of shekels are transferred daily through this system, which was built by MASAV Ltd. Not all banks permit transfers through this system but all banks are required to receive faster payments from the system.

In July 2023, the Bank of Israel concluded its involvement in the development of principles that enable faster payments directly from current accounts using a proxy.[16] The goal of these principles is to enable customers to transfer faster credits, and later to also send requests to pay (R2P), using an identifier other than the beneficiary's current account number, such as an email address, a mobile phone number, an identity number, or a tax payer number. Developing these principles is another step toward promoting faster payments in Israel according to international standards and in line with the ancillary services that are conventionally available in other countries.

Request to Pay (R2P) - A request to pay allows a beneficiary to send a customer a digital request for payment for a service. The request may be conveyed simply, easily, and conveniently, either face to face (e.g., at a merchant) or online, and the payment is received immediately in the beneficiary's current account. Implementation of the Request to Pay directive, alongside other measures promoted by the Bank of Israel, will expand the types of faster payments to include transactions involving merchants and the government, and will not be limited to payments between individuals (which is the current situation). For example, the Israel Electric Company will be able to send its customers a request to approve immediate payment (a Request to Pay) and the bank will be obligated to perform the transfer immediately upon the customer's approval. Payment by proxy, where the request uses an identifying detail such as a telephone number or email address, will be come into force in June 2024. This will make faster payments from one current account to another a simple, easily available, accessible option. The banks may charge a fee for such transfers but the fee will be subject to supervision by the Bank of Israel and customers in fee tracks may find this additional cost negligible.

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[15] Additional information on such actions between 2018 and 2020 appears on page 15 of the Overview of the Payments System in Israel for those years. https://www.boi.org.il/en/communication-and-publications/regular-publications/overview-of-the-payment-and-settlement-systems-red-book/israel-red-book-for-2018-overview-of-the-payment-and-settlement-systems.

[16] https://www.boi.org.il/en/communication-and-publications/press-releases/d05-07-23.

The Regulation of Payment Services and Payment Initiation Law, 5783–2023, which was approved as part of the Economic Arrangements Law in May 2023 and is expected to come into force in June 2024, makes the world of faster payments significant for the efficiency of the economy, financial operations, and reduced costs for individuals, firms, and institutions. The law defines the regulatory regime that allows nonbank entities and international financial firms to obtain a license that will grant them access to the payment systems.[17]

Receiving an immediate credit from the government

The Ministry of Finance Accountant General and MASAV signed an agreement in February 2023 that will allow the government to participate in the faster payments infrastructure, so that the government will be able to make immediate payments. Following this step, Israel will be aligned with other advanced economies that allow their citizens to receive government transfer payments immediately, during routine and emergency times. This will also improve liquidity for merchants and suppliers that work with the government, and open up a new financial channel for the government's activities as a back-up for traditional payment systems.

The development of faster payments with the accepted international standard (ISO 20022)

The Bank of Israel supports the development of a faster payments infrastructure based on ISO 20022, the global standard for financial messaging adopted by payment systems worldwide, which will expand the range of payment options in the payments array. In a letter dated February 2019, the Bank of Israel listed the preliminary conditions for the launch of the faster payments service, and in March 2020 the Bank issued a letter listing the requirements for MASAV and its system participants. This letter also determined that by October 2020, MASAV was required to set out a program for the implementation of a comprehensive ISO 20022 compliance solution. In March 2021, the Bank of Israel announced that MASAV and its payment system participants must prepare to adopt the ISO 20022 standard in its entirety by the end of 2023. In January 2022, the Banking Supervision Department sent MASAV and its system participants a follow-up letter regarding the payments system, instructing them to prepare to allow their customers to make faster payment requests (R2P) according to ISO 20022 and that by the end of 2023, it must be able to receive requests for response (R2R) through the faster payments infrastructure developed by the company.

Cross-border payments

In 2022, the Payment and Settlement Systems Department commenced an assessment of the extent to which Israel meets the tests of the Financial Stability Board (FSB) and the Bank for International Settlements (BIS), allowing it to expand cross-border payments and increase their speed and availability at a lower cost.

[17] The Regulation of Payment Services and Payment Initiation Law, 5783–2023was enacted as part of the Economic Arrangements Law for the Year 2023–2024. The aim of the law is to regulate engagement in payment services and to set out uniform requirements for entities to provide payment services in a manner that is consistent with the technological developments in the payment services field while affording wider consumer protection and encouragement of competition in the payment services sector in Israel. The law completes the licensing regime for various types of financial services: credit, services involving financial assets, and now—payments. The new directives require entities involved in various financial services to examine the need to obtain a payment services licenses in addition to their other licenses, because possession of a financial license does not constitute an automatic exemption from the requirement to obtain a payment services license.

At the same time, the Department held a series of discussions with various government ministries to discuss the option of making it possible to receive salary payments through a payment account that is managed by a nonbank entity. This proposal was made as part of the Legislative Memorandum accompanying the Regulation of Payment Services and Payment Initiation Law, 5783–2023, in response to the emerging needs expressed by fintech firms that make cross-border payments available to foreign workers in Israel. The amendment to the Wage Protection Law, 5718–1958 was finally included in the Regulation of Payment Services and Payment Initiation Law, making it possible to deposit wages into a payment account managed at a payment company as well.

Development of the payment and settlement systems

Upgrading the ZAHAV system

ZAHAV, a critical real-time gross settlement (RTGS) system that makes intraday payment settlements, is the major system that supports the economy's payments array and constitutes the final settler of all Israeli currency payment systems in the economy. The ZAHAV system provides final settlement of payments in the retail clearinghouses operated by MASAV, SHVA, the Tel Aviv Stock Exchange, and the Bank of Israel. In July 2022, a major upgrade project to replace the core of the ZAHAV system at the Bank of Israel was completed. In the 3.5 years of this project, all stakeholders were active, significant participants who contributed to the success of the project and to the achievement of the following goals:

- Strengthening the stability of the ZAHAV system and its components;
- Preparation for financial technological innovation;
- Addition of advanced tools and new features to the system;
- Addition of an option to adapt the system to international standards (ISO 20022);
- Advanced solutions to increase competition in the economy and grant access to nonbank entities;
- Enhancement of business continuity;
- Reduction of risks;
- Improvement of user experience, including an advanced data production module.

Convenient, efficient, and safe payment systems are an important component of every advanced financial economy, and the upgrades to the ZAHAV system enable a more highly developed financial market that encourages competition and reduces consumer costs. In recent years, the Payment and Settlement Systems Department put in place the necessary technological infrastructure and regulatory framework with the aim that Israel will be a global leader in this field.

The upgraded system also addresses the principles drafted by the Committee to Increase Competition in Common Banking and Financial Services (the Strum Committee).[18] One important element is the requirement that the existing clearinghouses must have the ability to incorporate new service providers

[18] The Committee to Increase Competition in Common Banking and Financial Services, known as the Strum Committee, was a public committee headed by Attorney Dror Strum, former Antitrust Commissioner. The Committee was established in June 2015 by the Minister of Finance Moshe Kachlon and Governor of the Bank of Israel Karnit Flug, to examine ways of increasing competition in banking services in Israel by admitting new competitors to the market, including by detaching the ownership of credit card companies from the banks and other supplementary steps.

including new clearinghouses that join the market and increase market competition. The upgrade project was conducted in conjunction with the Bank of Israel's Information Technology Department. The system includes upgraded components and additional advanced tools and features, including an interface to the faster payments system, support of international standards including preparations for the adoption of ISO 20022, reinforced defenses against the increasing cyber threats to the payments landscape, and preparations for multicurrency settlement.

Adoption of the ISO 20022 standard in the ZAHAV system

ISO 20022, which has been adopted on a global scale by payment systems operators, banks, and payment service providers, makes it possible to enrich payment messages with extensive information, and facilitates the emergence of new business models and new automated and rapid processing methods. It will ultimately lead to more rapid and transparent cross-border payments for everyone, at a lower cost.

The adoption of the new standard in cooperation with the banking system and the ZAHAV system participants is designed to increase technological and financial innovation, add advanced tools and new features to the ZAHAV system, encourage compliance with international standards, and create an advanced framework for the banking system and ZAHAV system participants. In addition, there are plans to adopt messaging structures based on technological files to be supplied to the ZAHAV system from SWIFT[19] by its solution provider (Montran)[20], adopt of the international standard, and install the ability to transfer and settle messages by ZAHAV system participants according to ISO 20022, while offering advanced business model options.

Payment messages in the ZAHAV system currently use the legacy MT standard that was developed in the 1970s and fit the technology of the time. In 2018, SWIFT adopted ISO 20022 as an alternative to MT in order to match payment messages to modern cutting-edge technology and address the needs of financial entities around the world. The new standard makes it possible for a payment message to contain rich, structured data, and thereby contributes to the transfer of such information to ZAHAV system participants and their customers, improves automated compliance with the Prohibition of Money Laundering Law 5760¬–2000, and assists in compliance with the international standard for payment systems. The migration period for the adoption of ISO 20022 commenced in March 2023 and will end in November 2025. By that time, all SWIFT participants will be obligated to send payment messages using the new standard.

Although SWIFT exempts RTGS systems (such as the ZAHAV system in Israel) from the requirement to adopt ISO 20022, the Bank of Israel, as a leading bank at the forefront of the payments world, wishes to achieve technological and financial innovation, add advanced tools and new features to the ZAHAV system, meet international standards, create an advanced framework for the banking system and ZAHAV participants in Israel, and serve as a partner to central banks and financial entities worldwide that adopt the new standard.

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[19] SWIFT – the Society for Worldwide Interbank Financial Telecommunication is an international clearing house through which information is transmitted among various financial institutions such as banks. Most of the interbank communication in the world today is executed through SWIFT services.

[20] Montran provides infrastructure solutions and payment hubs for central and commercial banks worldwide. Montran has over 200 installations in more than 80 countries and is a SWIFT solution provider. Montran payment systems are SWIFT-approved applications.

The project is conducted in close cooperation with ZAHAV system participants in Israel, and is overseen by ISO standard experts from SWIFT. Additional stakeholders will be able to join the project in the future.

Connecting the supervised payment systems to the ZAHAV system

As part of the implementation of the loss-sharing arrangements in the supervised payment systems, the Bank of Israel worked with Payment Card and ATM system operators to advance their direct connection to the ZAHAV system. The Payment Card, ATM, and Debits Credits and Transfers systems were also instructed to use SWIFT when operating vis-a-vis the ZAHAV system.

Connecting Correspondence Services Ltd. to the payment systems

On May 17, 2022, the Ministry of Finance published the Legislative Memorandum of the Correspondence Services Law 5782–2022[21] for public comments. The Memorandum implements the recommendations of the interministerial team that examined payment activity alternatives between Israel and the Palestinian Authority, in response to the May 2016 notice by the correspondent banks in Israel of their intention to discontinue the provision of these services to Palestinian banks due to the increased risks entailed in their continued provision. The team's recommendation, which was adopted in 2018 by the Diplomatic and Security Cabinet, was to establish a government company directly controlled and wholly owned by the State of Israel to represent the Palestinian banking system in the payments space in Israel. Following this recommendation, and in view of the importance of providing a long-term solution for ongoing correspondence services to banks operating in the Palestinian Authority, and in view of the monetary and financial arrangements stipulated in Section IV of the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip[22], the government decided on October 21, 2018 (Resolution no. 4207) to establish the Correspondence Services Company Ltd. This resolution was subsequently amended on June 12, 2022 (Resolution no. 1608). The Legislative Memorandum was designed to regulate operational and supervisory aspects of the Correspondence Services Company Ltd., which would provide Palestinian banks with representation services in the Israeli payments system in order to settle checks and vouchers and perform bank transfers as well as cash operations services. The main operational and supervisory aspects covered in the Memorandum are:

- Setting out that the Bank of Israel will be permitted to manage an account for the company on such terms as determined by the Governor of the Bank of Israel;
- Authorizing the Governor of the Bank of Israel to determine that rules concerning the proper operations of the currency system that apply to banking corporations and the Postal Company will also apply to the Correspondence Services Company Ltd.;
- Application of a money laundering and terrorism financing prohibition regime that is similar to the regime that applies to other financial entities;
- Granting the Governor of the Bank of Israel and the Supervisor of Banks supervisory authority over the Correspondence Services Company Ltd. in this field, including the authority to determine its duties and impose monetary sanctions.

[21] Legislative Memorandu6tm (in Hebrew).
[22] Appendix to the interim agreement (in Hebrew)

In accordance with the government resolutions and the Legislative Memorandum, in the past two years, the Bank of Israel and the Payment and Settlement Systems Department have been preparing to connect Correspondence Services Ltd. to the payment systems upon completion of the legislation. These preparations are a necessary condition for approval of the connection process and commencement of the company's operations. The preparations include making adjustments to regulations and rules, communicating the connection requirements to the company, and overseeing the company's specification process before acceptance testing and tests conducted by the payment systems' operators and participants.

In the meantime, until the conditions for starting the company's activity are complete, the Attorney General and the Accountant General in the Ministry of Finance are granting Israeli banks that provide correspondence services to Palestinian Authority banks (in accordance with the Ministerial Committee on Defense decision from July 15, 2017) with immunity from prosecution and indemnity against suits. The immunity and indemnity statements were later extended in accordance with repeated decisions of this ministerial committee. The most recent extension having been issued on June 27, 2024, and will remain valid until October 31, 2024.

Testing and advancing future means of payment and technologies that increase the efficiency of payment processes

Digital debit orders (digital checks)

The Bank of Israel attributes great importance to developing the payments space and introducing new means of payment to the economy. Digital debit orders (digital checks) are designed as an alternative to physical checks, which are defined as paper-based means of payment. A digital debit order is more than just a digital replacement for a physical medium. It constitutes yet another layer in the development path toward an economy that is more digital and more efficient. This new means of payment will provide an advanced, efficient solution for the execution of direct debits, and a fully digital alternative to paper-based checks. The transition to digital debit orders offers significant advantages over paper-based checks:

- Paper-based checks require a physical process that makes payments more difficult. The payer must order checkbooks, manually enter the information on the check, and give the physical check to the beneficiary, and the beneficiary must safeguard the check until the date on the check. A digital debit order streamlines the process, reduces and even prevents loss and forgery, and speeds up the payment and settlement process.
- A considerable proportion (81 percent) of returned checks are due to errors related to the paper-based nature of checks. The transition from paper to a digital medium makes it possible to reduce and prevent almost all incidents of returned checks for technical reasons, such as inappropriate date, mismatch between the signature on the check and the signature in the bank's records, mismatch between digits and words, etc., and can therefore reduce the number of returned checks, whose value totals tens of billions of shekels every year.
- In the past decade, approximately 3 percent of the total value of all check-based payments was not honored. In 2022, 2.27 million checks were returned, including NIS 1.73 million checks, totaling NIS 32.1 billion and accounting for 4.3 percent of all checks cleared in the system, that were returned for technical

reasons. In 2023, checks returned for technical reasons totaled NIS 26.2 billion, and accounted for 3.5 percent of all checks cleared in the system.

- Post-dated digital debit orders will retain the same advantages as transactions involving post-dated checks. For customers, the advantages are credit that is both interest-free and not counted against one's credit facility. For merchants, a post-dated payment sometimes facilitates a transaction that otherwise would not be made, the order can be endorsed to a third party, and can be discounted to obtain financing. In 99 percent of cases, post-dated checks are cashed when presented on the date on the check. A deferred digital debit order is expected to retain the endorsement and discounting features that are significant for financial conduct, especially for merchants.

In November 2020, the business principles of digital debit orders were presented at a professional webinar attended by representatives of the banks, nonbank financial entities, fintech companies, and the financial sector. The webinar was also open to the public. In the first half of 2021, the Checks Clearinghouse Committee approved the use of digital debit orders, after having studied a merchant specification document that clarified the business features of the new means of payment.

In the first half of 2022, the Bank of Israel issued a call for public consultation on the technological specifications of the digital debit order — the new means of payment in Israel that constitutes a digital replacement for paper-based checks. After reviewing the public's comments, a market committee was established jointly with the banking system and nonbank actors to develop the technological specifications of digital debit orders. The technological architecture was written concurrently with steps taken in other legal, regulatory, and business channels (adjustments to the business process book); preparations for financial education and public information programs; and behavioral economics research aimed at understanding how to motivate the public to transition to the use of digital debit orders (digital checks).
In addition, the Payment and Settlement Systems Department is collaborating with the Bank of Israel Research Department and the Capital Market, Insurance and Savings Authority to examine the check discounting field in Israel and the effect of the transition to digital checks on this field.

The digital shekel

Central Bank Digital Currency (CBDC) is a digital means of payment that represents a central bank liability toward the holder of the currency. In 2017, the Bank of Israel commenced the study and assessment of this issue and in 2018, the Steering Committee on the Potential Issuance of a Digital Shekel, led by the Deputy Governor of the Bank of Israel, published an initial report on its examination of the issue of central bank digital currencies.[23] In 2021, it published a further report on potential benefits of CBDC, a draft model, and issues to examine further.[24]

Similar to the situation in other countries, the Bank of Israel has not yet made a decision to issue digital currency, and the project is focused on preparing an action plan that can be executed in the future if the Bank concludes that the benefits of a digital currency outweigh its risks and costs, and that the time has come to issue a digital shekel.

[23] Initial report of the team for the examination and study of central bank digital currencies.
[24] Report on potential benefits, draft model, and issues to examine further.

In an era in which an increasing number of economic transactions have become digital but cannot be supported by the traditional cash issued by the central bank, the digital shekel, if issued, could support the public's digital financial and economic activities using a currency that also constitutes a central bank liability. In 2021,the Steering Committee published a document[25] that described the six main incentives for issuing a digital shekel: (1) to create an efficient, advanced, and safe alternative for existing and new means of payment in the digital age; (2) to create an innovative infrastructure that ensures that the payments array can meet the economy's future needs; (3) to ensure the redundancy of the payments system and its proper functioning in emergencies or in the event of a malfunction; (4) to create efficient and inexpensive infrastructure for cross-border payments; (5) to retain the public's option of using digital means of payment while protecting their privacy; (6) to support the government's policy to reduce the use of cash, in the interests of the economy.

Theoretically, if the public widely adopts the digital shekel and elects to hold it instead of a considerable proportion of its deposits in the banking system, it may threaten the banking system's liquidity and stability and impair its ability to function effectively as a financial intermediary.[26] The issuance of a digital shekel carries other potential risks including cyber-risks, operational risks, and reputational risks for the central bank. Careful technological planning of the digital shekel will reduce and hedge against the risks, while ensuring that the digital shekel is accepted[27] and generates value for the public and the economy as a whole.

The project team is currently preparing a detailed plan for the digital shekel as the basis for a broad discourse with the ecosystem in Israel and with the technology sector before moving toward a decision on the potential issuance of a digital shekel.[28] The Steering Committee has mapped the potential factors that might lead to such a decision.[29]

Alongside an inquiry into the benefits and risks and the planning process, the project team is also conducting technological tests, both to study various technological alternatives that might assist in the issuance of the digital shekel and because such tests enrich the research process and the planning process. In 2021, the Bank of Israel constructed a test environment and in 2021 and 2022 it tested various potential capabilities and features of the digital shekel.[30] Some of these tests were conducted in collaboration with other central banks and with the BIS Innovation Hub. The Icebreaker Project, in conjunction with the central banks of Sweden and Norway and with the BIS, proposed a new architecture for cross-border payments using central bank digital currencies.[31] The Sela Project, in conjunction with the Hong Kong Monetary Authority and the BIS, showed that a central bank digital currency can enable accessibility, cyber-security, and competition while maintaining some of the features of cash.[32] Currently, the "Digital Shekel Challenge" is underway, inspired by the BIS Innovation Hub's "Project Rosalind", which focuses on examining an API layer that provides a set of functionalities that will enable payment services providers and other providers to connect to the digital shekel system and offer innovative payment solutions to end users. There are 14 participants in the Challenge, developing use cases based on the technological format built for the challenge.

