CHAPTER 3

ACTIVITIES OF THE BANKING SUPERVISION DEPARTMENT IN 2020

The COVID-19 crisis that erupted in 2020, and its health-related ramifications, created acute economic uncertainty with broad repercussions. These prompted the Banking Supervision Department to focus during the year on managing the crisis, including adopting unprecedented measures to help the public to cope. The Department acted to safeguard the public's deposits, keep the banks stable, and encourage the banks to support the economy in order to avoid a credit crunch and to attenuate the economic impact of the crisis. The Department also took numerous steps to allow vital banking services to the public to continue on an adequate level. (For elaboration on the Department's measures during the crisis, see Box 3.1 in this Survey.) While dealing with the crisis, the Banking Supervision Department continued to promote matters related to its core objectives, as specified further in this chapter.

The Vision and Strategic Objectives of the Banking Supervision Department

The law instructs the Banking Supervision Department to act for the wellbeing of the public and the economy by pursuing three main objectives: protecting depositors' money, assuring the orderly functioning of the banking system, and protecting consumers of banking services. The Department occasionally sets additional objectives in order to support and help it to attain its permanent statutory objectives. Thus, it specified several supportive objectives that in 2020:

- promoting and encouraging technological innovation in the banking system;
- strengthening the role of the banking system in Israel's socioeconomy;
- improving management and accessibility of information in support of its work.

The importance of these objectives came into sharper resolution in view of the COVID-19 crisis, which demonstrated the importance and the significant role of the banking system in the economy. The banking system's actions in deferring the payback of loans taken by individuals and businesses that were adversely impacted by the crisis is an apt example of its role in the socioeconomic system and the importance of this objective. (For elaboration on payment deferral, see Box 1.1 in this Survey.) The immense importance of reliable and accessible information is not new and has long been known; nevertheless, the COVID-19 crisis amplified the importance of information as a supportive tool in decision-making and policymaking. The characteristics of the crisis led to severe volatility in the markets and in the activity of the banking system, making intensive and exceptional monitoring of ongoing supervisory processes necessary. Even though improvements took place in the scope and frequency of information reported to the Department in the course of the crisis, the Department's designation of improving information management as an objective is likely to add even more strength to the scope and reliability of the information that the Department uses to attain its objectives.

The advancement and encouragement of technological innovation in the banking system has been one of the Banking Supervision Department's objectives for several years now. In this field, too, the COVID-19 crisis accelerated the adoption of advanced technologies and technological innovation. The Israeli financial-services system made visible and meaningful progress toward its integration into a more innovative and competitive world. Several significant projects in this field, which the Department had long been acting to complete, were wound up in the course of 2020 and in early 2021. Noteworthy among them are the beginning of the launch of the digital bank, in which the bank tested its systems and working processes ahead of the onset of commercial activity later in 2021; the establishment of a Digital Banking Services Bureau for banks that lowered barriers to new entrants; and the first stage of the open-banking project. Similarly, the "Switch Banks with a Click" project is well along and is expected to enhance competition in the banking system by means of technological innovation.

1. MAIN MACROPRUDENTIAL ACTIONS AND PROTECTION OF BANK CUSTOMERS' DEPOSITS

The Banking Supervision Department continued to strengthen the banking system's stability and orderly functioning in the following ways:

- **Assessing the banks' risk profile**—The Department's economists carried out a lengthy series of assessments and ongoing follow-up of the banking corporations, including meeting with members of management and internal gatekeepers, reviewing annual work plans, examining important internal documents, analyzing public financial statements, and so on. The COVID-19 crisis had an immense impact on conventional supervisory processes and numerous dedicated supervisory processes were put into effect in order to respond to the characteristics of the crisis and the risks that escalated on its account. The processes included close and stringent monitoring of changes in the banks' credit portfolios, the extent of loan payment deferrals, and the interest rates charged to customers who rolled over their loans, among other measures. Also, the banks' sensitivity to the development of risks was examined in stress tests, as explained in detail below.
- **Stress-testing the banking system**—Conducting a uniform stress test to detect vulnerabilities and focal points of risk is an accepted practice among leading supervisory authorities around the world. The Banking Supervision Department subjects the banking system to an annual uniform stress test in accordance with the international standard. The Department, prompted by the COVID-19 crisis and with the help of the Bank of Israel Research Department in formulating the scenarios and the macroeconomic variables, conducted two standard stress tests. These tests took place in the middle of the crisis and were strongly influenced by it. The scenarios tested were based on the economic effects of the coronavirus crisis and forecasts as

to the development of the pandemic and its health and economic effects. In addition, in an exceptional move, the Department carried out two stress tests and made several methodological improvements and changes in so doing. Among other things, it asked the banks to make an assumption about the continued growth of their credit portfolios and took the standard test under the assumption of a dynamic balance sheet instead of the static one used and thus far. (For elaboration on the stress tests, see Box 1.2 in this Survey.)

- **Bolstering business continuity**—Functional and business continuity are enormously important when it comes to assuring the stability of the banking system and its ability to soundly deliver adequate banking services to its customers. In 2020, the Banking Supervision Department continued to make the banking system better prepared for various emergency situations. The COVID-19 crisis, which began to have visible effects in Israel toward the end of the first quarter, underscored the importance of preparing and practicing for states of emergency and their impact on the system's readiness when the crucial moment strikes. Despite the many restrictions that were imposed as the crisis unfolded, the banking system continued to provide its customers with banking services without risking the public's health. The Banking Supervision Department helped by issuing guidances and dispensations meant to bring the banking system's activity—and that of the branch system in particular—into line with the coronavirus era. After the first countrywide lockdown ended, the Department set out on a comprehensive learning process that helped to improve and bolster the way it went about its work as the crisis continued.
- **Strengthening the management of cyber and technology risks**—In its efforts to promote and reinforce the management of cyber and technology risks in the banking system, the Banking Supervision Department carried out several examination processes during the year. It had two goals: to review actions the banks took to mitigate risks and to detect focal points of risk or weaknesses in the banks' risk-management processes. Concurrently, the Department went about its regular processes in the cyber and technology fields.
- **Strengthening relations with supervisory authorities abroad**—After Israel signed the Abraham Accords and international cooperation agreements, the Banking Supervision Department established working relations with counterparts in the United Arab Emirates and Bahrain in order to create a professional discourse that will help to sustain interbank business relations and support bilateral trade. (For elaboration on the Abraham Accords, see Box 2.2 in this survey.)
- **Bank transfers to and from the UAE**—the Banking Supervision Department sent a letter to the banking system concerning bank transfers to and from financial institutions that operate in the United Arab Emirates. The letter describes several measures that were taken to create a reduced-risk environment of activity so that progress can be made in banking operations that will support bilateral economic activity and trade, with stringent risk management that entails the allocation of adequate resources to learn the business environment, get acquainted with relevant financial institutions, and apply regular controls.

- **Performing examinations and surveys of the banking system**—The Banking Supervision Department tested the quality of the banks' controls, risk management, and corporate governance by performing examiniations and surveys in various risk-related fields. They included the effects of the COVID-19 crisis on various industries, the development of risk in the construction and real-estate industries, checks of matters at high risk in respect of prevention of money laundering and terror financing, management of embezzlement and fraud risk, and other matters. The Department's checks yielded practical demands and recommendations to improve processes in areas where weaknesses in the banks' corporate conduct were found. The Department continues to monitor the implementation of the instructions that it issued pursuant to the audit reports and ensures their implementation in various ways, including special-purpose checks.
- **Ad-hoc directive for treatment of the COVID-19 crisis**—Against the background of the pandemic and its effects on economic activity, the banking system's activity, and its customers' economic resilience, the Banking Supervision Department issued an ad hoc directive that adjusts banking regulation to the crisis environment. The directive creates dispensations in a wide variety of areas in order to help the banks' consumer and business customers to weather the crisis. Among other things, the minimum capital-ratio and leverage-ratio requirements were relaxed to enable the banking system to continue lending to its customers and limitations on issuing housing loans were eased to help customers who were harmed by the crisis.
- **Promoting a new international standard for credit loss allowances**—The Banking Supervision Department continued to encourage the banking corporations to prepare to apply new rules for calculation of current expected credit losses (CECL), part of a multiyear project in which new principles relating to this matter are adopted. The Department continues to monitor the banks' preparedness for the application of these new principles while tracking other insights and lessons from abroad in regard to the project.
- **Tracking Mizrahi-Tefahot Bank's merger with Union Bank**—For several years now, the Banking Supervision Department has been tracking the merger process in its various aspects and its effect on the two banks' customers and, in particular, on the banks' risk profile. The merger deal was completed in September 2020, making Union Bank a fully owned subsidiary of Mizrahi-Tefahot Bank. From then on, the Department has been examining and following the planned merger process including preparatory measures that the banks are taking to alleviate possible detriment to their customers.
- **An assessment of national AML/CFT (money laundering and terrorism financing) risk**—Pursuant to an instruction from the FATF (Financial Action Task Force), Israel is preparing to update its national risk assessment as a basis for making national policy and establishing AML/CFT priorities. Within this framework and to block the avenues of terror financing, a national survey of terror-financing risk

is being performed by the full slate of Israeli authorities that concern themselves with terror and terror-financing prevention. The Banking Supervision Department, as one of these authorities, carried out a risk assessment for the banking system on this topic. Its findings and recommendations were forwarded to the National Bureau for Counter Terror Financing (NBCTF) and the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA) for use in making national policy and priorities in regard to terror-financing on the basis of a risk-based approach, with emphasis on mitigation and the effective management of the risks to which the banking system is exposed in this respect.

- **A dedicated AML/CFT assessment at each of the five banking groups**—Bank regulators around the world are required to carry out, in accordance with the FATF's criteria, a special assessment of AML/CFT risk at the corporations that they supervise as a basis for risk-focused supervision among other things. Accordingly, the Banking Supervision Department carried out a special-purpose AML/CFT assessment at each of the five banking groups in 2020. To accomplish this, a dedicated methodology tailored to the unique characteristics of AML/CFT risks was established, derived from a comprehensive supervisory methodology based on assessment of the structural risk, the level of risk management, and the duration of the residual risk level at each banking group. The findings of the assessments were sent on to the banks and will serve as an additional infrastructure with which to strengthen risk-based supervision.
- **Survey of risks in the banking system, with the participation of banking-corporation officers**—In 2018, the Banking Supervision Department began to carry out risk surveys with the participation of senior banking-system officers in order to detect and estimate the intensity of the various risks that the system faces and the emergence of new risks, yielding additional and complementary information for the Department's risk-assessment processes. An additional survey in 2021 examined long-term changes in the perceptions of risks among banking-system officers and related to new matters that became current in the past year in view of the COVID-19 crisis inter alia. The findings of the survey are presented in Chapter 1 of this document.
- **F&P (fit and proper) checks for senior officers in the banking system**—The Banking Supervision Department continued to subject senior officers of the banking system to F&P checks as part of its statutory authority.

2. MAIN ACTIONS FOR THE ENHANCEMENT OF FAIRNESS, PUBLIC TRUST, AND PROTECTION OF BANK CUSTOMERS

To continue enhancing transparency and fairness in relations between banking corporations and their customers and to strengthen the customer's status, the Banking Supervision Department has been promoting several initiatives. In 2020, it focused on helping customers of the banking system to cope with the COVID-19 crisis and its implications for their financial condition. It issued various directives and guidances to the banking system, acted in conjunction with government ministries and additional supervisory authorities to promote initiatives for the public's well-being, and supported legislative proceedings that were undertaken specifically in view of the crisis. The Department acted, among other things, to help customers of the banking system to cope with the implications of the crisis by introducing several loan-payback deferral frameworks, gave consideration to customers who encountered economic hardship; suspended and cancelled restrictions on bank accounts due to bad checks, and so on. (For elaboration on the Banking Supervision Department's actions in this regard, see Box 3.3.) The Department also issued additional directives and guidances during this time:

- **A letter of clarification concerning the way itemized credit card statements are sent out**—The letter deals with the way itemized notices of credit card transactions are sent to customers. Customers of the banking system have, in recent years, been switching over to technological media, including receiving of notices on digital channels. Some customers, however, wish to continue receiving notices by physical mail, either because they find it hard to adjust to the changes or because this is their preference. Consequently, a balance must be maintained between encouraging customers to switch to digital media and responding to customers who are not interested in making the transition. To attain this goal, the Banking Supervision Department and the Ministry of Justice carried out a joint inquiry, at the end of which the Ministry of Justice put out a letter followed by a letter from the Department that implements the position that the two authorities worked out together. In these letters, terms were set forth assuring that only customers who prefer to communicate with their banking corporation in digital ways, and who choose this option knowingly, will receive the itemizations of their transactions digitally instead of by mail.
- **Amending Proper Conduct of Banking Business Directive 432, "Transferring Activity and Closing a Customer's Account," concerning transferring a securities portfolio**—To make it easier for customers to transfer their securities portfolios to another financial-service provider, to simplify the process, and to facilitate the use of the new technological media that are available to banking corporations, it was determined that banking corporations will allow customers to apply online to transfer their securities portfolios, obviating the need to visit

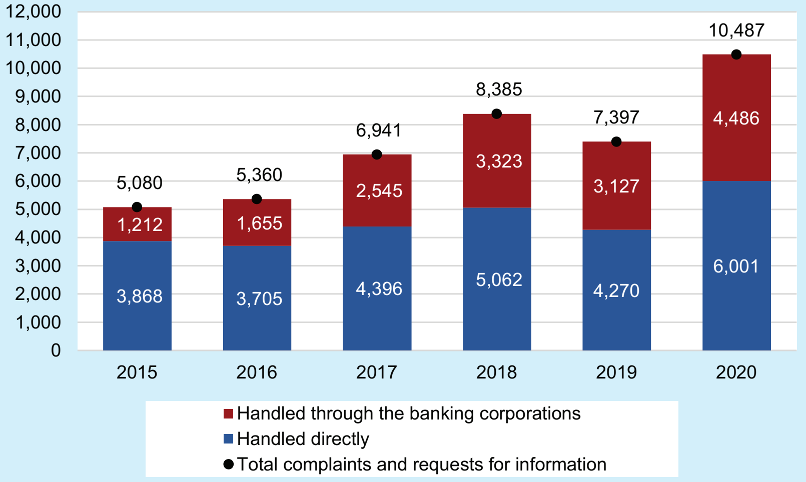
the bank branch for this purpose. The directive went into effect on December 23, 2020.

- **Issuing a letter about attaching payments given by order of the Army to soldiers in conscript service**—Pursuant to a discussion by a subcommittee of the Knesset Immigration, Absorption, and Diaspora Committee concerning lone soldiers during and at the end of their service, banking corporations were advised that they must make sure the statutory injunction against attaching payments made into bank accounts of soldiers in conscript service is applied in practice.
- **Promulgating a new Proper Conduct of Banking Business Directive concerning dormant deposits and deceased customers' accounts**—A dormant deposit is defined as one for which ten (10) months passed since the most recent instruction from the depositor was received. Given the importance of returning dormant deposit funds to their owners and the risks of holding unclaimed funds in banking corporations, the tracing requirements that apply to banking corporations were expanded, establishing a scale of tracing actions that are mandatory under various circumstances. Provisions were also set forth concerning reports and interfaces between banking corporations and the Office of the Administrator General, and guidances were issued in regard to safe-deposit boxes of renters with whom contact has been lost and deceased customers' accounts.
- **Responding to complaints and inquiries from the public in banking and consumer matters**—The Public Enquiries Unit responded to thousands of telephone inquiries and some 10,500 written complaints and inquiries submitted to the Banking Supervision Department, as follows:
- **Completion of proceedings**—4,500 complaints and inquiries were forwarded to the banking corporations' ombudsmen for direct response.
- **Direct treatment**—the Unit dealt with 2,200 complaints and 3,800 inquiries in banking-related matters.

