

CHAPTER 6

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DEVELOPMENT OF THE BANKING SUPERVISION DEPARTMENT'S CONSUMER PHILOSOPHY

1. BACKGROUND

The Banking Supervision Department and all of its various divisions work on behalf of the banking system's customers. This activity includes the process of evaluating the banking corporations: the SREP process, consumer examinations, business continuity, cyber security, financial inclusion, financial education and consumer information campaigns, the dissemination of information among the public, the publishing of price comparisons, dealing with fraud, innovation and technology, imposing limitations in the mortgages sphere, economic analysis, discourse with stakeholders, etc. The department's consumerism activity is largely concentrated in one of its divisions—the Bank-Customer Division. In this chapter, we will focus on this Division's¹ activity and will review the changes and developments that have occurred over the years in the efforts to protect the banking consumer. This chapter presents a historical perspective on the Banking Supervision Department's wide range of activities whose goal has been to promote the assimilation of an organizational culture of fairness within the banking system. This includes the following segments:

1. Milestones in the development of the Banking Supervision Department's organizational structure for consumer-related activity;
2. The development of the Banking Supervision Department's goals, with a focus on consumer issues;
3. The development and strengthening of the various domains related to the benefit of the banking system's customers;
4. Milestones in dealing with the banking consumer.

The chapter is intended to provide a birds-eye view of the Banking Supervision Department's activity on behalf of the banking system's customers. Despite the efforts to disseminate this information, much of the public is unaware of the Department's activity and is not sufficiently familiar with the tools available to them in order to fully exploit their rights as banking consumers.

With the goal of strengthening the customers' position in their activity vis-à-vis the banking system, the Banking Supervision Department established its vision: **“To be a leading, professional, and proactive supervisor, for the benefit of the public and the economy”**. Within the framework of the implementation of this vision, **“strengthening the fairness in the banking system”** is the issue that serves as one of the Banking Supervision Department's strategic goals.

The Banking Supervision Department's approach to the consumer sphere has developed as a gradual and ongoing process over the years. Banking consumer issues were included within the Banking Supervision Department's goals already 50 years ago.² Today, the objective of the Banking

¹ The Banking Supervision Department's wide-ranging activity for the benefit of the banking system's customers also takes place in its other units, such as the Operations, Strategic and Special Projects Unit Unit, the On-Site Examination Division, the Innovation and Technology Division, and others. This chapter deals with the work done by the Bank-Customer Division, which is the main focus of consumer activity.

² See Section 2 on the development of the Banking Supervision Department's objectives.

Supervision Department in the domain of banking consumerism constitutes one of its four strategic goals: **“Fairness—the integration of a culture of fairness toward the customer that is inclusive and impactful.”** The Banking Supervision Department works to achieve this goal in the banking system using a variety of means, including the handling of customer complaints and enquiries, consumer-oriented supervision and enforcement, consumer legislation and regulation, periodic publishing of comparisons in various domains, consumer education, involvement in class action suits, the advancement of reforms, social initiatives, etc.

A major milestone in the development of the Banking Supervision Department’s approach to consumer activity occurred in 1981, with the passing of the Banking (Service to the Customer) Law, 5741–1981, [hereinafter, the Banking (Service to the Customer) Law, the Banking Law, or the law]. The background to this legislation was the Consumer Protection Law, 5741–1981, which was passed in the same year and that established the obligations toward the consumer in relations between service providers and their customers in sectors other than banking. Due to the unique nature of banking services (which are by their nature provided exclusively by the banking corporations), their status and their unique role in the economy, special obligations were imposed on the banks by means of a separate law, namely the Banking (Service to the Customer) Law. Although the terms “protection” and “fairness” do not appear there, the law (which deals with subjects such as the prohibition of misleading customers, the prohibition of causing harm in special circumstances, the prohibition of setting conditions for the provision of services, etc.) provides protection to the banking system’s customers, and its implementation and enforcement contribute to fairness in bank-customer relations.

The obligations of trust, prudence and good faith, which are rooted in the rulings of the court system, constitute the basis for the banking corporation’s obligations according to Israeli law toward its customers. Over the years, they became the basis for behavioral norms and principles that protect the interests of customers and ensure responsible business conduct, while avoiding conflicts of interest in managing the customer’s affairs. The Banking Supervision Department views these guidelines and consumer principles as part of an organizational culture of fairness, which provides an essential platform for protection of the customer and his rights. Consequently, the Banking Supervision Department applies principles of fairness in all of its consumer activity, as reflected in the Proper Conduct of Banking Business directives, the investigation of complaints, and consumer enforcement activity.³

Today, the Banking Supervision Department’s activity to protect the customer is based primarily on consumer rulings, legislation and regulation, which in turn are the basis of the Banking Supervision Department’s expectation of the banks that they will assimilate values to promote an organizational culture of fairness towards their customers. This approach of fairness, which contributes to the

³ The G20 and OECD have set down 12 principles, which constitute the guidelines for responsible business conduct of financial service providers. Since their adoption, they have served as the international standards for consumer-oriented behavior. They include the following principles, among others: equitable and fair treatment of consumers; disclosure and transparency; financial education and awareness; protection of consumer assets against fraud and misuse; protection of consumer data and confidentiality; responding to complaints and resolving them; financial access and inclusion; and quality of financial products.

stability of the banking system, rests on the existence of a direct connection between fairness and the trust of the public in the banking system, as well as the existence of a direct connection between the trust of the public and the stability of the banking system.



Examples of norms and principles of consumer fairness

In order to carry out its function in the consumer domain, the Supervisor of Banks was granted authority by a number of laws: the Banking Ordinance, 1941; the Banking (Licensing) Law, 5741–1981; the Fair Credit Law, 5753–1993; the Payment Services Law, 5779–2019; the Banking (Service to the Customer) Law, and others. The authority of the Supervisor of Banks to issue Proper Conduct of Banking Business directives is based on Section 5 of the Banking Ordinance. It gives the Supervisor the authority to issue directives in his two areas of responsibility: stability and consumer-related. Section 6 of the Banking (Licensing) Law establishes that a decision to issue a banking license will take into account, among other things, “the contribution of issuing the license to competition in the capital market and in particular competition in the banking system and to the level of its services,” as well as its “benefit to the public”. Considerations of competition, level of service, and the welfare of the public are to also be taken into account when issuing a permit for control of a banking corporation or a clearing house license.

It is important to note that in view of its importance and ubiquity in the life of an Israeli citizen, the subject of fairness toward the banking customer is never absent from the public agenda. There are many institutions that deal with this issue on a day-to-day basis: the Banking Supervision Department and other regulators, the courts (including both individual suits and class action suits), Knesset members, government ministries (including the Ministry of Justice, the Ministry of Finance, and others), the media, academia, civil society organizations and the public in general. Since this issue is in the spotlight and the Banking Supervision Department is attentive to public discourse, its work to protect the banking consumer is influenced by external forces that are pulling in different directions. It is not uncommon that supervisory initiatives encounter initiatives that originate from other directions and that support and contribute to the advancement of the Banking Supervision Department's endeavors.

The activity of the Banking Supervision Department, alongside that of other entities active in financial consumerism, has played a leading role over the years in creating an important collection of rulings and legal decisions, alongside ordinances, laws, regulations, Proper Conduct of Banking Business directives, bulletins, supervisory letters, FAQs, and legal opinions, which all deal with the protection of the banking consumer. The various instructions are collated into a collection of Bank-Customer directives according to subject, which is available to the public on the Bank of Israel website.⁴

⁴ Consumer (Bank-Customer) regulation includes the following subjects: general; bank accounts – opening an account, managing an account and closing an account; means of payment; loans and debt – loans and collection processes; guarantees; guarantees for a home buyer; interest; bank fees; opening branches and deployment of ATMs; dormant accounts; NSF checks; prohibition of money laundering; securities; miscellaneous; and measures taken as a result of the COVID-19 pandemic.

Despite the increasing attention and the numerous measures adopted in this area over the years, surveys of households and small businesses carried out annually by the Banking Supervision Department indicate that the public still feels that the banking system's level of fairness is not particularly high.⁵ The bank fees and difficulty in obtaining service are the main reasons for this view and they constitute challenges that the Banking Supervision Department is continually evaluating and trying to resolve.⁶

2. MILESTONES IN THE BANKING SUPERVISION DEPARTMENT'S ORGANIZATIONAL STRUCTURE IN THE CONSUMER DOMAIN

Even before Section 16 of the Banking (Service to the Customer) Law, the Banking Supervision Department had in place a formal process for investigating public enquiries, based on the powers granted to the Supervisor of Banks by the Banking Ordinance, 1941, and on the public's perspective that the Supervisor of Banks is also responsible for consumer issues. Already in the Annual Survey of Israel's Banking System in 1974, a large section was devoted to the public's complaints and it included statistical analysis and a discussion of the subjects of the complaints and how they were handled, on both the individual and aggregate levels. The following statement appeared in that survey: "In view of the public importance of this subject, in July 1974 the Supervisor of Banks appointed a special assistant with responsibility in this area." According to the survey, data on the number of enquiries began to be gathered in 1970. In that year, there were 185 enquiries, and this number increased by tens of percent annually during this early period.⁷ The 1975 survey mentions for the first time the Public Enquiries Unit, which was established at that time and at first had only a few employees.⁸

In 1994, the Banking Supervision Department established the Bank-Customer Relations domain, which was headed by the Deputy Supervisor of Banks. In addition to the Public Enquiries Unit, it includes two additional areas of responsibility: bank fees (which until then were dealt with by a different unit in the Banking Supervision Department) and standard contracts, which was a new area of activity.