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25 A Bank of Israel Digital Shekel: Potential Benefits, Draft Model and Issues to Examine.
26 The Potential Effects on the Israeli Banking System of Issuing A Digital Shekel.
27 Principles for Creating "Acceptance" and "Network Effect" for a Digital Shekel.
28 Presentation: The Digital Shekel Project.
29 Possible Scenarios for Deciding to Issue a Digital Shekel.
30 Technological Experiment on a Distributed Platform.
31 Concluding Report of the Icebreaker Project.
32 Concluding Report of the Sela Project.

The Bank of Israel has published a dedicated page on its website[33] containing extensive information on the digital shekel project, including reports, summaries of discussions of public participation forums, and Q&As.

Stablecoins[34]

The Bank of Israel is leading a team that is studying cryptocurrency activity, with an emphasis on formulating principles for the operation of stablecoins that have the potential to serve as common means of payment and that may have a future impact on the Bank of Israel's functions with regard to maintaining financial stability, the conduct of monetary policy, and the proper functioning of the payment systems.

The work team examining cryptocurrency activity looked at several aspects of this issue: regulation in Israel and around the world; stability; and monetary, consumer, technological, and legal issues. After comments from regulatory entities, financial entities, merchants, and individuals from Israel and around the world were received and studied, a document on regulatory principles for stablecoin activity is expected to be published later in 2024, and will include the following recommendations:

- Create a distinction in law between different types of digital assets and create uniform definitions for use by the various regulatory entities;
- Regulation of digital assets must be sufficiently flexible to ensure that it can be adapted to the rapid developments in this field;
- Establishment of mechanisms to coordinate between regulatory entities and define a gradual transition between regulatory entities.

Digital identification

In the service world in general, and specifically in the fields of financial services and payments, the ability to identity the user of a service is a critical and integral part of the ability to provide the service itself. First, the service provider must make a record of the customer and their identifying details. Next, at every service provision event, the service provider must identity that customer to verify that the correct customer receives the service and the correct customer is charged for the service. In the past, customers would identify themselves using a physical factor. As the economy moved toward greater digitalization, service providers increased their use of digital means to verify their customers' identity, which makes the verification process easier and more convenient for the customer, increases accuracy, prevents fraud, reduces costs, and increases efficiency in the economy. In addition, digital verification facilitates the entry of new participants that seek to compete with longstanding participants with large historical identity databases that ease customer verification and registration in the onboarding process and gives the latter participants an inherent advantage. In view of the benefits of digital customer verification in the financial sector, which includes the payments space, the Payment and Settlement Systems Department collaborated with several public and private sector entities to promote advanced digital customer verification in Israel. This initiative includes the study of methods used worldwide in national digital verification projects and

[33] Information Sheet – The Digital Shekel Project.

[34] A stablecoin is a digital currency that operates on a technological infrastructure and has a value that is stable relative to some asset. Its issuer operates a mechanism that maintains the stability of the currency's value.

creating connections between participants from diverse fields in Israel that have an interest in promoting this topic.

Interministerial team to promote the government's transition to digital means of payment

The Payment and Settlement Systems Department and several government ministries established a work team to promote the digitalization of government payments. Their work is based on the understanding that the government constitutes the country's largest merchant, largest payer, largest beneficiary, and largest service provider. As such, the government can play a leading role as a catalyst in the economy's transition to digital means of payment.

Activity in the payment and settlement systems during the Swords of Iron War

Prior to the outbreak of the Swords of Iron War, the Payment and Settlement Systems Department worked on several levels to strength the economy's stability and efficiency in the payments space, including the use of remote means of payment, information security, business continuity, and national resilience by increasing the number of financial participants in the economy whose operations focus on the payments space. After the outbreak of the war, these goals became even more important, as the continuous operations of the payment systems is critical for economic functioning. Since the beginning of the war, the Payment and Settlement Systems Department has been working in an emergency format, conducting frequent status assessments with various market participants. Together with the participants in the payments ecosystem, the Department established designated emergency forums in order to share, oversee, and develop solutions for various scenarios, while continuing to advance the proper functioning of the payment systems.

The state of emergency in which Israel currently finds itself is having a significant impact on the payments-related behavior of consumers and merchants. The Bank of Israel is taking steps to allow consumers and merchants to regularly use remote means of payment without needing to be physically present in order to finalize a transaction, and to ensure that the payment systems continue to operate and provide the full range of services at a high degree of availability with optimal defenses in place. These steps affect all the participants in the ZAHAV system and the Paper-Based (Checks) Clearinghouse operated by the Bank of Israel, the payment card services system and the ATM system operated by SHVA, and the credits, debits, and payment transfers system operated by MASAV. The Payment and Settlement Systems Department continues to take steps in these challenging times to help promote competition in the financial sector.

Availability of the payment systems during the war – continuity of regular operations

The strength of the payment systems is essential for the functioning of the financial system, and serves as a stable foundation for efforts to promote competition in the financial sector. Since the beginning of the war the Bank of Israel has taken multiple steps to achieve its goals and ensure full (100 percent) availability of all payment systems, both those operated by the Bank of Israel, and those that it supervises. Even in global terms, compared to similar payment systems operated by central banks around the world, the payments system in Israel operates in a stable and strong manner.

In 2023, all controlled payment systems and systems operated by the Bank of Israel showed very high availability and stability levels:

1. The ZAHAV system – availability level of 99.905 percent.
2. Credits Debits and Transfers system operated by MASAV – availability level of 100 percent.
3. ATM system – availability level of 100 percent.
4. Payment cards system – availability level of 100 percent.
5. Paper-Based (Checks) Clearinghouse – availability level of 100 percent.

Raising the ceiling for checks deposited on mobile apps from NIS 50,000 to NIS 100,000[35]

The option of depositing a check using a mobile app is routinely used by many customers and obviates the need to physically present the check at the bank branch. Increasing the maximum amount of a check that may be deposited on a mobile app allows customers to deposit large checks wherever a cellular communications network or Internet connectivity are available. The Bank of Israel estimates that the public will now be able to deposit an additional 1.65 million checks of between NIS 50,000 and NIS 100,000 every year (an average of 137,000 checks each month) without having to travel to their bank branch, during the war and thereafter. This measure contributes to business continuity in the economy, increases the speed and convenience of the check deposit process, and reduces related costs.

Extension of IS, cyber-defense, and business continuity standards in the payment card space[36]

The Payment Card Committee, headed by the Payment Systems Oversight Unit of the Payment and Settlement Systems Department at the Bank of Israel, agreed on basic standards of information security, cyber-defense, and business continuity in Israel's payment card ecosystem. These standards were determined after consulting with several entities including the National Cyber Directorate and the financial Computer Emergency Response Team (CERT), in an effort to balance the need to support the continued technological development of the payment card market in Israel and the need to ensure the proper operations of these cards. The standards will effectively serve as conditions of the operations of all participants in the payment card transaction chain.[37]

The understandings will apply to all business participants in the payment card field, and will be adopted within one year of their publications, although participants are urged to adopt the principles as soon as possible in order to strengthen national resilience during wartime. These standards also apply to unsupervised technological participants that, in recent years, have become active and essential in payment

[35] https://www.boi.org.il/en/communication-and-publications/regular-publications/overview-of-the-payment-and-settlement-systems-red-book/c19-11-23

[36] https://www.boi.org.il/en/communication-and-publications/regular-publications/overview-of-the-payment-and-settlement-systems-red-book/e19-11-23

[37] The National Cyber Directorate was established in 2017 as a collaboration between the National Cyber Defense Authority at the Ministry of Finance and the National Cyber Bureau at the Office of the Prime Minister. The Directorate operates 24/7 as an integral part of Israel's Computer Emergency Response Team (CERT-IL), whose goal is to ensure a national response to cyber risks and the functional continuity of Israel's financial system, focusing on key financial processes, as defined by the regulators. The Directorate leads collaborations to protect the financial sector in Israel by connecting government entities, defense agencies, and leading commercial entities in Israel and abroad on issues of cyber security and financial continuity.

card transactions, and are added to the standards and requirements that already apply to traditional participants in this field.

Allocation of identification codes to nonbank payment service providers[38]

During the war, various entities around the world sought to use the infrastructure of global technology companies to transfer donations and funds to recipients in Israel such as nonprofit organizations that extend assistance to IDF soldiers, people evacuated from their homes, the general public, and families affected by the security situation. The Bank of Israel is also aware of the need to improve the customer experience and payment process in certain scenarios. In this spirit, and with the aim of increasing competition and efficiency in the payment systems, the Payment Systems Oversight Unit set up identification codes for the following fintech companies that are in the process of connecting in order to participate in Israel's payment systems[39,40]:

- "Grow" by Meshulam Payment Solutions Ltd.
- Global Remit Currency Services Ltd.
- A.T.M.S Matrix Ltd.
- Neema Shefa Ltd.[41]
- Rewire ASG Research and Development Ltd. by Remitly[42]
- GMT Tech Innovation Ltd.[43]
- V-Check Ltd.[44]
- Revolut Ltd.
- 019 Payment Services Ltd.

Expansion of financial sector identification codes by the end of 2026[45]

Extending the use of identification codes in the financial sector will allow a greater number of entities to operate in the payment systems and in related systems. The "financial sector identification code" (previously known as a "bank code") is now two digits, which limits the number of participants to 99.

The Bank of Israel deferred the target date for implementation to 2026 and issued a call[46] inviting the public and appropriate financial entities to submit their comments on the anticipated extension.[47]

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38 https://www.boi.org.il/en/communication-and-publications/press-releases/a19-11-23.

39 https://www.boi.org.il/en/communication-and-publications/regular-publications/overview-of-the-payment-and-settlement-systems-red-book/g19-11-23.

40 https://www.boi.org.il/en/communication-and-publications/press-releases/allocation-of-an-identification-code-to-a-nonbank-payment-service-provider-neema-shefa-israel-ltd.

41 https://www.boi.org.il/en/communication-and-publications/press-releases/allocation-of-an-identification-code-to-a-nonbank-payment-service-provider-neema-shefa-israel-ltd.

42 https://boi.org.il/en/communication-and-publications/press-releases/17-4-2024en.

43 https://boi.org.il/en/communication-and-publications/press-releases/allocation-of-identification-codes-to-nonbank-payment-service-providers-gmt-tech-innovation-ltd-gmt-v-check-ltd.

44 https://boi.org.il/en/communication-and-publications/press-releases/allocation-of-identification-codes-to-nonbank-payment-service-providers-gmt-tech-innovation-ltd-gmt-v-check-ltd.

45 https://www.boi.org.il/en/communication-and-publications/regular-publications/overview-of-the-payment-and-settlement-systems-red-book/m19-11-23.

46 https://www.boi.org.il/media/1jkoepdj/call-for-public-consultation-on-id-code-expansion.docx.

47 An announcement on the expansion to identification codes will be issued in 2024.

Opening the market to acquirers that hold a foreign operating license[48]

During the war, to address the needs of the economy, the Bank of Israel announced that it would permit international acquirers whose operating license was issued by the UK, an EU country, or the US, to begin the process of joining the test environment of the payment card services system operated in Israel by SHVA, before commencing acquiring activities and even before they submit an application for a license to operate as an acquirer in Israel. This move is designed to reduce the time required to connect foreign acquirers to the payment systems.

Publication of the fees and implications of participating in the ZAHAV system, including for nonbank entities[49]

During the war, the Bank of Israel issued a document addressed to entities interested in becoming participants in the ZAHAV (RTGS) system. The document clarifies the process for potential new participants by providing information on the implications of participation, the conditions and requirements, new participant fees, and use of the system. This is one more step in the series of measures taken by the Bank of Israel to open the financial market to competition, increase its stability, and increase the number, diversity, and substitutability of ZAHAV participants.

Esh Bank joins the ZAHAV system

Esh Bank is a new bank that has been in the process of establishment for several years. In December 2022 it received a temporary license from the Bank of Israel, and during the war, in November 2023, it joined the ZAHAV system.

Revision to provisional license of Ofek Credit Union and its anticipated participation in the payments system

Ofek is a credit and deposit union that is in the process of joining Israel's payment systems. The Payment and Settlement Systems Department is overseeing Ofek's process of connecting to the systems, and maintains ongoing contact with its supervisor—the Capital Market, Insurance and Savings Authority—and with the operators of the controlled systems, in order to assist Ofek in the connection process.

The Payment and Settlement Systems Department at the Bank of Israel continues to supervise and monitor the payment systems in Israel, and to adjust policy to the changing circumstances to ensure the continued stability of the payment systems and their participants. The Department also continues to initiate specific measures to support the economy and the public in coping with the financial implications of the war and to help the public come out of the war stronger, more stable, and more secure than ever.

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[48] https://www.boi.org.il/en/communication-and-publications/regular-publications/overview-of-the-payment-and-settlement-systems-red-book/i19-11-23.

[49] https://www.boi.org.il/en/communication-and-publications/regular-publications/overview-of-the-payment-and-settlement-systems-red-book/k19-11-23.

CHAPTER 2
TRENDS IN THE PAYMENT SYSTEMS AND MEANS OF PAYMENT

ZAHAV System

System availability

- **2021:** 99.977 percent
- **2022:** 99.985 percent
- **2023:** 99.905 percent

In 2022,
About 1.906 million transactions
were settled in the ZAHAV system, totaling
about NIS 353 trillion.

The quantity of interbank transactions increased by **about 0.9 percent** in 2022 relative to 2021, and the value of such transactions increased by **about 25 percent**.

Customer activity in the ZAHAV system increased markedly, **by roughly 82 percent, between 2018 and 2022**, both in the quantity of transactions and in their value. The quantity of transactions increased by **21 percent between 2021 and 2022**, and the value of transactions increased by **19 percent** in that time.

As of the end of 2022, **the daily average settlement in the ZAHAV system was about 7,700 two-party and multiparty transactions, totaling about NIS 1,430 billion.** This is compared to an average of about 1,800 transactions per day in 2014, with a cumulative average daily total of about NIS 289 billion. Most of the increase in the quantity of transactions is attributed to customer transactions: an annual increase of about 14 percent in transaction totals and of about 9 percent in quantities between 2021 and 2022. The increase in customer transaction totals between 2014 and 2022 was NIS 1,236 billion (72 percent), out of a total increase of NIS 4,120 billion between those two years.

Systems operated by MASAV

- **2021:** 99.999%
- **2022:** 99.997%
- **2023:** 100%

Paper-Based (Checks) Clearinghouse

- **2021:** 100%
- **2022:** 100%
- **2023:** 100%

SHVA ATM system

- **2021:** 100%
- **2022:** 99.977%
- **2023:** 100%

SHVA payment cards system

- **2021:** 99.999%
- **2022:** 100%
- **2023:** 100%

CHAPTER 2 - TRENDS IN THE PAYMENT SYSTEMS AND MEANS OF PAYMENT

In principle, the Israeli economy is in a gradual transition from paper-based to digital means of payment, in line with a similar trend in many countries. These trends are occurring partly in response to regulatory rules in those countries and in Israel. The Bank of Israel monitors trends through data reports prepared by the system operators and through surveys of customers and merchants that the Bank of Israel conducts.

Surveys related to payments

A customer survey of the use of various means of payment has been conducted every two years since 2016, and the feedback received in these surveys helps identify the public's behavioral patterns and preferences. Due to the importance of these surveys as a resource in the efficient functioning of the Payment and Settlement Systems Department, the frequency of these surveys was increased. As a result, two statistical samplings were conducted in 2022, and again in 2023. The repetition of items that appeared in earlier surveys, in combination with comprehension questions, makes it possible to understand the developments and trends in public attitudes regarding means of payment and their use. From time to time, questions relating to the Department's projects are included in the surveys. For example, questions regarding digital debit orders (digital checks) were added in order to gain an understanding of the public's needs and ensure that the business model of this new type of means of payment provides an optimal solution to these needs.

The surveys assist in segmenting the population by various features—sector, religion, gender, age, etc.—in order to understand the needs, motivations, and barriers encountered by each group and by the population as a whole. The main survey addresses "Preferences in Use of Means of Payment", and examines preferred means of payment, but not their actual use. From time to time expense ledger surveys are conducted to examine actual uses. The difference between these surveys makes it possible to understand the obstacles that various population groups experience in using digital/novel means of payment, and on the basis of this information it is possible to plan appropriate solutions for the market's needs. The Payment and Settlement Systems Department wishes to achieve the broadest possible financial inclusion in the Israeli population by resolving concerns and encouraging the use of digital means of payment.

Since 2022, preference surveys have been distributed to individuals, whose responses reflect their personal preferences, and to small business owners and sole proprietorships, who respond to the questions from the merchant's perspective and not as individuals. Respondents respond both as payers and as beneficiaries.

Surveys conducted since 2022:

		Sampled activity	
		Payer	Beneficiary
Sampled population	Consumer	✓	✓
	Merchant	✓	✓

With respect to the methodology of the preference surveys: The most recent survey, which was conducted in February 2023 and the results of which were published in January 2024[50], was an online survey of a random national representative sample of the Israeli population between the ages of 18 and 74 who are connected to the Internet. All sectors of the population were sampled, based on the distribution used by the Central Bureau of Statistics in its reports, as were all geographic areas. The sample included 1,200 individuals who responded to the questions as payers in a transaction. Of these, 1,000 continued to answer questions as payment recipients in a transaction. The business owner sample included 600 business owners who responded as payers, of which 500 also responded as payment recipients. The questions refer to the respondent's preferred means of payment by frequency of use, type of use (e.g., grocery shopping, allowances) and transaction amount (e.g., NIS 1–20), perceived convenience or inconvenience of each type of means of payment, and the main reasons for these perceptions. The results of these surveys are an important source of information for the future policymaking efforts of the Payment and Settlement Systems Department. Below are the main results of the October 2023 survey, which focused on two payment apps: Bit and Paybox:



42 percent[51] of the funds transferred through these apps are payments to businesses for services and products (P2B – person to business).



Payment cards[52] and cash are the most popular means of payment rated by Israeli consumers and are most widely used. These are followed by bank transfers and payment apps.



Payment apps are considered one of the most convenient means of payment. Speed and convenience of use were rated by individuals and by businesses as the two most important features of means of payment. These features were cited more frequently by businesses.



The *Haredi* (ultra-Orthodox) and Arab communities report significantly lower preferences and actual use of payment apps than other population groups.



Education has little or no effect on use preferences and actual use of payment apps.



Most payment app users use payment apps regularly to make or receive payments and are not one-time users.



Preferences for payment apps increase when payment amounts are small. This result emerged both for individuals and for businesses as both payers and beneficiaries.



For businesses, the ability to control their revenues is an important consideration in the decision to use payment apps. Fees are an extremely important consideration, and businesses consider fees the main shortcoming of payment app use.



The payment app preferences of individuals and merchants are not significantly different.

50 "The Bank of Israel Publishes a Survey of Means of Payment Preferences in Israel".