Many inquiries from customers of banks and credit card companies were presented in view of the COVID-19 crisis, its repercussions, and the hardships that the public faced on short notice during this time. (See Box 3.3 of this Survey.) As the figure below shows, the scale of the complaints and requests that were dealt with in 2020 was exceptional due to the diverse effects of the crisis.

The number of complaints and requests for information reeived by the Public Enquiries Unit increased by about 38 percent in 2020 compared to the average of the previous 3 years.

Figure 3.1
Complaints and Requests for Information Received by the Banking Supervision Department, 2015–2020



SOURCE: Based on reports to the Banking Supervision Department.

Treatment of the public's complaints includes the investigation of complaints in accordance with banking legislation and, in appropriate cases, the Banking Supervision Department determines remedies for customers and gives instructions to rectify deficiencies that were detected. In 2020, NIS 5.3 million was refunded to customers pursuant to individual complaints.

- **Consumer examinations**—The consumer examinations in 2020, performed against the background of the COVID-19 crisis, focused on making appointments at bank branches; the implications of suspending mortgage-loan payback for a borrower's internal rating with his or her bank; determining whether the banks applied the roadmaps that were adopted during the pandemic to enroll customers in online programs and issue them with cards, along with individualized checks that were carried out where necessary.
- **A covenant with the banks to assist senior citizens**—During the crisis, the Banking Supervision Department, in conjunction with the Ministry for Social Equality, the Association of Banks, and the banking system, drew up a voluntary covenant for the provision of optimal service specifically for the population of senior citizens. The covenant lowers the age of priority in queuing at branches from seventy-five to seventy, simplifies the processes used to identify senior citizens when they use the call center, adjusts service to senior citizens' needs, and so on.

- **Responsibility for managing a national database of restricted customers and accounts**—The Checks without Cover Law, 5741-1981, assigns statutory responsibility for a national database of restricted customers and accounts to the Banking Supervision Department. This responsibility incurs the following duties among others: determining the status of customers from which the sanctions relating to this matter by law are derived; disseminating the information to the entities in charge of implementing the sanction (banks and enforcement and collection agencies) and additional interested parties (credit database, the public at large, a personal site for restricted customers, sector); auditing and safeguarding the credibility of the information in the database and correcting errors; responding to inquiries from interested parties to participants in the process of imposing the restrictions; dealing with complex inquiries concerning restricted customers and accounts; and professional treatment of matters associated with the reliability of checks generally and returned checks particularly. In 2020 and throughout the pandemic crisis, the Department acted at several levels in regard to restricted customers and accounts:
- **Responding to restricted customers in the banking system**—The Department manages and operates, on a daily basis, a database that included 263,756 restricted customers at the end of 2020. Among them, 14,603 customers had "banking" restrictions (related to checks without cover) and 249,153 came under "special" restriction (imposed by nonbank entities that include the Enforcement and Collection Authority (the Execution Office), the Official Receiver, the Fines Center, and the rabbinical courts), resulting in the restriction of approximately half a million bank accounts during this time. The Department responds on an ongoing basis to enquiries from the public in these matters, in ways that include a dedicated site established for this purpose.
- **Declaration by the Banking Supervision Department on March 24, 2020, of the suspension of restrictions due to checks drawn on insufficient funds**—When the crisis erupted, the Banking Supervision Department instructed the commercial banks and the Postal Bank to suspend, effective March 4, 2020, the restrictions on check-writers and their accounts due to refusal of checks on grounds of insufficient funds. The suspension remained in effect until the last date allowed by law, June 22, 2020. This precluded the restriction of many customers who had fallen into sudden liquidity crises due to the comprehensive lockdown and struggled to cover checks that they had written before the pandemic.
- **Participation in decision-making processes and oversight of their implementation by the banking system in the context of the Minister of Justice's regulations on deleting checks drawn on insufficient funds**—Exercising his authority under the Checks without Cover Law, the Minister of Justice issued regulations that formalized the removal of checks returned due to insufficient funds from the list of checks that count toward the restriction of bank customers and accounts. The regulations were promulgated on two dates and related to two periods. The first overlaps the suspension of restrictions

that the Banking Supervision Department announced; the second continues uninterruptedly from the first up to August 10, 2020. The implication of the decision is that checks returned between March 4 and August 20, 2020, were deleted from the list of checks that would trigger restriction. This continuity led to a major decrease in the number of restricted customers and accounts due to checks drawn on insufficient funds ("banking" restrictions, i.e., those imposed due to refusal to honor a check drawn on insufficient funds, as opposed to "nonbanking" restrictions, imposed pursuant to a debt to the Enforcement Authority or a bankruptcy proceeding) and changed the public's habits in using checks. The Banking Supervision Department supported the decision-making process until the regulations were gazetted and advised the banks of the need to implement them.

- **Participation in the process of guidances to the banking system for the application of Amendment 14 to the Checks without Cover (Sending Warnings and Adding One Business Day for Providing Cover) Law**—Pursuant to Amendment 14 of the Checks without Cover Law (5741-1981), the Banking Supervision Department was asked to determine in its directives the way the guidance would be applied. In essence, the guidance requires banks to forewarn a customer from whose account a check was drawn on insufficient funds, giving him or her an extension several hours long (in accordance with the business day) to cover the check before it is returned on the aforementioned grounds. The Department took part in the legislative process and in formulating the specific provisions for its implementation in Proper Conduct of Banking Business Directive 420.
- **Publishing data for an analysis of trends and risks relating to returned checks in Israel**—At the end of 2020, the Banking Supervision Department published an analysis of trends and risk level of transactions by check in Israel on the basis of data that it had amassed during the year. The analysis showed that the level of risk in doing business by check in Israel fell considerably from the onset of the crisis to year's end; this was reflected in both the rate and the number of bad checks even relative to ordinary times. There was also a steady and consistent downturn in the number of accounts restricted on "banking" grounds; the trend continued through year's end, i.e., even after the dispensations given by the Ministry of Justice concerning restrictions on account of checks drawn on insufficient funds had expired.

Concurrently, the economic slump occasioned by the pandemic, the lockdowns, and the health-related restrictions, along with a wave of check cancellations and the suspension of restrictions at the beginning of the crisis, drove down the use of checks and raised the level of caution in transactions that continued to take place during the period measured.

3. IMPORTANT ACTIONS FOR THE ADVANCEMENT OF COMPETITION AND INNOVATION IN THE BANKING SYSTEM

As it continued to promote competition and innovation in the banking system, the Banking Supervision Department made much progress in implementing several projects that are expected to redraw the map of competition in the banking and financial-service systems in coming years. The Department also acted to stimulate and advance technological innovation in banking in order to support the attainment of its own main objectives, in ways that included adjusting its directives and eliminating barriers. The results of these actions were evident in the public's continued transition to consumption of banking services remotely and via payment applications without visiting bank branches, creating an infrastructure for the continued delivery of banking services to the public during the COVID-19 crisis.

- **Support in establishing Israel's first digital bank**—After the first digital bank received its license on December 30, 2019, the Banking Supervision Department continued to support the process of establishing this bank, the first new one in forty years. This is a complex process involving intensive interface with various entities in the banking system and at the Bank of Israel. Despite the pandemic and its related difficulties, the digital bank began in March 2021 to carry out a run-in program in which it tested its systems and working processes. After all the requirements are met and the Governor of the Bank of Israel gives his approval, the bank is expected to inaugurate its commercial activity.
- **Reviewing applications for new banks and merchant acquirers**—The Banking Supervision Department is reviewing additional applications to establish new banks and merchant acquirers. The reviews focus on the personal and business integrity of applicants for permits to control these entities, their financial strength, and their ability to withstand the costs of establishing and operating a new bank or settlement institution. The Department also vets their business plans and tests their viability in ways that include stress scenarios.
- **Eliminating the digital barrier to new and small banks**—The Banking Supervision Department is a partner in a process led by the Ministry of Finance for the establishment of a shared computer center—the Digital Banking Services Bureau—that will serve several Israeli banks and financial-service providers, it being realized that digital infrastructure is a major barrier to new and small entrants in the banking market. TCS, Ltd., an Israeli representative of TATA of India, won the bid and in early 2020 signed a service contract with the entrepreneur behind the digital bank. During the year, the Department kept abreast of the establishment of the Bureau, which went into action in early 2021.
- **Adopting innovations in view of the COVID-19 crisis**—The effects of the crisis on the public's health and the government-imposed restrictions on movement and public business hours forced the banking system to strengthen its technological response and embrace new technologies. The banking system, with the encouragement and support of the Banking Supervision Department, acted

inter alia to increase the share of customers who conduct their ongoing activity by digital means and new methods that give customers better and more innovative service.

- **Completing the separation of Isracard from Bank Hapoalim**—As the implementation of the "Strum Law" continued, Bank Hapoalim completed its separation of Isracard in March 2020, marking the completion of the Strum amendments and the separation of the country's two largest credit card companies from Bank Leumi and Bank Hapoalim.
- **Making progress in the "open banking" project**—The Banking Supervision Department continued to spearhead and promote open banking in Israel, which means, in effect, allowing third parties to access customers' accounts, with the customers' consent, in order to obtain information or carry out transactions. The purpose of open banking is to bolster bank customers' power and heighten competition and innovation in financial services. The Department systematized the rules of comportment in the open-banking environment, including requiring the banks to allow access to customers' accounts, and in regulating the way the technological communication takes place—all of which under Proper Conduct of Banking Business Directive 368, "Implementation of an Open Banking Standard in Israel," promulgated in February 2020. However, specific complementary legislation is needed in order to give access to third parties that are neither banks nor credit card companies. The open-banking legislation is being led by the ministries of Finance and Justice, together with additional regulators including the Banking Supervision Department. According to the Department's vision, the world of open banking should expand until the entire financial-services system will have to give access to information (open finance).
- **Continued leadership of the "Switch Banks at a Click" project**—The project is meant to allow customers to switch banks easily, simply, conveniently, digitally, and safely, within seven (7) business days and at no cost. The possibility of switching banks conveniently and rapidly is expected to strengthen banking consumers' competitive strength and ramp up competition in the banking system. The high level of operational and technological complexity of the project has forced the banking system to devote much managerial attention and resources to it. In 2020, the main legislation in regard to checks—a necessity for the performance of the project—was completed and meaningful progress in the banking corporations' technological developments was made. Furthermore, in view of the immense importance that the Banking Supervision Department attributes to the success of this project and to make sure that the banks comply with the provisions of the law, the Department closely monitored the pace of progress, among other ways through the Bank Clearing Center, Ltd. (MASAV), the main entity in the project. The system is expected to go online on September 22, 2021, as stipulated in the Law.

- **Promoting the integration of advanced and innovative payment technology**—The Bank of Israel and the Banking Supervision Department have been acting in recent years to promote the integration of the EMV standard (an information-security standard atop which payment innovations can be applied) in the credit card clearing market. The final and binding version of the roadmap in this matter was published in January 2020, inspiring many businesses to switch to payments via EMV in 2020 (allowing transactions to be made by means of the smart chip on the card, combined with a PIN, or in contactless ways). The roadmap was formulated on the understanding that this standard is essential for the advancement of innovation and competition in the world of payments. The changeover to EMV made it possible to carry out contactless transactions, competition in issuance and settlement accelerated due to the elimination of barrier to new entrants from abroad, and counterfeiting and fraud risks declined. The Bank of Israel and the Banking Supervision Department carried out an extensive information campaign on television, radio, and digital media, on how payments are made using the new method and about its advantages—more safety, reliability, and progress—in order to enhance the public's awareness of the change in the way businesses handle payments by charge card.
- **Digital wallets and regulation of the use of bank of payment applications at businesses**—The Bank of Israel issued a position paper on the topic. The purpose of the roadmap for the activity of banking applications is to extend "infant-industry protection" to credit card companies and nonbank entities in order to support the enhancement of competition in the medium term in regard to payments and credit for small businesses. The roadmap also assures the continued integration of this innovation into payments for the betterment of customers and businesses, with the understanding that such innovation is valuable to customers and represents the future in the field of payments.
- **Continued advancement of a digital guarantee project**—In conjunction with the Accountant General at the Ministry of Finance, digital provision of guarantees in government tenders is allowed. The specifications stage has ended; the project development stage has begun.

Box 3.1

Regulatory Developments in Housing Credit

- **Over the years, the Banking Supervision Department has taken a series of regulatory measures in regard to housing credit, for both micro- and macroprudential purposes and for consumerist reasons. In view of developments in the housing market in recent years, several regulatory dispensations have been adopted to make it easier for the borrowing public to maximize its ability to purchase a dwelling.**
- **Recent years have seen declines in market interest rates (both in bond yields and in the Bank of Israel rate) along with forecasts of continued low interest rates around the world. This led to the conclusion that the expected interest risk for borrowers has eased considerably, leaving room for a decision to relax the "prime-rate limit" in its current form.**
- **Accordingly, since January 2021, borrowers have been allowed to take a loan with a prime-rate component of up to two-thirds of the total loan. The alleviation of the limit gives the public more flexibility in determining the composition of its total loan in accordance with each borrower's risk aversion and needs.**
- **Apart from these measures, several focused regulatory dispensations on housing loans were adopted in view of the COVID-19 crisis to enable borrowers who encounter difficulties due to the crisis to cope more easily—foremost by being able to defer the payment on their housing loans for a specified period.**
- **The Banking Supervision Department will review the effect of these regulatory dispensations in accordance with macroeconomic developments and the recovery of the economy, with particular attention to the decline in unemployment rates.**

Regulatory measures relating to housing loans

Taking a housing loan is a significant financial decision for a household, one that has weighty and lengthy economic implications. The sheer size of the loan for most households, coupled with the lengthy term to payback, exposes borrowers to a range of risks that may become real during the lifetime of the loan due to developments in the economy and the housing market as well as the household's income and expenditure. From the banks' perspective, the housing-credit portfolio accounts for a large portion of the total bank-credit portfolio; their exposure to it has grown steadily in the past decade, to 37 percent of total outstanding credit as of December 2020. In addition, the risks in the housing portfolio strongly correlate with credit risks in the construction and real-estate industry, which also claims a major share of the banks' outstanding credit. Thus, the housing-credit and construction portfolio together occupies more than half of the banks' total credit portfolio, which at the end of 2020 stood at NIS 1.152 billion. These exposures, which are sensitive to macroeconomic shocks, are meaningful from the standpoint of the individual bank and of the banking system at large.

Consequently, the Banking Supervision Department has adopted a series of regulatory measures in regard to housing credit over the years, both due to micro- and macroprudential considerations and for consumer reasons. The use of consumer measures aptly serves both prudential targets. (For a list of the measures, see Appendix 1.) The main consumer-related measures are restrictions on the loan-to-value (LTV) ratio, the payment-to-income (PTI) ratio, and the loan maturity. The purpose of these guidelines it is to moderate households' leveraging and make sure a household has enough disposable income left over to pay back its loan even if it experiences shocks to its income (manifested in a decrease in income that causes the share of the monthly payment in its expenses to rise). These measures have a countercyclical macroprudential effect in that they moderate the increase in housing credit and housing prices at times of upturns in the real-estate market. They also have a microprudential effect by moderating the increase in a bank's risk by slowing the pace of the upturn in the bank's leveraging[1] and, in turn, attenuating its exposure to the risks inherent in housing credit. The LTV restriction reduces the bank's exposure to each customer, so that the expected loss in any case of default is small—a feature that become particularly meaningful when a system-level shock negatively impacts numerous borrowers. Additional consumer-related measures pertain to limiting the variable interest rate component of the total loan, mitigating borrowers' interest risk by making monthly payments less volatile.