As part of the organizational change in the Banking Supervision Department in 2008, a Bank-Customer Division was established, which involved the splitting of consumer issues into two units: the Public Enquiries and Bank Fees Unit⁹ and the Regulation (Bank-Customer) Unit. In addition, the restricted accounts section, which carries out the responsibilities of the Supervisor of Banks according to the Checks Without Cover Law, 5741–1981, was added to the Division. The establishment of the Bank-Customer Division was an important landmark in the process that the Banking Supervision

⁵ According to one of the findings regarding customer satisfaction (households) with the quality of the banks' service carried out in November 2022, only 55 percent of the respondents felt that the banks behave fairly towards them.

⁶ The findings of the most recent annual survey were published in November 2022: <https://www.Bank of Israel.org.il/publications/pressreleases/48687>

⁷ Apart from a drop in 1973, which is explained by the Yom Kippur War. During the past three years, the annual number of enquiries submitted to the Banking Supervision Department has been about 10,000.

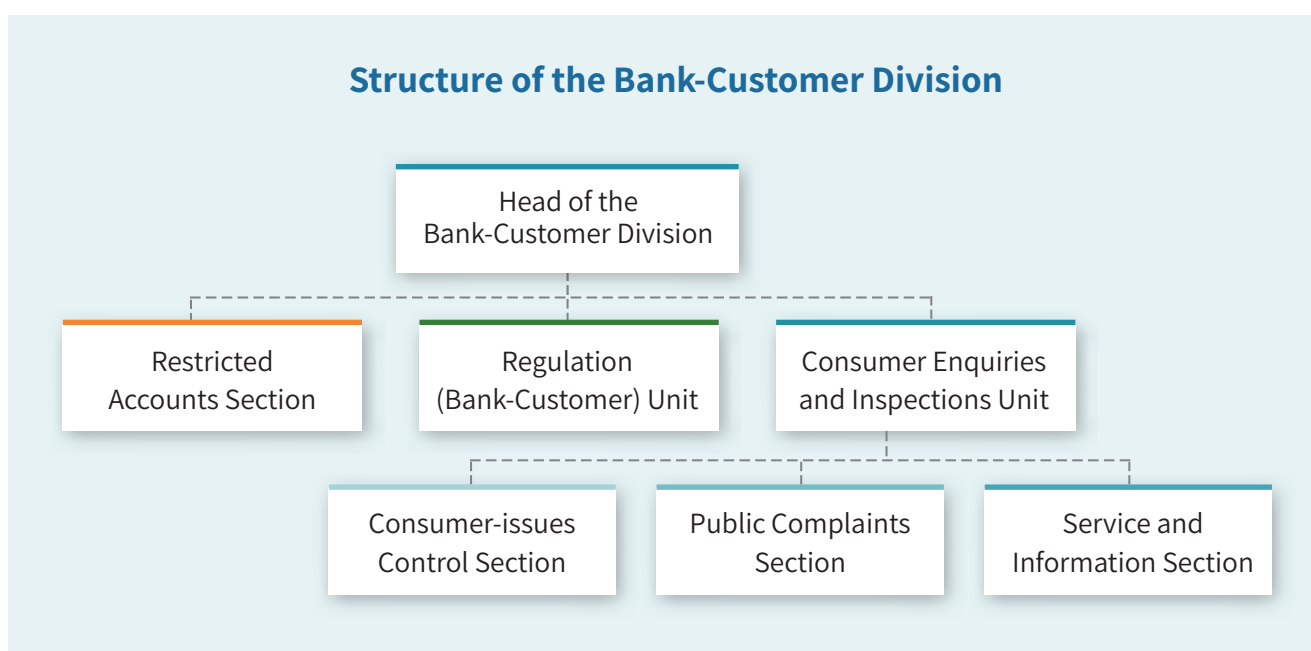
⁸ Currently, the Bank-Customer Division within the Banking Supervision Department has 27 employees and 9 students.

⁹ In 2012, the area of bank fees was transferred to the Regulation (Bank-Customer) Unit.

Department underwent with respect to the attention and inputs it devotes to strengthening fairness in the banking system. It is also important because of the organizational status it was given, as one of the four divisions in the Banking Supervision Department, and in particular following the decision to divide regulation into prudential regulation (which is the responsibility of the Policy and Regulation Division), and consumer regulation (which is the responsibility of a separate and designated unit for regulation in these areas and that is organizationally located in the Bank-Customer Division). The transfer of regulatory powers, which until then were located in the Prudential Regulation Unit, to a new division strengthened the status of customer protection within the Banking Supervision Department to a great extent and contributed significantly to the expansion of consumer regulatory activity. The merger of consumer regulation and the Public Enquiries Unit into one division created an optimal synergy in this domain, such that issues that arose in the context of public enquiries and that pointed to a systemwide problem would be resolved in the regulatory framework.

In order to improve the efficiency of response to the public's enquiries, the flat organizational structure of the Public Enquiries Unit was divided into three sections: the Service and Information Section, which is responsible for telephone support and providing an urgent and initial response to enquiries; the Public Complaints Section, which is responsible for clarifying and resolving the complaints from the public and the identification and resolution of system-wide flaws that emerge from the public's enquiries; and the Consumer-issues Control Section, which is responsible for ongoing monitoring of the banks and credit card companies from a consumer perspective and for the execution of initiated enforcement audits, with the goal of strengthening the enforcement of the directives.

In 2022, the name of the Public Enquiries Unit was changed to the Consumer Enquiries and Inspections Unit. This change reflected the strengthening of consumer enforcement, which has been given greater emphasis in recent years. This reflects the close professional connection between the investigation of public enquiries and consumer monitoring.



3. THE EVOLUTION OF THE BANKING SUPERVISION DEPARTMENT'S CONSUMER OBJECTIVES

The definition of the Banking Supervision Department's objectives in the domain of bank-customer relations has evolved over the years. Already 50 years ago, this area was included within the Banking Supervision Department's objectives. Nonetheless, the perception of this area has changed from only being "attached" to the prudential domain to one that is central to the work of the Banking Supervision Department, as part of its "customer at the center" approach. The annual survey published by the Banking Supervision Department provides insight into the development of the approach to consumerism in the Banking Supervision Department:

From the Annual Survey of 1976: "The Banking Supervision Department views its main objectives as the maintenance of the stability of each individual bank and of the banking system as a whole, **in addition to ensuring the provision of appropriate banking services.**" The description of the Banking Supervision Department's structure states as follows: "In particular, it is worth noting the entity for public enquiries, which is the address for the public's complaints and questions related to the banking system."

From the Annual Survey of 1980: "The function of the Banking Supervision Department is to maintain the stability of the banks in the system, **while devoting attention to the protection of customers,** enforcement of the Bank of Israel's directives and improving the reporting directives." This is the first year in which the role of the Banking Supervision Department in terms of "customer protection" is mentioned.

From the Annual Survey of 2010: "The main function of the Banking Supervision Department is to maintain the stability and resilience of the banking system. In this context, it seeks to strengthen the framework for risk and capital management in the banks. **In addition, the Banking Supervision Department is responsible** for strengthening the competition and efficiency of the system and **maintaining fairness between the bank and its customers.**"

During the term of David Zaken as the Supervisor of Banks (2011–15), he began to integrate the message that the Banking Supervision Department should protect the public in all facets of its activity. Protecting the stability of the banking system is not a value that stands alone, but rather is important, first and foremost, for customers, in order to protect their deposits. This was in response to criticism voiced against the Banking Supervision Department that it places higher priority on the stability of the banking system than on the banking system's customers. Consequently, there was a shift in the definition of the Banking Supervision Department's role and the Annual Survey for 2013 states as follows: "**The main objective of the Banking Supervision Department is to protect the public good** by maintaining the stability and resilience of the banking system, **maintaining fairness in the relations between banks and their customers,** and strengthening public confidence in the banking system. The Banking Supervision Department also works to increase competition and efficiency in the banking system. These functions are closely related and are intended to protect the public's financial assets and to ensure the continuity of banking services."

In 2015, the year in which Dr. Hedva Ber became the Supervisor of Banks, the Banking Supervision Department reexamined its strategic goals and formulated its vision for the coming years, namely **to provide professional and proactive supervision for the benefit of the public and the economy**, with the intention of strengthening that message. The goal in the consumer domain at that time was “maintaining fairness in relations between the banks and their customers.” The role of the Banking Supervision Department was defined as follows in the Annual Survey of 2016: “The Banking Supervision Department aspires to protect the public...The main strategic goal of the Banking Supervision Department is to maintain the stability of the banking corporations and to ensure their cautious behavior in order to protect the public’s funds deposited at the banks. Two additional goals are: Encouraging competition in banking services...; **maintaining fairness, a crucial trait for preserving the public’s trust in in the banking system.**”

In 2021, the Banking Supervision Department again reexamined its strategic goals and defined its objectives for coming years. The Banking Supervision Department, under the current supervisor, Yair Avidan, formulated the strategic goals for coming years, alongside the aforementioned vision. The Annual Survey for 2021 stated as follows:

“The supervisory strategic goals which were selected on the basis of the Bank of Israel’s objectives for coming years are as follows:

- **Stability – preserving depositors’ funds, weathering crises, and ensuring continuous provision of services to the public, even in emergencies.**
- **Fairness – assimilation of a fair, inclusive, and impactful culture.**
- **Achieving a competitive and advanced financial system for the benefit of its customers.**
- **Adaptation of the Banking Supervision Department’s operating model according to the changing environment.”**

The current definition of the goal of **fairness, i.e., the assimilation of a culture of fairness toward customers that is inclusive and impactful**, emphasizes the assimilation of a culture of fairness within the banking system in its relations with the banking consumer, in addition to the protection of banking customers. The goal of protecting customers, defined in one way or another, has always been one of the Banking Supervision Department’s goals, alongside maintaining stability. There is a substantive difference between the two terms: Customers are in need of protection from the supervised entities and the Banking Supervision Department must initiate steps in order to accomplish that. Yet at the same time, every banking corporation is obligated to assimilate a culture of fairness toward its customers, which begins with management and the board of directors and continues down to all levels of the organization. The supervisory goal is to facilitate that assimilation.”¹⁰

¹⁰ The OECD will also be changing the name of the committee that discusses consumer issues by expanding to “Consumer Finance” rather than its current name of “Financial Consumer Protection”. It will deal with the following issues: financial education, financial inclusion and financial wellbeing.