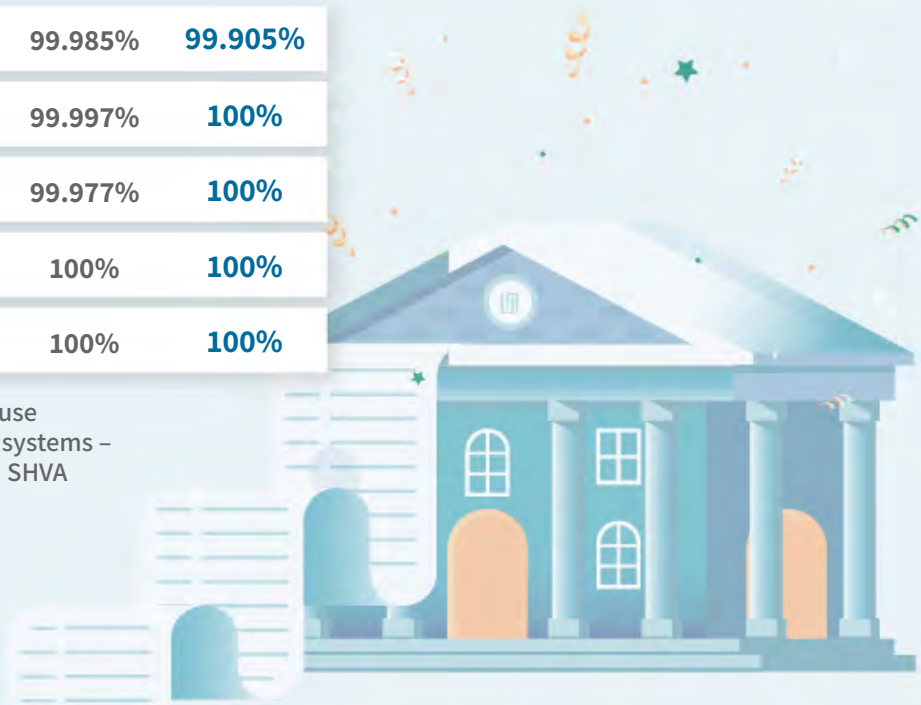
51 This figure is the weighted average calculated according to the market segment of the apps examined, based on the sampling results.

52 In the questionnaires, we used the term "credit card" in lieu of "payment card" because this is the popular term with which the public is more familiar.

Availability of the payments systems in Israel was close to 100 percent between 2021 and 2023

	2021	2022	2023
ZAHAV system	99.977%	99.985%	99.905%
MASAV system	99.999%	99.997%	100%
SHVA ATM system	100%	99.977%	100%
SHVA payment cards system	99.999%	100%	100%
Paper-Based Clearinghouse	100%	100%	100%

SOURCE: Paper-Based Clearinghouse and ZAHAV – Bank of Israel; Other systems – Based on reports from MASAV and SHVA



The ZAHAV (Real-Time Gross Settlement) system

The real-time credits and transfers system (ZAHAV) is Israel's real time gross settlement (RTGS) system, and is managed by the central bank, under the responsibility of the Payment and Settlement Department. Transactions in the ZAHAV system are final and settled in real time.

The ZAHAV system allows individuals and businesses to make money transfers that are settled immediately, finally, and safely. The ZAHAV system serves as the final settler of all payment and settlement systems in Israel. The ZAHAV system currently has 20 settlement participants[53], including the commercial banks, the Continuous Linked Settlement system (CLS), the Bank of Israel, the Postal Bank, and the Stock Exchange Clearinghouses (Securities Clearinghouse and MAOF Clearinghouse). In addition, payment systems operating in the ZAHAV system include: the MAOF Clearinghouse, the Securities Clearinghouse, systems operated by MASAV, the Payment Card System and the ATM system operated by SHVA, and the Paper-Based (Checks) Clearinghouse. The system has been opened to nonbank entities, which are expected to join soon.

In the ZAHAV system, there is no delay between the execution of a payment order and its approval, which protects beneficiaries against multiple risks. Immediately when a transfer is made, ZAHAV system users know that the payment they received is final and cannot be cancelled, in contrast to other means of payment.

Due to the ZAHAV system's significant role in the economy, its stability is carefully assessed using various indices, including the system's excess liquidity, its availability, and the concentration of its participants. Excess liquidity in the ZAHAV system is measured as the difference between the intraday average in the settlement accounts and the total payment orders in the system. The average intraday excess liquidity in the system was about NIS 263,639 million in 2021, and about NIS 290,320 million in 2022. The degree of concentration in the ZAHAV system[54], in terms of total transaction value, was 84.29 percent in 2021 and 86.09 in 2022. The ZAHAV system has maintained a high level of availability[55] since 2007, which reflects the system's stability and supports its business continuity. System availability was 99.977 percent in 2021, and 99.985 percent in 2022, similar to the levels of RTGS systems worldwide.

In 2022, the ZAHAV system settled about NIS 1.906 million transactions totaling about NIS 353,175 billion. In 2021, the system settled about NIS 1.604 million transactions totaling about NIS 358,765 billion.

[53] As of August 2023.
[54] The market share of the five most active institutions.
[55] The number of hours in which the system was available as a share of the total hours of operations in the reviewed year. Availability refers to the operations of the settlement system itself, excluding the communication component.

Table 1: Activity in the ZAHAV system by component, 2008–2022

	Interbank[a]					
	Excl. CLS	CLS only	Total	Clearinghouses	Bank of Israel	Total
			Values (NIS billion)			
2008	5,894	508	6,402	7,506	7,966	21,874
2009	3,809	933	4,742	4,831	52,731	62,304
2010	4,575	1,097	5,672	4,294	65,818	75,784
2011	5,897	1,408	7,305	4,066	77,573	88,944
2012	5,109	1,606	6,715	3,515	69,637	79,867
2013	3,746	1,145	4,890	3,069	63,723	71,682
2014	3,675	1,119	4,794	3,012	71,527	79,333
2015	3,745	1,037	4,782	2,870	88,779	96,431
2016	3,615	1,006	4,621	2,835	108,919	116,375
2017	3,597	955	4,552	2,935	140,460	147,947
2018	4,300	1,102	5,402	2,818	145,199	153,419
2019	4,084	1,051	5,135	2,638	129,698	137,471
2020	5,071	1,228	6,299	4,828	228,875	240,002
2021	5,721	1,401	7,122	10,323	341,320	358,765
2022	7,311	1,603	8,914	11,027	333,234	353,175
Yearly change (percent)	**27.79**	**14.43**	**25.16**	**6.82**	**-2.37**	**-1.56**
			Transactions (units)			
2008	185,584	7,913	193,497	8,948	13,959	216,404
2009	156,430	10,427	166,857	9,398	21,394	197,649
2010	217,872	10,774	228,646	10,707	21,864	261,217
2011	305,138	10,813	315,951	11,068	22,591	349,610
2012	355,821	10,632	366,453	12,184	21,693	400,330
2013	406,627	10,871	417,498	10,768	20,602	448,868
2014	471,592	11,765	483,357	10,206	20,690	514,253
2015	562,205	12,002	574,207	8,668	20,423	603,298
2016	826,565	13,070	839,635	8,516	19,359	867,510
2017	965,742	12,211	977,953	8,449	19,528	1,005,930
2018	1,092,482	13,324	1,105,806	8,203	19,389	1,133,398
2019	1,304,276	13,166	1,317,442	8,589	18,133	1,344,164
2020	1,315,946	13,516	1,329,462	10,939	17,895	1,358,296
2021	1,561,555	13,139	1,574,694	11,272	18,147	1,604,113
2022	1,864,320	12,981	1,877,301	9,827	18,722	1,905,850
Yearly change (percent)	**0.89**	**2.66**	**0.91**	**27.36**	**-1.31**	**1.05**

[a] Shekel activity in CLS began on May 26, 2008.
SOURCE: Bank of Israel

Table 1 indicates that in 2022 the number of interbank transactions increased by about 0.9 percent relative to 2021, and total transaction value increased by about 25 percent.

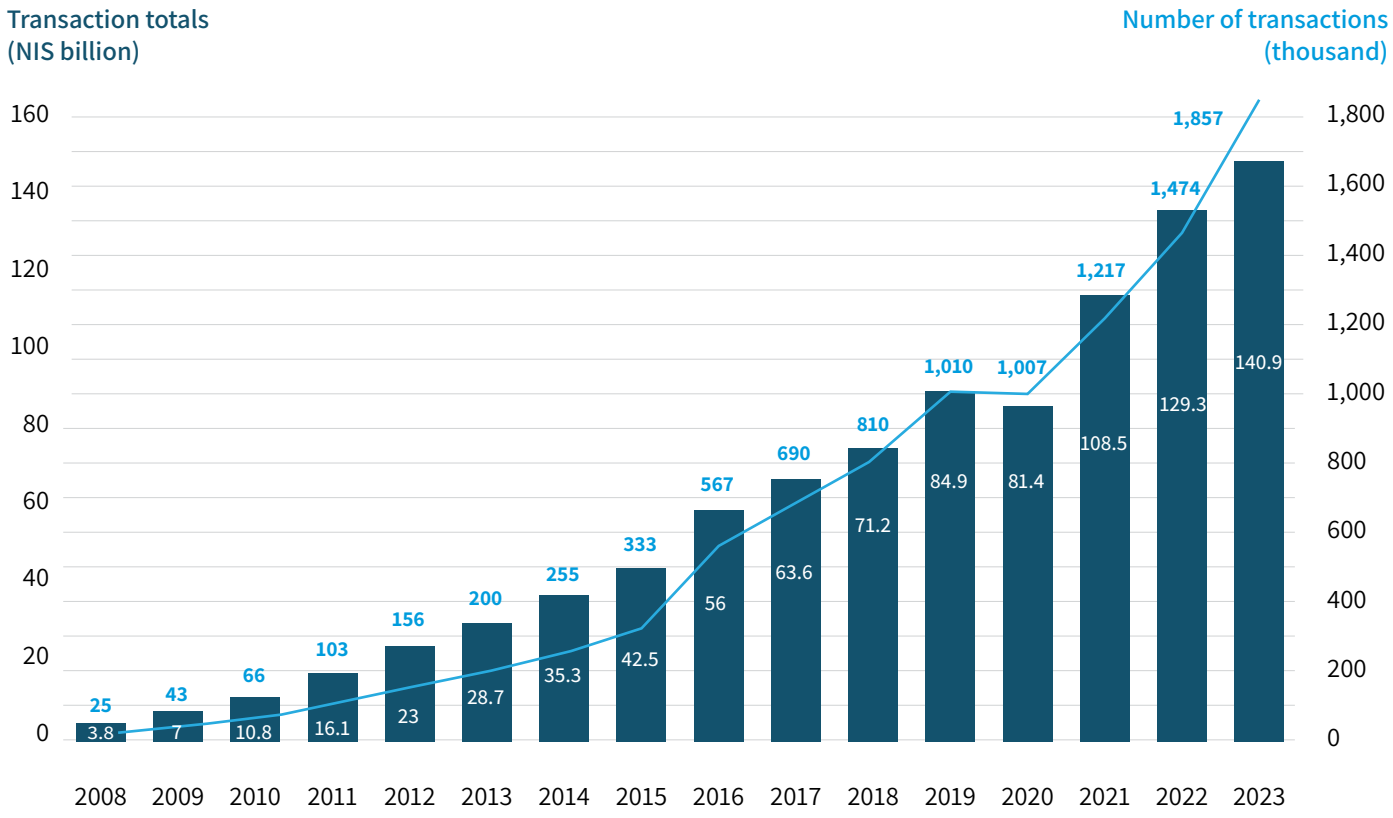
From 2018 to 2022, customers' activities in the ZAHAV system increased considerably, by about 82 percent, in both the number of transactions and total transaction value, with a 21 percent increase in the number of transactions and a 19 percent increase in transaction value between 2021 and 2022 alone. This increase is also due to the amendment to the Banking (Service to Customer)(Fees) Rules 5768–2008, which came into force in February 2015 and determines that the fee that a bank may charge for transfers of up to NIS 1 million in the ZAHAV system may not exceed the fee for a single teller-executed transaction (which is NIS 6).[56] The reduced fee for this service evidently made the ZAHAV system more accessible to the public for transactions in which real-time settlement and finality are important, even if the transactions are in small amounts.

As of end 2022, about 7,700 two-party and multiparty transactions totaling about NIS 1,430 billion were settled in the ZAHAV system daily, on average, compared with an average of 1,800 daily transactions totaling about NIS 289 billion in 2014.

Most of the increase in the number of transactions is attributed to transactions by consumers. Between 2021 and 2022 there was an annual increase of about 14 percent in transaction value and about 9 percent in the number of transactions. Between 2014 and 2022, the value of consumers' transactions rose by NIS 1,263 billion (72 percent), out of a total increase of NIS 4,120 billion in the system.

[56] The provision applies to customers (individuals and small businesses) as this term is defined in Section 9I(f) of the Banking (Service to Customer) Law, 5741–1981.

Figure 1
Customer Activity in the ZAHAV System, Transactions of up to NIS 1 million, 2008–2023



SOURCE: Bank of Israel.
* The 2023 figure is an annual estimate based on 11 months of data.

Between 2021 and 2022, the total Paper-Based Clearinghouse activity in the ZAHAV system increased by about 15.1 percent, and total MASAV activity in the ZAHAV system increased by about 15.2 percent.

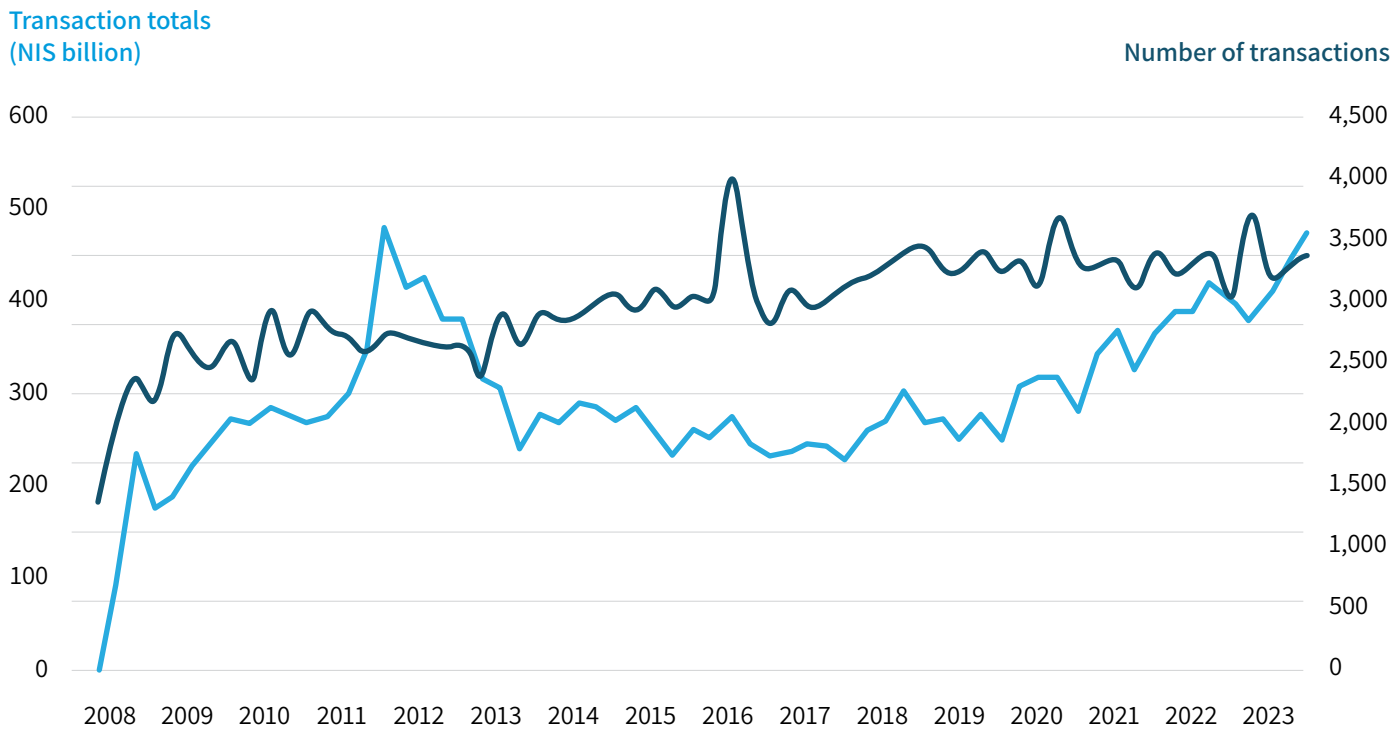
Continuous Linked Settlement (CLS)

The Continuous Linked Settlement Group operates the world's largest multicurrency settlement system (Continuous Linked Settlement or CLS) with the aim of reducing settlement risks in foreign currency transactions. The CLS system provides settlement services in 18 currencies[57], including the shekel, and executes the major share of transactions in Israel that involve conversion of the shekel against foreign currencies. In 2022, a total of about NIS 1.603 trillion in shekel-based conversion transactions (transactions in which the shekel is a party) was settled in CLS, reflecting an increase of about 14.4 percent from 2021. Between 2021 and 2022 the number of transactions settled in CLS declined by 1.2 percent.

Between 2022 and 2023, the number of transactions rose by 6.1 percent and the value of the transactions in CLS increased by 9.8 percent.

[57] Mexican peso, Canadian dollar, British pound, Israeli shekel, Japanese yen, South Korean won, Danish krone, euro, US dollar, Singaporean dollar, Norwegian krone, Australian dollar, New Zealand dollar, South African rand, Swedish krona, Swiss franc, Hungarian forint, and Hong Kong dollar.

Figure 2
CLS Shekel Activity in the ZAHAV System*, 2008–2023



* Quarterly data.
SOURCE: Bank of Israel.

The Paper-Based (Checks) Clearinghouse

The Paper-Based Clearinghouse, which is also known as the Checks Clearinghouse, settles checks and collection vouchers.[58] In 2022, interbank activity involving these means of payment totaled about NIS 794 billion, compared with NIS 771 billion in 2021, an increase of about 3 percent. The number of transactions declined from about 66,000 to about 63,200, a decline of about 4.2 percent.

Table 2: Paper-Based Clearinghouse by Component, 2007–2022

	Manual messages			Checks			
	Debits	Credits	Total	Presentations	Returns	Total	Total
Values (NIS billion)							
2015	49	0.5	50	910	27	936	986
2016	57	0.4	57	858	30	888	945
[57]2017	1	0.2	1	854	31	885	886
2018	0	0	0	827	33	860	860
2019	0	0	0	808	32	839	839
2020	0	0	0	692	30	721	721
2021	0	0	0	744	27	771	771
2022	0	0	0	763	31	794	794
Yearly change (percent)				**2.53**	**15.08**	**2.97**	**2.97**
Transactions (thousand)							
2015	205	18	223	112,594	2,441	115,036	115,258
2016	201	14	215	106,828	2,562	109,390	109,605
*2017	72	6	79	101,605	2,583	104,188	104,267
2018	0	0	0	95,216	2,564	97,780	97,780
2019	0	0	0	87,669	2,590	90,259	90,259
2020	0	0	0	68,623	2,426	71,049	71,049
2021	0	0	0	64,019	2,017	66,036	66,036
2022	0	0	0	61,099	2,182	63,282	63,282
Yearly change (percent)				**-4.56**	**8.18**	**-4.17**	**-4.17**

SOURCE: Paper-Based Clearinghouse.

Chapter 3 provides more details on the trends observed in the volume and amounts of check transactions in recent years.

[58] In 2017, all manual settlement activity was converted to electronic settlements.

Systems Operated by MASAV

The Debits Credits and Transfers system

The payment systems operated by MASAV include the Debits Credits and Transfers system and the Faster Payments (FP) system. These systems settle digital credits and debits.[59] Table 3 shows that credits account for about 78 percent of all payments settled in MASAV. The rise in activity in the systems operated by MASAV encompasses both credits and debits. Between 2021 and 2022, the total value of debits rose by about 26.5 percent and the total value of credits rose by about 12.4 percent.

Table 3: Systems operated by MASAV by component, 2007–2022

	Credits	Debits	Returned credits[a]	Returned debits	Total
			Values (NIS billion)		
2007	5,940	235	-	3.9	6,179
2008	1,473	261	-	4.9	1,739
2009	1,503	271	-	5.5	1,779
2010	1,635	317	1.0	4.6	1,958
2011	1,752	342	1.0	4.7	2,100
2012	1,911	364	0.8	4.7	2,280
2013	1,998	392	0.9	4.6	2,395
2014	2,067	440	1.1	4.7	2,513
2015	2,169	465	1.3	4.6	2,640
2016	2,345	517	1.5	5.5	2,869
2017	2,573	568	1.6	6.1	3,149
2018	2,712	658	1.9	7.0	3,380
2019	2,969	690	2.4	7.2	3,669
2020	3,179	704	2.8	8.7	3,894
2021	3,697	894	3.0	7.2	4,601
2022	4,154	1,131	3.2	10.2	5,298
Yearly change (percent)	**12.37**	**26.46**	**7.57**	**40.43**	**15.15**

[a] Returned credits have been settled in the MASAV systems, rather than in the Paper-Based Clearinghouse, since December 2009.