Additional measures taken over the years reinforced the capital buffers that banks use to increase the resilience of the housing-credit portfolio and absorb unexpected losses from that direction, in addition to increasing the rate of loan-loss provisioning. The measures in this regard include compulsory capital allocation or increasing credit-loss allowances; others are incentive measures that make riskier credit more expensive for the bank than other forms of credit. The compulsory steps were increasing Tier 1 equity at a rate that amounts to 1 percent of the outstanding housing-credit portfolio and raising the group-level credit-loss allowances to a minimum of 0.35 percent of outstanding credit. The incentives included an increase in the risk weight of high-LTV and high-PTI loans. The capital-buffer enhancement measures are countercyclical, encouraging the banks to build up their capital buffers at times of prosperity and growth in the housing market, so that when crisis strikes[2] the banks will be able to draw on the buffers in order to continue lending.

Regulatory changes in view of recent developments in the housing market

Housing demand began to climb rapidly after the 2008 crisis and, along with the increase in this area of demand, which had an upward effect on home prices, the number and size of housing loans also began to swell. The package of regulatory measures noted above was adopted in view of the rapid growth of the housing-credit portfolio. As home prices continued to rise in recent years and due to the abovementioned restrictions, the banks tended not to allow borrowers, including first-home buyers, to reach the leveraging ceilings or made these loans much more expensive. For this reason and to make life easier for homebuyers, particularly those first-home buyers, the Banking Supervision Department revised the risk weights for housing loans at a 60–75 percent LTV such that loans in this LTV bracket would be risk-weighted at 60 percent instead of 75 percent—lower than the risk weight of unsecured consumer finance. The share of borrowers who took high-LTV loans increased considerably when this measure was adopted, and it was found that the dispensation did help borrowers to maximize their ability to purchase a home with a 25 percent down payment (or 30 percent for homeowners upgrading their home; Figure 1.33). One reason for the necessity of this step was the "Buyer's

[1] Claessens, S., S. Ghosh, and R. Mihet (2013). "Macro-Prudential Policies to Mitigate Financial System Vulnerabilities," Journal of International Money and Finance.

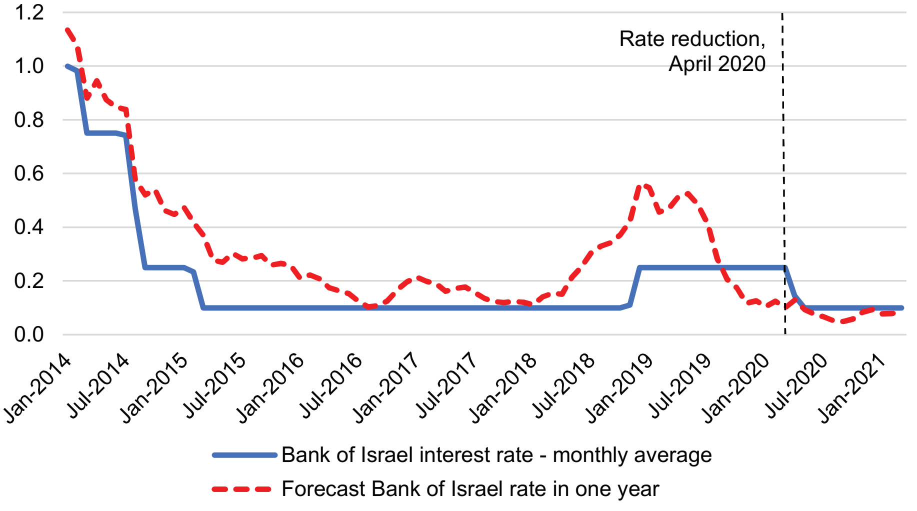
[2] In the event of a steep decrease in housing prices, for example, the banks may refrain from lending in fear of erosion of the value of the collateral. This response would accelerate the decline in prices and worsen the crisis. At such times, eliminating the capital requirement would encourage the system to continue lending even when housing prices trend down.

Price" program, which proposed to help young couples to buy homes and enjoy the benefits that the program offers.

In this context, "Buyer's Price" homebuyers received further lenience in the way the LTV limit was calculated, such that it would be based on an assessor's estimate of the price of the home and not on that of the transaction. This means that "Buyer's Price" borrowers are entitled, in practice, to take housing loans at even a 90 percent LTV (instead of the limits that apply to other borrowers: 75 percent for first-home buyers and 70 percent for housing improvers).[3] The elimination of the "prime-rate limit," leaving only the floating-rate limit (which restricts the floating-rate component of housing loans, of whatever kind, to two-thirds of the total loan), is another meaningful step that the Bank of Israel took in 2020.[4] **The "prime-rate limit" was adopted in April 2011 under circumstances of rapid increases in the monetary rate**, from 1 percent in January 2009 to 3 percent in April 2011, and while a 50 percent share of new housing loans was issued at floating interest in the unindexed (prime-rate) track in total performance, the share of new housing loans at floating interest (of any kind) was 80 percent. Given these characteristics, there was concern that a further increase in the Bank of Israel rate (a reasonable proposition at the time) would severely increase borrowers' monthly payments, impair their solvency, degrade the housing-credit portfolio, and cause credit risk to climb.

The Bank of Israel's interest rate is low, and it is expected to remain so in the near future.

Figure 1
Bank of Israel Interest Rate and Forecast Rate in One Year, January 2014–March 2021 (percent)



SOURCE: Bank of Israel data.

3 For elaboration, see Ministry of Housing and Construction press release, "Benefits in Home Finance under the Buyer's Price Program," September 7, 2020 (Hebrew).

4 For elaboration, see press release, December 14, 2020: "Draft update to banking system directive: updating housing loans with variable interest rate," https://www.boi.org.il/en/newsandpublications/pressreleases/pages/14-12-2020b.aspx

In practice, the forecasts of interest-rate development, whether published by the Bank of Israel or derived from the capital market, unexpectedly reflect a sizable upturn in interest. Recently (since late 2019), these interest rates have been mirroring the interest-rate trend forecasts, from either source, that judged as unlikely a major increase in interest in the next few years (Figure 1). In addition, the low monetary rate, evidenced in international markets as well, is expected to persist for several years (the "low for longer" phenomenon). The US Federal Reserve even announced, in view of the COVID-19 crisis, that interest rates would probably remain low in order to support the post-crisis economic recovery.[5]

The upshot of all the foregoing is that the expected interest rate risk to borrowers who are exposed to changes in the Bank of Israel rate has eased considerably; therefore, it was decided to repeal the limit in its current form. This gives borrowers greater latitude in choosing the composition of their housing loans in accordance with their personal needs and risk aversion.

Furthermore, since the prime-rate component is the least costly part of the loan for today's borrowers, those who choose a larger share of it are likely to see their interest payments decrease during the lifetime of the loan. This dispensation went into effect for new borrowers on January 17, 2021, and for those wishing to refinance on February 28, 2021.

Regulatory dispensations in view of the COVID-19 crisis

The spread of the pandemic prompted the adoption of a series of limitations on economic activity that caused direct harm to household income. To lighten the blow to households, the Banking Supervision Department responded to this shock at many levels, including dispensations on the regulatory limits that pertained to housing loans.

First, at the very beginning of the crisis (on March 15, 2020),[6] it was decided to raise the LTV ceiling for all-purpose loans backed by a dwelling from 50 percent to 70 percent. This was meant to enable borrowers in need of credit due to the crisis to take it at lower interest than that charged for consumer finance. Indeed, the share of loans secured by a dwelling, particularly those at high LTV, grew in the aftermath of this measure. (For elaboration, see the section on Credit Risk.)

Further on, in April 2020,[7] a temporary 1 percent reduction in the additional capital requirement against new housing loans was introduced in order to lighten the burden on borrowers by lowering the interest rate on housing loans—a lenience that was also meant to affect all takers of all-purpose loans backed by a dwelling. The dispensation on the capital side had a downward effect on housing-loan price, as manifested in narrowing of the spread between the cost of sources (for the purpose of the test—the real 5Y government yield) and the average housing-loan rate. As a rule, given the increase in the risk characteristics of the loans and the macroeconomic risk occasioned by the crisis, the spread between loan price and the cost of its sources was expected to widen. In practice, however, it narrowed after the dispensation was introduced (Figure 2).

5 https://www.federalreserve.gov/newsevents/pressreleases/monetary20210223a.htm

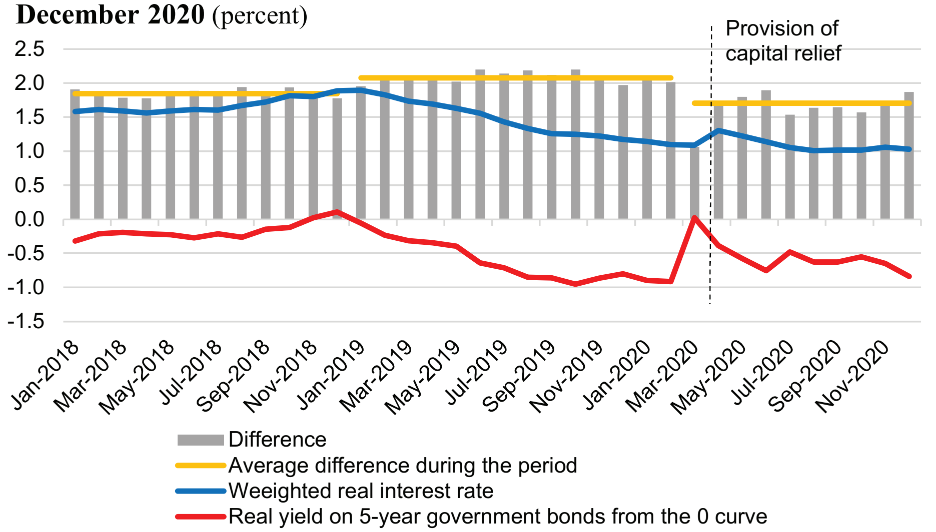
6 For elaboration, see press release, March 15, 2020, "The banking system: regulatory leniencies and services to the public in view of the spread of the coronavirus," https://www.boi.org.il/en/newsandpublications/pressreleases/pages/15-3-2020.aspx

7 For elaboration, see press release, April 22, 2020, "Leniencies in the provision of housing loans in view of the corona crisis," https://www.boi.org.il/en/newsandpublications/pressreleases/pages/21-4-20.aspx

An additional dispensation at this time related to calculating the payment-to-income (PTI) ratio for borrowers who had been placed on unpaid leave,[8] such that they could borrow even at a 70 percent PTI provided that the PTI was within the regulatory limit according to their pre-crisis income. The idea was to enable borrowers who were part-way through the home-buying process to complete the process even though their household income had been reduced by the unpaid leave, it being assumed that their plight would be transitory.

After the capital relief, there was a marked decline in the gap between the cost of sources and the average interest rate on mortgages.

Figure 2
Weighted Real Interest Ratea on Mortgages, Real Yield on 5-Year Government Bonds, and the Difference Between Them, January 2018–December 2020 (percent)



[a] Calculated assuming inflation of 2 percent.
SOURCE: Based on reports to the Banking Supervision Department and Bank of Israel data.

Future regulatory changes

Future changes in housing-loan regulations will depend on several factors, including developments in the housing market and the macroeconomy. Notably, notwithstanding the COVID-19 crisis, the housing-credit portfolio has continued to swell vigorously and the trends that typified the housing market before the crisis have not changed and may have even gathered strength. Thus, throughout the crisis there was record housing loan volume. (For elaboration, see the Credit Risk section.) Concurrently, housing prices are continuing to rise and housing supply does not seem to be keeping up with demand.[9]

The effect of the regulatory measures taken during the crisis will be reviewed in accordance with macroeconomic developments generally and the decline in unemployment rates particularly.

[8] For elaboration, see press release, April 22, 2020, "Leniencies in the provision of housing loans in view of the corona crisis," https://www.boi.org.il/en/newsandpublications/pressreleases/pages/21-4-20.aspx

[9] For elaboration, see the Financial Stability Report for the second half of 2020.

Appendix A—Regulatory Measures Pertaining to Housing Credit

Measures to improve loss-absorbing cushions

1. Higher risk-weighting of high-LTV loans

LTV	RWA
LTV $\leq$ 45%	35%
45%<LTV $\leq$60%	50%
LTV > 60%	60%

2. Increasing the group credit-loss allowance to a minimum of 0.35 percent of loan balance.
3. Higher risk-weighting of high PTI.

PTI	RWA
40% < PTI < 50%	100%

4. Compulsory allocation of Tier 1 equity at a rate amounting to 1 percent of the outstanding housing-loan portfolio. In the dispensations given during the COVID-19 crisis, new housing loans were excluded from this capital allocation.

Consumer-related regulatory measures

1. Limiting the LTV ratio

Classification of purchase	Maximum LTV
Sole dwelling	75%
Alternative dwelling	70%
Investment dwelling	50%

2. Limiting the PTI ratio

Limitation	PTI
Forbidding creation of the loan	PTI > 50%

3. Limiting the term to final payback to no more than 30 years.
4. The floating-interest portion of the loan may not exceed 66.66 percent of the total loan.

Box 3.2

Implementation of the Strum Committee Recommendations

In recent years, the government, the Bank of Israel, and regulators in Israel have been promoting various measures to increase competition in the Israeli financial-services market. Within this construct and among other steps, a committee on enhancing competition in common banking and financial services was established in June 2015 (hereinafter: "**the Strum Committee**") **to formulate recommendations on requisite measures to increase competition and mitigate concentration in common banking and financial services for households and small and medium businesses in Israel.** Against the background of previous committees on the topic, the Strum Committee focused mainly on eliminating structural barriers in order to admit new entrants to the financial-services market and lowering information and switching barriers so that customers can compare various financial products and services and switch from one to another with relative ease. The Committee published its recommendations in September 2016 as part of its final report, and in January 2017, pursuant to its activity, the Knesset passed the Increasing Competition and Reducing Concentration in the Banking Sector Law (hereinafter: "**the Increasing Competition Law**"), which enshrines in statute the relevant recommendations of the committee. The law also led to the formation of a Committee to Examine Competition in the Credit Market, tasked with monitoring implementation of the provisions of the Increasing Competition Law, recommending measures to improve and increase competition in the credit market; conducting periodic examinations of the state of competition in the credit market and identifying barriers to the development of competition in that market; and making recommendations to the Minister of Finance and the Governor of the Bank of Israel regarding the use of powers to revise the definition of the law for a bank that accounts for a large extent of activity relative to total activity in the banking sector.

The Bank of Israel and, particularly, the Banking Supervision Department are acting to promote competition and innovation, lower barriers to activity in the banking market, and broaden the range of banking goods and services available to customers, inter alia. Accordingly, the Bank of Israel partnered with the Strum Committee in its activities and in formulating its recommendations. Furthermore, in conjunction with the Banking Supervision Department, it has acted, and is continuing to act,[1] to implement the Committee's recommendations and the relevant sections of the Increasing Competition Law, as illustrated in the table below. In this context, it is noteworthy that various pro-competition recommendations have different purposes, such as (1) improving customer service in the sense of more digital and innovative services and more personalized services to customers; (2) removing technological entrance barriers; (3) promoting the establishment of new banks and merchant acquirers; (4) reducing information gaps so that additional players will be able to present customers with effective offers and new services; (5) aligning regulation with the nature of the various entities' activity, allowing them to deal with the market and compete more effectively; (6) removing switching barriers.

In addition to these measures, the Bank of Israel supported the implementation of the recommendations and additional important steps such as establishing a credit data system, separating two credit card companies from the two largest banking groups; assimilating the EMV standard in businesses and introducing a program to educate the market ahead of this changeover; regulating payment services, and so on. The Bank of Israel,

[1] In particular, continued implementation of the recommendation concerning eliminating restrictions to the operation of an aggregator and continued monitoring of the way the other recommendations are being applied.

and the Banking Supervision Department as part of it, are continuing to promote and support measures that will encourage competition throughout the economy, enhance transparency vis-à-vis customers, and improve the diversity and quality of goods and services that customers consume—all with the goal of effective, efficient, and responsible implementation and integration.