The evolution of the Banking Supervision Department's consumer-related goals provides a mirror image of the parallel processes occurring in Israeli society during those years. The development of consumer protection and the Banking Supervision Department's approach to this domain was the outcome of the development of regulation and laws, court rulings on the obligations of trust and prudence toward banking system customers, the occurrence of a number of financial events, developments in the business, political, competitive and technological environments, etc. The Banking Supervision Department began as an entity the goal of which is to ensure the stability of the banking system. Nonetheless, the public viewed it as having the role of responding to its complaints and they turned to it in that expectation. As a result, the Banking Supervision Department started to deal with the enquiries that it received, which was formalized in the Banking (Service to the Customer) Law. Since the law focused on the role of the Banking Supervision Department in dealing with the public's enquiries, the consumer side of its activity expanded over the years with the goal of providing a response to those enquiries. As described in the background section, there was an increase of interest by other entities in this domain, and in parallel the Banking Supervision Department's activity also expanded, as described in Section 3. In addition, consumer awareness among the Israeli public became more developed and the threshold of expectations and standards in the consumption of banking services continued to rise, as occurred in other service sectors. At the same time, the Banking Supervision Department's threshold of fairness also rose. The emergence of the Internet, and later on social media, also contributed to the expansion of this domain, since information on difficulties encountered by consumers came to the attention of the broader public almost immediately, which required a rapid response by all those tasked with finding solutions. In view of the interest of public position holders in this domain, the time between a news item appearing in the media until the tabling of a private member's bill and a discussion in the Knesset committees became increasingly short. These and other processes have led, over the years, to the understanding that the public's trust in the banking system, which rests on fairness to customers, and the banking system's stability are closely related, and therefore protection of customers is of the highest importance.

The next stage in this process was understanding the importance of fairness as a value in itself, which constitutes a moral basis for the banking system's behavior, and as an integral part of its organizational culture. This is based on an approach of transferring power to the customer and placing the customer at the center, as part of an inclusive and impactful approach. This is where the Banking Supervision Department is currently located.

4. THE DEVELOPMENT AND STRENGTHENING OF CONSUMER PROTECTION IN THE BANKING SYSTEM

Over the years, the Public Enquiries Unit, which was later moved to the bank-customer relations domain and which is currently part the Bank-Customer Division, has seen numerous developments in its areas of activity on behalf of the banks' customers. In what follows, we will review its areas of activities and how they have changed over the years.

Handling Public Enquiries

The handling of complaints from the public is one of the most important tools used by the Banking Supervision Department to advance its vision and strengthen trust and fairness in the relations of the banking corporations with their customers. This mechanism allows the Banking Supervision Department to enhance its messages, which place the customer at the center, and to emphasize the social responsibility of the banking corporations, which includes the strengthening and maintenance of equality and financial inclusion. Section 16 of the Banking (Service to the Customer) Law provides the Banking Supervision Department with the power to investigate customers' complaints against the banking corporations and to determine whether the complaint is justified. The Banking Supervision Department also decides on the means of correction, including refunds to the customer.¹¹

Over the years, differences of opinion have periodically emerged between the Banking Supervision Department and the banking system with respect to the obligation of a banking corporation to notify the Banking Supervision Department of an enquiry that was found to be justified, and some doubt existed as to the authority of the Banking Supervision Department to force its viewpoint on the banking corporations. The position of the Banking Supervision Department was always that the Public Enquiries Unit has the authority to investigate public enquiries according to the authority granted to it by law and to rectify any problems that are identified. Accordingly, the banking corporations are required to comply with its position on the enquiry and to provide remedy to the customer. In cases of disagreement, the issue was in the end decided on by the Supervisor of Banks and in practice the final decision was always according to the position of the Public Enquiries Unit. The main dispute with regard to interpretation of a section was decided with finality in 2005, with the passage of the Increasing Competition and Reducing Concentration and Conflicts of Interest in the Capital Market in Israel Law – Amendments to the Law, 5765–2005, which added Section 11a to the Banking Law. It states, “If the Supervisor of Banks has a reasonable basis to assume that the banking corporation did not correct a defect according to the directives of the Supervisor of Banks, then according to Section 16(b) he has the right to impose a financial sanction in the amount of NIS 250,000.” Sanctions according to this section were imposed in 2018 on one of the banks with regard to the sending of checks by post.

¹¹ See Appendix A of the Public Enquiries Review– “The Consumer Enquiries and Inspections Unit—Powers and Guidelines for Handling Enquiries” <https://www.Bank of Israel.org.il/publications/regularpublications/21778/50294> (Hebrew)

The submitting of a complaint to the Banking Supervision Department is in certain circumstances likely to constitute a substitute for the filing of a suit against the banking corporation. There are numerous advantages to this situation: It does not involve any direct cost to the customer; the duration of the investigation is usually much shorter; and it is much less formal than filing a suit. The decision regarding the complaint is binding on the banking corporation (subject to its right to turn to the Supreme Court); however, it is not binding on the customer. Thus, if the complaint is found not to be justified or the remedy is not sufficient in the customer's opinion, then the customer has the option of filing a suit against the banking corporation, and according to Section 16 of the law, the decision and findings of the Banking Supervision Department cannot be used as a pretext to prevent that. According to the Unit's work process, which is in accordance with the law, the banking corporation will not receive a copy of the response provided to the customer in cases where the complaint was ruled to be unjustified. Nonetheless, there are a not-insignificant number of cases in which the submitting of a complaint is less appropriate, such as enquiries that could not be clarified without hearing from third parties or enquiries based on conversations. Similarly, it is important to note that the Unit rules only in the case of direct harm, and primarily the reimbursement of funds that were not meant to be collected.

The fact that the banking corporation's customers have the rather unique option of using the Banking Supervision Department as a substitute for filing a suit and obtaining remedy in a dispute between them and the bank strengthens the position of the customer substantially.

The Banking Supervision Department attributes great importance to the resolution of disputes directly between the bank and its customers and views this as meeting a high threshold of fairness, as expected from a banking corporation in the management of its business. We would mention that the Banking Supervision Department has always encouraged the banking corporations to handle complaints by going beyond the letter of the law. This includes agreeing to a request in humanitarian cases even if the customer is not eligible for remedy according to the law. In order to encourage this kind of behavior, the Banking Supervision Department is in the practice of including an index in the Banking Supervision Department's Survey of Public Enquiries, as will be discussed below, that measures the bank's willingness to satisfy a customer even if the customer's complaint is not found to be justified.

Consumer enforcement—the resolution of system-wide defects in the banking system and financial sanctions

One of the steps to achieve the assimilation of an organizational culture of fairness is to strengthen enforcement. The Banking Supervision Department views compliance with consumer directives and the law as having a lower priority than fairness; however, it is a *conditio sine qua non*. Enforcement is accomplished in numerous ways.¹² The possible outcomes of each are as follows: financial sanctions

¹² See "The Banking Supervision Department's policy for supervision, rectification and enforcement," which was published in January 2022 and which presents the supervisory approach to enforcement. That approach is based on three main layers. The policy document appears on the Bank of Israel's website.

or a letter demanding rectification of the problem, the amending of a procedure, the amendment of legislation or regulations and a refund to a group of customers.

The rectification of system-wide problems:

In cases where a specific complaint reveals some major defect, with respect to either the severity of the violation or its scope, it is not sufficient to simply deal with the specific case; rather the Banking Supervision Department will work to rectify the problem for the benefit of all customers on a system-wide basis. A system-wide problem is indicated when multiple complaints are received on the matter or alternatively when a single complaint points to the probability of a failure by the banking corporation in its treatment of a group of customers. Defects in the banking system's systems or procedures or in the use of a standard contract are likely to be examples of this.

The Banking Supervision Department also works to enhance compliance with the law and consumer regulation through initiated consumer-oriented audits. This involves an investigation of the banking corporation's compliance with the law and with consumer directives, based on a variety of information sources, including court rulings, articles in the media, social media, etc.

In cases where major defects are identified during an investigation of a customer's enquiry or by an enforcement examination, the Banking Supervision Department will issue an instruction to rectify the problem, to draw conclusions and to improve the process, including by means of a refund to customers as in the case of a class action suit. The banking corporations are required to identify all of their customers who have been affected by that defect and to compensate them for the damage caused. These processes lead to the improvement of fairness toward customers who benefit from a refund without having to take any action. These processes make a class action suit unnecessary in many cases, because they lead to an efficient and timely solution of the issue for the benefit of those affected.