[59] Electronic credits are also executed on the ZAHAV system.

	Credits	Debits	Returned credits	Returned debits	Total
			Transactions (thousand)		
2007	92,955	146,116	-	4,535	243,606
2008	96,316	152,892	-	5,003	254,211
2009	97,478	157,749	-	5,395	260,622
2010	103,326	168,186	104	4,926	276,541
2011	111,055	174,125	108	4,446	289,734
2012	119,100	180,180	109	4,295	303,684
2013	125,651	187,204	136	4,188	317,179
2014	130,976	190,645	162	4,221	326,003
2015	138,557	193,950	183	3,801	336,491
2016	150,822	200,092	217	4,043	355,173
2017	159,527	207,247	253	4,364	371,391
2018	174,125	218,504	299	4,739	397,666
2019	194,576	230,169	362	4,997	430,104
2020	239,037	232,573	386	4,671	476,667
2021	255,628	247,495	391	4,049	507,563
2022	272,149	262,341	407	4,561	539,459
Yearly change (percent)	**6.46**	**6.00**	**4.09**	**12.66**	**6.28**

SOURCE: MASAV.

The Payment Cards system

The Payment Cards system operated by SHVA settles payments made through various payment card types. The system enables communication between merchants' payment terminals, issuers, and acquirers in order to complete transactions, and through it, daily settlement is carried out between the acquirers and the various issuers.

The system manages the communication network between the payment card companies and merchants' point-of-sale (POS) terminals, connects issuers and acquirers, and supports most payment cards and all types of transactions made using payment cards. The system provides a variety of services, including processing services for acquirers and issuers, switching services, gathering, and settlement interface.

The quantity of transactions increased by 12 percent between 2021 and 2022, and the value of transactions, including tourists' transactions in Israel, increased by 11 percent.

Table 4: Payment card transactions in Israel that passed through the SHVA switch, 2018–2022

	Transactions (thousand)		Values (NIS million)	
	Credits and cancellations	Debits	Credits and cancellations	Debits
2018	15,828	1,496,004	4,394	316,913
2019	16,379	1,639,301	4,530	345,000
2020	16,520	1,540,729	5,480	337,764
2021	19,893	1,814,129	6,243	390,784
2022	20,621	2,029,978	6,286	433,399

The ATM system

The ATM system operated by SHVA facilitates cross-over cash withdrawals from automatic cash withdrawal machines (ATMs). The system enables communication between ATM operators and payment card issuers, thereby allowing the card holder to withdraw cash from any machine, regardless of the issuer or the machine operator. The system also facilitates daily settlement between the machine operators and the issuers for all transactions made throughout the day.

The system conducts network switching for ATM machines. Data on the quantity and value of cash withdrawals include customer withdrawals from all ATMs in Israel, excluding ATMs that belong to the commercial bank at which the customer manages his account (since in that case there is no network switching).

The quantity of withdrawals declined by 1.7 percent between 2021 and 2022, and the value of withdrawals increased by 1.7 percent during that time.

Table 5: Interbank withdrawals that passed through the SHVA switch, 2020–2022

	Transactions (thousand)	Values (NIS million)
2020	41,770	39,443
2021	45,516	44,823
2022	44,745	45,565

The Stock Exchange Clearinghouses

The Stock Exchange Clearinghouses — the Securities Clearinghouse and the MAOF Clearinghouse — settle the results of trading on the stock exchange. Securities transactions are settled in the Stock Exchange Clearinghouses immediately after the funds are settled by the stock exchange members in the ZAHAV system. Table 6 shows that in 2022, securities trading on the stock exchange totaled about NIS 1.633 trillion, compared with about NIS 1.508 trillion in 2021, an increase of about 8.3 percent.

Table 6: Securities trading volume, 2006–2022

		Bond				
	Equities and convertibles	Government	Other	Total	Makam	Total
			Values (NIS billion)			
2006	360	356	68	424	198	982
2007	506	636	165	801	207	1,514
2008	481	761	224	985	192	1,658
2009	423	789	223	1,012	160	1,595
2010	498	579	218	797	291	1,586
2011	422	703	217	920	287	1,629
2012	264	748	247	995	155	1,414
2013	286	810	249	1,059	141	1,486
2014	297	774	249	1,023	157	1,477
2015	355	751	255	1,006	125	1,485
2016	311	670	252	922	85	1,317
2017	344	641	250	892	52	1,288
2018	371	641	269	910	103	1,387
2019	315	636	215	851	100	1,266
2020	460	757	263	1,020	143	1,623
2021	463	747	219	965	79	1,508
2022	572	604	263	866	194	1,633
Yearly change (percent)	**46.12**	**19.10**	**22.48**	**19.95**	**42.96**	**8.28**

SOURCE: Tel Aviv Stock Exchange.

CHAPTER 3
MEANS OF PAYMENT USED BY THE PUBLIC

The quantity of active payment cards in Israel increased by about 35.5 percent since 2016, reaching 10.7 million cards in 2022, an increase of 6.1 percent from 2021 when the total was 10.1 million cards.

The volume of payment card transactions is increasing consistently, totaling about NIS 382 billion in 2021, and about NIS 424 billion in 2022. The value of most transactions made between 2014 and 2022 (about 75 percent) is lower than NIS 200, which may show that payment cards are used as an alternative for cash in the purchase of goods and services in the retail sector.

Activity in Fast Payments (FP) operated by MASAV for real-time transfers to retailers began in 2020 with about NIS 149 million transferred in about one million transactions, and reached NIS 13.2 billion through 5.1 million transactions in 2022. This is about 2 percent of all transactions in systems operated by MASAV in 2022. In 2023, the value of real-time transactions in the retail payments system totaled NIS 25.5 billion, in 6.7 million transactions, an increase of 31 percent in the number of transactions, and of 93 percent in their value between 2022 and 2023.

In recent years, there has been constant growth in both the number of direct credits and in their value. Direct credits increased by about 182 percent between 2008 and 2022, and by 12.4 percent from 2021 to 2022 (from NIS 3,697 billion in 2021 to NIS 4,154 billion in 2022). The quantity of transactions increased by about 182.6 percent between 2008 and 2022, and by 6.5 percent from 2021 to 2022, from about 255.6 million transactions in 2021 to about 272 million in 2022.

The average value of a check increased from NIS 5,800 in 2008 to NIS 11,050 in 2022, an increase of about 90.5 percent. This shows that the Israeli business sector is making broad use of checks as a means of payment for high amounts.

In November 2023, the Bank of Israel increased the ceiling for single-check deposits using mobile applications from NIS 50,000 to NIS 100,000 with the aim of helping the public conduct current financial transactions during the Swords of Iron War.

About 1.65 million checks with values between NIS 50,000 and NIS 100,000 were deposited in 2022, and about 826,000 checks with such values were deposited in the first half of 2023, for an average of about 137,000 checks per month between January and June 2023 that the public can deposit using smartphone applications.

Activity in the ZAHAV system in 2022



of all value



of all transactions

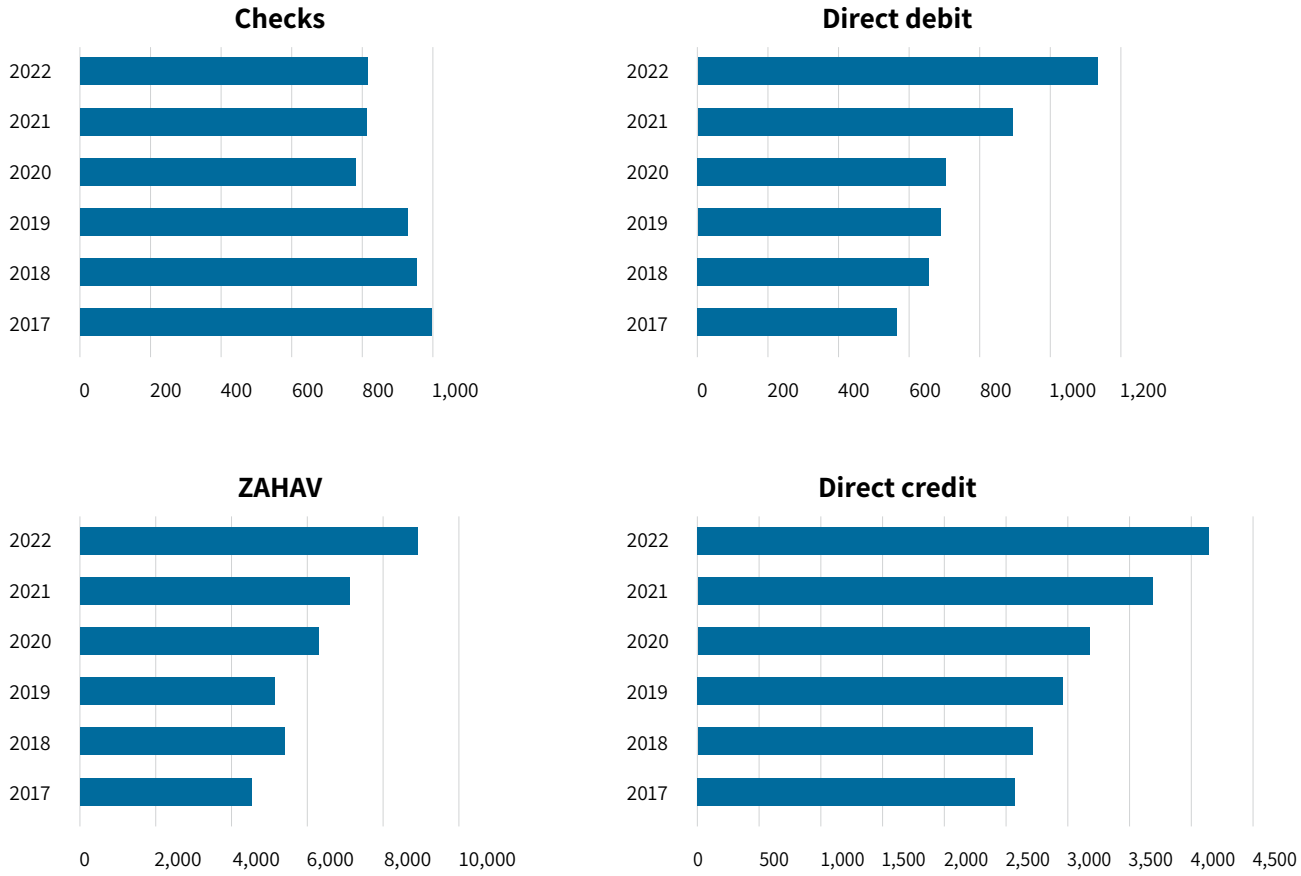
CHAPTER 3 - MEANS OF PAYMENT USED BY THE PUBLIC

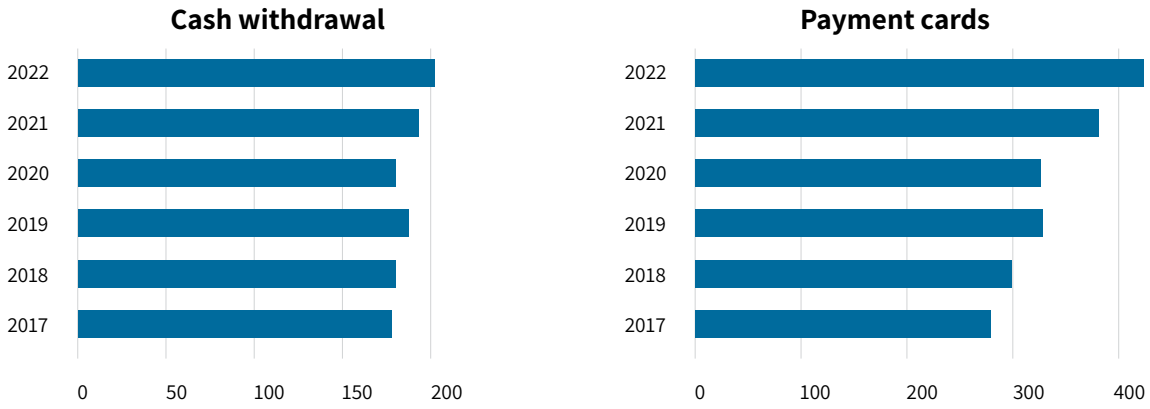
The main means of payment available for use by the general public in Israel are cash, checks, direct debits in the systems operated by MASAV, direct credits in the ZAHAV and MASAV-operated systems, faster payments for real-time retail payments, payment cards (credit cards and debit cards), and payment applications.

Means of payment are selected for use based mainly on the following features: convenience – how convenient is the means of payment for the payer and the beneficiary; availability – when and under what conditions will the money be accessible; security – to what extent can the payer's/beneficiary's information be verified, to what extent can the means of payment ensure that the payment will be received and confidentiality will be maintained, to what extent can we rely on the means of payment and prove that a payment was made; and cost – what fees are charged to the payer/beneficiary and what are the liquidity costs.

Figure 3 illustrates developments in the use of popular means of payment in Israel in recent years, by transaction value. The use of payment cards has risen steadily over time. From 2017 to 2022, total payment card transaction values increased by about 52 percent, from about NIS 280 billion in 2017 to about NIS 424 billion in 2022, and their quantity increased by about 50 percent, from about 1.328 billion transactions in 2017 to about 1.996 billion transactions in 2022, reflecting an increase of about 50 percent. The use of checks remains widespread among the Israeli public, totaling about NIS 816 billion in 2022.

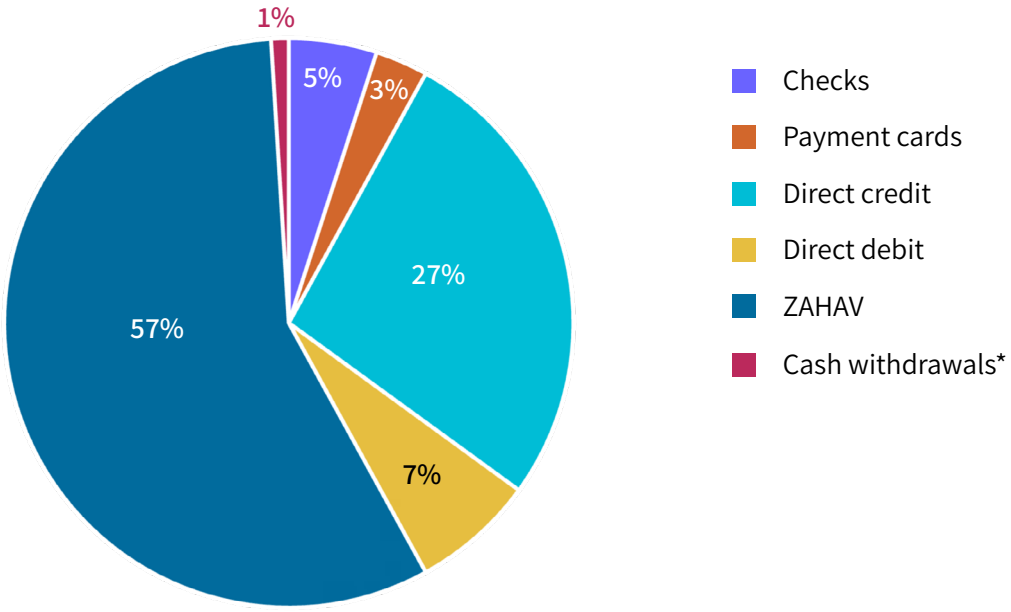
Figure 3
Use of Means of Payment by Amounts, 2017–2022 (NIS billion)





SOURCE: Bank of Israel and MASAV.

Use of the Various Means of Payment as a Share of Total Use, 2022



*The use of cash appears as withdrawals from ATMs and not as payment transactions.

Paper-based means of payment

Paper-based means of payment include cash, checks, and magnetic vouchers.

1. Cash withdrawals[60]

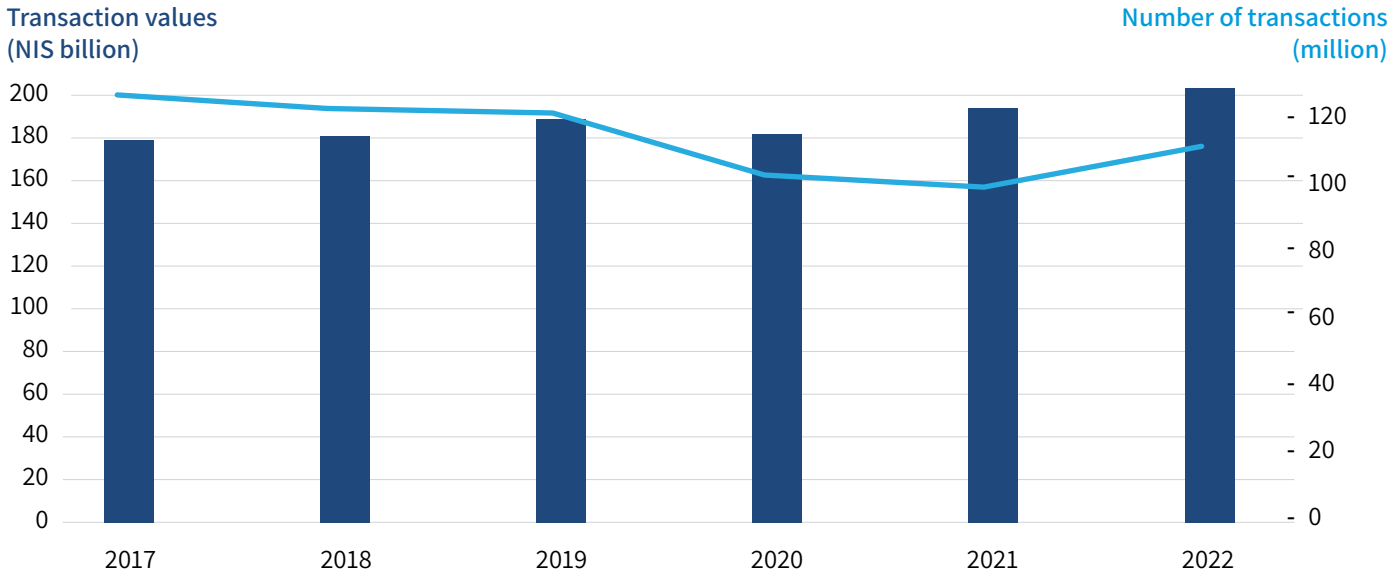
1.3% of total value	**4%** of total transactions

Banknotes and coins are the most liquid means of payment. The Bank of Israel issues banknotes in the denominations of NIS 20, NIS 50, NIS 100, and NIS 200, and coins in the denominations of NIS 0.5, NIS 1, NIS 2, NIS 5, and NIS 10 and 10 agorot.

As of the end of 2022, there was a total of about NIS 119.4 billion in circulation, compared with about NIS 113.1 billion as of the end of 2021 (an increase of 5.6 percent between 2021 and 2022, compared with an increase of 6.9 percent between 2020 and 2021).[61]

In 2022, there were about 109.3 million cash withdrawals made from bank and nonbank ATMs and from bank tellers, reflecting an increase of about 13 percent compared with 2021 (about 97 million withdrawals). The annual value of withdrawals rose by about 4.7 percent from 2021 to 2022 (an increase of about NIS 9 billion).