Implementation of main and relevant recommendations of the Strum Committee by the Bank of Israel and the Banking Supervision Department

	Recommendation and implementation	Purpose
√	**Establishing a Banking Computer Services Bureau** The Ministry of Finance is responsible for implementing this measure; it was undertaken in ongoing consultation with, and with the support of, the Bank of Israel and the Banking Supervision Department. The Bureau gives financial-service entities an infrastructure for the provision of digital-services. It was activated in March 2021 and is already providing the recently established first digital bank with its services.	Removing technological entry barriers
√	**Issuing directives relating to viewing online financial information** In February 2020, the Department issued a Proper Conduct of Banking Business Directive concerning the creation of an open-banking standard in Israel (based on Open API). The Directive defines and regularizes the infrastructure of open banking in Israel by settling the duties of banks and credit card companies, establishing customer protections, prescribing tools for risk management in an open environment, and so on. After the relevant legislation and regulations are finalized, various entities will be able to provide account-information service for consumers, once they receive approval to do so.	Reducing information gaps, improving customer service
√	**Setting the interchange fee** In February 2018, the Banking (Customer Service) (Control of Interchange Service for Credit Card and Debit Card Transaction) Order, 5779-2018, set the interchange fee on a downward path that will end (in 2023) at 0.5 percent on credit card transactions and 0.25 percent on debit-card transactions.	Improving customer service1

√	Establishing an apportionment-of-income agreement between a bank issuer and an issuance operatorThe Increasing Competition Law empowers the Supervisor of Banks to issue directives concerning the apportionment of income between a bank that engages in large-scale activity2 and an issuance operator. Accordingly, in July 2018 the Banking Supervision Department amended Proper Conduct of Banking Business Directive 470 to require all banks and issuance operators to present the Supervisor of Banks with the essential provisions of new agreements by January 31, 2022. In addition, issuers that are banks that engage in large-scale activity must obtain the Supervisor's approval of the new agreements.	Supplementary measure to the separation of the two credit card companies from the banks3
√	**Lowering capital requirements for new banks** In June 2018, the Banking Supervision Department issued a policy that regulates, clarifies, and simplifies the process of establishing a bank and creates regulatory certainty from an early stage of the licensing process. Under the policy, a new bank that will engage in non-complex activity will need only NIS 50 million in initial capital. Later on, when the bank's credit risk assets reach NIS 600 million, it will have to maintain an 8 percent Tier 1 equity ratio and a total capital ratio of only 11.5 percent—lower capital adequacy ratios than those applying to banks today. In March 2020, relevant adjustments were made in Proper Conduct of Banking Business Directives 201–211 concerning measurement of capital adequacy.	Promotingthe establishment of new banks and settlement institutions
√	**Sharing current-account balance information** In January 2018, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive 367, "E-Banking," that makes orderly provisions concerning when information on customers' current-account balances may be shared, how the information is shared, and how the customer's request to the banking corporation is received and handled, so that it is carried out as efficiently and safely as possible.	Reducing information gaps, improving customer service

√	**Online switching of financial activity from bank to bank by customer ("Switch Banks at a Click")** In December 2019, the Banking Supervision Department issued a new directive concerning online interbank transfer of customers' financial activity. The directive (Proper Conduct of Banking Business Directive 448) specifies the rules that banks must apply when they deal with a customer's request to transfer his or her financial activity to another bank through an online procedure, including due diligence vis-à-vis the customer throughout the portability process, the agreements the customer must execute to complete the process, the stages that the source bank and the target bank must carry out in the portability process, the banking services and financial products to be switched and routed as the customer's financial activity is transferred from one bank to another, and rules for the maintenance of continuity in the customer's financial activity as the customer switches banks. The Directive will go into effect when Section 5b1 of the Banking (Service to the Customer) Law, 5741–1981, becomes effective (September 2021 as of the present writing).	Removing switching barriers, improving customer service
√	**Allowing customers to open a digital account as their first account** In March 2018, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive 367, "E-Banking," allowing a bank to open an online account for a customer even if it is his or her first account.	Improving customer service
√	**Allowing a corporation to open a digital account** In December 2020, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive 367, "E-Banking", allowing a bank to open an online account for a corporation.	Improving customer service
√	**Allowing online issuance of credit cards** The Banking Supervision Department and the Capital Market Authority are responsible for implementing this measure. Amendment 3 to the Electronic Signature Law, 5761-2001, which allows the issuance of a credit card online, was published in February 2018. Notably, such issuance is allowed under restrictions on the extent of activity with cards in which full face-to-face identification does not take place, in accordance with the prohibition of money laundering rules.	Improving customer service
√	**Establishing rules that regulate the status and activity of a hosted settlement institution** The Banking Supervision Department and the Ministry of Finance are responsible for implementing this measure. A Governor's Order concerning the hosting rules was published in June 2018.	Promoting the establishment of new banks and settlement institutions

√	**Adjusting the regulation of credit card companies** The Banking Supervision Department formulated a series of dispensations for credit card companies in applying its directives in order to adjust the extent and nature of regulation to the companies' risk profile and activity characteristics. The integration of these lenient provisions into the various supervisory directives was completed in July 2018.	Adjusting regulation to the nature of various players' activity
√	**Establishing provisions for transfer of information from issuer to banking corporation so that it can be presented to the customer** This was done within the framework of the Increasing Competition Law, Section 17 of the Banking (Service to the Customer) Law, 5741-1981, which requires banks to present information about customer credit cards transactions. The Banking Supervision Department and the Ministry of Finance are responsible for implementing this measure. In November 2018, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive 470, which deals with credit cards, thus setting in order the requirements of presenting information by the banks.	Improving customer service

1 The interchange fee is a payment made by a settlement institution to an issuer in every charge-card transaction. Its level sets the floor of the fee that the business pays the settlement institution; the business cannot negotiate over this portion. This creates grounds for regulatory intervention in setting the fee. In addition, regulatory certainty in this field is needed due to the divestiture of the credit card companies.

2 A bank that has assets in excess of 20 percent of the value of the assets of all banks in Israel.

3 The Banking Supervision Department's involvement is needed because agreements between issuance operators and banks that have large-scale activity may affect all agreements between banks and issuance operators.

Box 3.3

Consumer-Related Measures during the COVID-19 Crisis

When the COVID-19 crisis broke out, the Banking Supervision Department took swift and diverse action to make sure the banking system's customers were able to continue receiving banking services soundly and to help customers cope with the economic uncertainty and the cash-flow and liquidity difficulties that some encountered. As the Bank of Israel utilized other tools to support the capital market and make liquidity and credit more available, the Department continued in various ways to help the banks' customers and enable them more easily to cope with the financial implications of the crisis. Concurrently, the banks took various actions and sundry initiatives to assist their customers.

The Department's main goals in coping with the crisis were the following:

- Continuing to act at the macroprudential level while mobilizing the strength and abilities of the banking system in support of continued economic activity;
- Keeping the system fully operative and assuring the availability of ongoing banking service, defined as an essential service, to the public;
- Helping customers of the banking system cope with the implications of the crisis for their financial condition;
- All of which, paying stringent attention to sensitive and fair treatment of customers in trouble.

Within this framework, the Department issued guidelines to the banking system, collaborated with various players to promote initiatives for the public's well-being, and supported special-purpose legislative proceedings that were taken in view of the crisis.

Below are the Banking Supervision Department's main activities during the crisis for banking consumers' wellbeing:

1. Assuring the availability and continuity of banking services for customers

Pursuant to limitations on activity and movement in the public sphere, as imposed by the Ministry of Health, and understanding that banking services are essential for the public, the Department acted to maintain the continuity of these services despite the restrictions and determined the extent of bank branches' activity.

Banking corporations were instructed to continue providing their customers with high-quality service even as the Ministry of Health's guidelines caused operational hardships by leaving them with a shortage of workers. The corporations were instructed to be stringent about appropriate wait times for responses at their call centers. Furthermore, banks that chose to install a mechanism for appointments at their branches were instructed to continue giving service without an appointment in urgent cases and for specific population groups, such as senior citizens and persons with disabilities, in certain respects, thus maintaining an appropriate balance between giving high-quality service and protecting the health of the public and of staff.

2. Expanding the possibilities of remote banking activity

In recent years and lately in particular, the Banking Supervision Department has been acting to find solutions that will help banking system customers carry out operations remotely. This was all the more necessary during the COVID-19 crisis due to the need to protect the health of the public and the banks' work force. To make it less necessary for customers to physically visit their bank branches, the Department made regulatory dispensations that enabled banking corporations to expand the range of bank operations that could be carried out remotely.

Also, pursuant to a reform that allowed customers to deposit checks by means of their mobile devices, the Bank of Israel decided, on March 26, 2020, to raise the maximum sum for deposit of an individual check by means of the bank's cellular telephone application from NIS 20,000 to NIS 50,000. The purpose was to make it less necessary for customers to visit branches in order to deposit checks and to expand the possibilities of remote transactions using this means of payment.

In addition, on July 27, 2020, the Supervisor of Banks issued a letter on remote performance of banking operations during the coronavirus pandemic and in ordinary times, emphasizing the importance of continuing to respond to customers' need to carry out remote transactions and use debit cards. Four population groups that face various obstacles were included: those going through bankruptcy and default proceedings, legal guardians, and wards who had been assigned a guardian. In this letter, the Supervisor of Banks called attention to position papers from the Office of the Administrator General and the voluntary memorandum of understanding regarding guardianship accounts. The Bank of Israel and representatives of the Administrator General collaborated in these matters.

3. Helping banking-system customers to cope with the implications of the crisis

Frameworks for deferral of payback of credit to banks and credit card companies

For elaboration, see Box 1.1 in this report.

4. Increasing the availability of credit for households

From the very beginning of the pandemic, among the important measures that the Bank of Israel took to help and support the economy as it coped with the crisis, the Banking Supervision Department acted on the macroprudential and consumer fronts to head off a credit crunch by issuing accounting guidances and lowering capital requirements for housing loans and other segments—in order to moderate the upward pressure on interest rates that the economic uncertainty might cause. As part of this undertaking, banking corporations were given regulatory dispensations allowing them to help customers who were prone to cash-flow and liquidity difficulties due to the crisis and to encourage them to make household credit more available. Among other things, banks were allowed to issue all-purpose loans backed by a dwelling at up to 70 percent of property value (as against 50 percent an ordinary times) and housing loans even to people who had been placed on unpaid leave, in consideration of their wage level before unpaid leave.

In addition, to help customers who had cash-flow problems due to the crisis, banking corporations were given regulatory dispensations allowing them to honor charges by customers that overshot their pre-crisis credit facilities, in larger sums and for longer terms.

5. Considerate treatment of customers in economic difficulties

On June 24, 2020, the Supervisor of Banks sent a letter to the executives of the banking system on responding to customers who encountered economic difficulties due to the COVID-19 crisis. In the letter, the Supervisor fine-tuned the requirements set forth in Proper Conduct of Banking Business Directive 450, "Debt Collection Proceedings," in regard to troubled customers who struggled to meet their obligations to the banking corporation, instructing banking corporations to try to exhaust various ways of collecting debts from the customer, in all of their components, before turning to the courts, and to maintain fairness and transparency throughout the debt-collection proceedings. The banking corporations were instructed to be even more stringent about this than they would be in ordinary times in order to detect difficulties and help their customers to endure this challenging period of time; to act at the earliest possible stage in order to keep debts from ballooning and to preclude further deterioration, and to demonstrate fairness, flexibility, and sensitivity toward customers. The banking corporations were also ordered to make the requisite resources available to their customers and to work out with them the most optimal arrangements possible before turning to legal proceedings.

6. Dispensations in using the Execution Office to collect debts

Under an amendment to the Execution Office Law, gazetted on September 24, 2020, special arrangements were made in an ad hoc directive that would apply to the Execution Office (the Enforcement and Collections Authority) in responding to difficulties occasioned by the COVID-19 crisis. The arrangements include the following:

extending various deadlines in Execution Office proceedings in order to give debtors more time to settle their debts before collection procedures are brought against them;

creating a special payback arrangement for debts of up to NIS 50,000, in order to effect payback in a short time while cutting back on process costs;

suspending the implementation of surrender orders and seizure of motor vehicles;

empowering the registrar of the Execution Office to merge a debtor's files at the Office, at the registrar's initiative.

7. Suspension of restriction and cancellation of restriction of bank accounts due to checks drawn on insufficient funds

To help customers and to reduce the number of potential customers whose accounts may be restricted due to returned checks, the Supervisor of Banks invoked his authority of under the Checks without Cover Law to suspend restrictions of bank accounts and of checks returned on grounds of insufficient funds for the maximum period of time allowed by the law, starting on March 4, 2020, and continuing until June 26, 2020.

The Ministry of Justice supplemented this suspension by issuing regulations that led to the final and absolute deletion of the checks from list of returned checks. The implication of this step is that a check returned due to insufficient funds during that time will not be taken into account in the tally of checks for restriction under the law, and a customer's account may not be restricted on the basis of this check.

Farther on, the Ministry of Justice issued regulations that set the term of this dispensation, which prolongs the deletion of checks returned due to insufficient funds, so that it will apply to the period between June 22 and August 10, 2020.

8. Issuance of debit cards to customers who have no credit cards and dispensations in enrolling customers in e-banking services

The Banking Supervision Department instructed the banks to approach customers who had no credit cards on the eve of the crisis and to offer to issue them with debit cards, enabling them to withdraw cash from ATMs and make purchases face-to-face and in remote ways, and also to sign up for e-banking services.

For this purpose, the Department allowed the banking corporations to send their customers notices on e-banking channels, offering to sign them up for these services and guiding them in how to do this even if these customers were not parties to an e-banking agreement on the channels by which the notice was sent to them. The Department also allowed the banking corporations to use e-banking channels to send offers to issue a credit card to customers who have no other credit card that was issued by the same banking corporation.

Furthermore, to help customers who receive social benefits such as National Insurance allowances; who did not have a credit card on the eve of the crisis; and who habitually withdraw their benefit money at the teller's counter, a roadmap was put together by which the banks sent them debit cards for use in withdrawing their benefit funds from any ATM without having to visit the branch. The customers would also be able to use the debit card for remote transactions where necessary.

Finally, to make things easier for benefit recipients who had to visit bank branches no matter what even amid the movement restrictions, for two days of the end of March 2020 teller services were made available at all bank branches that offer these services in ordinary times, allowing the entire population of benefit recipients to withdraw their benefits in cash.

9. Issuance of a supervisory order concerning fees

On September 13, 2020, the Bank of Israel issued a supervisory order on fees that lowered the fees charged for debit cards, a warning letter from a lawyer, and action by call-center tellers. The order, in effect for six months, was meant to promote the use of remote banking services by lowering their cost generally and for customers in trouble particularly.

10. Expanding banking services for customers whose credit cards are restricted under the Execution Office Law, 5727-1967

To respond to customers whose credit cards were restricted by the registrar of the Enforcement and Collection Authority (the Execution Office) by force of the Execution Office Law 5727-1967, who in ordinary times cannot be issued with a debit card in a situation where their account has a credit facility, the Banking Supervision Department initiated an amendment to the Execution Office Law under the Emergency (Novel Coronavirus) (Access to Financial Services) Regulations, 5780-2020. This regulatory dispensation was extended by another six months, to February 20, 2021, in an indirect amendment to the Execution Office Law drawn up under the Provision of Vital Services from Distance (Novel Coronavirus—Ad Hoc Directive) Law, 5780–2020. Also extended under the new statute was an amendment to the Credit Cards Law, initially established under emergency regulations, that absolves customers at large from having to affix a signature in order to execute a credit card contract. The amendment, as stated, will remain in force until the Payment Services Law, 5779-2019, which settled this matter permanently, goes into effect.

11. Prioritizing senior citizens in telephone response

In Proper Conduct of Banking Business Directive 426, "Provision of a Professional Human Telephone Response," it is stated, inter alia, that senior citizens will be given priority when calls are automatically routed in order to make matters easier for them by assuring them a rapid response. Now it is decided to broaden the population of customers entitled to this benefit by expanding the definition of "senior citizen" to include everyone aged seventy and over (instead of seventy-five, as set forth in the Directive).