Examples of the Public Enquiries Unit's activity can be found in the Annual Survey of Israel's Banking System – 1979, which mentions a case in which multiple complaints were received on a particular matter. It was found that other borrowers were affected by the same defect that had been identified in the complaints and the bank was required to identify them and refund the amounts that had been incorrectly collected. The Annual Survey of Israel's Banking System – 1983 also mentions a case in which a group of customers received refunds. The effort to refund money to groups of customers began in earnest and on a large scale in 2002, and in the Survey of Public Enquiries since then there appears a table that summarizes the major system-wide cases that were completed during the period being surveyed. Currently, the survey includes the name of the banking corporation, an estimate of the amount of the refund or the manner in which the system-wide defect was rectified and a description of the system-wide defect that was identified. The largest refund made in this context was about NIS 54 million, which was refunded to customers in 2004 as part of the Leumiphone affair. Since 2002, about NIS 240 million has been refunded to banking customers in dozens of instances, most of which involved the incorrect collection of fees and interest. In 2022, the Supervisor of Banks notified the banking corporations that in an effort to increase transparency in the department's consumer

enforcement and so that other banking corporations will learn from the case, it is the Supervisor's intent to periodically publish the details of enforcement activity.¹³ Following is a list of the main system wide cases dealt with by the Consumer Enquiries and Inspections Unit in recent years:

Year	Description of the problem	The amount of the refund in NIS
2018–19	Collection of too large a fee for transfer of foreign currency abroad by small businesses.	95,000
	Unilaterally raising the interest rate on a credit line in violation of Directive 421. of foreign currency abroad by small businesses.	1,200,000
	Not providing advance notification of a change in the collection of negative interest on a credit balance in a customer's account.of foreign currency abroad by small businesses.	60,000
	Not crediting customers who unsuccessfully tried to withdraw or deposit cash in ATMs.of foreign currency abroad by small businesses.	5,000,000
	Customers who were charged too much for interest in arrears.	78,000
	Charging of a fee in violation of the fee rules for victims of Nazi oppression who are eligible for reparations from the Netherlands.	64,000
	Debiting of a fee in violation of the fee rules for victims of Nazi oppression who are eligible for a pension as Holocaust survivors from Polish National Insurance.	27,000
2020	Nonprovision of discounts on debit card fees for members of a student club who were eligible for a discount.	1,000,000
	Nondisclosure of information on the collection of a fee for a remote ATM in violation of the Banking (Service to the Customer) (Fees) Rules, 5768–2008.	97,000
	Nonprovision of the full discount to customers with a student, soldier or youth account in violation of the agreement and the bank's price list.	10,000,000
	Nonmaintenance of the interest discount for a reparations account at the time of its rollover.	1,700,000

¹³ See the letter from the Supervisor of Banks to the banks from February 16, 2022 <https://www.Bank of Israel.org.il/en/economic-roles/supervision-and-regulation/2503>. Accordingly, the Banking Supervision Department began presenting this information on the Bank of Israel's website.

Year	Description of the problem	The amount of the refund in NIS
2020	Charging customers a debit card fee in violation of the Banking (Service to the Customer) (Fees), Rules, 5768–2008.	230,000
	No advance notification of customers on the expiry of a discount on securities fees in violation of the Banking (Service to the Customer) (Proper Disclosure and Delivery of Documents) Rules, 5752–1992.	1,000,000
	Collection of a fee for a warning letter about a debt without the letter actually being sent.	746,000
2021	Collection of a foreign currency fee at a higher rate than what appears in the bank's price list.	1,800,000
	Not providing a discount to customers of the digital branch on the expiry of the discount track.	960,000
	Collection of the cost of "third-party – registered mail" in excess of the actual cost and in violation of the fee rules.	7,000,000
	Collection of interest arrears from a single guarantor in violation of the Guarantees Law.	900,000
	Collection of a debit card fee before the card is activated in violation of the bank's price list.	1,100,000
	Charging a fee for a cancelled card when inputting transactions after its cancellation in violation of Proper Conduct of Banking Business Directive 471	580,000
2022	Collection of a fee for a cancelled debit card	68,000
	Signing up customers for postal service in a branch without the agreement of the customer, and the collection of a fee for the service.	800,000
	An error in the discounts provided to customers of the bank's digital branch.	1,200,000
Total		35,705,000

In appropriate cases, the Banking Supervision Department also uses its powers to impose a financial sanction on the banking corporation, in addition to a refund of money to the customer.

Financial sanctions:

When the problem involves a violation of a directive or a law for which a financial sanction can be imposed, the Banking Supervision Department makes use of that power in the appropriate cases. The main sections of the law that allow for the imposing of a financial sanction on a supervised corporation are the following:

- Section 14h of the Banking Ordinance which allows for a financial sanction of NIS 1 million for violation of a Proper Conduct of Banking Business Directive;
- Section 11a of the Banking (Service to the Customer) Law which allows for the imposition of a financial sanction for the violation of certain paragraphs in that law and in secondary consumer legislation in the amount of NIS 50,000, NIS 250,000, NIS 750,000 or NIS 1,500,000 depending on the type of violation;
- Section 11a(a)(2) of the Banking (Service to the Customer) Law, which allows for the imposition of a financial sanction in the amount of NIS 250,000 for not rectifying a problem, despite an instruction issued by the Banking Supervision Department as part of the investigation of a complaint from the public;
- The Prohibition on Money Laundering and Financing of Terror Law for violation of some of its paragraphs;
- Section 50b of the Banking (Licensing) Law for violation of Section 28a of the law which allows for the imposition of a fine in the amount of about NIS 150,000;
- Section 4b(b) of the Sales Law (Homes) (Guaranteeing the Investment of Home Buyers), 5735–1974 which allows for the imposition of a financial sanction in the amount of NIS 1 million;
- Section 15e of the Fair Credit Law which allows for the imposition of a financial sanction in the amount of NIS 1 million;
- Section 42 of the Payment Law, which allows for the imposition of a financial sanction in the amount of NIS 100,000 or NIS 200,000, depending on the type of violation.

A financial sanction is imposed for a violation that is simple to investigate and prove factually and that does not require interpretation. In the decision-making process to impose a financial sanction, the Banking Supervision Department takes into account the following considerations, among others:

- Whether the violation is clear and unambiguous;
- Whether the violation meets the test of materiality, including its potential impact;
- Whether the financial sanction is the optimal means of dealing with the violation or that other supervisory tools should be used;

- The level of the supervised corporation's compliance and the extent of its cooperation with the Banking Supervision Department.

In the past, limited use was made of this enforcement method. Thus, only a few consumer-related financial sanctions were imposed. For example, in 2012 a financial sanction of NIS 600,000 was imposed for the illegal collection of fees when closing an account. Starting from 2018, there was greater use of this tool and as a result an additional 15 consumer-related financial sanctions were imposed, as presented in the following table:

Year	The banking corporation	Amount of the sanction	The problem for which the sanction was imposed
2018	Leumi Card	NIS 1,350,000	Two financial sanctions were imposed for the release of marketing videos that encourage people to take out a loan, without attaching a warning, in violation of the Banking (Service to the Customer) Law, 5741-1981.
	Discount	NIS 750,000	Two financial sanctions were imposed for the release of marketing videos that encourage people to take out a loan, without attaching a warning, in violation of the Banking (Service to the Customer) Law, 5741-1981.
2019	Isracard	NIS 675,000	The presentation of an ad on the company's marketing website without attaching a warning, in violation of the Banking (Service to the Customer) Law, 5741-1981.
	Hapoalim	NIS 385,000	Non-rectification of a problem regarding the sending of checks in the mail.
	Hapoalim	NIS 1,575,000	Two financial sanctions for not crediting customers for unsuccessful ATM withdrawals, in violation of Proper Conduct of Banking Business Directive 433 – An erroneous entry in a customer's account.
2021	Isracard	NIS 37,500	Difficulty in obtaining a human response from the call center in a request to cancel service, in violation of the Banking (Service to the Customer) Law, 5741-1981.
	Leumi	NIS 975,000	Overcollection of a fee for “a warning letter from an attorney” in violation of the Banking (Customer Service) (Supervision of Notification or Warning Service) Order, 5775-2015.
	Max IT Financial	NIS 900,000	Charging for transactions on a cancelled card in violation of Proper Conduct of Banking Business Directive 470 – Payment Cards.

Year	The banking corporation	Amount of the sanction	The problem for which the sanction was imposed
2022	Cal	NIS 650,000	Charging for transactions on a cancelled card in violation of Proper Conduct of Banking Business Directive 470 – Payment Cards.
2023	Hapoalim	NIS 850,000	Failures to report revenues to the Execution Office in violation of paragraph 25 of Directive 450 – Debt Collection Proceedings.
	Mizrahi	NIS 700,000	Failure to report revenues to the Execution Office in violation of paragraph 25 of Directive 450 – Debt Collection Proceedings.
	Discount	NIS 1,200,000	Two financial sanctions for failure to report revenues to the Execution Office and delay of reporting to the Execution Office on a debt rescheduling in violation of sections 25 and 26 of Directive 450 – Debt Collection Proceedings.

Letters requiring the rectification of a problem according to Section 8a of the Banking Ordinance, 1941:

Routine supervisory activity is one of the primary tools for the identification and minimization of risk, the prevention of violations and the improvement of management in the banking system. Experience shows that this is usually sufficient to rectify problems and minimize risk, as well as to strengthen the level of compliance required of the banking system, including effective deterrence. Nonetheless, in cases where routine supervisory activity is not sufficient, the Banking Supervision Department will use means of enforcement provided to it in Section 8a(a) of the Banking Ordinance. In this context, a letter is sent to the banking corporation with a demand to rectify a problem. In a case where the banking corporation does not do so, the Banking Supervision Department has the power to impose sanctions as described in Section 8c of the Ordinance. This includes instructing the banking corporation to refrain from a certain type of activity; prohibiting the distribution of dividends or profit to shareholders; prohibiting the provision of benefits to directors and executives; conditioning or limiting the power of a director or executive; and removing a position holder from his position. Following are examples of letters demanding a rectification of problems, which were sent out in recent years based on Section 8a of the Ordinance:

Year	The banking corporation	The area of the enforcement
2020	MAX, Union, First International, Jerusalem, Leumi, Mizrahi Tefahot, Cal and Citibank	The wait for a human professional response, according to Section 5A3 of the Banking Law.
2021	Yahav, Jerusalem, Mercantile, First International Group	Submitting of the bank's policy document on branches to the Banking Supervision Department, according to Section 7 of Directive 400.
	Jerusalem and First International	Removal of a lien after a debt was redeemed, according to Section 9a of the Banking Law.
	Hapoalim and Leumi	Collection of a fee for service according to Section 9 of the law.
2022	Leumi, Mizrahi-Tefahot, Discount, Hapoalim, Mercantile, Yahav	Removal of a lien after a debt was redeemed, according to Section 9a of the Banking Law.
2023	Hapoalim	Lien on protected pensions.