Figure 4
Cumulative Cash Withdrawals from ATMs and Tellers, 2017–2022

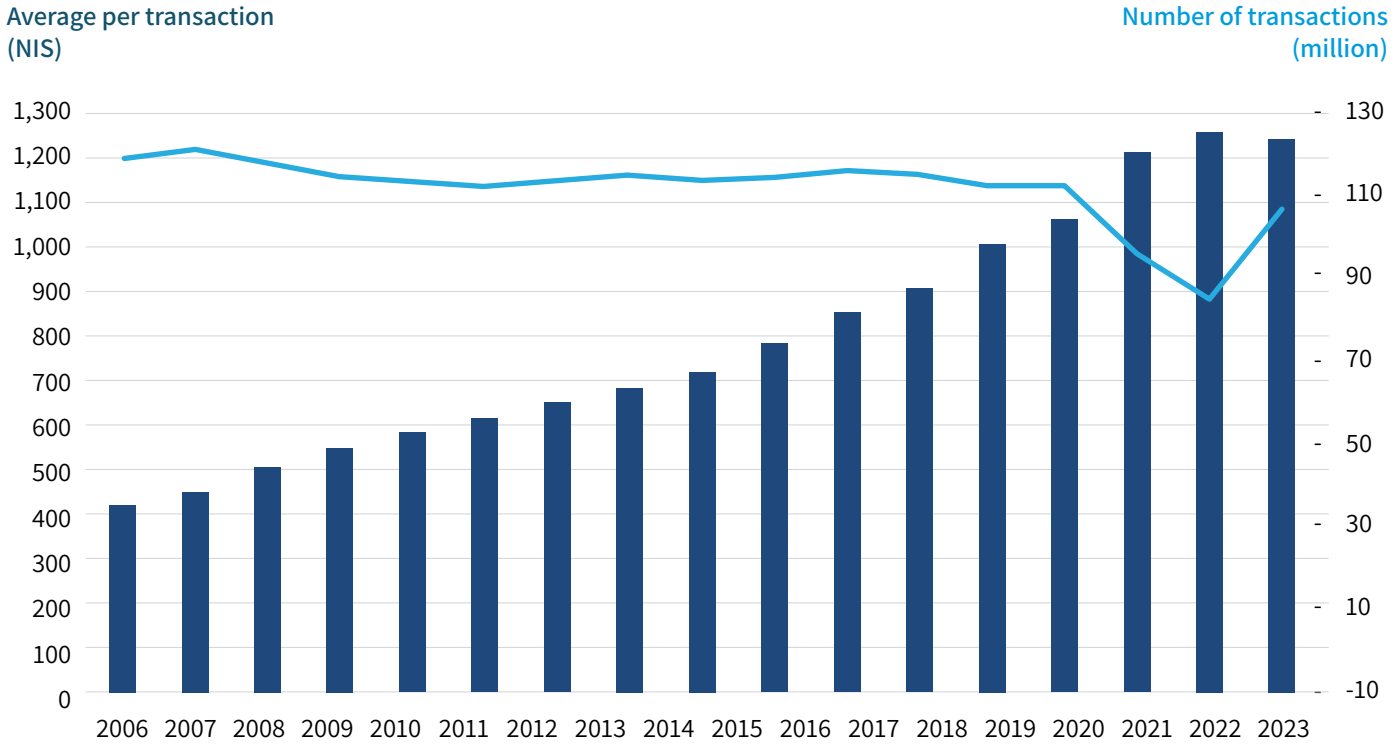


SOURCE: Bank of Israel.

The average withdrawal amount from ATMs is trending upward. In 2022, the average withdrawal amount was about NIS 1,242, reflecting an increase of about 37 percent since 2017, and 113 percent since 2010.

[60] For additional information see Review of the Currency Department for the Years 2020-2022.
[61] Total turnover also includes, in addition to the cash held by the public, cash held by the banking corporations in safes. Turnover also includes the cash in the hands of foreign residents (mainly in the euro bloc and in the US, because these currencies are also used outside their borders).

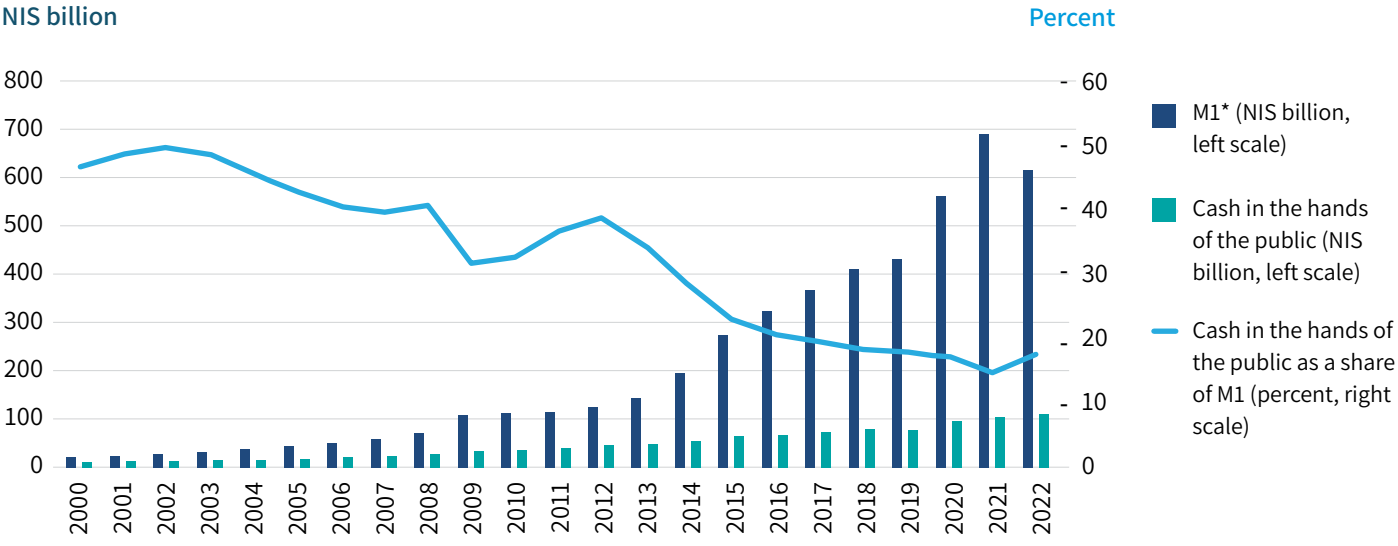
Figure 5
Average Cash Withdrawals from ATMs and Tellers, 2004–2022



SOURCE: Bank of Israel.

Although the amount of cash held by the public is rising steadily (from NIS 25 billion in 2007 to NIS 111 billion in 2022), cash as a share of all the funds held by the public (M1) declined up to 2021, mainly because current account balances rose significantly due to the low interest rate environment. Between 2021 and 2022, cash held by the public increased from 15 percent to 18 percent of total M1.

Figure 6
Cash Trends, 2000–2022



* Cash in the hands of the public and the public's demand deposits at banks, excluding balances deposited at the Bank of Israel and balances kept in the banks' vaults.
SOURCE: Bank of Israel.

2. Checks

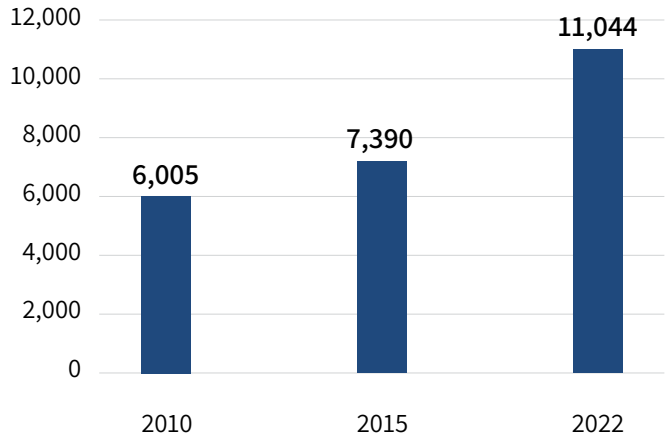
5.2% of total value	**2.7%** of total transactions

Checks are quite common in Israel and have many diverse uses including payments to individual beneficiaries (service providers, schools, rent, gifts, etc.), to business beneficiaries, and to public authorities (tax authorities, educational institutions, provident and pension funds).

According to the data pertaining to all checks in Israel (both intrabank and interbank checks[62]), the use of this means of payment declined by about 5.9 percent between 2021 and 2022, to about 74,000 checks. The total value of these checks increased by 0.5 percent. Beginning in 2007, the number of checks declined gradually, amounting to a cumulative 55 percent decline by 2022. There are two main reasons for the decline in the use of checks. First, the public increased its use of digital means of payment, especially payment cards and digital transfers. Second, some merchants do not accept checks due to their inherent risks and costs.

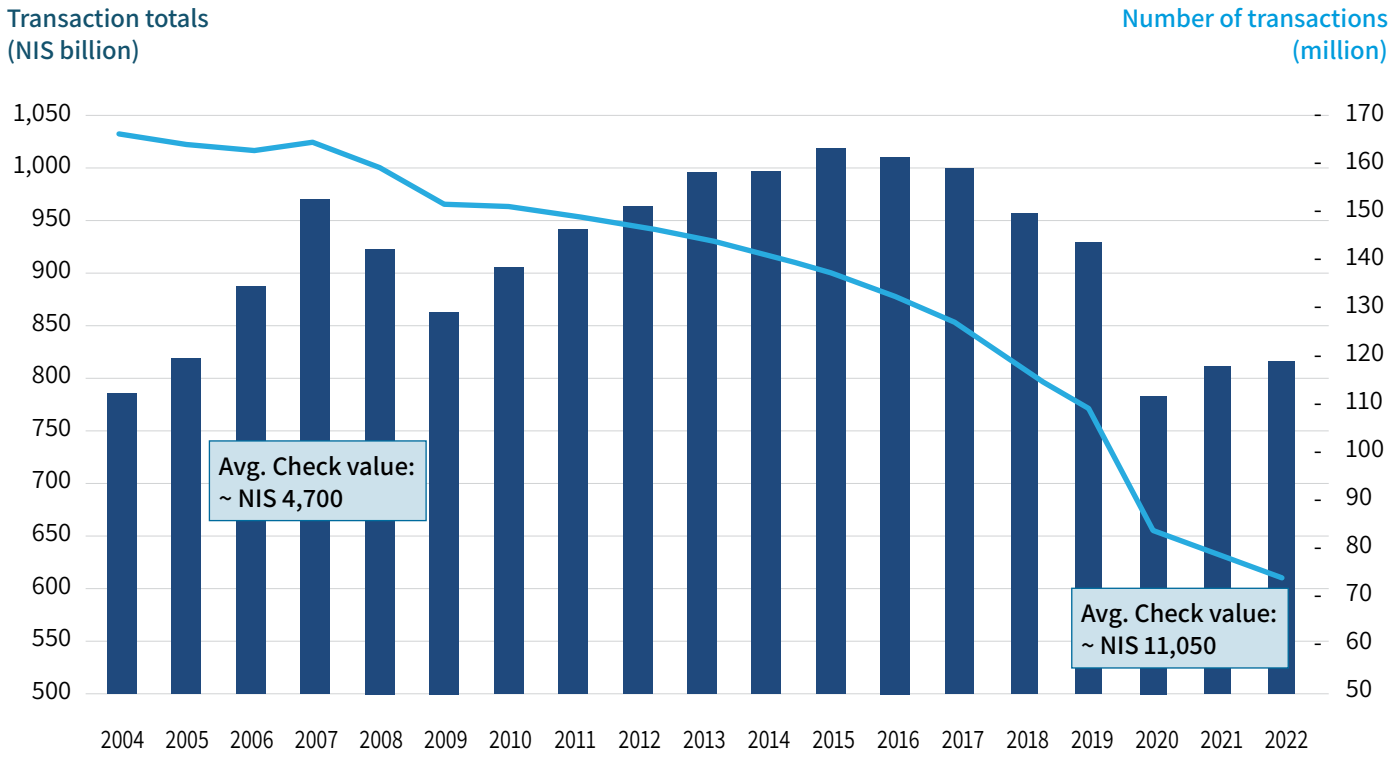
The average value per check increased from NIS 5,800 in 2008 to NIS 11,044 in 2022, reflecting an increase of about 90.5 percent. This implies that Israel's business sector is making wide use of this means of payment, in high amounts, for transactions outside their banking credit facility and for tax payments among other things.

Average Check Amount, 2010–2022 (NIS)



[62] In contrast to the net amounts settled in the Paper-based Clearinghouse, because it only settles interbank checks.

Figure 7
Cumulative Interbank and Intrabank Checks, 2004–2022



SOURCE: Bank of Israel.

The number of refused bank and nonbank checks increased from 2021 to 2022 by about 2 percent (a decline of 5.1 percent in checks returned for reasons of liquidity and an increase of about 4.5 percent in checks returned for technical reasons), and the amount of these checks increased by 8 percent (increase of 18.9 percent in checks returned for reasons of liquidity and a 5.8 percent increase in checks returned for technical reasons). In 2022, the number of returned checks accounted for 3 percent of all checks (2.8 percent in 2021) and for about 4 percent of total check value (3.7 percent in 2021).[63] The average value of a returned check increased from about NIS 13,750 in 2021 to about NIS 14,360 in 2022, an increase of 5.8 percent (an increase of 25.3 percent in the average value of checks returned for reasons of liquidity and 1.2 percent increase in the average value of checks returned for technical reasons).

Most of the increase in returned checks was due to checks that were returned for technical reasons (signature missing, incorrect date, mismatch of words and digits, etc.). Checks returned for reasons of liquidity accounted for 0.7 percent of all checks in 2021 and in 2022, and checks returned for technical reasons accounted for about 2.1 percent of all checks in 2021 and 2.3 percent of all checks in 2022. The value of checks returned for reasons of liquidity accounted for 0.6 percent of the total value of all bank and nonbank checks in 2021 and 0.7 percent in 2022. The total value of checks returned for technical reasons accounted for about 3.1 percent of the total value of all checks in 2021 and about 3.3 percent in 2022.

[63] Including intrabank checks.

When a check is deposited in a commercial bank before the end of a business day (18:30), the depositor's account is credited on that day (day T). This is a conditional credit, because according to the Clearinghouse Rules, the debited bank may return the check the day after it is presented. From the customer's point of view, the credit is considered temporary, and it will become final three business days after the settlement date, unless the bank cancels the temporary credit during that time if the debited bank refuses to honor the check.[64]

In Israel, postdated checks are used relatively widely, both by the business sector and by households. The banks' customers deposit them as collateral for the credit they need for their business activities, and use them to pay periodic taxes and spread payments (make installments) to suppliers. The use of postdated checks motivates beneficiaries to turn to check discounting, a service that provides an immediate monetary consideration against a post-dated check. This is effectively a financing method where the beneficiaries receive the monetary value of the check in exchange for a discount fee.

The interbank settlement of checks deposited through a mobile app, an option that became available in November 2017 on the basis of the Digital Settlement Law[65], gives bank customers the option to deposit checks without physically visiting a bank branch, and increased the use of advanced digital services through available bank apps.[66]

In March 2020, the Bank of Israel increased the limit on the amount of a single check deposited through a mobile bank app from NIS 20,000 to NIS 50,000 in order to help the public perform remote banking transactions during the COVID-19 pandemic. According to a Bank of Israel survey, about 3.8 million checks between NIS 20,000 and NIS 50,000 were deposited physically in bank branches in 2019, and the new decision made it possible to deposit these checks through a mobile app.

In November 2023, the Bank of Israel increased the limit on the maximum amount of a single check deposited through a mobile bank app from NIS 50,000 to NIS 100,000 in order to help the public conduct its regular financial activities during the Swords of Iron War. In 2022, 1.65 million checks between NIS 50,000 and NIS 100,000 were deposited physically in bank branches, and 826,000 checks in this range were deposited physically in the first half of 2023, or an average of about 137,000 checks per month. The public can now deposit these checks through a mobile app.

These moves contributed to a considerable rise in the proportion of checks deposited through mobile bank apps on smartphones, from about 6 percent in 2018, to 11 percent in 2019, 21 percent in 2020, 41 percent in 2021, and 46 percent in 2022.

64 Banking Directives (Service to Customer)(Date of Credit and Debit in Checks), 5752–1992, Section 3(a).
65 Electronic Check Settlement Law, 5776–2016 [in Hebrew].
66 Depositing a check in a mobile app also creates a cost savings of up to 75 percent for the customer (the cost of depositing a check through a direct channel compared to depositing a check with a bank teller).

Digital means of payment

1. Digital direct payments

Digital direct payments—direct debits and credits—are payments made by automated means, without manual intervention. There are two systems for making such payments in Israel—ZAHAV and MASAV. The ZAHAV system handles only credits: An order initiator can credit the counterparty but cannot debit that party on the ZAHAV system. MASAV handles both credits and debits.

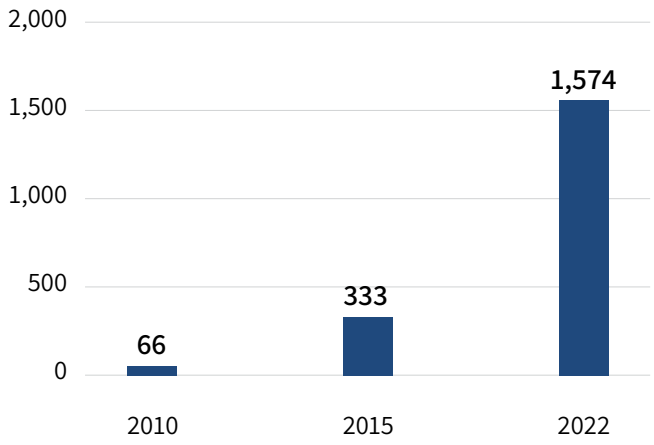
a. Digital direct credits – The Zahav system

57% of total value in 2022	**0.07%** of total transactions in 2022

A customer has several options for issuing a payment order through the ZAHAV system, depending on the bank where their account is managed. The customer can give a face-to-face instruction to a teller at the branch where they maintain a current shekel account, transmit an order through the bank's website[67], or give an order to a call center representative. Several banks also permit customers to give ZAHAV orders on their mobile app.

In order to transfer payment in the ZAHAV system, the customer must provide the beneficiary's ZAHAV (IBAN) number[68] and name in English. The IBAN is the international standard for identifying bank accounts, and is a unique identifier of a customer's account.[69] Bank customers can easily obtain their IBAN number in various ways, and each commercial bank provides the IBAN number through at least one of these means: a branch clerk, the bank's website, the bank's telephone service, ATMs, and the appendix accompanying a checkbook (since 2012). The number can also be obtained using the IBAN simulator on the Bank of Israel's website.[70]

Transactions up to NIS 1 Million by ZAHAV Customers, 2010–2022 (thousand)



[67] For individuals – according to the amount of the limitation in Proper Conduct of Banking Business Directive No. 357, Section 25(c), subsection (2). Requests in higher amounts are transferred to a clerk for approval.
[68] IBAN (International Bank Account Number) serves as a unique identifier of a customer's account, and comprises the bank number, branch number, account number, and other information.
[69] Since 2007, SWIFT has the authority for IBAN registration. As of end 2017, 82 countries are listed in the IBAN Registry.
[70] https://www.boi.org.il/en/information-and-service-to-the-public/tools-and-calculators/iban.

b. Digital direct credits and debits – MASAV System

Direct credits 2022	**26.6%** of total value	**10%** of transaction quantity
Direct debits 2022	**7.2%** of total value	**9.9%** of transaction quantity

Direct credits – Direct credits are made through the ZAHAV system and the Debits Credits and Transfers system operated by MASAV, and are initiated by the debited party, who orders the bank to debit their current account and credit the beneficiary. If there is a sufficient balance in the account (including any approved credit facility), the bank transfers the payment order to the clearinghouse via ZAHAV or MASAV, which then settles the payment. If the payment is settled in ZAHAV, the credit is immediate and final, meaning that it cannot be returned. If it is cleared in MASAV, the credited party can reject the payment within three business days from the date of execution. Most direct credits, such as salaries and pension payments, are initiated digitally, which significantly reduces the handling costs of each payment order—for the customer, the bank, and the clearinghouse.