12. Handling complaints from the public

The crisis period saw an increase in the number of requests for information on banking-related matters and written complaints received by the Banking Supervision Department, both attributed to the impact of the crisis on the financial situation of households and businesses. The topics that troubled the public the most were credit and deferral of payback; difficulties in withdrawing National Insurance benefits; inability to visit the bank branch in order to withdraw cash and make transactions; receiving debit cards, ATM cards, and the like; signing up for online digital banking; proceedings related to obtaining housing loans; quality of service; and sluggish delivery of service due to congestion at both branches and call centers, among others.

At this time, the Public Enquiries Unit activated an emergency system for responses to problems and difficulties that customers of banks and credit card companies reported in the context of the crisis.

The Banking Supervision Department is attentive and responsive to difficulties that the public reports in ordinary times and during the crisis as well. From the information that arrived from the public, the Department identified the main issues and addressed them by taking the steps spelled out in the Box.

13. Enhancing information transparency and accessibility

To make information about the rights of customers of the banking system and the system's operations during the coronavirus crisis more transparent, available, and accessible, the Banking Supervision Department uploaded copious information about the crisis to its website, including press releases, directives to the banking system, information about the banking corporations' active branches and call centers, a FAQ sheet on the topic, and links to additional useful sites and information sources that customers may consult.

Box 3.4
Coping with the Economic Implications of the COVID-19 Crisis: "Theory vs. Reality"

- Due to unfamiliarity with the pandemic, its immediate repercussions, and their crippling effect on economic activity, policymakers had to take multiple policy measures in a range of fields in order to support the economy. As these responses were being made, priorities changed, as did the requisite actions to deal with the implications of the crisis at all of its stages—three lockdowns, gradual reopening, and recovery—for the economy at large and for the banking system particularly.
- **Governments, central banks, and supervisory authorities acted in diverse ways and invoked different measures at different stages to enable and encourage the banks to support the economy during the pandemic. Parallel to consumer-related measures, the Banking Supervision Department took a lengthy series of micro- and macroprudential steps that corresponded to the stages of coping with the pandemic.**
- **Concurrent with the Banking Supervision Department's measures, the Bank of Israel wielded a wide range of monetary tools to keep the economy going. They helped to lower the cost of issuing credit in the banking system and drew the attention of the International Monetary Fund in its consultation on Israel (Article IV[1]), which noted the preparedness of the economy and its banking system for crises and the efficiency and celerity of the responses of the Bank of Israel and the Banking Supervision Department in accordance with the way the crisis developed.**
- **The banking system's preparedness for a crisis traces, among other factors, to the combination of microprudential tools and policy measures that makes the banking sector better able to absorb shocks.**
- **In its strategy for the reopening phase, the Department is reexamining its means of assistance and the dispensations that it made during the crisis in order to strike a balance between reverting to routine supervisory activity and the wish to mobilize the banking system for the effort to help the economy recover without risking the system's stability.**

The COVID-19 crisis and its ramifications forced policymakers to place multiple and diverse policy measures into effect in order to support the economy. As the IMF publications show, the priorities and actions that were needed to deal with the implications of the crisis for the economy and, in particular, for the banking system varied across the stages of coping with the pandemic—lockdown, gradual reopening, and recovery (Table 1).[2] In the lockdown stage, economic activity slowed markedly and policymakers had to emphasize keeping the institutions stable (by providing the capital markets with liquidity) and maintaining credit supply. The gradual reopening stage was typified by restrictions on economic activity along with uncertainty about further eruptions of the pandemic. Now policymakers needed to apply the same methods as in the lockdown stage while focusing them on badly affected population groups. The recovery stage was reached when the spread of the pandemic was brought under full control; now, policymakers

[1] Israel: 2020 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Israel, January 2021.

[2] IMF: "COVID-19: The Regulatory and Supervisory Implications for the Banking Sector," May 2020; IMF, "Banking Sector Regulatory and Supervisory Response to Deal with Coronavirus Impact (with Q and A)," Global Financial Stability Report, October 2020.

had to take steps that would help the economy rebound but should also gradually retract the regulatory dispensations and the accommodative monetary policy in a way that would not impair the functioning of the credit and capital markets.

Governments, central banks, and supervisory authorities took diverse and different measures, commensurate with the stages of the pandemic, to allow and encourage the banks to support the economy during the crisis. In Israel, the Banking Supervision Department, while taking consumer-related actions, applied micro- and macroprudential steps that corresponded to the stages of the crisis (Table 2). Those invoked at the beginning of the crisis included lowering the commercial banks' capital requirements by 1 percentage point, reviewing the distribution of dividends and buyback of shares, lowering the capital requirement for housing loans issued during the crisis by another 1 percent, lowering the leverage ratio by half a percentage point, and expanding the sectorial limit for the construction and real-estate industry from 24 percent to 26 percent—all in order to give the banking system additional sources that they could lend to households and businesses during the crisis. At the consumer level, steps were taken to give customers access to banking services and help disempowered population groups, particularly households and businesses that had been thrown into economic hardships by the crisis. The measures included relaxing limits on all-purpose loans to households, on calculation of the PTI (under certain conditions), and the possibility of deferring loan payments under a special program. (For elaboration, see Box 3.3.) Concurrently, the Banking Supervision Department spearheaded a series of measures to help customers of the banking system cope more easily with the implications of the crisis. (For elaboration, see Chapter 3.)

Together with the Banking Supervision Department's actions, the Bank of Israel wielded a broad range of monetary tools to support the economy,[3] including measures that helped the banking system continue providing the small- and micro-business activity segment with credit during the crisis (giving the banks monetary loans provided they lend to small and micro businesses) and mitigate volatility in the capital markets (Bank of Israel intervention in the foreign-exchange market, buying government bonds, and making repo transactions with financial institutions, inter alia). These measures, which helped to bring down the cost of issuing credit in the banking system, drew the attention of the IMF in its Article IV Consultation for Israel, which noted the preparedness of the Israeli economy and banking system for crises and the efficacy and rapidity of the Bank of Israel's and the Banking Supervision Department's response as the crisis developed.

The banking system found itself prepared for the crisis due, among other things, to a combination of diverse tools and microprudential policy measures that were meant to improve its ability to absorb shocks. The main changes in the past decade include boosting supervisory capital with the focus on core capital; toughening the capital requirements; adding microprudential elements to the framework including capital buffers for crises and an additional capital buffer at banks of systemic importance; requiring a minimum leverage ratio to keep the system from over-leveraging itself, and mitigating liquidity risk by requiring compliance with the liquidity coverage ratio (LCR).

As part of its exit strategy, the Banking Supervision Department reviewed the means of assistance and the dispensations that it made in the course of the crisis in order to strike a balance between restoring routine supervisory activity and the wish to mobilize the banking system for the effort to revitalize the economy without upsetting its stability. In this context, the Department extended the capital and liquidity dispensations

[3] For elaboration on the Bank of Israel's actions during the crisis, see the Monetary Policy Reports for the first half of 2020.

that it had given during the crisis[4] in order to maintain credit supply and prolonged the payment-deferral program for households and businesses that had been seriously affected (focused program)—measures that squared with the recommendations on managing the recovery phase.

Table 1
Recommended Supervisory Actions at Each Stage of the Development of the Health Crisis

Area of activity	Lockdown	Gradual reopening	Recovery
Supervisory priorities	- Reexamining supervisory priorities in view of the development of focal points of risk, vulnerabilities, and their expected impact; - close monitoring of financial institutions of systemic importance; - adjusting automatic supervisory responses (breach of minimum ratio) in accordance with developments and risk assessments.		- Return to routine supervisory activity; - establishing a strategy including clear deadlines for cancellation of dispensations given during the crisis; - developing plans to cut back on problematic assets in the banking system within a specified period of time; - creating a long-term procedure to rebuild capital and liquidity buffer, making sure that the process will not degrade credit supply; - Encouraging credit institutions to help to ease borrowers' debt burden.-
	- maintaining minimum capital requirements and accepted regulatory criteria; maintaining credit supply by allowing erosion of capital and liquidity cushions (capital preservation buffer, countercyclical buffer, leverage ratio, LCR); relaxing - macro-prudential requirements (e.g., LTV and PTI); limiting distribution of dividends and share buybacks. maintaining the business continuity of the banking system. - Emphasizing the liquidity and solvency of financial institutions (by means of monetary loans inter alia. -deferring non-essential activity. - examining the need for new reportings. - examining avenues of communication with the banks and making improvements and adjustments in IT fields	- focusing on main fiocal points of risk that emerge as the crisis evolves. - continued assistance if further lockdowns coupled with tougher eligibility terms so that aid is focused on businesses badly affected by the continuation of restrictions; - Thorough review of the medium–long-term effect of the crisis on the balance sheet, the business model, and the credit markets.	

[4] For elaboration, see Proper Conduct of Banking Business Directive 250, "Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus (Temporary Provision)."

<table>
<tr><td rowspan="2">Heightened monitoring of banks' performance</td><td colspan="2">- Ongoing discourse with boards of directors and senior management;

- toughening the reporting requirements: credit risk—granular data about exposures that may pose micro- and macroprudential risk (large borrowers, large loans issued during the crisis, and forborne loans); currency risk—granular data about hedging of exposures; market risks—commensurate with market developments.

- Measures to help solve urgent matters (classification of assets and provisions).</td></tr>
<tr><td>- Monitoring the effects of the accounting adjustments and regulatory dispensations;

- frequent adjustment of reporting deadlines and/or cancellation of certain reports;

- Tougher reporting requirements: credit risk—focusing on the impact of measures taken during lockdowns (deferral of payments and government-guaranteed loans); liquidity risk—daily information on market liquidity, volatility, and borrowers' solvency.</td><td>- Analysis and monitoring of the implications of cancelling regulatory dispensations given during the crisis</td></tr>
<tr><td>Cooperation with other policymakers</td><td colspan="2">- Creating a mechanism that will enhance cooperation with other regulatory authorities (in Israel and abroad);

- transparency about circumstances that will require further intervention by the authorities—maintaining sound performance of the markets (exchange-rate intervention) and use of fiscal relief tools;

helping to promote legislative initiatives by performing analyses and sharing data.</td></tr>
<tr><td>Effective communication and disclosure</td><td colspan="2">- Tailoring communication policy to each stage of the pandemic in terms of both contents and frequency;

- continuing to report regularly to international institutions.</td></tr>
<tr><td>Compliance risk and consumer protection</td><td colspan="2">- Making sure the public's trust is maintained;

- maintaining consistency between actions taken during the crisis and existing criteria of consumer protection and compliance risks. Also, transparency should be assured when each of these measures is implemented (disclosing measures taken during the crisis, especially in regard to consumer protection).</td></tr>
</table>

Table 2
Selected Measures by the Banking Supervision Department during the Crisis

Area of activity	Measures
Supervisory priorities	- Maintaining credit supply—relaxing capital and liquidity requirements and issuing a guidance to reconsider distribution of dividends in order to ensure the banks’ ability to continue lending during the crisis; issuing letters urging the banking system to help the economy by increasing credit supply and promising fair pricing of loans; expanding the limit for the construction and real-estate sector. - assistance for borrowers—enlarging current-account credit facilities; raising the LTV ratio on all-purpose loans backed by a dwelling; suspending restriction of accounts due to checks drawn on insufficient funds; allowing workers on unpaid leave to take housing loans in consideration of their pre-leave wages; payment deferral program; - business continuity—assuring the availability of vital banking services during the crisis; making direct-channel relations with the bank easier and urging the public to use such channels for their banking transactions; measures that helped the banks to maintain functional and managerial continuity, including outsourcing services such as remote work, splitting of units, work in pods for critical units, and formulation of principles for the evaluation of hosting suppliers’ functional continuity (for elaboration, see the section on Business Continuity); - reexamining supervisory priorities—lenience in preparing for implementation of draft Proper Conduct of Banking Business Directives concerning NSFR (Net Stable Funding Ratio) and the standard approach toward calculating counterparty credit risk exposure (SA-COVID-19R); adjusting the frequency of deadlines for reporting to the public (postponing release of public financial statements for the first quarter of 2020) and supervision (postponing the deadlines for reporting to the Banking Supervision Department in early 2020); - review of measures taken during the crisis—extending the effect of the Ad Hoc Provision that lowered the banks’ capital and liquidity requirements; formulating an additional and focused loan payment deferral program; - Maintaining credit supply—relaxing capital and liquidity requirements and issuing a guidance to reconsider distribution of dividends in order to ensure the banks’ ability to continue lending during the crisis; issuing letters urging the banking system to help the economy by increasing credit supply and promising fair pricing of loans; expanding the limit for the construction and real-estate sector. - assistance for borrowers—enlarging current-account credit facilities; raising the LTV ratio on all-purpose loans backed by a dwelling; suspending restriction of accounts due to checks drawn on insufficient funds; allowing workers on unpaid leave to take housing loans in consideration of their pre-leave wages; payment deferral program; - business continuity—assuring the availability of vital banking services during the crisis; making direct-channel relations with the bank easier and urging the public to use such channels for their banking transactions; measures that helped the banks to maintain functional and managerial continuity, including outsourcing services such as remote work, splitting of units, work in pods for critical units, and formulation of principles for the evaluation of hosting suppliers’ functional continuity (for elaboration, see the section on Business Continuity);

– reexamining supervisory priorities—lenience in preparing for implementation of draft Proper Conduct of Banking Business Directives concerning NSFR (Net Stable Funding Ratio) and the standard approach toward calculating counterparty credit risk exposure (SA-COVID-19R); adjusting the frequency of deadlines for reporting to the public (postponing release of public financial statements for the first quarter of 2020) and supervision (postponing the deadlines for reporting to the Banking Supervision Department in early 2020); **– review of measures taken during the crisis—extending the effect of the Ad Hoc Provision that lowered the banks' capital and liquidity requirements; formulating an additional and focused loan payment deferral program;**	
Heightened monitoring of banks' performance	- Tougher supervision of various risks: credit risk—emphasizing the impact of measures taken during lockdowns (payments deferral, issue of credit against monetary loans, and government-guaranteed loans) and encouraging the system to be conservative in loan-loss provisioning in order to help it cope better with the evolution of the crisis; market and liquidity risk—testing the banking corporations' liquidity during the crisis and reviewing their business-room data; model risk—issuing points of emphasis for managing and monitoring model risks in view of the COVID-19 crisis; cyber risk—issuing a directive that allows reports to be received about technological failure and cyber events in view of the upturn in risk of cyber attack and induced failure of banking corporations' systems; - close microprudential monitoring by means of two stress tests.
Cooperation with other policymakers	- Cooperation with supervisory authorities and government ministries in devising ways to help the economy
Effective communication and disclosure	- Publishing FAQs for bank customers about how households and small businesses can cope with the implications of the COVID-19 crisis in terms of their comportment vis-à-vis the banking system. - disclosure of points of emphasis in public financial statements—expanding disclosure in the banking corporations' public financial statements about liabilities that came under revised terms as the corporations contended with the crisis, in view of the importance of full and timely disclosure of the implications of the crisis for the banking system.
Compliance risk and consumer protection	- Continued issuance and updating of Proper Conduct of Banking Business Directives, FAQs accompanying the directives, and supervisory letters during the crisis; - Urging the banks to attempt and maximize, to the extent possible, various ways of collecting debts in all their components before turning to the courts against customers who encounter economic hardships due to the crisis.