Consumer regulation

In order to achieve the goal of fairness, the Banking Supervision Department operates by means of the Regulation (Bank-Customer) Unit within the Bank-Customer Division to set standards of required behavior in relations between the banking corporations and their customers. This is intended to ensure proper and fair behavior in relations between the banking corporations and their customers. In parallel to its main activity, namely the drafting of consumer regulation and involvement in legislative processes, the Unit's areas of responsibility have expanded over the years. The Unit is currently also responsible for formulating opinions in various contexts (class action suits, queries from Knesset members, system-wide enquiries made by social organizations, questions from the media, etc.). The supervision of fees has also been transferred to its purview and it is currently responsible for both the everyday management of the banking corporations' reporting of fee changes and the formulation of regulatory policy in this area. Since August 2016, it also deals with the banks' requests to close branches, as part of the implementation of Amendment 22 to the Banking (Licensing) Law, 5741-1981, which gave the Supervisor of Banks the power to deal with this matter.

The principles that are at the core of proper and fair behavior include, among others: fair advertising and marketing; equality in the provision of banking services; effective disclosure and transparency; simplification of banking products and greater ability to make comparisons; effective communication between the banking corporations and their customers; professional and accessible service; and protection of special populations. This is accomplished by the issuing of new Proper Conduct of Banking Business directives and the revision of existing ones, as well as the distribution of letters to the banking system on these issues. The consumer regulation focuses in many cases on retail customers and in some cases all customers. Following are a number of examples of directives that are meant to achieve this goal:

Banking (Customer Service) (Disclosure and Submitting of Documents) Rules, 5752-1992¹⁴-

These rules, which were issued by the Governor of the Bank of Israel based on his authority according to Section 5 of the Banking (Service to the Customer) Law, went into effect in August 1986. The laws in their original form specified which information should be included in agreements between a bank and its customers and what information should be submitted to customers with respect to the fees and interest rates that are collected from them. Similarly, they included instructions with respect to the disclosure that is required in specific areas; they clarified the method for calculating adjusted interest and its presentation in the branches; and they presented an example of an abbreviated fee price list, which must be displayed in a visible place in the branch. In 1992, the rules were significantly amended and a revised version was published.

Accounts of minors – Directive 416 – In the early 1990s, the Public Enquiries Unit received a large number of complaints about the management of minors' accounts, most of which originated from their parents. The complaints primarily involved the question of the parents' responsibility for the activity in these accounts, the level of credit provided to minors, and their use of checks and credit cards. As a result of the numerous complaints, and against the background of the minors' limited proficiency, the matter was dealt with in a Proper Conduct of Banking Business Directive that went into effect on November 29, 1993. It established, for the first time, minimum age limits for opening a checking account (14 years old) and established rules for means of payment from a minor's account. The main significance of the directive was in establishing a prohibition to provide credit in a minor's account without the consent of his parents.

Housing loans – Directive 451 – In 2022, a comprehensive reform was carried out to improve transparency in mortgages, with the goal of making it easier for borrowers to obtain a mortgage or to refinance an existing one. In this context, the banks are required to present a standard agreement in principle, which presents three standard baskets whose composition was decided on by the Bank of Israel and an additional basket that will be suited to the customers' needs and characteristics according to their request. The goal of the standard baskets is to improve the ability of customers to compare costs between the various proposals they receive from the bank and to compare them to the proposals from other banks. Among the variables to be included in an agreement in principle are the total expected interest; the total expected amount to be paid until the loan is fully redeemed; and the first monthly payment, as well as the largest expected monthly payment. These parameters take into account fees and the monthly payments that are expected during the term of the loan on the basis of forecasted changes in the CPI and in interest rates, which are revised as of the date of the agreement in principle. These forecasts are intended to illustrate the possible future payments and interest rates.

¹⁴ These rules, which were first issued on June 15, 1993, replaced the Banking (Customer Service) (Disclosure and Submitting of Documents) Rules, 5741-1986.

In addition, it was decided that the banks' customers will be able to submit an online request for an agreement in principle or a request by telephone and to also receive it online. In addition, it was decided that the period of time between submitting a request for a loan and receiving agreement in principle would be limited to five business days (and in special cases, seven business days).

The directive also requires the accessibility of data on the banks' websites, which can be used to analyze a mortgage proposal or the refinancing of a mortgage loan. For the purpose of analyzing a mortgage proposal, every bank is required to provide a calculator on its website that can be used to simulate various mixes of loans for various durations.

Opening and managing a checking account with no credit facility - Directive 422 – Section 2(a) of the Banking (Service to the Customer) Law established that a banking corporation shall not unreasonably refuse to open and manage a checking account in Israeli currency with no credit facility. The opening of a bank account is a basic and fundamental right that allows a household or small business to function, even if they have limited economic means. This directive clarifies the circumstances in which the claim of “reasonable refusal” to open a checking account with no credit facility will not be accepted. The directive also specifies the services and means of payment that the banking corporation must make available to the customer for the purpose of managing an account, except in circumstances where refusal is reasonable. The services and means of payment that are an integral part of the management of a checking account with a positive balance include the execution of payments by way of a standing order, a debit card, a bank card for withdrawing cash and the execution of transactions through online banking channels. In addition, the banking corporation must allow the customers access to information about their account through online banking channels, so that they can monitor their account independently and efficiently acquire information about the account. The importance of the directive lies in the fact that it supports financial inclusion in Israel by obligating the providing of basic services—opening and managing an account—to all customers. This is a subject that the Banking Supervision Department views as an **important component in the banking corporation's culture of decency and fairness toward its customers.**

Making it easier to switch banks – Banking (Customer Service)(Transfer of a Customer's Financial Activity between Banks) Rules, 5780–2019, and Directive 448 – Switching Banks Online – As part of its efforts to increase competition and innovation in the banking system, the Banking Supervision Department, together with the Ministry of Finance and other departments in the Bank of Israel, has promoted the “Switching Banks with a Click” project. This project encourages competition between the banks and allows new entities to offer financial services; it removes obstacles to switching banks; and it makes it possible for customers to improve their conditions, whether at the current bank or at a new bank, by strengthening their negotiating power. Part of this project was the implementation of Amendment 27 to the Banking (Service to the Customer) Law, which requires the banking corporations to allow a customer to transfer his financial activity between banks online and in a way that is reliable, convenient, secure, costless and timely (within seven business days). Based on the authority granted to the Governor of the Bank of Israel and the Supervisor of Banks by law, Banking (Customer Service) (Transferring a Customer's Financial Activity Between Banks) Rules, 5780–2019

and the Proper Conduct of Banking Business Directive 448 – Switching Banks Online were issued in 2019. These established rules for the implementation of the main legislation in this domain and they constitute the regulatory infrastructure for switching banks online. The banking rules describe the types of accounts and types of financial activity to which the law applies, including timetables for executing the transfer and the financial activity for which a “follow me” service will be provided. Proper Conduct of Banking Business Directive 448 describes the rules that apply to the banks in handling a customer’s request to transfer his financial activity to another bank online.

The implementation of the legislation required cooperation between the banks and the credit card companies and a large investment of resources. After a long period of preparations, during which the Banking Supervision Department closely monitored the implementation of the legislation and the execution of the project, the system was launched on the date established by law, i.e., September 22, 2021. Currently, the banks’ customers can transfer most of their financial activity from one bank to another in a synchronized, timely and user-friendly manner. In addition, and as part of the reform, an innovative “follow me” solution was made part of the transfer of activity between banks. It allows the client to maintain continuity in his financial activity. With the goal of strengthening the confidence of the public in the online system and to encourage its use, the Banking Supervision Department monitors the performance of the online system and the manner in which it is implemented by the banking corporations. This includes surveys of customer satisfaction and a process to examine other aspects of the system that are likely to expand and improve the system’s use. In addition, and with the goal of increasing the public’s awareness of the option to switch banks using an online system, the Banking Supervision Department has promoted it in media campaigns.

Decency in the collection of debts – Directive 450 – The Banking Supervision Department attributes great importance to decency, respect and transparency, which the banks should exhibit in all stages of their relationship with customers, including the phase of collecting debts from customers who have not met the conditions of their loan. Therefore, the Banking Supervision Department has worked to formulate a directive whose goal is to reinforce decency and transparency on the side of the banking corporations in the processes of debt collection. The basic principle is that loans are to be repaid, and in circumstances when the customer cannot make his commitments, the banking corporation has the right to initiate legal proceedings in order to collect the debt. Nonetheless, before doing so, it is expected that the banking corporation will try various other ways to collect the debt, to whatever extent possible, such as rescheduling, deferring payment (grace period), etc. The directive formalizes the actions to be taken in order to increase decency and transparency when collecting a debt from a customer who has not met the terms of his loan and is not repaying it as required. In view of the importance attributed by the Banking Supervision Department to this directive, which provides an umbrella of protection for customers in a situation where there is a significant built-in gap in power between the bank and the customer, the Banking Supervision Department has taken steps to enforce it.

On February 6th, 2023, this led to the imposing of four financial sanctions against Hapoalim, Discount and Mizrahi Tefahot.¹⁵

Consumer Credit Management – Directive 311A – This directive brings together all of the Banking Supervision Department's requirements of the banking system in the domain of credit to consumer customers and it complements the directives and instructions issued in this domain by the Banking Supervision Department. The directive was issued against the background of the importance attributed by the Banking Supervision Department to responsible credit, and it deals with the following issues among others: the existence of a suitable organizational culture; a policy and processes to ensure appropriate and fair credit marketing processes and in particular processes for the proactive marketing of credit; and the existence of approval processes for credit, which include, among other things, the obligation to provide credit according to the borrower's financial ability to redeem the loan (alongside the responsibility of the borrower himself to responsibly manage his affairs). The directive was written together with the Capital Market, Insurance and Savings Authority, with the goal of creating consistent and standard guidelines and standards of fairness in consumer credit that will apply to all credit providers.

The Banking Supervision Department is currently working to promote new guidelines for the decent behavior of the banks toward their customers. They will be based on international standards, such as the OECD guidelines for protecting the financial customer, as well as the FCA guidelines.