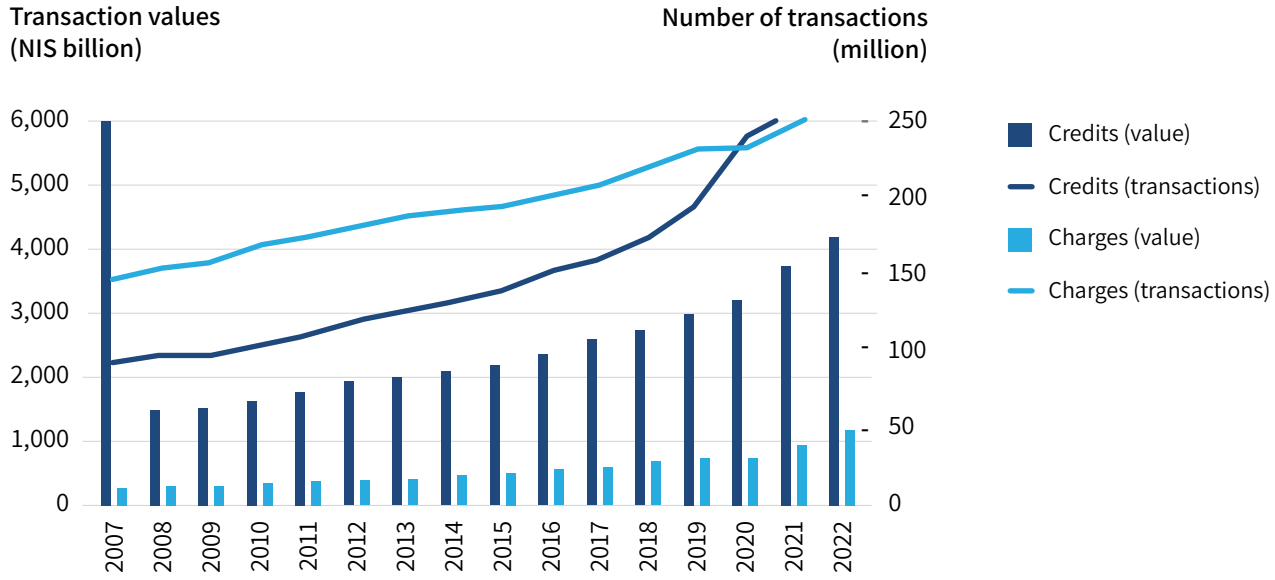
In recent years, there has been a continuous increase in both the number and value of direct credits. Amounts increased by 182 percent between 2008 and 2022, and by 12.4 percent from 2021 to 2022 (from NIS 3,697 billion in 2021 to 4,154 billion in 2022). The number of credit transactions increased by approximately 182.6 percent between 2008 and 2022, and by 6.5 percent from 2021 to 2022 (from about 255.6 million transactions to about 272 million transactions).

Faster payments activities for real time retail payment transfers commenced in 2020, when 1 million transactions, worth NIS 149 million, were settled. In 2022 there were 5.1 million transactions, worth NIS 13.2 billion, accounting for about 2 percent of all MASAV transactions that year. In 2023, there were 6.7 million transactions, valued at NIS 25.5 billion, reflecting a 31 percent increase in the number of transactions in the system and a 93 percent increase in their value between 2022 and 2023.

Direct debits in Israel are executed only through the Debits Credits and Transfers system operated by MASAV, and are initiated by the beneficiary, through the bank that manages their account. The beneficiary's bank collects the funds from the bank that manages the account of the debited party, subject to legal conditions to which the debited party has agreed. Direct debits are based on the undertaking that the debited party will be able to cancel an incorrect or illegal debit within three business days from the date of execution. Most direct debits in Israel are direct debit authorizations (standing orders for payments to service or utility providers, such as electricity, water, telephone, etc.), and payments are made automatically every month, and in current values.

Both the number of direct debits and their value have increased in recent years. The value increased by about 334 percent between 2008 and 2022, and by 24.5 percent from 2021 to 2022 (from NIS 894 billion in 2021 to NIS 1,131 billion in 2022). The number of direct debits increased by about 71.6 percent between 2008 and 2022, and by about 6 percent between 2021 and 2022 (from about 247.5 million transactions to about 262.3 million transactions).

Figure 8
Charges and Credits in MASAV, 2007–2022



SOURCE: MASAV.

c. Payment cards

2.7% of total value in 2022	**73.5%** of total transactions in 2022

There are four main participant types in the payment card market:

The Issuer - The entity that provides the customer with the payment card according to an agreement between them,[71] usually a bank or credit card company. The issuer manages the cardholder's account with it, including the credit line if the cardholder has one.

The Acquirer - The entity that enables the merchant to honor payment card transactions, sends the debit approval request to the issuer, and if this is approved it guarantees the payment to the merchant.

The Cardholder – The person who performs transactions with merchants using a payment card.

The Merchant – The party that receives the funds according to the dates specified in the agreement between it and the acquirer.

There are several types of payment cards in Israel:

Prepaid Card – This is a payment card, in shekels or foreign currency, that the customer loads in advance for the maximum amount per card. Each payment is deducted from the balance of the card until it resets to zero.

[71] The agreement is based on Section 7 of the Payment Cards Law, 5746–1986.

Cards of this type include customer loyalty cards, club member cards that allow payment at designated retail chains, and more. These cards can be reloaded, meaning that they are reusable, and some are identified while others are anonymous.[72] These cards are issued mainly by credit card companies and the Postal Bank, and can be used at any merchant that accepts the issuer's payment cards. The loaded card allows transactions to be executed up to the amount that is loaded on the card at that time, and the amount is updated after each transaction. The card can be loaded in several ways: directly from the bank account; by debiting a deferred, revolving, or immediate payment card, or by paying with cash.

In addition to these payment cards there are also one-time Prepaid cards. These include gift cards and virtual debit cards, among other things. The latter make it possible to make purchases on the Internet without revealing the details of the purchase or the purchaser. They carry the details of an alternative payment card, which can be loaded on a one-time basis up to a limited amount, while the details of the payment card used to load the card are stored in a secure and encrypted system. If there is a balance left on the card, it can be unloaded. Prepaid cards may be used as a cash substitute for customers who do not have a bank account, and may also be used by minors.

Direct (or Immediate) Debit Cards – When a payment is made using a direct debit card, the accounts of the holder (buyer) and the seller are debited and credited, respectively, immediately upon execution of the transaction.[73] The card provides the convenience of a payment card, while also providing a near real-time transfer of payment, similar to cash, checks (not postdated), and intra-bank transfers. An immediate debit card transaction costs the issuer less than a deferred debit card transaction, regardless of the transaction amount.[74] For customers in Israel, Banking Supervision Department Guidelines set a reduced card fee for immediate debit cards. For customers who also hold a deferred debit card or a credit card, no fee is charged on the immediate debit card for the first three years of use (to encourage people to hold an immediate debit card.) In addition, the Banking Supervision Department Guidelines state that the fees charged for immediate debit cards must be lower than the fees charged for deferred debit cards or credit cards. Immediate debit card transactions are common globally, but are less common in Israel.

Deferred Debit Cards – Deferred debit cards are the most common card used in Israel today. Customers use deferred debit cards to buy goods and services and pay for them once a month, sometimes in several deferred payments.[75] The merchant is credited according to the acquiring agreement, and finances the credit days that elapse between its credit and the customer's debit. The card is linked to the customer's credit facility granted by the issuer, which permits the customer to pay merchants for goods and services up to the amount of the approved credit facility. Cash withdrawals (which are drawn from the customer's credit facility) from an ATM, a bank branch or via communication with the issuer, constitute a loan, which is a financial product. A deferred debit card also constitutes a means of identification for withdrawing cash from one's current account via an ATM or from the cash registers of retailers without the issuer's intervention.

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[72] Several, but not all, may be used to withdraw cash from ATMs.

[73] According to Proper Conduct of Banking Business Directive No. 470 (6/2015), the issuer in an immediate payment transaction must transfer the funds to the acquirer within no more than two business days from the date the transaction was broadcast, and the acquirer must transfer the funds of the transactions to the merchant within no more than three business days from the date the transaction was broadcast. For transactions made by direct debit cards, the customer is charged the value as of the date the transaction was broadcast.

[74] The cost to the customer depends on a range of factors, mainly the formula of the interchange fee.

[75] In bank cards, the charge appears in the customer's current account statement.

When a customer divides a payment to a merchant into several installments, the deferred debit involves one of two types of credit: (a) credit at the expense of the merchant - granted by the merchant for a period of several days to several months; (b) credit at the customer's expense - the credit card companies extend credit to the customer for a period of several months, and sometimes for more than a year, through "credit" programs.

A deferred debit card is not a full substitute for cash because it has a financing component, and is therefore only accessible to consumers for whom the card issuer has set a credit facility.

Revolving Credit – In such transactions, the customer can set the maximum monthly billing amount, and the balance of the debt accumulated for additional card purchases is deferred to the following month(s) and accrues interest.

From the perspective of a merchant in Israel, when a purchase is made using a deferred payment card, the merchant receives the money on the dates that were agreed with the acquirer, but when the purchase is paid for using an immediate debit card or a prepaid card, the amount is credited to the merchant's account within three business days from the date of the transaction, when the customer is charged.

There are three credit card companies in Israel—"Isracard", "Max", and "CAL[76]"—and they issue five local and international credit card brands: "Visa", "MasterCard", "American Express", "Diners" and "Isracard". The companies issue and acquire the cards according to licenses they have received from the relevant international companies. In addition, two settlement companies operate in Israel—Tranzilla Ltd., which obtained a settlement license in 2017, and Cardcom Ltd which obtained a settlement license in 2018.

Activity in the field has expanded considerably in recent years, influenced by several factors: nonbank entities began issuing payment cards; credit and financing companies expanded their range of services through tools that allow cardholders to determine the amount and date of monthly debit according to their needs and capabilities; the use of payment cards at merchants is convenient and widely available; and the offerings of ecommerce sites are expanding.

In recent years, the number of active payment cards in Israel (cards that were used to make at least one transaction in the previous quarter) has grown, reaching 10.7 million cards in 2022—an increase of about 35.5 percent since 2016, and of 6.1 percent rise since 2021, when the number of active cards was 10.1 million. There were about 1.386 million active immediate debit cards in 2022, reflecting an increase of about 10.8 percent from 2021, when there were 1.252 million active immediate debit cards. The number of transactions using payment cards issued in Israel remained relatively stable—1.8 billion transactions in 2021 and 1.996 billion transactions in 2022.

The volume of payment card transactions is increasing, totaling about NIS 382 billion in 2021 and NIS 424 billion in 2022. Most transactions made between 2014 to 2022 (about 75 percent) were for less than NIS 200, a figure that may indicate that payment cards are used as a cash substitute for purchasing goods and services in the retail sector.

[76] Isracard Ltd., Max IT Finance Ltd., Israel Credit Cards Ltd.

Number of Payment Card Transactions, 2010–2022 (million)

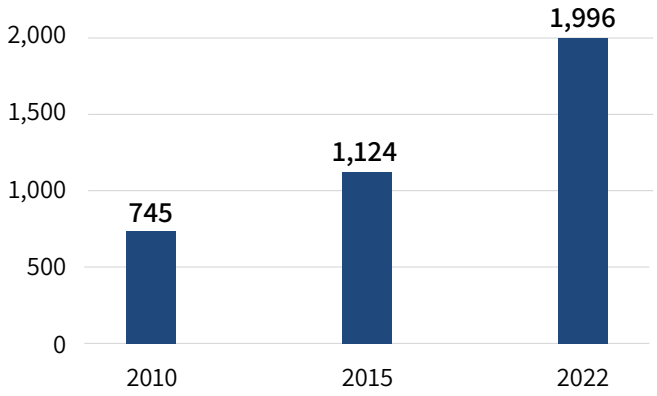
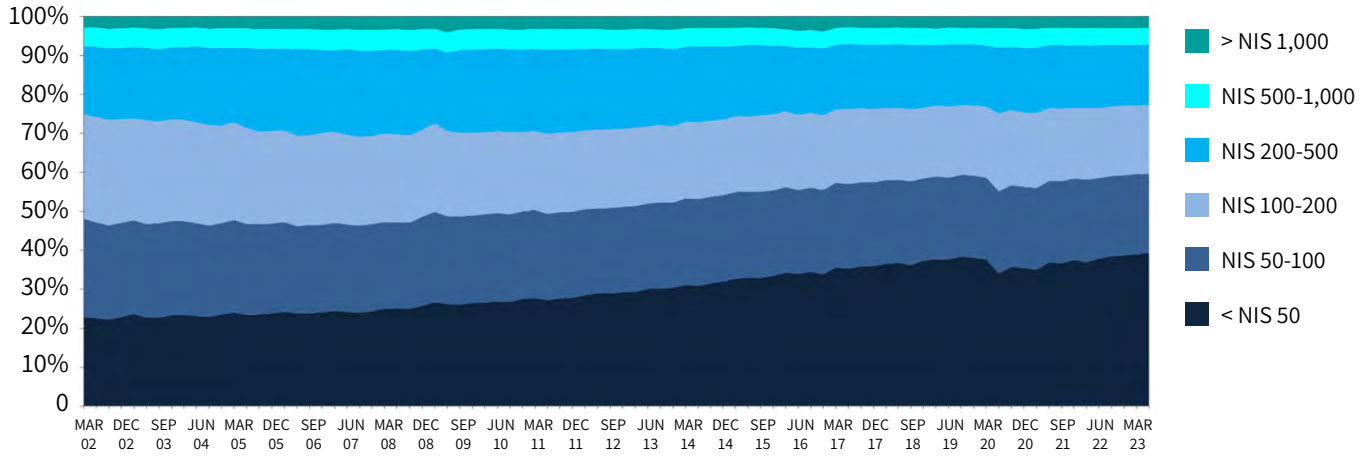


Figure 9
Payment Card Transactions by Volume, as a Share of Total Payment Card Transactions, 2002–June 2023



SOURCE: Bank of Israel.

As mentioned in Chapter 1, we adapted the Israeli market to smart payment cards that use EMV advanced security standard[77], because they offer new advantages. First, to use them you have to enter a code into the terminal at the merchant's premises, which reduces the use of stolen or lost cards, reducing potential fraud and increasing trust on the part of customers and credit card companies. Second, the transition to a new technological infrastructure that supports EMV brings the Israeli economy in line with globally accepted norms, which expands the ability to pay abroad using credit cards issued in Israel, and will also enable the expansion of infrastructure required for proximity-based (contactless) payments technology.

Advanced digital means of payment

The momentum of development in means of payment is producing innovative payment solutions—secure and available options for the use of new devices and channels, and opportunities to enhance payment efficiency and security. As part of these developments, smartphones are now being used to perform a wide

[77] EMV (Europay, Mastercard and Visa) – a collection of specifications developed by international credit card companies to create a secure uniform format for card-present payment card payments.

range of financial operations: paying salaries to temporary or foreign workers; paying for taxis and parking; approving transactions to companies and individuals; buying and selling securities (via remote access to securities platforms); obtaining information; transferring funds to customers of other banks; making rapid transfers of funds between individuals; withdrawing cash from ATMs without a card; and more. See the overview of main developments in Chapter 1 for additional information.

Foreign currency transfers abroad

Foreign currency transfers abroad are made through the banking corporations, the Postal Bank, and currency exchange service providers across the country.[78] These payments are executed through various payment systems/infrastructures including SWIFT[79], Western Union, and MoneyGram. In some cases, the payment is made directly to a currency exchange service provider abroad that has an agreement with a currency exchange service provider in Israel. In some cases, it possible to deposit cash in Israel and withdraw it abroad.

Foreign currency transfers by foreign workers to their home countries, which is known as "remittance", are also made through the Postal Bank and currency exchange service providers, mainly because the customer is not required to open an account in order to use the services of these institutions. In addition, several new companies have begun operating in Israel in recent years, focusing on cross-border transfers by foreign workers. These companies include the global Remitly company, which purchased the Israeli Rewire company; Neema Shefa Ltd., GMT[80], and others. The Bank of Israel is aware that several additional companies specializing in this field may be considering entry into the Israeli market.

The execution of cross-border payments involves compliance legal and regulatory requirements, including those relating to AML-CFT situations, as well as an at-source tax deduction process for international payment orders involving income or profit generated in Israel. Furthermore, in accordance with Bank of Israel guidelines, banks are required to label payment orders with a code describing their purpose, and report the transaction with its code to the Bank of Israel.

The Payment and Settlement Systems Department, along with other relevant entities, has studied and examined these processes during the reviewed period, with the aim of removing barriers, streamlining the settlement process for cross-border payment orders, and encouraging the entry of international participants to the Israeli payments array.

[78] According to the Prohibition of Money Laundering Law, 5760—2000, a currency exchange service provider provides the following services: conversion of the currency of one country into the currency of another country; sale or redemption of traveler's checks in any type of currency; receipt of financial assets in one country against the provision of financial assets in another country (financial assets are cash, traveler's checks, checks, bills of exchange, promissory notes, tradable securities, credit, or monetary deposits); exchange of banknotes; and discounting of checks, bills of exchange, and promissory notes.

[79] SWIFT – Society for Worldwide Interbank Financial Telecommunications.

[80] Global Money Transfers.

CHAPTER 4
INSTITUTIONAL ASPECTS

A solid legal basis is necessary as the foundation for the arrangements related to the activities of the Bank of Israel and the various payment systems in Israel. This chapter presents the laws and agreements that regulate the operations of the payments array in Israel.

Section 4 of the Bank of Israel Law, 5770–2010 stipulates that one of the Bank of Israel's functions is "regulating the economy's payment and settlement systems so as to ensure their efficiency and stability." Based on this section, various reforms were carried out in the payments field, and the laws discussed below were enacted. As part of the reform in the payment and settlement systems in Israel, the Bank of Israel led the enactment of the **Payment Systems Law, 5768–2008**, the purpose of which is to regulate the operations of the payment systems in Israel and minimize the risks in those systems. The law addresses the arrangements necessary for the proper operation of a payment system, and includes a definition of the term "payment system," defines the criteria for finality of payments in the system, and addresses the failure of a participant in the system. The law also authorizes the Bank of Israel to declare a payment system as a controlled or designated controlled system, and to determine the obligations applicable to the operator of a controlled or designated controlled system.



Failure protocols – In accordance with Directive 7 of the Payment Systems Oversight Directives, based on Principle 18 of the PFMI principles, operators of controlled retail payment systems set out clear rules and procedures so that if a participant fails, the payment system will be able to continue meeting its obligations toward the participants that are not failing. These failure protocols were completed and published in April 2024.

Access to the payment systems for digital banks – In recent years, two digital banks have completed the process of joining some of the controlled payment systems. These connections were a milestone in opening access to all bank and nonbank payment service providers who are interested in participating in the Israeli payments array and providing payment services to their customers. The Payment Systems Oversight Unit guided the connection process and monitored the progress, while responding to various issues.

Opening the market to acquirers with foreign licenses – In November 2023, the Bank of Israel allowed international acquirers with licenses from recognized countries to initiate the process of joining the payment card services system operated by SHVA in Israel. This was permitted without commencing actual acquiring activities, prior to submitting an application for a license that enables providing settlement services in Israel. This step is expected to contribute to reducing the entry time of new international participants into the market, consequently fostering innovation and enhancing competition in the payments sector.

Opening payment systems to financial service providers supervised by the Capital Market Authority – In September 2022, the Bank of Israel and the Capital Market Insurance and Savings Authority reached agreements allowing financial service providers supervised by the Authority to connect to payment systems, including entities engaged in providing financial asset services and deposit and credit associations. In addition to licensing conditions, these entities will meet additional requirements relevant to their activities in the payment services field. This step is a further measure aimed at enabling nonbank entities to enter the Israeli payments array, thereby increasing innovation and competition in this area.