Box 3.5

Special Analysis: Restricted Checks and Customers—Data and Trends during the COVID-19 Crisis

Concise description[1]

Based on the data and the description of trends that follow, it may be stated that transactions by check in the Israeli economy became much less risky in the course of 2020. The decrease in risk reflects downturns in the share and number of checks drawn on insufficient funds relative to ordinary (pre-crisis) times. Consequently, a steady and consistent decline was observed during the year in the number of accounts placed under "banking" restriction (i.e., restrictions imposed due to checks returned on grounds of insufficient funds, in contrast to "nonbanking" restriction, imposed due to a debt to the Execution Office or a bankruptcy proceeding). The downward path continued through the end of 2020—even after the Ministry of Justice's dispensations on restrictions due checks drawn on insufficient funds expired.

Concurrently, the decrease in economic activity due to the spread of the pandemic, the lockdowns, and the health-related restrictions, coupled with a wave of check cancellations and suspension of restrictions at the beginning of the crisis, appears to have reduced the use of checks and raised the level of caution in check-based transactions that continued to take place during the period investigated.

Indicators of transaction risk when payment is made by check

The data show that the main indicators of risk in check-based transactions were low in 2020 even relative to ordinary times, particularly:

Share of checks drawn on insufficient funds

The data on checks drawn on insufficient funds yield an important warning in detecting failures in the use of checks. The proportion of "bad checks" among all checks presented for payment is shown in Figure 1. As may be seen, after a relatively strong increase in the first few weeks of the pandemic (peaking at 2.4 percent of checks presented during that time), the share of checks drawn on insufficient funds in total checks presented declined steadily (as did their absolute number and the number of accounts placed under "banking" restriction for this reason) until levels below the average in the pre-crisis years (bottoming out at 0.49 percent in the middle of December 2020) were observed. Importantly, the share of checks drawn on insufficient funds continued to trend down even after the dispensations expired (on August 10, 2020).

Share of checks returned due to cancellation

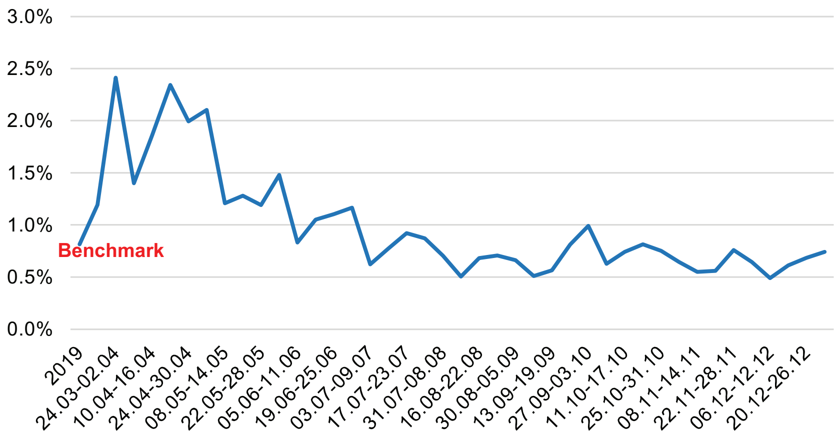
Like the proportion of checks drawn on insufficient funds, the share of checks returned due to cancellation by payer surged at the onset of the crisis (cresting at 2.3 percent of all checks presented), largely due to cancellation of transactions and the economic uncertainty. As the figure below shows, this share declined steadily as time passed and returned to roughly the pre-crisis level. At the present writing, the rate stands at 0.4 percent on average, twice as high as before the crisis. The discrepancy, however, has scant influence on the level of reliability of check-based transactions at large, both due to an increase in the number of transactions

[1] The data presented in the figures are divided into three periods: the breaking out of the crisis and the onset of suspension of restrictions (March 24-June 22, 2020), the end of the suspension and continued dispensations (deletion of checks for restriction purposes) in accordance with regulations from the Minister of Justice (June 23-August 10) and, finally, continuation of the period without further qualifications or dispensations relative to the sanction enshrined in law (August 11– end of 2020). The figures also show average 2019 data as a benchmark.

canceled for legitimate reasons (involving celebrations, tourism, professional conferences, and so on) and due to the negligible share of checks returned due to cancellation among all checks cleared (approximately 4,000 checks out of 1.5 million per week).

Even after the end of the relief, the downward trend in the rate of checks without cover continued.

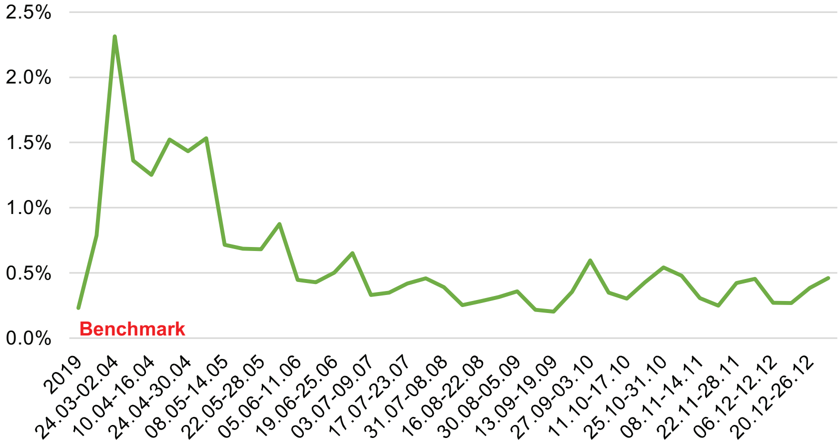
Figure 1
Rate of Checks Returned for Insufficient Coverage as a Share of Total Checks Presented for Payment During the Crisis, 2019–2020 (percent)



SOURCE: Based on reports to the Banking Supervision Department.

The rate of checks returned due to cancellation by the payer moderated over time and returned to levels similar to routine times.

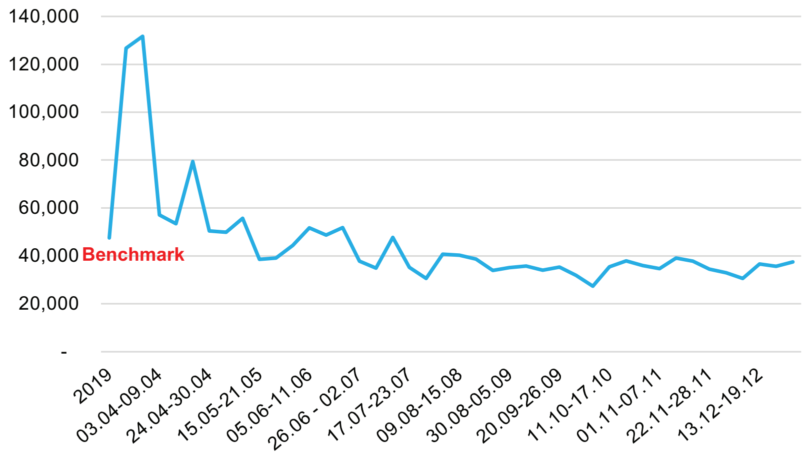
Figure 2
Checks Returned due to Cancellation as a Share of Total Checks Presented During the Crisis, 2019–2020 (percent)



SOURCE: Based on reports to the Banking Supervision Department.

A similar trend was observed in the number of general check cancellations.

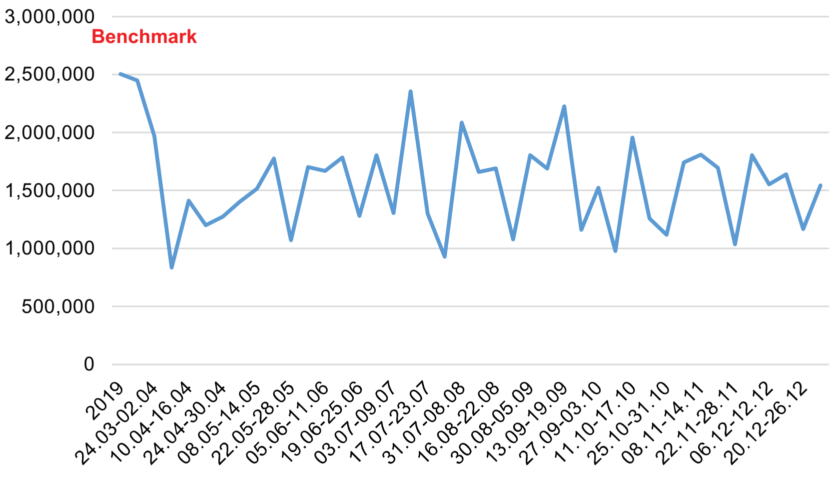
Figure 3
Check Cancellation Instructions per Period, 2019–2020



SOURCE: Based on reports to the Banking Supervision Department.

The public reduced the use of checks during the crisis.

Figure 4
Checks Presented for Payment During the Period, 2019–2020 (percent)



SOURCE: Based on reports to the Banking Supervision Department.

Number of canceled checks

As the figure shows, a similar trend is observed in the overall number of canceled checks (also including cancellations of postdated checks).

Extent of use of checks during the research period

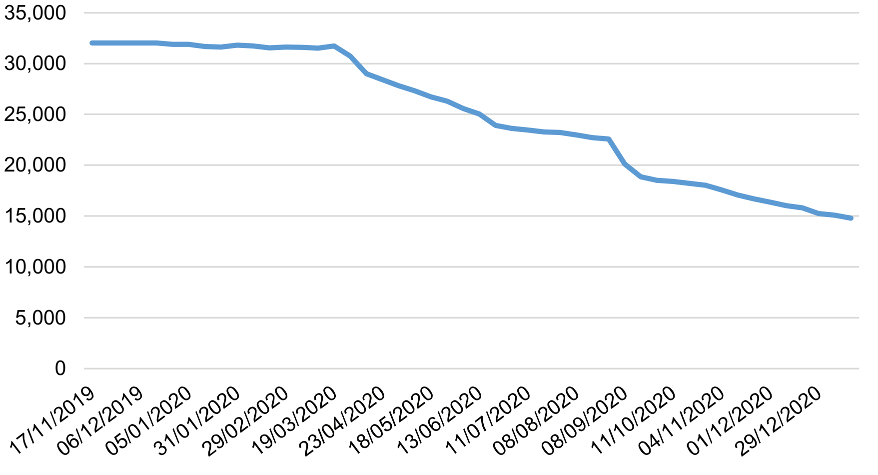
The data show that the public downscaled its use of checks during the crisis by 25 to 35 percent. The decline seems to have originated partly in greater caution in accepting checks as payment for transactions and in other part in more stringent reliability tests, possibly explaining some of the decrease in the proportion of checks drawn on insufficient funds during the crisis. Importantly, however, the downturn in the share of checks drawn on insufficient funds is not directly dependent on the extent of transactions; it is a measure of relative quality only.

Changes and trends in the number of restricted customers

In keeping with the significant downward trend in the number and proportion of checks drawn on insufficient funds, the number of customers restricted for this reason (the "banking" restriction) fell steadily from the beginning of the year to the present writing. In contrast to concern about a surge in the number of "banking" restrictions after the expiration of the temporary qualifications to the Checks without Cover Law (in accordance with regulations put out by the Ministry of Justice), the steep decrease in the share and number of

Due to the significant decline in the volume and rate of checks without cover, the number of those under significant bank restrictions also declined throughout the period.

Figure 5
Those Under Bank Restrictions due to Checks Without Cover, November 2019–2020



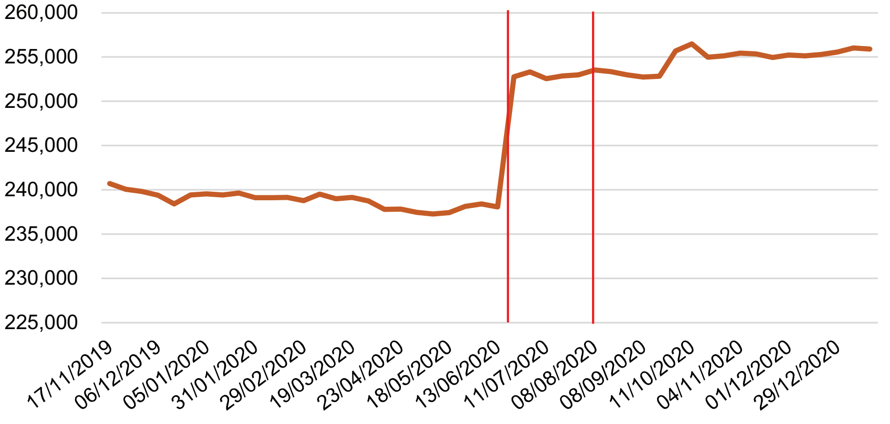
SOURCE: Based on reports to the Banking Supervision Department.

"bad checks" countrywide caused the number of restrictions on "banking" grounds to fall significantly since the beginning of that period.

In contrast, the number of customers restricted on "special" grounds—not directly due to the use of checks but pursuant to Execution Office proceedings, bankruptcy, and fines—increased slowly but steadily from June 2020 onward (after the suspension of enforcement by the Execution Office at the beginning of the crisis).[2]

The number of customers whose restrictions were not directly due to the use of checks increased moderately from June 2020.

Figure 6
Those Under Special Restrictions Imposed by the Enforcement Authority or the Official Receiver, November 2019–2020



* The sharp jump in the number of people under special restrictions in mid-June (an addition of about 13,000 restrictions due to data scrubbing and corrections made in the Official Receiver's data systems) should be discounted.

SOURCE: The Enforcement and Collections Authority, the Official Receiver, and the Rabbinic Courts.

2 The Execution Office (the Enforcement and Collection Authority) suspended collection proceedings from the onset of the crisis until the end of April 2020. A gradual return to the normal handling of such proceedings ensued in May.

Appendix A
Supervisory Directives Issued in 2020[a]

January 12	**Amendment to Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limitation"** The amendment was needed due to expectations of a large increase in national infrastructure construction projects, the importance of such projects for economic growth, and the need to expand credit supply for these projects in order to enable the banking system to finance national infrastructure on a broader scale.
	Amendment to Proper Conduct of Banking Business Directive 470, "Payment Cards" The amendment was needed due to an increase in ATM fraud. Henceforth, every credit card issued must be a smart card that complies with the EMV standard, allowing contactless transactions. To encourage the use and adoption of this standard, it was determined that the amendment would go into effect on March 31, 2020.
	Amendment to Proper Conduct of Banking Business Directive 472, "Merchant Acquirers and Acquiring Payment Card Transactions" According to the amendment, a merchant acquirer shall not allow a business to carry out any transaction that does not use EMV technology. In consideration of the state of preparedness among businesses, the complexity of the technology, and the need to "educate the market" when a transition to a new payment method is made, the standard will be adopted gradually, commensurate with the size of the business and its turnover in credit-card transactions.
February 13	**Amendment to the Reporting to the Public Directives that improves the usefulness of the banking corporations' public financial statements for 2019 and 2020** The Banking Supervision Department, pursuant to its activity in this matter in recent years, amended the Reporting to the Public Directives in order to improve the usefulness and transparency of banking corporations' and settlement institutions' public financial statements. The amendment reduces the frequency of disclosure of certain matters, rescinds certain disclosure requirements, and emphasizes more important and comparable information.

[a] The full and binding text of regulatory actions appears on the Bank of Israel's website.

February 17	**Amendment to the Reporting to the Public Directives concerning external-auditor reports** The Reporting to the Public Directives were amended in response to the updating of various US auditing standards in regard to external auditor reports. The updates include, among other things, compulsory disclosure in the professional opinion of the year in which the external auditor began to serve in this capacity for a banking corporation, and in critical matters that the external auditor's audit brought to light.
February 25	**Proper Conduct of Banking Business Directive 368, "Implementation of an Open Banking Standard in Israel"** The directive was issued pursuant to the development of international regulation concerning open banking, which strengthens customers' control of financial information about them and the way transactions in their bank accounts are carried out. It requires banks to share customers' banking information, per customers' consent, with authorized third-party providers and to allow payments to be made from their accounts by a third party that is supervised for this purpose. The directive defines the obligations and tools to be used for managing the risks in terms of sources of information, managers of the account from which payment is made, and third-party suppliers. Thus it protects customers and others in the ecosystem while creating an opportunity to bring about change in the Israeli financial system. Some provisions of the directive went into effect on December 31, 2020, and the others will go into effect on December 31, 2021.
March 1	**Amendment to Proper Conduct of Banking Business Directives 201, "Introduction, Scope of Application and Calculation of Requirements," and 218, "Leverage Ratio"** To facilitate change in the structure of the banking system while mitigating the dominance of the two largest banking groups, it is determined that the capital and leveraging targets shall apply to a bank that has total balance-sheet assets (consolidated) equal to or greater than 24 percent of total balance-sheet assets in the banking system, instead of 20 percent previously.