In this context, and based on the FCA's Consumer Duty, the Banking Supervision Department issued a directive in 2022 for the assimilation of guidelines for appropriate and fair behavior of the banking corporations toward their customers, with the goal of implementing an ethical code and organizational culture of fairness. This approach is manifested in the Banking Supervision Department's expectation of the supervised entities to operate in a way that will not result in harm to the customer, when that does not constitute a risk to the financial body. As part of the new policy, the Banking Supervision Department intends to issue specific instructions in the four core areas of relations between the banking corporations and their customers: tailoring products and services to the customer; products and services that provide value and benefit to the customer; a network of service and support to serve the customer; and the disclosure of information and its comprehensibility to the customer. These guidelines will define explicit obligations of the banking corporations to behave professionally and responsibly, with honesty and in good faith and in support of the customer's needs, while achieving their financial goals. In addition to defining the mandatory guidelines, the instructions will also define the explicit obligations of the board of directors and senior management, which will ensure the existence of organized processes for supervision, monitoring and responsibility within the banking corporation, and will support the fulfilment of these obligations and improve the organization's business processes. The first of the guidelines focuses on the system for customer service and support whose final version was published on March 29, 2023 and which will go into effect one year later.

¹⁵ <https://www.BankofIsrael.org.il/en/communication-and-publications/press-releases/the-banking-supervision-department-has-imposed-financial-sanctions-on-israel-discount-bank-bank-hapoalim-and-mizrahi-tefahot-bank-for-improper-conduct-in-the-process-of-collecting-debts-from-customers> Documents) Rules, 5741-1986.

Management of the customer service and support network – Directive 501 – For many years, the Banking Supervision Department has adopted an approach that customer service is clearly in the interests of the banking corporation, and it has not tended to intervene directly in this domain. The complaints of customers were responded to with a statement in this spirit.¹⁶ This approach has changed in recent years and the Banking Supervision Department currently views the issue of service as one of the basic principles in the assimilation of an organizational culture of fairness. Accordingly, the new policy was formalized in a new Proper Conduct of Banking Business directive, which establishes the obligations of the banking corporations to provide service that is available, high-quality, accessible and clear. This directive establishes the principles for providing service and support to customers, which will serve as the professional standards for providing appropriate service and support in the various channels. It also establishes obligations in the areas of corporate governance and work processes whose goal is to ensure that customer service and support will be managed and monitored continually and proactively, including strong managerial, business and operational infrastructure and processes as well as the allocation of resources required to improve the quality of service and to fulfil the guidelines for customer service and support. The guidelines relate to the following areas: providing optimal customer service in a variety of service channels; promoting beneficial communication between the banking corporation and the customer as part of the providing of service and support; preventing barriers to the delivery of service and preventing harm and misrepresentation; ensuring the high availability and quality of the service and support network; tailoring of the service and support network to the needs of the customer; and providing appropriate service in a variety of channels. The banking corporations are required to promote the guidelines in a systematic and continual manner, including the use of discretion and the setting of priorities according to their importance for customers, with emphasis on households and small businesses. The goal is to ensure that the customer service and support network will provide an optimal response to the needs of all customers and that the service and support provided to them has value. In addition, the directive includes requirements to publish a service covenant, including a service agreement, and to publish information about the various service channels. It will also publish the actual average waiting and response times for each of the service channels appearing in the service covenant and a comparison to the level of service to which the banking corporation has committed itself in the service covenant.

Empowerment of senior citizens – The Banking Supervision Department attributes great importance to helping disadvantaged populations that deserve special attention and empowerment, such as new immigrants, victims of violence, customers with special needs, minorities, and others. This is in order to provide them with support and assist them in using their rights to consume banking services. As part of these efforts, special emphasis is placed on the protection of the elderly population, and there have been numerous and diverse efforts to provide solutions for the problems and challenges they face. The difficulties that some senior citizens experience in the consumption of banking services get the full attention of the Banking Supervision Department and we are constantly challenging ourselves to rethink things in order to identify additional solutions to meet this population's needs.

¹⁶ See the Annual Survey for 1981.

The Banking Supervision Department has taken, and is continuing to take, various steps to assist these customers, both in the context of examining alternatives that will provide solutions to the elderly population who find it difficult to come to the branches and in the context of other difficulties experienced by this population (see below).

The main steps taken by the Banking Supervision Department to facilitate service to senior citizens

Assistance provided to help senior citizens adjust to changes in the deployment of branches

Steps to provide solutions to customers able to adjust to change

- In 2019, the Banking Supervision Department, in collaboration with the Ministry of Social Equality, promoted a program of digital education for senior citizens in order to increase their financial-digital awareness;
- Passing of the Payment Services Law – Significant consumer protection against misuse of payment services;
- Promotion and support of processes to reduce defrauding of senior citizens – Directive 472 and others;
- Encouraging the banks to develop advanced digital tools;
- Withdrawal from ATMs with a reduced fee – Defining which ATMs and requiring the addition of services in the ATMs;
- Reducing the fees on digital services;
- A decision that a remote ATM will have a lower price for the customers of the bank operating it;
- Inclusion of a requirement to provide special guidance to branch customers who are over 70 years of age in the case of every approval to close a branch.

Steps to provide solutions to customers who find it difficult to adjust to change

- Guidance, assistance and support from bank representatives, as required by Directive 400;
- Mobile/partial branches that continue to provide face to face banking services in the area of the branch that was closed and in senior citizen homes – in 20 percent of the requests for closure;
- Absorption in a nearby branch;
- Long-term power of attorney – Support for the amendment of the law;
- Priority for individuals over 70 years of age in the call centers;
- Branch closings that are “transparent” to the customer.
- Inclusion of a requirement for a direct and personal phone call from a bank employee to customers over the age of 70 and customers with special needs, in order to inform them of a branch closure. This will include explanations and assistance to these customers in every case that a branch closing is approved.
- Switch banks with a click – went into effect on September 22, 2021.

Additional steps taken by the Banking Supervision Department to assist senior citizens

- Formulation of a “Covenant to Promote Mutual Support to make Banking Services Accessible to Senior Citizens during the COVID-19 pandemic” – published in January 2021;
- Protection against proactive marketing of credit – Directive 311A – Consumer Credit Management, which was published in February 2021;
- Reduced fees for senior citizens – proactively including them in the fee tracks;

- Requiring that the default in sending out notifications to customers does not change automatically from physical mail to online delivery without the explicit agreement of the customer;
- Publishing of criteria for economic exploitation of senior citizens in the Survey of Public Enquiries – October 2020;
- Specific actions to assist senior citizens in dealing with the COVID-19 pandemic:
 - Carrying out financial transactions without visiting the branch;
 - Ensuring availability and continuity in the provision of essential banking services;
 - Assistance to customers in withdrawing pensions;
 - A requirement to provide high-quality and available service to customers in the branches and in the call centers.

Involvement in legislative processes

Protection of the banking consumer is an issue that today is high on the public agenda and it attracts a great deal of attention, given the centrality of the banking system and the essential services it provides. As a result, there have been, and continue to be, numerous legislative initiatives in this area, whether initiated by the government or by private members. During the past two decades, there has been a significant increase in the private members' bills whose focus is protection of the banking consumer. It is worth mentioning the Annual Survey for 1980, which reported that one private member's bill had been submitted to the Knesset (concerning dormant accounts), while today there are dozens of proposed private member's bills every year.

The Banking Supervision Department takes a professional and objective stance with respect to each of the proposed laws in its domain and presents its professional opinion to the Ministerial Committee for Legislative Matters through the accepted channels. When a proposed law is proposed that the Banking Supervision Department feels will benefit banking customers, it takes an active role in the discussions of the Committee, alongside the Legal Department of the Bank of Israel and the Ministry of Justice. It also assists in the formulation of the proposed law's final version.¹⁷ One example of its involvement in the legislative process is the Payment Services Law, which established standard and system-wide regulation of all payment services, based on technological developments, and the goal of which was to provide consumer protection and encourage competition. The law puts in place, among other things, consumer protection that applies to all payment accounts and means of payment, including protection that had applied only to payment cards up to that point.

¹⁷ An example is the Law Requiring a Warning in Advertising and Marketing of a Loan (Amendments to the Law), 5777–2017; proposed amendment no. 14 to the Checks without Cover Law, 5741–1981; and the proposed Equal Rights for Individuals with Special Needs (Amendment no. 18) Law, 5778–2018.

In addition, in cases where the proposed law does not benefit the banks' customers, the Banking Supervision Department's representatives appear before the Ministerial Committee for Legislative Matters to present their professional position regarding the significance of the proposed law.

If a consumer issue comes to the attention of the Banking Supervision Department and it calls for regulation by means of legislation, then the Banking Supervision Department contacts the Ministry of Justice to initiate an amendment of the relevant law. A prime example is the Banking Supervision Department's initiation and involvement in amending the Guarantee Law, 5727-1967,¹⁸ which established important protection for guarantors and provided a solution to many of the problems that had arisen in this domain and that were within the purview of the Public Enquiries Unit. The amendment, which went into effect on June 1, 1998 and which applied to guarantees signed from that time onward, included two main changes relative to the legal situation that prevailed prior to its passage: The first obligated creditors to exhaust all of the processes against the principal debtors as a precondition for the right to collect from the guarantors. The second limited the obligation of each guarantor to a proportion of the debt, such that the debt would be divided evenly between the guarantors. In addition, the amendment expanded the scope of protection provided in the law by means of a revision of the "debit" amounts and it also specified a large number of details that the creditor must reveal to the guarantor before signing the guarantee contract, where for every obligation of disclosure in the law there is a sanction if the creditor does not comply. In some cases, the most serious sanction specified in the law is the release of the guarantor from his guarantee. The amendment of the law also included instructions adopted from the relevant Proper Conduct of Banking Business directives,¹⁹ such as the obligation to provide a copy of the guarantee letter and a copy of the contract between the creditor and the debtor to the guarantor, if he requests it. Another prime example is the amendment to the Sales (Guaranteeing the Investment of Home Buyers) Law, 5735-1974; the Sales (Homes) (Guaranteeing the Investment of Home Buyers) (Amendment no. 4) Law, 5768-2008; and the Sales (Guaranteeing the Investment of Home Buyers) (Amendment no. 5) Law, 5768-2008, which were passed following the Heftziba affair, with the goal of preventing its recurrence.