Opening Israeli payment systems to international payment service providers - In February 2023, the Bank of Israel enabled the opening of controlled payment systems in Israel to international payment service providers. The initiative aimed to allow these entities to operate immediately within the systems, thereby offering services and value propositions to the Israeli public based on foreign licenses. The framework that the Bank of Israel developed for opening payment systems to these entities is divided into two tracks. The framework relies on the exemption granted to entities licensed by a recognized country under the Minister of Finance's regulations, which set conditions for granting exemptions from licensing requirements for providing financial asset services in Israel.

Granting licenses to new acquirers: Cardcom Settlements Ltd., Tranzila Ltd., and Upay Finance Ltd. The Banking Supervision Department, along with additional partners, has been working in recent years to establish the financial system as a competitive and advanced system for the benefit of customers, partly by granting licenses to new acquirers. As part of this, a simplified and supportive process for obtaining an acquirer's license was set out, significantly reducing capital requirements for new acquirers and providing additional regulatory relief. Accordingly, in 2023 and 2024, permanent acquirer licenses were granted to **"CardCom Settlements Ltd."** and **"Tranzila Ltd."**, and a temporary acquirer license (a limited license until completion of administrative and operational preparations) was granted to **"Upay Finance Ltd."**.

The Regulation of Payment Services and Payment Initiation Law, 5783–2023, which came into effect at the beginning of June 2024, stipulates that payment service providers, including acquirers that are not prudential payment service providers, will be supervised by the Israel Securities Authority. New acquirers who received licenses from the Bank of Israel were given a six-month period to submit an application for a license from the Israel Securities Authority.

The regulatory framework

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In August 2011, the Knesset approved Amendment No. 18 to the Banking (Licensing) Law, 5741–1981. As part of the amendment, a chapter was added that addresses the settlement of payment card transactions. Among other things, it prohibits engaging in settlement activities without a merchant acquirer's license issued by the Governor of the Bank of Israel. A company that receives a merchant acquirer's license is subject to Bank of Israel supervision.

The Prohibition of Money Laundering Law, 5760–2000 was enacted in August 2000, and about 18 months later, the chapters relating to the obligations imposed on financial entities came into force. At the same time, the Governor of the Bank of Israel also issued a directive prohibiting money laundering, which imposes requirements on banking corporations regarding customer identification, record keeping, and reporting to the Israel Money Laundering and Terror Financing Prohibition Authority. In early 2005, the **Prohibition of Terrorism Financing Law, 5765-2005** came into force, and at the same time the guidelines for the Israeli banking system were modified to include measures to combat the financing of terrorism (CFT). An additional step in this war was taken in November 2006, when the Knesset approved regulations relating to the prohibition of terrorism financing. New measures are constantly being considered in Israel as part of the war on money laundering and the financing of terrorism (AML/CFT), and existing measures are being reconsidered or updated, all in accordance with various developments and in order to deal with the increasing level of sophistication of crime in this field. These measures include amendments to legislation and revisions to regulations to elevate the requirements in the area of risk management, including special requirements regarding the use of payment cards, in order to prevent the execution of illegal transactions via the Internet.

On February 2, 2014, an amendment to the Prohibition of Money Laundering Order relating to the Identification, Reporting, and Management of Banking Corporation Records to Prevent Money

Laundering and the Financing of Terrorist Activity, 5761–2001, was published in Reshumot (the Official Gazette), after it was approved by the Knesset's Constitution, Law, and Justice Committee on October 29, 2013. The Amendment to the Order includes new AML/CFT provisions. For example, requirements were added regarding the examination and registration of the names of parties to international transfers, the Know-Your-Customer (KYC) requirement was established and related instructions and requirements were added, an obligation to retain documents for a longer period was added at the request of the Supervisor of Banks, and reference was made to the list of at-risk countries published by the head of the Israel Money Laundering and Terror Financing Prohibition Authority in accordance with Financial Action Task Force (FATF) publications. The amendment also refers to the definition of "extraordinary activity" that requires a report to the Authority, as set forth in Section 1. This definition was amended to read: "An activity that, in light of the information available to the banking corporation, raised concerns that it is related to activities prohibited under the Prohibition of Money Laundering Law or the Prohibition of the Financing of Terrorism Law." The Order came into effect on August 2, 2014.

Also that year, on May 12, 2014, the Knesset's Constitution, Law, and Justice Committee approved the wording of the Amendment to the Prohibition of Money Laundering (Obligations of Identification, Reporting, and Management of Records of Currency Exchange Service Providers) Order, 5762–2002. The amendment includes new provisions that will apply to currency exchange service providers, as defined in the Prohibition of Money Laundering Law, 5760–2000. Among other things, currency exchange service providers are required to perform a Customer Due Diligence (CDD) procedure for regular customers, obligations were established regarding foreign public figures, an obligation was imposed to verify the identification details of service recipients, reliefs were provided in order to allow currency exchange services without face-to-face identification in certain circumstances, currency exchange service providers whose annual turnover exceeds NIS 3 million are subject to CFT requirements, a requirement was imposed to establish a computerized database, and the reporting thresholds for the Israel Money Laundering and Terror Financing Prohibition Authority were revised. The Order took effect on March 30, 2015.

Shortly after the approval of the amendment to the Prohibition of Money Laundering Order, on July 30, 2014, the Knesset plenum approved in second and third readings the Prohibition of Money Laundering Bill (Amendment No. 13) (Business Service Providers), 5774–2014, which deals with the application of the AML/CTF regime to business service providers (lawyers and accountants). The amendment is intended to prevent the exploitation, for the purpose of money laundering or terrorism financing, of business service providers who perform financial transactions for their clients, and was set out in accordance with international standards in the field, which include a requirement to apply the AML/CTF regime to these sectors.

The **Amendment to the Prohibition of Money Laundering Law, 5760–2000**, published on August 7, 2014, and the **Prohibition of Money Laundering (Obligations of Identification and Management of Records of a Business Service Provider to Prevent Money Laundering and Terrorism Financing) Order, 5775–2014**, which was published on December 2, 2014, apply AML/CTF requirements to lawyers and accountants who provide clients with certain business services that are specified in the law.

On January 31, 2018, the Knesset's Constitution, Law, and Justice Committee approved the Prohibition of Money Laundering (Identification, Reporting, and Management of Records of Credit Service Providers to Prevent Money Laundering and Terrorism Financing) Order, 5778–2017, which applies the AML/CFT regime to credit services providers.

The operations of credit service providers are regulated by the Financial Services Supervision (Regulated Financial Services) Law, 5777–2016. As part of this law, a new financial regulator was established for comprehensive regulation of the financial services industry, including noninstitutional credit providers.

The AML/CFT regime was imposed on credit service providers by adding them to the Third Addendum to the Prohibition of Money Laundering Law, 5760–2000. This enables the Minister of Finance to set out their requirements relating to identification, record management and preservation, and reporting, as stated in Section 7(b) of the Prohibition of Money Laundering Law. The Order requires credit service providers to identify and authenticate service recipients, perform a KYC procedure, report certain actions to the Money Laundering and Terror Financing Prohibition Authority, manage controls of the service recipients' activities, check if customers appear on the list of terrorist operatives, and record and maintain documentation. The Order also provides for certain reliefs when credit is given in a closed or semi-¬closed system and when the service provided is in a small amount, as defined in the Order. The Order took effect on March 15, 2018, was approved by the Knesset's Constitution, Law, and Justice Committee on January 23, 2019, and is designed to regulate the AML/CTF obligations of credit intermediation system operators. On April 10, 2019, the Order was published in Reshumot (the Official Gazette).

On August 1, 2021, the government assigned to the Minister of Finance the task of publishing a legislative memorandum to regulate the provision of payment services within 150 days of the decision. The Israel Securities Authority is responsible for supervision and regulation of payment service provision. In addition, it was decided to task the Minister of Finance and the Minister of Justice with publishing legislative memoranda, within 150 days of the decision, that will enable initiated payment services. The Bank of Israel's Payment and Settlement Systems Department led an interministerial team that formulated the principles for licensing the provision of initiated payment services. The team included the Banking Supervision Department, the Ministry of Finance Budget Division, the Ministry of Justice, the Competition Authority, the Israel Securities Authority, and the Capital Market, Insurance, and Savings Authority. These principles will be incorporated into the draft Regulation of Payment Service Provision Law.

On November 14, 2021, the Prohibition of Money Laundering (Financial Service Providers) Order took effect. The Order applies to all new service providers: fintech companies, credit providers, and cryptocurrency companies. Under the Order, entities providing these services will be subject to the requirements stipulated in the Order, in order to prevent potential money laundering or terrorism financing through these companies. The Order applies the AML/CFT regime to financial asset service providers by extending the Order that applies to credit service providers to this sector as well, with necessary adjustments. It also revises several provisions of the Order that currently apply to credit service providers, in accordance with international standards in the field. Among other things, it sets out provisions that require the identification and authentication of service recipients, as well as requirements for reporting

to the authorities regarding service recipients' activity and irregular events. The Order also provides an opportunity for a permanent license to be granted to entities dealing with digital currencies.

On February 1, 2016, the Digital Check Settlement Law, 5775–2015 was approved, and on November 21, 2017, implementation of the law was completed. The full implementation of the Digital Check Settlement Law allows the conversion of a paper-based check into a digital record that can be legally used as evidence and will be recoverable at any time if necessary, without retaining the physical paper check. The Digital Check Settlement Law has very significant implications for the clearing and settlement process. The physical paper check will be retained at the bank where it is presented for payment, will be photographed, and its image will be sent to the debited bank, without the need to retain the physical paper check for years as was previously required. In addition to the changes in the presentation process, the check return process has also changed. When a check is returned, the customer may send the bank a digital request to present it again, unless the reason for returning the check prevents further presentation. The customer may request from the bank a document called "Output of a Computerized Check", which will serve as a legal substitute for the physical paper check itself, or independently print the "Output of a Computerized Check" from the website of the bank where their account is managed.

On January 31, 2017, the Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments) Law, 5777–2017 was published in Reshumot. The law amended the Banking (Licensing) Law, 5741–1981, in order to implement the main recommendations of the Committee to Increase Competition in Common Banking and Financial Services (the Strum Committee). A new section added to the law prohibits banks with large-scale operations, meaning banks whose asset value exceeds 20 percent of the asset value of all the banks in Israel, from engaging in the issuance of payment cards or the settlement of payment card transactions. This section was intended to detach the credit card companies from the large banks that owned them, and to allow those companies to pose a competitive threat to the banking system in the retail credit field. Subsequently, in 2019, the disengagement of Max Ltd. from Bank Leumi Ltd. was completed, and in 2020 the disengagement of Isracard Ltd. from Bank Hapoalim Ltd. was completed.

In July 2017, a legislative memorandum dealing with the essential provisions and consumer protections of the Payment Services Law, 57772017 was published for public comments. This memorandum proposed to replace the Payment Cards Law, 5746–1986 with a comprehensive law that was in line with the technological developments in the area. The memorandum was based on European regulations, in accordance with the principles established by the Committee. The memorandum sought to regulate two main contractual systems: (1) the contractual system between a payment service provider—an acquirer or a payment account manager—and the payer; (2) the contractual system between a payment service provider—an acquirer or a payment account manager—and the beneficiary. The memorandum also seeks to establish general provisions regarding the execution of payment orders and liability arrangements relating to them. **The law was drafted and advanced by the Ministry of Justice, and took effect in October 2020. It is the result of collaboration between the Ministry of Justice, the Bank of Israel, the Ministry of Finance, and the Competition Authority.**

On August 7, 2017, the Bank of Israel published a draft of the Banking (Conditions for Hosting an Acquirer) Rules, 5777–2017.[81] These rules regulate the status and operations of a hosted merchant acquirer, including the hosting conditions. In parallel, the regulation of all aspects of licensing that apply to payment service providers was advanced, through an amendment to the Financial Services Supervision (Regulated Financial Services) Law, 5776–2016. The amendment establishes a licensing requirement for payment service providers and regulates the supervision applicable to them. The new law includes provisions and definitions, so that it and the liability arrangements arising from it apply to all parties involved in the provision and execution of payment services. Consequently, the new law applies to all types of payment service providers, both on the issuance side (payment service providers for the payer) and on the settlement side (payment service providers for the beneficiary). As such, all means of payment are subject to the new arrangement, including current accounts, digital wallets, payment applications, and transfers via payment accounts or means of payment, in addition to payment cards. As of February 2022, the new law also applies to one-time means of payment (cash substitutes) that fall within the legal definition of a "means of payment", so that all its provisions will also apply to gift cards, one-time purchase vouchers, and the like.

Although the **Payment Services Law, 5779–2019** is based on the European Payment Services Directive, it retains the main consumer protection arrangements established under the Payment Cards Law. In the area of consumer protection, the law imposes strict obligations on payment service providers to disclose details and risks entailed in the service, and prohibits conduct that may mislead the customer. The law gives customers a series of rights, including the option to request a freeze on the means of payment for a limited period, not to exceed two weeks; the right to deny a transaction and receive a (conditional) credit for a variety of reasons—from a claim that the card was used by a person other than the customer, through a claim that the debited amount differs from the amount agreed to between the beneficiary and the customer, to claims of a "card-not-present transaction," meaning a transaction performed without inserting the physical card and without entering the PIN code at a point of sale, for example in online transactions or transactions using proximity payments (NFC). The law also requires the payment service provider to identify the customer and obtain their express consent to the establishment of a debit order as a condition for its establishment, for example when establishing a "standing order" in the customer's current account or through the customer's credit card. The law grants the customer the power to revoke a standing order at any time by notifying the beneficiary or the service provider. The law also stipulates that a standing order that has not been used for two years is automatically cancelled.

In the area of a payment service provider's responsibility toward the customer, the Payment Services Law stipulates that in the case of a payment transaction that involves the participation of several payment service providers, where one of them has a glitch, they all jointly and severally bear responsibility for investigating the cause of the glitch and taking reasonable measures to compensate the customer. This means that the customer has the right to contact any of the payment service providers involved in the payment transaction, at the customer's discretion, The payment service provider that was contacted by the customer must compensate the customer if it was responsible for the glitch, and if it was not responsible, it must act with the payment service provider that was responsible in order to investigate the customer's claim.

[81] https://boi.org.il/media/txil5q3k/%D7%AA%D7%A0%D7%90%D7%99-%D7%90%D7%99%D7%A8%D7%95%D7%97-%D7%A1%D7%95%D7%9C%D7%A7.pdf [in Hebrew]

On August 13, 2018, the Ministry of Finance published a legislative memorandum of the Supervision of Regulated Financial Services (Provision of Payment Services) Law, 5778–2018. The memorandum is part of the efforts to implement the conclusions of the Committee to Increase Competition in Common Banking and Financial Services, which recommended regulating the activities of nonbank payment service providers in accordance with the requirements of the Second European Payment Services Directive (PSD2), adapted to the Israeli market. The memorandum seeks to regulate the operations of payment service providers: management of a payment account that allows the transfer of payments for products and services; issuance of means of payment; settlement of payment transactions; and provision of ATM services. The main points of the memorandum are: determining the regulator and defining its supervisory authorities; defining licensing requirements and the requirement to obtain a permit to control and hold a licensee; special restrictions on payment service provision licensees; and conditions of access to controlled payment systems.

On October 14, 2020, the Payment Services Law, 5779–2019 came into force, whereby the Payment Cards Law, 5746–1986 was repealed. The purpose of the law is to regulate the balance of power in general, and specifically the contractual relations, between all payment service providers and their customers (payers or beneficiaries). The Payment Services Law was enacted in view of the Israeli market's transition, beginning in November 2020, to the EMV standard, which allows payment by payment cards using a "smart chip" without the need to swipe the magnetic stripe in a payment terminal.

On March 12, 2018, the Knesset plenum approved the Reducing the Use of Cash Law, 5778–2018. The bill was brought before the government in accordance with a 2014 decision that adopted the recommendations of the Committee to Examine Reducing the Use of Cash in Israel's Economy. The purposes of the law are to reduce the volume of unreported capital in Israel, combat money laundering, and enable the use of advanced and efficient means of payment. Legislative work began in 2015. The legislative memorandum was approved in first reading in the Knesset on March 8, 2018, and in second and third readings on March 12, 2018. The law stipulates that, above a certain value, the parties to a transaction will be prohibited from giving and receiving payment in cash or in checks that are not made out exclusively to the beneficiary. It is also forbidden to make payment by check without specifying the beneficiary's details on the face of the check. Violating the restrictions involves financial sanctions or fines for both parties to the transaction. The law took effect on January 1, 2019.

On November 11, 2021, an Order was published in *Reshumot*, which lowered the maximum amounts permitted for the use of cash (together with regulations on administrative offenses), effective August 1, 2022. The order, which was approved by the Knesset Constitution, Law, and Justice Committee on October 27, 2021, lowers the maximum permitted amount of a cash payment involving a merchant, for a transaction, salary, donation, or loan, to NIS 6,000 instead of NIS 11,000. The maximum permitted amount of a cash payment to a person who is not a merchant, for a transaction, salary, donation, or loan, was lowered to NIS 15,000 instead of NIS 50,000 (excluding transactions for the purchase of a vehicle, for which the maximum permitted amount remains NIS 50,000). The Committee also approved a fine of 5 percent

of the contravention amount for receiving a salary payment in cash of between NIS 6,000 and NIS 8,500. Fines of 10, 15, or 25 percent of the contravention amount will be imposed (depending on the transaction amount) for transactions other than salary payments. In the first two years, a temporary order will be in place, under which no administrative fine will be imposed for contraventions related to salary payments, unless a warning has already been sent. A repeat offense will result in a double fine.

Program to separate SHVA and MASAV – In October 2019, the Competition Authority issued a demand that the companies work to separate the connections between them. In early April 2021, the Competition Authority and the companies reached certain agreements, and the companies submitted a request to the competition tribunal to temporarily permit the terms that were approved. As the supervisor of payment systems, the Bank of Israel exercises control over the implementation of the program by the system operator in order to ensure the stability, efficiency, and proper functioning of the systems, and will continue to cooperate with the Supervisor of Competition with regard to regulating the connections between the companies.

On August 4, 2021, the Banking Supervision Department published a draft document, which includes amendments to Proper Conduct of Banking Business Directive No. 411 on AML/CTF risks. The amendments were made in response to an audit conducted in Israel by the FATF in 2018. Several of the amendments address electronic payment transfers:

- A new requirement obligates banking corporations to authenticate the identity of the transfer recipient if the source of the transfer is outside Israel, the transfer amount exceeds NIS 5,000, and there is no special reason to doubt that the monetary action is illegitimate;
- A new requirement obligates banking corporations to set out risk-based procedures when the source of a monetary transfer is outside Israel, whether the banking corporation is the manager of the beneficiary's account or whether it is the intermediary in the transfer;
- A new requirement obligates banking corporations that execute a monetary transfer for a customer to transfer information on the transaction to the enforcement authorities immediately upon their first demand;
- According to a new requirement, when a batch of several transfers are made for the same customer to several beneficiaries outside Israel, each transfer in the batch must include the details of the transferor and the transfer recipient.

On October 26, 2021, the amendments took effect in a final manner.

On June 19, 2022, the Bank Supervision Department at the Bank of Israel issued a new directive on improving the information that is displayed to customers of advanced payment services. The directive contains rules that apply to the banking corporations and are related to the manner in which information on monetary transfers is displayed to customers in payment apps, with the aim of improving customers' ability to track the transactions in their accounts. The directive requires that the rules be implemented with respect to monetary transfers via all payment apps, and implementation is not limited to apps controlled by the banks. The rules determined that the following information on transactions originating from payment apps will be displayed to private customers:

- The name of the app from which the transaction originates;
- The name of the payer/beneficiary (the counterparty to the transaction);
- The amount and date of the transaction;
- The purpose of the transaction will also appear, if such information was given.

The directive took effect on January 1, 2023.