March 12	**Amendment to Proper Conduct of Banking Business Directive 480, "Adjustments of Proper Conduct of Banking Business Directives that Apply to a New Banking Corporation and a Banking Corporation in Formation"** The Banking Supervision Department acts to stimulate competition in the banking system in ways that include eliminating entry barriers to the banking sector, e.g., by giving dispensations and creating regulatory certainty that will lower the costs of setting up and inaugurating the activity of a new banking corporation and of a banking corporation in formation. The directive adjusts directives in which it was found that the compliance requirements will burden a new banking corporation and one in formation and will be accompanied by steep costs disproportionate to the risk to which a new banking corporation or one in formation may be exposed, or the systemic risk that these requirements will create.
	Amendment to the Reporting to the Public Directives concerning the public financial statements of a new banking corporation and of a banking corporation in formation As part of the Banking Supervision Department's efforts to stimulate competition in the banking system and in view of the amendments to the Proper Conduct of Banking Business Directive concerning "Adjustments of Proper Conduct of Banking Business Directives that Apply to a New Banking Corporation and a Banking Corporation in Formation," the Reporting to the Public Directives are amended to clarify the disclosure requirements that will apply to new banking corporations and those in formation.
	Amendment to Proper Conduct of Banking Business Directive 411, "Prevention of Money Laundering and Financing of Terror, and Customer Identification" In essence, the amendment lists special arrangements that were set forth by the Supervisor of Banks under the Prevention of Money Laundering order in respect to recording beneficiaries and controlling principals.
March 19	**Proper Conduct of Banking Business Directive 250—"Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus (Temporary Provision)"** Against the background of the development of the COVID-19 crisis and its repercussions, this ad hoc directive makes various adjustments to Proper Conduct of Banking Business Directives that are necessary in order to help households, businesses, and the economy at large to cope with the challenges of this event. The ad hoc directive will be adjusted from time to time in accordance with developments in the crisis. Within the framework of the temporary provision, changes were made in the following directives:

Proper Conduct of Banking Business Directive 301, "Board of Directors" It is established that a bank's board of directors may conduct its meetings in ways other than face-to-face.
Proper Conduct of Banking Business Directive 308A, "Handling of Public Complaints" The bank's response and notice to customers concerning their right to present the Banking Supervision Department with an objection to the bank's decisions, either verbally or in writing.
Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limitation" To support the continued activity of the real-estate industry and to help contractors meet their growing funding needs in view of the expectation of a labor shortage and delays in construction, it is determined that banks may increase their lending to the construction and real-estate industry so that total lending rises from 20 percent of total indebtedness to the public to 22 percent.
Proper Conduct of Banking Business Directive 325, "Management of Credit Facilities in Current Accounts" Given the expectation of an increase in the number of customers who encounter cash-flow difficulties, banks are allowed to honor debits of customers who overshoot their assigned credit facilities in sums of up to NIS 5,000 for private individuals and NIS 100,000 for commercial debtors.
Proper Conduct of Banking Business Directive 329, "Limitations on Issuing Housing Loans" To help the public and to respond to households' credit needs, a bank may issue an all-purpose loan backed by a dwelling at an LTV ratio of up to 70 percent (instead of 50 percent as stated in the Directive).
Proper Conduct of Banking Business Directive 355, "Business Continuity Management" Although an emergency-economy situation has not been declared and in view of Ministry of Health guidances on downscaling activity and movement in the public domain, banks are allowed to operate on a reduced scale while adhering to the variables specified in the Directive in order to cause the least possible harm to the public's banking services.

	Proper Conduct of Banking Business Directives 367, "E-Banking," and 420, "Sending Notices via Means of Communication" Banks may use e-banking channels to advise customers of offers to sign up for these services even if the customer has not signed an e-banking agreement via the channels through which notice is sent. Banks may also use e-banking channels to offer to issue a credit card even to customers who have no other credit card issued by the same bank.
	Proper Conduct of Banking Business Directive 439, "Debits by Authorization" To lighten the burden on customers who find digital channels hard to use, banks may accept instructions to cancel a debit by authorization or an authorization to debit an account by telephone and not only by written notice, provided the phone call is documented.
March 22	**Publication of letter—leniencies in obtaining banking services by telephone as a response to the COVID-19 crisis** Temporary regulatory dispensations that allow alternative documentation proceedings in cases where talks between banking-corporation staff and their customers should be recorded but cannot due to restrictions related to the COVID-19 crisis. Furthermore, as long as the dispensations are in effect, credit agreements (with the exception of housing loans) may also be executed by obtaining the customer's consent by telephone, and insofar as the phone call cannot be recorded, alternative ways of documenting it shall be determined. The dispensation was extended to March 31, 2021.
	Emergency (Checks without Cover), Regulations, 5780-2020—empowering the Supervisor of Banks to restrict accounts during an emergency originating in an epidemic Within the framework of the Regulations, the time of authority of the Supervisor of Banks is extended so as to correspond to the effect of the Emergency Regulations (three months) in order to suspend restriction of accounts under the Checks without Cover Law, 5741-1981, pursuant to the declaration of a state of emergency in response to the declaration of a dangerous contagious disease under Section 20(1) of the Public Health Ordinance, 1940. The amendment will allow the Supervisor to present the banks with a guidance on this topic.
March 23	**"Guidance from the Supervisor of Banks concerning Checks without Cover—Pursuant to the Coronavirus Event"** In accordance with the authority of the Supervisor of Banks under the Checks without Cover Law, 5741-1981, it is established that banking corporations and the Postal Bank shall suspend the restriction of an account and its owner for reason of checks rejected on grounds of insufficient funds from March 4, 2020, to the end of the term specified in the Law, i.e., until June 22, 2020.

March 31	**Proper Conduct of Banking Business Directive 201, "Introduction, Scope of Application and Calculation of Requirements"** Given the need to help and support the economy and the Bank of Israel's large capital surpluses, the compulsory minimum capital ratios in the course of ordinary business are lowered as follows: The Tier 1 capital ratio shall be no lower than 8 percent (instead of 9 percent) and the total capital ratio shall be no lower than 11.5 percent (instead of 12.5 percent). A bank that has assets equal to or greater than 24 percent of total assets in the banking system must maintain a Tier 1 capital ratio of at least 9 percent (instead of 10 percent) and a total capital ratio of 12.5 percent (instead of 13.5 percent). The dispensation will apply for the next twenty-four months.
	Proper Conduct of Banking Business Directive 331, "Distribution of Dividends by Banking Corporations" As part of its actions in lowering the banks' capital ratios, the Banking Supervision Department expects banks that amass capital surpluses to use them to support economic activity and not to distribute dividends or buy back their shares.
April 1	**Proper Conduct of Banking Business Directive 355, "Business Continuity"** Due to substantive concern about detriment to the public's health, the proportion of bank branches that receive the public shall be no smaller than 15 percent of all branches of the bank.
April 7	**Proper Conduct of Banking Business Directive 301, "Board of Directors"** Several dispensations relating to the work of the board of directors are established, including allowing board chairpersons and board committees to determine the date and frequency of discussion of essential matters at their discretion and in consideration of evolving risks and the need to monitor the bank's operations.
	Proper Conduct of Banking Business Directive 308A, "Handling of Public Complaints" In view of personnel cutbacks at the banks' public complaints offices, a bank may advise presenters of non-urgent inquiries that it is extending the deadline for its final response by issuing a general notice on online channels.

Proper Conduct of Banking Business Directive 326, "Project Finance" The (Homes) (Assuring Investments of Home Buyers), Law, 5734-1974, specifies the number of days within which a bank must present a buyer with a guarantee of the sum paid. To align the Directive with a case in which said number of days in the Law is amended, the requirement of presenting the buyer with a guarantee within fourteen days is deleted from the Directive.
Proper Conduct of Banking Business Directive 367, "E-Banking" To make it easier for businesses to open an online account that is an acquiring account or when receiving credit via an account that includes the provision of discounting services, the extent of activity to which the dispensations concerning identification and authentication apply is increased from NIS 50,000 to NIS 100,000.
Proper Conduct of Banking Business Directive 411, "Prevention of Money Laundering and Financing of Terror, and Customer Identification" To allow small businesses to go about their activity with greater ease, the facility within which such a business may receive credit-card payment settlement services via a settlement aggregator, without contracting directly with a settlement institution, is raised from NIS 50,000 to NIS 100,000.
Proper Conduct of Banking Business Directive 426, "Provision of a Professional Human Telephone Response" The definition of a "senior citizen" is revised so that the earliest age at which customers will receive priority in the call-center queue is henceforth seventy (instead of seventy-five).
Proper Conduct of Banking Business Directive 432, "Transferring Activity and Closing a Customer's Account" To help banks' human resources to handle customer requests to close an account, the term is extended from five business days to fourteen business days from the date on which the customer completes the actions that he or she must take according to the Directive.
Proper Conduct of Banking Business Directive 450, "Debt Collection Proceedings" To make it easier to obtain customers' consent to debt settlements concluded between them and a bank, the requirement of a signature on the settlement is replaced by the requirement of documented consent that may be obtained by telephone as well.

	Proper Conduct of Banking Business Directive 451, "Procedures for Extending Housing Loans" To help banks' human resources at a time of cutbacks in branch activity, the deadlines set forth in the Directive by which the bank must present customers with letters of intention, certifications of settlement, and notices that they insured borrowers on their own insofar as the insurance policy they presented fails to meet their requirements, are extended.
	Emergency (Novel Coronavirus) (Access to Financial Services) Regulations, 5780-2020 The regulations amend the Execution Office Law, 5727-1967, and the Payment Cards Law, 5746-1986, to allow and facilitate the distribution of charge cards to customers of the banking system in ways that the Banking Supervision Department and the banking system worked out for this purpose.
	Update of Proper Conduct of Banking Business Directive 368, "Implementation of an Open Banking Standard in Israel" Given the development of the COVID-19 pandemic and its implications for the domestic and the global economy and, specifically, the downscaling of human resources in the banking system, the date of effect of the Directive is revised: The Directive will go into effect in part on March 31, 2021 (instead of December 31, 2020) and in other part on March 31, 2022 (instead of December 31, 2021).
	Update of Proper Conduct of Banking Business Directive 359A, "Outsourcing" The emergency instructions preclude some banking corporations from completing their preparations for the implementation of the directives pertaining to outsourcing. Consequently, the starting date is postponed from March 30, 2020, to September 30, 2020.
April 27	**Proper Conduct of Banking Business Directive 311, "Credit Risk Management"** To enable borrowers who are not yet able to prepare financial statements due to downsizing of staff, it is decided to extend by two months the deadline for presenting statements as set forth in the Directive.

	Proper Conduct of Banking Business Directive 329, "Limitations on Issuing Housing Loans" Due to the large-scale placement of workers on unpaid leave, causing their income to decline, banks are henceforth allowed to take into consideration borrowers' average income in the three months preceding the onset of unpaid leave for calculation of PTI (payment-to-income ratio). Furthermore, it is decided that the extra one percentage-point capital requirement shall not apply to housing loans that are reorganized during the crisis. This dispensation in regard to the capital requirements is meant to lower the interest rate on housing loans.
	Proper Conduct of Banking Business Directive 355, "Business Continuity Management" After the government decided to make dispensations on the restriction of activity, the activity of bank branches that serve the public is expanded so that the minimum share of branches that receive the public shall henceforth be 30 percent.
	Proper Conduct of Banking Business Directive 357, "Information Technology Management" Due to the COVID-19 crisis, some banks are finding it difficult to apply the guidance to perform a safety survey for high-risk and e-banking systems at least once every eighteen months. Accordingly, henceforth banks may extend this period to up to six additional months per reasoned approval of the Chief Risk Officer.
May 6	**Proper Conduct of Banking Business Directive 355, "Business Continuity Management"** After the government decided to make further dispensations on the restriction of activity, the activity of bank branches that serve the public is expanded so that the minimum share of branches that receive the public is raised from 30 percent to 50 percent. These branches shall offer the full range of services provided in ordinary times.

May 7	**"Deferral of Loan Repayment to Help Bank Customers Cope with the Ramifications of the Coronavirus Crisis"—Special Framework** The economic crisis that followed the eruption of the COVID-19 crisis had dire effects on customers of the banking system. Many households and businesses faced economic hardships that were manifested, among other things, in income loss that threatened to diminish their ability to repay loans that they had taken before the pandemic. To help customers who have had such hardships and requested dispensations due to cash-flow difficulties, a standard framework for payback deferral, with stringent and responsible attention to risk management, was put together and has been adopted by the banking system.
June 1	**Proper Conduct of Banking Business Directive 355, "Business Continuity Management"** After the government decided to make further dispensations on the restriction of activity, all branches of the banking system will be allowed to receive the public no later than May 13, 2020. Service will be given in consideration of the public's health and per prior appointment.
June 17	**Checks without Cover (Qualifications to the Incidence of the Law) Regulations, 5780-2020** The Regulations complete a process that began on March 23—at the beginning of the crisis—when the Supervisor of Banks issued a guidance meant to preclude restriction of bank accounts of customers whose checks were returned due to the negative impact on routine economic activity occasioned by the COVID-19 crisis. According to the regulations, a check deposited from March 4 to June 22, 2020, and refused due to insufficient funds shall not be included in the count of checks for the purpose of account restriction under the law.
June 22	**"Clarification Letter concerning Use of E-Banking Channels to Send Itemization of Credit Card Transaction Notices"** To maintain the balance between promoting the changeover to sending itemization of credit-card transaction notices on digital channels and protecting customers not interested in this, and as a complementary measure to the stance of the Ministry of Justice on the matter, a letter explaining the Banking Supervision Department's stance from May 27, 2020, on, is circulated.

June 23	**Amendment to Proper Conduct of Banking Business Directive 432, "Transferring Activity and Closing a Customer's Account"** To allow customers to transfer their securities portfolios to another financial-service provider more easily and to simplify the process by using new technological means that banking corporations may invoke, it is determined that banking corporations shall allow customers to ask to have their securities portfolios transferred without requiring them to visit the branch. The Directive will go into effect six (6) months after it is published.
June 24	**"Providing a response for customers enduring economic difficulties against the background of the coronavirus crisis"—publication of letter on the topic** Banking corporations are instructed to continue operating in accordance with Proper Conduct of Banking Business Directive 450 but with greater intensity than in ordinary times, in order to detect difficulties and help their clients to weather the crisis while maintaining responsibility, fairness, flexibility, and sensitivity toward their customers.
June 30	**Proper Conduct of Banking Business Directives 307, "Internal Audit Function," and 350, "Operational Risk Management"** In view of difficulties in completing the multiannual audit plans specified in the Directives, a six- (6) month deferral to complete the plan is given if the most recent deadline falls in the course of 2020.
	Proper Conduct of Banking Business Directive 360, "Rotation and Uninterrupted Vacation" The dispensations set forth in the Directive are meant to allow the banking system to better manage their implementation of the uninterrupted vacation requirement in 2020 given that some staff worked intermittently during the crisis.
July 13	**Expansion of the comprehensive loan payment deferral framework** To continue helping customers cope with the economic hardships occasioned by the COVID-19 crisis while applying intelligent and responsible risk management, the Banking Supervision Department announces the extension and expansion of the loan payment deferral framework that was unveiled on May 7, 2020. Thus, the period in which customers may apply for payback deferral is extended as is the allowable deferral term, both for customers who received a deferral under the original framework and for new applicants.