Activity in the area of bank fees

The Banking Supervision Department has been active in the area of bank fees since its creation. It was primarily the focus of the Research Unit until the responsibility was transferred in 1994 to the department's new domain: Bank-Customer Relations.²⁰ In those years, the Banking Supervision Department did not have the specific authority to supervise bank fees but would nonetheless receive reports of changes in price lists and as a result was informally involved. In those cases where a disagreement arose between the Banking Supervision Department and the banking corporation

¹⁸ The Guarantee Law (Amendment no. 2), 5758-1997.

¹⁹ As a result of the large number of complaints on this issue, Proper Conduct of Banking Business Directive no. 453 – "Third-Party Guarantees in favor of a Banking Corporation" was amended a number of times during the 1990s, with the goal of solving the problems raised in the complaints.

²⁰ See the section above on "Milestones in the Banking Supervision Department's organizational structure in the consumer domain" in this chapter.

concerning the price of a banking service, the Banking Supervision Department would turn to the Supervisor of Prices in the Ministry of Trade and Industry (who had the authority at that time to supervise the prices of banking services) and would request that the fee be put under the supervision. In those years, the main actions taken by the Banking Supervision Department in the domain of fees took the following forms: receipt and examination of periodic reports from the banking corporations on changes in the bank fee price list; checking of requests to introduce new bank fees; encouragement of competition between the banks by means of periodic publishing of information in the press and other media of a bank fee index as a tool for the comparison of bank fees and the cost of a checking account and by means of calculators on the Bank of Israel website; measures to facilitate switching between banks by reducing its cost and simplifying the process; increasing the accessibility of information on bank fees; greater disclosure of bank service prices and requiring the publishing of price lists also on the banks' websites; regulation to achieve standardized price lists based on Proper Conduct of Banking Business Directive no. 414; and the publishing of instructions on the collection of banks fees, as they appear in Proper Conduct of Banking Business Directive no. 415.

The bank fees reform, which provided the Banking Supervision Department and the Governor of the Bank of Israel with the formal authority to supervise bank fees, went into effect in 2008.²¹ Since then, the Banking Supervision Department has been active in this area, with focus on regulation, ongoing supervision and enforcement and monitoring. Following are the main types of activity in this area:

Dealing with the reports of the banking corporations – Section 9(15) of the Banking (Service to the Customer) Law establishes that a banking corporation does not have the right to increase the amount or the rate of an unsupervised service unless it provides the Banking Supervision Department with notification 30 days ahead of time. Based on this obligation, the banking corporations report to the Banking Supervision Department on future changes in their bank fees. The Banking Supervision Department records the reported changes, monitors them, carries out comparisons between the banks and analyzes the trends over time. In some cases, reports are recorded along with the reservations of the Supervisor of Banks, and if necessary, services are declared as candidates for supervision or are actually put under supervision.

Periodic reporting to the Knesset – Section 9(18) of the Banking (Service to the Customer) Law establishes that the Supervisor of Banks will report to the Finance Committee of the Knesset every six months on the actions he has taken based on his authority according to the law and on the implementation of directives by the banking corporations. This periodic reporting presents quantitative data on the cost of a checking account, a payment card and activity in securities; recommendations to reduce bank fees; and other information of interest to customers. The periodic report is published every six months on the Bank of Israel website.²²

²¹ See the section above on "Milestones in the Banking Supervision Department's organizational structure in the consumer domain" in this chapter.

²² See the section above on "Milestones in the Banking Supervision Department's organizational structure in the consumer domain" in this chapter.

Declaration of a service as a candidate for supervision – Sections 9(11) and 9(13) of the Banking (Service to the Customer) Law provide the Governor of the Bank of Israel with the authority to declare a banking service as a candidate for supervision and to decide on its maximum price. The law defines the circumstances under which the Governor has the right to exercise that authority. Over the years, the Governor has in several instances declared a banking service to be a candidate for supervision, such as the basic track, notifications, production of reports, etc. In August 2022, the Governor issued an order declaring the following services to be candidates for supervision: a teller-executed transaction; a transaction carried out in a direct channel; and a transaction on an expanded track.

Regulation – During the years since the reform went into effect in 2008, the Banking (Customer Service) (Bank Fees) Rules, 5768–2008 have been amended several times, in the wake of changes in the business environment, technological developments and changes in customer behavior or in order to provide a solution for market failures. One of the main amendments was the addition of the tracks as part of an amendment that went into effect on April 1, 2014. This is a service that significantly reduces the cost of owning a checking account for households and small businesses. In this context, the banks are required to offer their customers (individuals and small businesses) an additional pricing method, namely one price for basic services related to managing a checking account (the basic or expanded track). The basic track includes up to 10 transactions in the direct channel and up to one teller-executed transaction; its price is supervised and cannot exceed NIS 10. The expanded track includes up to 50 transactions in the direct channel and up to 10 teller-assisted transactions. Later on, additional amendments were made to the rules, which included the proactive inclusion of senior citizens, individuals with special needs and small businesses.

The Banking Supervision Department is currently considering the issuing of instructions that are intended to improve the existing debit mechanism for checking account transactions for all customers and to expand the category of small businesses that benefit from reduced bank fees.

With the goal of creating additional options for households with a high level of banking activity, a revision of the “extended plus” track is being promoted. This track will be expanded to include an unlimited number of teller-executed and direct transactions. The goal is to distinguish it from the other two tracks (the basic track and the extended track). Thus, it will constitute a unique and competitive product. This track is intended for customers with a high level of banking activity who are interested in a track that gives them added value beyond the basic services (activity in the direct channel and teller-executed activity).

In addition, and with the goal of enabling more small businesses to enjoy reduced bank fees, the Banking Supervision Department is working to expand the group of small business that can benefit from the reduced price list of services. This will be accomplished by raising the maximum turnover from NIS 5 million to NIS 10 million. It is also working to change the default definition of a small business, such that all corporations will be defined as “small businesses” and the banking corporation will have the right to request an annual report in cases where it believes the customer to be a large business.

Closing of branches

Technological advances during the past decade have had an impact on the banking systems in Israel and other countries, leading to an increase in the scope of direct banking services and the improvement of their availability and convenience. As a result, there have been changes in consumer preferences, and the proportion of customers that make use of direct banking services has been increasing every year, while the proportion using the branches has been declining. Nonetheless, there are customers who find it difficult to use the direct channels and are in need of face-to-face services (disadvantaged populations, senior citizens and customers with special needs). In order to provide solutions for these customers, Amendment 22 to the Banking (Licensing) Law, 5741–1981, went into effect in August 2016. It states that the closing of a branch requires the approval of the Banking Supervision Department and that it will be based on a variety of considerations and must maintain a balance between the interest of the banking corporation and that of the public. The responsibility for the implementation of the law was assigned to the Bank-Customer Division within the Banking Supervision Department, which is responsible for achieving the goal of fairness in the banking corporation's relations with its customers. As a complementary measure to the law, the Banking Supervision Department issued Proper Conduct of Banking Business Directive no. 400, which includes principles to which the banks are to adhere before deciding to submit a request to close/move a branch. The directive is meant to ensure that a bank will only carry out changes in the distribution of its branches after giving sufficient weight to the needs of all the branch's customers. Thus, the banks are required to give special consideration to the needs of senior citizens, people with special needs and disadvantaged populations. In addition, they are required to decide on a formal policy and appropriate work procedures, as well as formulating a plan to maintain the providing of available, accessible and convenient services to their customers. In addition, the board of directors and senior management are required to be involved in these processes. In order to comply with the requirements of the directive, the banks are prescreening their requests and in many cases do not submit them if the Banking Supervision Department is expected to reject them.

The Supervisor of Banks subsequently distributed a letter among the banking corporations in January 2022 on the subject of branch closures, which referenced Directive no. 400. The letter required the banks to give particular consideration to the geographic distribution of branch closures and to modify it according to the needs of their customers. They are also required to carry out an in-depth examination of the branch's circumstances with an appropriate level of sensitivity. This should be based on the principle of placing the customer at the center and an understanding that the need for branches and the provision of face-to-face services still exists.

Apart from the aforementioned, the Banking Supervision Department closely examines requests for closures, with the goal of identifying potential effects on the branch's customers. This includes the demographic characteristics and usage patterns of the branch's customers and in particular those of the customers who are senior citizens. There are various requirements that the Banking Supervision Department can set as conditions for the closure of a branch, including leaving a reduced-fee ATM at the location and/or providing a partial/mobile branch. According to the circumstances, the Banking

Supervision Department imposes these conditions in a significant proportion of the requests. In cases where the Banking Supervision Department feels that the suggested alternatives do not sufficiently meet the needs of customers, it will reject the request.²³

Involvement in class action suits against the banking corporations

A class action suit is a proceeding in which an individual or entity files a suit on their own behalf and on behalf of others, where each of the claims are similar or identical. The prior consent of each and every individual involved is not required. The Banking Supervision Department provides its opinion in a significant proportion of the class actions suits in which a bank is involved, whether by examining the request for approval of a compromise arrangement for which it is asked to formulate an opinion or by submitting its position to the court, according to the court's request. This activity is carried out in close collaboration with the Bank of Israel Legal Department . The involvement in class action proceedings is one of a variety of tools available to the Banking Supervision Department for administrative enforcement and as such it constitutes a complementary supervisory tool for the enforcement of the law and multiplies the power of the Banking Supervision Department's deterrence. Therefore, the Banking Supervision Department encourages the use of this tool if the goal of the class action is important and affects the broader public. Furthermore, there is a representative of the Banking Supervision Department in the Fund for Financing Class Actions, which assists in the financing of class action suits that have public and cultural importance.