Cancellation of SHVA's license as a joint services company at the end of May 2022. As part of the Increasing Competition and Reducing Concentration in the Israeli Banking Market (Legislative Amendments) Law, 5777–2017 (the Shtrum Law), control of an interface system operator or holding of 10 percent of a particular type of means of control in an interface system operator were prohibited. Due to the provisions of the Shtrum law, SHVA held an IPO. In view of the results of the institutional tender, banking corporation holdings of the company fell below 50 percent, and the company's joint services banking corporation license was cancelled by the Governor.

On June 19, 2022, the Payment and Settlement Systems Department gave notice that the Banking Supervision Department decided that entities that do not use a 4-party model may receive direct access to SHVA's payment card system. These entities are operators of customer loyalty clubs that operate a closed loop payment (CLP) model in which a single entity is both the acquirer and the issuer. Prior to this decision, these entities were compelled to maintain their own settlement infrastructure and deploy it in the premises of the merchants affiliated with their loyalty club, whereas in the new model these entities may join the system and acquire the payments related to their loyalty club using the payment terminals that already exist in merchants' premises.

On August 8, 2022, the Governor of the Bank of Israel declared that the EMV protocol is a controlled system pursuant to the Payment Systems Law. The protocol is operated by "The Association for Management of the EMV Terminal Protocol in Israel" – a registered nonprofit company. The EMV Protocol is one of the economy's major payment systems. It sets out the business logic and the technical specifications for executing transactions via payment cards, through a set of rules that define how data are requested and received, and how payment orders using payment cards are transmitted between various participants and executed. This announcement makes it possible to supervise this system and verify its stability and efficiency.

On September 28, 2022, it was announced that the Bank of Israel and the Capital Market, Insurance and Savings Authority agreed that entities supervised by the Authority may connect to the payment systems. The entities included in this agreement are entities that are supervised by the Capital Market, Insurance and Savings Authority and provide financial asset services or are deposit and credit associations. They will be required to meet additional conditions set by the Authority, in addition to the requirements that apply to them as entities supervised by the Authority. Following this agreement, on October 26, 2022, the Association for Management of the EMV Terminal Protocol in Israel was allocated an identification code that allows it to operate in the payment systems.

Windows for joining the controlled payment systems: On December 11, 2022, the Bank of Israel instructed the operators of the ZAHAV, Faster Payments, Payment Card, and ATM systems to publish the dates of "entry windows" in the next two years on which nonbank entities will be able connect to those systems, in order to allow those entities to provide payment services using existing infrastructure. **On January 17, 2023, the Payment Systems Oversight Unit published the dates that were decided upon:**

- Credits, Debits, and Payment Transfers, and Real-Time Transfers: April and November 2023, and April and November 2024;
- ZAHAV: April and November 2023, and June and November 2024;
- Payment Cards and ATM: January and July 2023, and January and July 2024.

Enhanced verification principles: On January 3, 2023, the Bank of Israel published the principles for implementing stronger customer authentication, developed by the Payment Card Market Committee. According to the principles, at least two of the following types of authentication will be used in the stronger customer authentication process (that is designed to increase the safety of payment execution):

- Something You Know - Information only the user knows.
- Something You Have - Something only the user possesses. Possession refers not only to physical possession, but also to nonphysical possession.
- Something You Are - This category includes biological, behavioral, and biometric features.

On February 14, 2023, an identification code was allocated to a new bank — Esh Israel (under establishment) Ltd.

On February 28, 2023, the Bank of Israel announced that international entities that have a license to provide payments services issued by a country defined by Minister of Finance regulations as a "recognized country"[82] and that meet the conditions that appear in the Ministry of Finance's regulations on exemption from a license to provide financial asset services in Israel, **may also connect to the payment systems in Israel**, in one of the following tracks:

- Connecting to the **test environment:** Payment service providers that meet the conditions for an exemption may connect to the payment systems and conduct experiments in the systems' test environment;
- Connecting to the **production environment:** Payment service providers with at least two years of experience, after receiving a license, with a customer base of at least 5 million customers, and that meet additional conditions, may connect to the production environment.

Approval of the Governor of the Bank of Israel is a final condition before the connection.

[82] According to Ministry of Finance regulations: UK, EU, and US.

On March 29, 2023, the Banking Supervision Department issued a revision to Proper Conduct of Banking Business Directive No. 422 on Opening a Current Account with no Credit Facility and Managing an Account, adding the following to the list of financial services that a bank may not unreasonably refuse to provide: direct debit cards and cash withdrawal services. These measures allow restrictions on use by amount or period of use, and the banking corporation is required to define an appropriate ranking for the proper use of these services.

On July 5, 2023, the Bank of Israel published guidelines for a new fund transfer service between accounts without requiring the beneficiary's full account number. The payment will be immediate and will be executed through an identifier known as a proxy. Initially the service will be used for real time credits, but in the future it will also be used for R2Ps. The identifier may be an email address, a mobile phone number, or similar. The guidelines define the possible proxies and distinguish between individual and business users, and define the steps that the real-time payments system participants must take in order to be able to offer the new service. All system participants must comply with these principles by June 2024.

On July 18, 2023, the Governor of the Bank of Israel announced the issue of a permanent merchant acquirer's license to Cardcom Settlement Ltd., on the recommendation of the Supervisor of Banks and after consulting with the License Committee.

On June 6, 2023, The Regulation of Payment Services and Payment Initiation Law, 5783–2023 was enacted. The law will take effect in June 2024. The law authorizes the Israel Securities Authority (ISA) to issue a license or a permit for provision of payment services or basic payment initiation services to corporations that meet the statutory requirements, and authorizes the ISA to supervise licensees and permit holders. The law also authorizes the ISA to issue directives for licensees on various issues including appropriate advanced information security, risk management and cyber-defense mechanisms, and with respect to payment companies, also business continuity including the duty to appoint officers in charge of information security, risk management, and cyber-defense, and to define their qualification and training requirements. The law mainly regulates the licensing processing and regulatory regime that applies to nonbank entities operating or seeking to operate in the payment services sphere. In this manner, the law constitutes a supplementary arrangement to the Payment Services Law, 5779–2019, which defines the consumer-related obligations of payment service providers toward their customers. The services regulated by the law include payment account management, issuance of means of payment, settlement of payment transactions, and payment initiation, which is a new service that is basically designed to enable simple, convenient, online execution of payments from one account to another.

On November 19, 2023, identification codes were allocated to nonbank payment service providers that were in the process of connecting as participants to the Israeli payment systems: "Grow" by Meshulam Payment Solutions Ltd., Global Remit Currency Services Ltd., and A.T.M.S. Matrix Ltd.

On February 6, 2024, an identification code was allocated to the nonbank payment service provider Neema Shefa Israel Ltd.

On April 17, 2024, an identification code was allocated to the international nonbank payment service provider Remitly.

On May 12, 2024, identification codes were allocated to two nonbank payment service providers: GMT Tech Innovation Ltd. and V-Check Ltd.

Rules of the ZAHAV System and the Paper-Based (Checks) Clearinghouse

In addition to the aforementioned legislative amendments, the Bank of Israel has signed several agreements and MOUs with entities operating in the payment and settlement systems in Israel: the banking corporations, MASAV, SHVA, and the Stock Exchange Clearinghouses. The agreements include the **ZAHAV System Rules** and the **Paper-Based (Checks) Clearinghouse Rules**. Deviation from these rules may lead to malfunctions in the payment systems or affect their stability. The ZAHAV System Rules establish the rules and arrangements for the operation of the ZAHAV system and define its participants' obligations. These rules apply to all participants and are binding on them by virtue of the participation agreements they have signed. They are effective from the date the system commenced operations (July 30, 2007), and include regular updates that the Bank of Israel manages and distributes in versions that are published from time to time. The functional, technical, and operational information contained in the rules and its appendices is confidential, and the system participants and those acting on their behalf can only use this information for their activities in the system. **The Paper-Based (Checks) Clearinghouse Rules** regulate the relationship among the participants and between them and the Clearinghouse. Changes to the Clearinghouse Rules are usually based on decisions by the members of the Clearinghouse Committee. The regulations and their appendices set out the conditions for the structures of the various settlement messages, as well as the forms used for that process.

Financial intermediaries

The financial intermediaries, the entities that provide services within the payment and settlement systems, are:

The banking system: The banking system in Israel includes[83] Israeli commercial banks, foreign banks, credit card companies, and settlement companies. The banking corporations offer a wide range of banking services, and also participate in the various settlement systems. The banking corporations are subject to the supervision of the Banking Supervision Department at the Bank of Israel.

Systems operated by MASAV: The Debits Credits and Transfers system and the Fast Payments system carry out digital credits and debits.

Payment cards system: A system operated by SHVA in which various types of payment card transactions are processed. The system enables communication between merchants' payment terminals, issuers, and acquirers in order to make transactions, as well as daily settlement between the various acquirers and issuers.[84]

The ATM system: The system is operated by SHVA, and is used to execute cross-over cash withdrawals from automatic teller machines (ATMs). The system enables communication between ATM operators and payment card issuers, thereby enabling the card holder to withdraw cash from any ATM, irrespective of the issuer or the ATM operator. This system also enables daily settlement between machine operators and issuers in respect of all transactions made through ATMs during the day.

Stock Exchange Clearinghouses: The Securities Clearinghouse and the MAOF (Derivatives) Clearinghouse are subsidiaries of the Tel Aviv Stock Exchange Ltd., and they operate under the **Securities Law, 5728–1968**, and in accordance with the clearinghouses' bylaws. The Bank of Israel signed **an MOU with the Israel Securities Authority** to regulate the cooperation between the Bank of Israel and the ISA regarding the Stock Exchange Clearinghouses and the transfer of information on the Clearinghouses' activities from the Israel Securities Authority to the Bank of Israel.

The Postal Bank: A subsidiary of Israel Post. The Postal Bank offers a variety of financial services to business customers, government entities, and the general public through branches located nationwide. These include teller services for various payments, current account management, and foreign exchange services. According to the Postal Law, 5746–1986, the Bank is not allowed to grant credit to its customers against deposits (because it is not allowed to pay or charge interest). The Postal Bank is wholly government-owned, supervised by the Ministry of Communications, and participates in the various payment systems, including the ZAHAV system.

[83] https://www.boi.org.il/he/BankingSupervision/Data/Pages/tbanks.aspx.
[84] MASAV and SHVA are also supervised by the Payment Systems Oversight Unit, pursuant to the Payment Systems law.

Credit card and settlement companies: There are three credit card companies in Israel[85] that issue bank and nonbank payment cards and acquire credit cards. They also offer their customers various credit solutions. In addition, there are two settlement companies.[86]

Credit associations: A credit association is a cooperative bank-like entity that provides financial services to its members, but is a not-for-profit entity. In 2022, Ofek Credit Union Ltd. became the first credit association that was given an identification code to the banking system and to the payment system so that it can operate in them.

The Bank of Israel's role with regard to the payment systems

Payment and settlement systems are an essential part of the economic and financial infrastructure of modern economies, and their efficient functioning contributes to the development and financial stability of those economies. Section 4(5) of the Bank of Israel Law stipulates that one of the Bank's functions is "regulating the economy's payment and clearing systems so as to ensure their efficiency and stability." The Bank of Israel acts to promote the safety, reliability, and efficiency of the payment and settlement systems, and takes measures to reduce the risks associated with clearing and settlement.

The Payment and Settlement Systems Department is responsible for maintaining the safety, stability, reliability, and efficiency of the payment and settlement systems, and to this end, it operates in three parallel channels:

a) Operation of payment systems

The Bank of Israel operates the ZAHAV system and the Paper-Based (Checks) Clearinghouse, and participates in some of the various payment systems for the purpose of making payments. In this framework, the Payment Systems Oversight Unit continuously monitors the operations of the systems and the activities of their users in order to identify potential failures in advance; deals with cases of operational, technical, or business failure of systems or of one of the settlement participants; provides support to participants; and monitors and controls shekel settlement by CLS in the ZAHAV system. These actions require digital links and interfaces to financial institutions in Israel and abroad. The links are created through various communication interfaces and appropriate applications including SHVA, Kasefet, and SWIFT.

b) Control and supervision of the payment systems

The recognition of the importance of the payment and settlement systems and the scope of the risks they face has prompted central banks around the world—including the Bank of Israel—to establish a system that monitors and supervises the operations of those systems.

[85] Isracard, MAX, and Cal.
[86] Tranzilla Ltd. and Cardcom Settlement Ltd.

The Payment Systems Law establishes the Bank of Israel's authority to conduct control of payment systems. Among other things, the law sets out the conditions and considerations for declaring a payments system as a controlled system or a designated controlled system, the tools available to the Bank of Israel in exercising its authority over system operators, and the obligations applicable to system operators. According to the law, the Bank of Israel may demand information from payment systems and order them to change their operating mode. In 2008, the Bank of Israel declared the ZAHAV system and CLS as designated controlled payment systems, subject to the Bank of Israel's control authority. In July 2013, the Bank of Israel declared three additional payment systems as controlled systems: "Credits, debits and payment transfers", which is operated by MASAV, and "payment card services" and “ATMs,” which are operated by SHVA.

The main role of the Payment Systems Oversight Unit at the Bank of Israel is to regulate the operations of the designated controlled payment and settlement systems in order to ensure their efficiency and stability. The Unit also examines payment systems’ compliance with international Principles for Financial Market Infrastructures (PFMI).[87] These principles address a variety of aspects, including general organizational aspects such as legal foundations and corporate governance; the management of credit, settlement, liquidity, business, and operational risks, and the management of the system in a state of failure; and system accessibility, efficiency, and transparency.[88]

c) Implementation of improvements and advancement of reforms in the payments array in Israel

The Payment and Settlement Systems Department leads strategy and works to improve the stability and efficiency of the payments sphere in Israel by (1) expanding the use of advanced and secure digital means of payment for the general public and establishing guidelines to encourage their use, reducing the use of paper-based means of payment, promoting digital alternatives, and regulating the supporting legal framework; (2) initiating reforms to promote the payment and settlement systems and future means of payment; and (3) conducting research and regular surveys to obtain an up-to-date image of payment operations in Israel.

[87] The document was published in 2012 and is available at: http://www.bis.org/publ/cpss101a.pdf.

[88] In addition to the issues addressed in detail, the document elaborates on the areas of responsibility of the regulators of the financial infrastructures and the entities that supervise them (the central bank, the financial market supervisors, and other supervisory authorities) when implementing these principles.

ACRONYMS AND ABBREVIATIONS

ACH	AUTOMATED CLEARINGHOUSE[89]
ATM	AUTOMATED TELLER MACHINE
BIS	BANK FOR INTERNATIONAL SETTLEMENTS
CCP	CENTRAL COUNTERPARTY
CET	CENTRAL EUROPEAN TIME
CLS	CONTINUOUS LINKED SETTLEMENT
CVM	CARDHOLDER VERIFICATION METHOD LIMIT
CPMI	COMMITTEE ON PAYMENT AND MARKET INFRASTRUCTURES
CSD	CENTRAL SECURITIES DEPOSITORY
DVP	DELIVERY VERSUS PAYMENT
EMV	EUROPAY, MASTERCARD, AND VISA
FIFO	FIRST-IN-FIRST-OUT
FMI	FINANCIAL MARKET INFRASTRUCTURE
FSAP	FINANCIAL SECTOR ASSESSMENT PROGRAM
FX	FOREIGN EXCHANGE
IBAN	INTERNATIONAL BANK ACCOUNT NUMBER
ICS	INTRADAY CREDIT SYSTEM
IOSCO	INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS
LSA	LOSS SHARING ARRANGEMENT
NFC	NEAR-FIELD COMMUNICATION
PFMI	PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES
POS	POINT OF SALE
PVP	PAYMENT VERSUS PAYMENT
RTGS	REAL-TIME GROSS SETTLEMENT[90]
SIPS	SYSTEMICALLY IMPORTANT PAYMENT SYSTEMS
SSS	SECURITIES SETTLEMENT SYSTEM
SWIFT	SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION

[89] In Israel, the automatic clearinghouse is MASAV (Hebrew acronym for Bank Clearing Center).
[90] In Israel, the RTGS clearinghouse is called the ZAHAV system (Hebrew acronym for Real-Time Credits and Transfers).

GLOSSARY OF TERMS

Means of Payment	Any financial instrument that allows its holder to transfer funds or pay for services and assets. Common means of payment are cash, checks, direct debits, direct credits, and payment cards.
Credit	The right to purchase or use goods and services, with a commitment to pay at a later date.
Daily credit	Credit provided for one business day. Also called "daily overdraft" or "intraday credit".
Digital wallet	An electronic device that allows a person to store or accumulate other means of payment, and is intended for payment transfers and the purchase of services and assets between two parties.
Collateral	Tangible property pledged to the bank and used to secure loan repayment. Collateral can be liquid in nature so that it can be easily realized—such as securities traded on the stock exchange, bank deposits, accounts receivable, and other types of property (tradable collateral)—or real estate (nontradable collateral). The collateral becomes the property of the lender if the borrower does not meet the terms of the loan.
Money laundering	Financial transactions that aim to hide the source of the money, usually because the source is illegal, or because they did not pay tax on the money. The "prohibition of money laundering" process returns the money to the lawful system.
Monetary loan	A loan that the Bank of Israel provides to banks for a period of one day (daily tender) or one week (weekly tender), using a graduated tender on the interest rate.
The Monetary Aggregate (M1)	Total cash held by the public and total demand deposits by the public in banks. This definition does not include the balances deposited in the Bank of Israel or the balances stored in safe deposit boxes at the banks.
Business continuity in a payment system	Arrangements in a payment system that aim to ensure that it meets agreed service levels even in the event that one or more of its components fails, or in the event that an exceptional external event affects it. This term includes both preventive measures and arrangements for dealing with unexpected events.
Acquirer	A party that enables a merchant to honor payment card transactions, and the party that transfers the request for approval of the charge to the issuer, and the party that ensures the payment to the merchant if the request is approved.
Authorized debits (standing order)	A method of payments in which the beneficiary collects money from the payer through a bank. The process debits the payer's bank account and credits the receiver’s account by virtue of a debit presented by the beneficiary and by virtue of an authorization given by the payer.

Value date	The day on which the account of a participant in the payment and settlement systems or the account of the customer is credited or debited.
Stablecoin	A digital asset that operates on technological infrastructure, and the value of which is stable relative to some other asset. The mechanism that ensures the stability of the currency's value is operated by the currency's issuer.
Clearinghouse	A central place or a central processing mechanism through which financial institutions agree to exchange payment instructions or other financial obligations. The institutions settle the exchanged items among themselves at the determined time.
Controlled system	According to the Payment Systems Law, when a payment system is declared controlled, it is placed under the Bank of Israel's supervision. A system will be defined as controlled when its activity is essential to the entire payments system in the economy, and there is a concern that its improper, inefficient, or unreliable activity will cripple the payments system.
Designated controlled system	In accordance with the Payment Systems Law, when a payment system is declared as a designated controlled system, it is placed under the Bank of Israel's supervision, and the payments settled in it are final. The system will be defined as a designated controlled system when its activity is material to monetary and financial stability in Israel, there is a concern that its improper, inefficient, or unreliable activity will cripple the payments system, and the finality of payments and their protection against bankruptcy is important.
Liquidity	The ability of a business entity to meet current liabilities out of its total current assets (cash, tradable securities, and so forth).
Intraday liquidity	The liquidity available during a business day.
SWIFT	The communication system of the international organization SWIFT (Society for Worldwide Interbank Financial Telecommunication), which enables the secure sending and receiving of dedicated digital messages between financial institutions around the world.
Settlement	An action that discharges liabilities between two or more parties, relating to transfers of funds, securities, or other financial assets.
Net settlement	Settlement of a number of liabilities or transfers between or within a group of counterparties on a net basis.
Batch processing in payment systems	Accumulation of a set of payment orders and their joint processing at a specific point in time.

Bank of Israel, Payment and Settlement Systems Department

Overview of the Payments System in Israel

August 2024

Data for 2021–2022

with updates from 2023