July 23	**"Attachment of payments made by order of the Army to a soldier in conscript service"—publication of a letter on the topic** Pursuant to a discussion by a subcommittee of the Knesset Immigration, Absorption, and Diaspora Committee concerning lone soldiers during and at the end of their military service, banking corporations are advised that they must make sure the statutory injunction against attaching payments made into bank accounts of soldiers in conscript service is applied in practice.
July 26	**"Duration of Wait for Professional Human Response"—publication of report to the Knesset Economics Committee and letter to the banking system on the topic** As part of the semiannual report to the Knesset Economics Committee about the wait time for a professional human telephone response under the provisions of the Banking (Service to the Customer) Law, 5741-1981, for the first half of 2020, it was explained that the Supervisor of Banks exercised his statutory power and excluded March–May 2020 from the report due to the COVID-19 crisis. During that time, as stated, banking corporations made their best efforts to continue providing customers with optimal service. In his letter to the banking system, published concurrently with publication of the report to the Knesset, the Supervisor of Banks instructed the banking system to continue deploying for an upturn in morbidity and to make efforts to provide customers with an optimal human telephone response in order to comply with the response times set forth in the law.
July 27	**"Carrying out remote banking activities during the period of the coronavirus crisis and in routine times"—publication of letter on the topic** In the letter, the Supervisor emphasizes the importance and necessity of offering a response that enables population groups such as those going through bankruptcy and default proceedings, legal guardians, and wards who have been assigned a guardian to carry out banking activities remotely. It is explained that this response should be given in accordance with the provisions of the law, Proper Conduct of Banking Business Directive 422, and the position papers of the Office of the Administrator General and the voluntary memorandum of understanding regarding guardianship accounts.
August 18	**Checks without Cover Law (Amendment 14), 5780-2020** According to the amendment, customers must be notified in the event that a check is presented for payment and their account has insufficient funds so that they are aware of the need to deposit funds into their account and keep the check from being rejected. The amendment will go into effect one year after it is gazetted, on August 18, 2021.

August 20	**Vital Services by Remote Means (the Novel Coronavirus—Ad Hoc Directive) Law, 5780-2020** In this Law, indirect amendments to the Execution Office Law, 5727-1967, and the Payment Cards Law, 5746-1986, allowing the issuance of debit cards to customers against whom restrictions on the use of a charge card have been imposed even if their bank account has a credit facility, and to the Payment Cards Law, obviating the need for a signature in order to execute a debit-card contract, are enshrined in statute pursuant to the Emergency (Novel Coronavirus) (Access to Financial Services) Regulations, 5780-2020, of April 7, 2020.
August 27	**Checks without Cover (Qualifications to the Incidence of the Law due to the Continuation of the Coronavirus Crisis) (no. 2) Regulations, 5780-2020** In these Regulations, the term for revoking the counting of checks rejected on grounds of insufficient funds for the purpose of restricting bank accounts is extended ex post to August 10, 2020. As a result, a check deposited at any time between March 4 and August 10, 2020, and refused on grounds of insufficient funds shall not be included in the count of checks for the imposition of a restriction under the Law.
September 13	**Supervision of Fees Order** To allow customers to cope with the COVID-19 crisis more easily and to encourage them to carry out banking activity remotely, the Banking (Service to Customer) (Supervision of Debit Card Fee, Lawyer's Warning Letter, and Call-Center Teller Executed Activity) (Ad Hoc Provision) Order, 5780-2020, is gazetted. The Order will go into effect on October 13, 2020, for a six (6) month period (to April 13, 2021).
	Clarification letter concerning the Supervision of Fees Order Pursuant to the imposition of controls on fees relating to debit-card service, lawyer's warning letter, and call-center teller executed activity, the banking system is given clarifications on the topic.
September 22	**Proper Conduct of Banking Business Directive 355, "Business Continuity Management"** In view of the government's decision to reduce activity and movement in the public domain, banks are allowed to operate on a downscaled format and in stringent compliance with the conditions specified in the Directive, which are meant to minimize impairment to banking services to the public under the circumstances.

September 24	**Execution Office (Novel Coronavirus—Amendment no. 68 and Ad Hoc Directive) Law, 5780-2020** Special arrangements are made that will apply to the Enforcement and Collection Authority (the Execution Office) during the term of the Ad Hoc Directive, in order to respond to difficulties occasioned by the COVID-19 crisis and to incentivize payback of debts and the restoration of full economic activity. Also set forth are several necessary permanent provisions in regard to debt collection by the Authority in routine times.
September 29	**Further extension and expansion of the comprehensive loan payment deferral framework** Pursuant to the government's decision to impose another lockdown and to help customers to cope with its implications, the Banking Supervision Department announced another extension and expansion of the comprehensive loan payback deferral framework.
	Update to Proper Conduct of Banking Business Directives 203, "The Standardized Approach—Credit Risk," 313, "Limitations on the Indebtedness of a Borrower and a Group of Borrowers," and 315, "Industry Indebtedness limitation" The rules applying to bank guarantees for homebuyers' investments that are not issued under the Sales Law but have similar characteristics and may be exercised on similar grounds are equalized with the rules established for guarantees given under the Sales Law.
October 1	**Deferral of loan repayment—framework adopted by credit-card companies** To help customers of the financial-services system, a voluntary framework for deferral of loan payback is formulated and adopted by all credit-card companies. The framework, tailored to the characteristics of credit-card companies, is meant to help customers cope with their cash-flow hardships at the current time.[b]
	Amendment to Proper Conduct of Banking Business Directive 450, "Debt Collection Proceedings" To make it easier to obtain customers' consent to debt settlements drawn up between them and a banking corporation, the compulsory signature on the settlement is replaced with compulsory documented consent. The dispensation is given under Proper Conduct of Banking Business Directive 250 and is incidental to dealing with the COVID-19 crisis; the amendment is meant to apply it in ordinary times as well. The Directive also had to be amended in view of legislative changes in recent years.

[b] https://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/1-10-20.aspx

October 3	**Update to Proper Conduct of Banking Business Directive 411, "Prevention of Money Laundering and Financing of Terror, and Customer Identification"** An appendix was added to the Directive that enshrines the arrangement made by the Supervisor of Banks under Section 7a of the Prohibition of Money Laundering Order concerning alternative methods of identification, verification of particulars, certifications, and documents in respect of opening and managing bank accounts for asylum-seekers and persons under temporary protection.
November 15	**New Proper Conduct of Banking Business Directive: "Dormant Deposits and Accounts of Deceased Holders"** Given the importance of returning funds in dormant deposits to their owners and the risks of holding unclaimed money in banking corporations, the tracing requirements that apply to banking corporations are expanded and a scale of compulsory tracing actions contingent on circumstances is established. Also included are provisions relating to reports and interfaces between banking corporations and the Office of the Administrator General, and guidances on safe-deposit boxes of renters with whom communication has been lost and accounts of deceased persons.
	Proper Conduct of Banking Business Directive 218, "Leverage Ratio" To keep the leverage ratio from becoming an obstacle to the issuance of bank credit, it is decided to lower the minimum leverage ratio in a manner consistent with the dispensations made in regard to the minimum capital ratios. The adjusted leverage ratio is 4.5 percent (instead of 5 percent) and, for a banking corporation that has total balance-sheet assets equal to or greater than 24 percent of total balance-sheet assets in the banking system, 5.5 percent (instead of 6 percent).

November 29	**Amendment to the Reporting to the Public Directives concerning implementation of the US Generally Accepted Accounting Principles in regard to current expected credit losses** As part of Israel's transition to financial reporting by banking corporations and merchant acquirers to full adoption of the Generally Accepted Accounting Principles (GAAP) of US banks, and pursuant to the supervisory letter of March 28, 2018, the Reporting to the Public Directives are amended so as to require banking corporations and credit-card companies to apply the updates made to the GAAP in recent years concerning current expected credit losses (CECL). As the directives were amended, the Banking Supervision Department published FAQs explaining how Israel's banking system should apply the principles. The principles, worked out as a result of lessons from the financial crisis, are meant to improve the quality of reportage on a banking corporation's financial condition by earlier recording of credit-loss allowances in order to reduce the pro-cyclicality of the allowances, which causes allowances to respond to losses earlier and leads to expected degrading of borrowers' credit; and strengthens the connection between the way credit risks are managed and the way these risks are reflected in the financial statements. The principles will go into effect on January 1, 2022.
December 1	Update to Proper Conduct of Banking Business Directive 299, "Regulatory Capital Transitional Arrangements" Pursuant to the adoption of the American banks' Generally Accepted Accounting Principles (GAAP) in regard to current expected credit losses, transitional provisions are set forth that explain the way the new principles shall first be applied to determine the banking corporations' supervisory capital.
December 27	**Update to Proper Conduct of Banking Business Directive 329, "Limitations on Issuing Housing Loans"** To give mortgage-loan takers flexibility in diversifying the mix of their loan, the percent limit applying to the floating-interest component of the loan is revoked, so that the only remaining restriction is that at least one-third of the total loan be given at fixed interest and up to the remaining two-thirds of the loan be given at floating interest.

December 29	**Update to Proper Conduct of Banking Business Directive 367, "E-Banking"** The update allows an incorporated entity including: a company, a registered partnership, a cooperative association, an Ottoman association, a society, or a political party registered in Israel to open a bank account online with no need to visit a branch, including remote identification of authorized signatories for the management of a corporate account and online receiving of the documents the corporation must have when it opens an account. The update makes an important contribution to the infrastructure that allows the banking system to offer corporations and not only individuals (such as households and any authorized business that is not a limited-liability company) the possibility of obtaining additional banking services remotely. An additional update allows a banking corporation to determine the way customers should be identified and authenticated before they are remotely enrolled in e-banking services, in accordance with the banking corporation's risk management and subject to the policy approved by its board of directors, as an alternative to the need to comply with the principles set forth for the matter in the Directive thus far. The update will allow banking corporations to simplify the process of identifying and authenticating customers who wish to sign up remotely for e-banking services and, in this manner, to help expand the range of services that may be offered on digital channels, obviating the need to visit the branch.
	Proper Conduct of Banking Business Directive 366, "Reporting of Technological Failures and Cyber Events"; and Reporting to the Banking Supervision Department Directive 880, "Reporting Technical Failure and Cyber Events" [c] Efficient management and handling of technological failure and cyber events are crucial and fundamental for continued functioning and provision of services by a banking corporation at the time of such an event. Accordingly, the Banking Supervision Department redefined the reporting requirements in these regards in order to make sure that banking corporations manage the event properly, be apprised of the situation, help to mitigate any systemic impact of the event when necessary, and assure the conduct of a process of investigation and learning in the aftermath of the event.

[c] Reporting to Banking Supervision Directive no. 880 was published on December 30, 2020.

December 29	The Proper Conduct of Banking Business Directive, along with the Reporting to the Banking Supervision Department Directive, define the compulsory reporting of a significant technological failure and cyber event and replace the existing reporting requirements that are set forth in the following directives: • Proper Conduct of Banking Business Directive 357, "Information Technology Management." • Proper Conduct of Banking Business Directive 361, "Cyber Defense Management." • Proper Conduct of Banking Business Directive 367, "E-Banking." • Reporting to the Banking Supervision Department Directive 848, "Reporting a Cyber Event."
December 30	**Amendment to Proper Conduct of Banking Business Directive 325, "Management of Credit Facilities in Current Accounts"** A clarification is added to the effect that a payment order by a customer or a demand for payment by authorization to debit an account may be seen as a "request by customer to honor a certain debit." The correction is made within the framework of Proper Conduct of Banking Business Directive 250, incidental to dealing with the COVID-19 crisis, and it is decided to apply it to ordinary times as well.
	Amendment to Proper Conduct of Banking Business Directive 426, "Provision of a Professional Human Telephone Response" To allow more older-adult customers to obtain optimal service by using banking corporations' call centers, the definition of a "senior citizen" in the Directive is revised so that the minimum age that gives customers priority in the call queue is set at seventy.

Directives since the beginning of 2021

January 10	**Amendment to Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limitation"** The definition of "indebtedness" is revised so that indebtedness of an industry for which the bank acquires credit protection in order to mitigate its credit risk shall be classified in accordance with the industry of activity of the credit protection supplier.
January 18	**Letter concerning adjustment of fee schedules to technological developments** The letter, sent to the banks and the credit-card companies, concerns the need to bear the technological development of the banking system in mind when pricing banking services.
January 31	**Amendment to Proper Conduct of Banking Business Directive concerning application of the United States Generally Accepted Accounting Principles (GAAP) in respect of current expected credit losses (CECL) from housing loans** Pursuant to the adoption in the Reporting to the Public Directives of the United States Generally Accepted Accounting Principles (GAAP) in regard to current expected credit losses (CECL), the amendment to the Reporting to the Public Directives and the update of the FAQ file issued by the Banking Supervision Department on this topic explain how these principles should be applied in order to measure current expected credit losses (CECL) from housing loans.
February 2	**Update to Proper Conduct of Banking Business Directives 202, "Constituents of Capital"; 203, "The Standardized Approach—Credit Risk"; 314, "Sound Credit Risk Assessment and Valuation for Loans"; and 329, "Limitations on Issuing Housing Loans"** Now that the United States Generally Accepted Accounting Principles (GAAP) have been applied in regard to current expected credit losses (CECL), the Proper Conduct of Banking Business Directives listed above are updated in order to abolish the requirement of maintaining a group allowance at a minimum rate of 0.35 percent on account of housing loans, and to abolish the minimum allowance on account of housing loans according to the depth-of-delinquency method. In addition, the Directives were updated to require banking corporations to subtract from their Tier 1 equity sums on account of housing loans that have been classified over time as non-accruing, in order to reflect the difficulty in relying for supervisory needs on collateral in non-housing loans that do not accrue and not realized over time.

February 4	**Proper Conduct of Banking Business Directive 311A, "Consumer Credit Management"** The Directive is set forth in view of the expansion of household credit that carries the risk of excess indebtedness, especially among customers in low income deciles. The Directive brings together the Banking Supervision Department's demands of the banking system in regard to the system's activity vis-à-vis consumer borrowers, including the presence of the following: an adequate organizational culture; policies and processes to assure adequate and fair credit-marketing practices, particularly in marketing credit at banking corporations' initiative; and credit-approval processes that include, inter alia, compulsory tailoring of credit to borrowers' financial ability to effect payback.
February 17	**Draft amendment to the Banking (Customer Service) (Transfer of Customer's Financial Activity between Banks) (Amendment) Law, 5780-2019** Draft amendments to the rules are published pursuant to legislative amendments concerning switching of banks by customers.
February 24	**Letter about aid for women who lack standing under the financial availability covenant** The financial availability covenant is a voluntary roadmap in which the banks and the credit-card companies, led by the Association of Banks and supported by the Banking Supervision Department, mobilized to give close financial attention to women victims of violence, including those without standing. The letter relates to helping these women open bank accounts.
February 25	**Amendment to Proper Conduct of Banking Business Directive 420** The Directive is amended pursuant to Amendment no. 14 to the Checks without Cover Law, 5741-1981, by which customers must be given notice in the event that a check is presented for payment and funds for payment are insufficient, and by which the Supervisor of Banks is empowered to enact directives on the topic. The amendment will go into effect on the same day as Amendment no. 14 to the Checks without Cover Law, 5741-1981.
May 9	**Letter concerning the enhancement of awareness of benefits for persons with disabilities in regard to bank fees** Given the importance of advising persons with disabilities about discounts to which they are entitled in regard to bank fees, the Supervisor of Banks instructed the banks to act to advise these customers of these benefits. Concurrently, the Supervisor contacted the National Insurance Institute and the Ministry of Defense, proposing to examine appropriate ways of advising these customers of said discounts on bank fees, in the belief that advising customers at around the time they are defined as persons with disabilities would be effective.

The Banking Supervision Department