In order to increase the transparency of the positions submitted as part of class action proceedings, the Banking Supervision Department began posting them on the Bank of Israel website in 2021.²⁴ This increases their transparency among the banking corporations not involved in the class action suit and enables customers of the banking system to become familiar with these positions and to make use of them in order to fully utilize their rights.

Over the years, there has been growing use of the class action tool, including in suits filed against banking corporations, and as a result there is today much greater effort invested in this area by the Bank of Israel.²⁵

Consumer-oriented assessment of the organizational culture of fairness

The Banking Supervision Department annually publishes an evaluation report of the banking corporations' relations with their customers, as reflected in the public enquiries it receives. This information was published for the first time already in the Annual Survey of 1974. A perusal of the publication reveals a wide variety of comparative data, except that the information was at that time categorized by banking group, without mentioning the name of the bank. In 1993, the first year the

²³ For details on the distribution of bank branches, see Chapter 1.3 of this survey.

²⁴ <https://www.boi.org.il/publications/advertisement/legalpossession> (Hebrew)

²⁵ See Box 3.1 "Class Action Suits against Banking Corporations" in Israel's Banking System – Annual Survey 2018.

Public Enquiries Unit published its survey, the Banking Supervision Department starting rating the banking corporations according to the percentage of justified complaints and mentioning them by name. Starting in that year, the index used was the percentage of justified complaints within total complaints against the bank whose processing was completed that year. The publishing of this rating is important in order to raise the level of fairness in the system over the years, since the survey, and the index in particular, always resonate in the media and have an impact on the banking corporations' reputations. As a result, there is fierce competition in this domain, which led to attempts by the banks to reduce the percentage of justified complaints, which is to the benefit of their customers.

Since the percentage of justified complaints is not the only consideration, thought has been devoted over the years to developing a more sophisticated index, which would more precisely reflect the information accumulated in the Public Enquiries Unit about the banking corporations' behavior toward their customers. As a result of this process, a new index was created, and in 2011 the treatment of customers by the banking corporations, as reflected in the handling of Public Enquiries, has been based on four parameters:²⁶

- a. The proportion of justified complaints within total complaints for which a position was adopted;
- b. The ratio between a bank's proportion of justified complaints and its weight in the banking system;
- c. The proportion of enquiries and complaints that were dealt with appropriately by the banking corporation within total enquiries and complaints submitted to that banking corporation;
- d. The proportion of enquiries and complaints in which the bank attempted to satisfy the customer even though the complaints were not categorized as justified.

The results of this assessment were published with maximal transparency according to a scale from "insufficient", "needs major improvement" and "needs improvement" on the low end to "satisfactory", "good" and "very good" on the high end.²⁷

In the 2017 Survey of Public Enquiries (for the year 2016), the Banking Supervision Department announced that it would no longer be publishing this index. This followed a change in the method of handling public enquiries in 2015,²⁸ such that the Banking Supervision Department now possessed only partial information about the complaints and it was no longer possible to statistically base the index on that information. Therefore, in the years since then various specific indexes have been published, without publishing a single ranking.

Given these circumstances, there was a need to develop a revised index that would be based on all

²⁶ In the appendix of the Annual Survey during the period 2011–15, in which a ranking was published based on this index, a brief explanation was provided for each of the criteria in the evaluation.

²⁷ An example can be found in Table 4: The ranking of the five largest banks from 2011 to 2013 in the Banking Supervision Department's Annual Survey of the Handling of Public Enquiries and Complaints in 2013. <https://www.BankofIsrael.org.il/en/communication-and-publications/regular-publications/the-banking-supervision-department-s-handling-of-public-enquiries-and-complaints/>

²⁸ For further details, see below in this chapter: "The transition to the exhaustion-of-proceedings system in dealing with enquiries from the public".

of the information that flows to the Banking Supervision Department from a variety of directions. Thus, the Banking Supervision Department began to formulate a methodology for measuring the level of fairness among the banking corporations—not just in order to evaluate the handling of public enquiries, as done up to that point, but also to obtain additional information. With the goal of estimating and assessing the level of fairness in the organizational culture of the banks, a consumer-oriented evaluation process was carried out. It was based on the Banking Supervision Department's work processes in the consumer domain, an analysis of the information received from the banking system, and findings derived from the investigation of the public's complaints and the consumer-oriented examinations carried out by the Banking Supervision Department. Based on the information gathered, quantitative and qualitative measures to assess the activity of the banks' ombudsmen were selected and analyzed (such as the proportion of complaints against the bank submitted to the Banking Supervision Department relative to its size; response time; willingness to go beyond the letter of the law; identifying systemic weaknesses; the handling by the bank ombudsman of cases referred by the Banking Supervision Department, etc.) and other indices for assessing the activity of the banks in the consumer domain. (These include serious problems that were identified; the proportion of complaints found to be justified by the Banking Supervision Department; financial sanctions; fraud; the call center's response time; the distribution of branches and ATMs in the periphery; the activity of the ombudsman during the COVID-19 pandemic; and regulatory commendation). The weighting of the aforementioned measures led to a methodology for measuring the overall fairness of each bank's organizational culture and their ranking is based on that measurement. The Banking Supervision Department intends to develop and improve this consumer-oriented evaluation process, including by means of public involvement and the publishing of its findings. As a result of this process, a letter was distributed among the executives of the five large banks in 2021 entitled "The Fairness of the Bank's Organizational Culture", which presented strong points and weak points that need to be improved. Meetings were held in order to present the evaluation.

In parallel to these processes, the Bank-Customer Division submits a consumer report to the Offsite Evaluation Division within the Banking Supervision Department, which is part of the SREP process carried out annually in order to evaluate risk that is built-in to the supervised corporations' activity and to evaluate the quality of its management. In this context, an evaluation of equity capital adequacy and quality is carried out and the bank's capital requirement is adjusted if necessary. This capital serves as a buffer for absorbing unexpected losses and improving the bank's stability. The letters sent to the banking corporation as part of the process included a paragraph on "Evaluating the bank's fairness".

Restricted accounts

The Annual Survey for 1978 mentions the beginning of the handling of checks without cover. It noted that the Banking Supervision Department had asked the public to propose ideas that would help prevent this phenomenon. It mentions that the Banking Supervision Department has instructed the banks to block, for a year, the possibility of drawing a check from the account of a customer who

has written a check without cover. This was in preparation for maintaining a central list of customers who have written checks without cover, a proposal being considered by a committee headed by the Director General of the Ministry of Justice.

The Checks without Cover Law, 5741–1981 (herein: the Checks without Cover Law or the Law) and the regulations adopted based on it went into effect in December 1981. In order to implement the law, a computerized system, which became known as the Checks without Cover (*mushlah*)²⁹ system, was installed at the Bank of Israel and started operations in December 31, 1981. During 1982, restrictions were placed on about 17,000 customers, of which about 1,200 were in aggravated circumstances. These customers owned about 17,400 accounts. In mid-1982 the Bank of Israel for the first time used its authority according to Section 14(a) of the law by publishing the restricted account numbers. The lists were distributed to the banking corporations and also, for payment, to annual non-bank subscribers. In 1992, the law was amended following the recommendations of a committee headed by Attorney Tana Spanic, the Assistant Attorney General at the time.³⁰ The amendment led to harsher treatment of writers of Checks without Cover with the goal of further reducing the phenomenon.

The law states that if ten or more checks from the same account are not honored within a period of 12 months, the account will be restricted and so will its owner. An insufficient-cover check is one that has been presented for redemption on the date of the check or subsequently and the bank has refused to honor it due to insufficient funds in the account. The restricted owner of the account cannot write checks and does not have the right to open a new checking account. The law also relates to cases in which a customer has been restricted twice in a row or with a gap of up to three years. In that case, the Bank of Israel must impose a “severe” restriction on the customer that will last for two years (in contrast to only one year in the case of a “regular” restriction). As a result, the banks must limit all of the customer’s accounts (and not just the one in which the conditions exist for imposing a restriction).

Since 1994, the legislature has expanded the group of restricted customers by providing authority to non-bank entities to impose restrictions, referred to as “special restrictions” in Section 3c of the Law. Currently, the entities that are empowered by the law to impose a “special” restriction, which is similar to the “severe” restriction (restricting all of the debtor’s accounts on which this restriction was imposed), include: the Execution Office; the Official Receiver; the Collection and Fines Center; and the rabbinic court system (divorce refusers).

Over the years, there has been a continuous upward trend in the number and rates of restricted customers, most of whom are restricted for writing checks without cover, while there has been relatively little change in the rate of checks without cover in the economy. However, with the passing of the Collection Law (Amendment 29), 5779–2008, which loosened the conditions for imposing a special restriction, the trend in the composition of restricted customers began to change. Thus, the number of customers on whom a special restriction was imposed grew continuously while the number of “bank” restrictions fell. While in 2009 the number of “bank” restricted customers was

²⁹ Hebrew acronym for “writers of checks without cover”.

³⁰ Report of the Committee to Examine the Problem of Checks without Cover, Jerusalem 5751–1990.

66,182, as opposed to 44,226 customers with special restrictions, in 2019 the situation had reversed – 126,612 special restriction customers as opposed to 54,331 “bank” restricted customers. As of 2022, the number of customers with special restrictions reached 251,260 while the number of “bank” restrictions was 19,562. It is worth mentioning that the number of customers with “bank” restrictions fell dramatically (by close to 50 percent) as a result of the exemptions during the COVID-19 pandemic. In our estimation, their number will return in coming years to the pre-pandemic levels, namely in the vicinity of 35,000.

The role of the Restricted Accounts Section, by means of which the Bank of Israel, and in particular the Banking Supervision Department, fulfill their roles as defined in the Checks without Cover Law, include first and foremost the management of a database of restricted customers and accounts in Israel. This responsibility includes the intake of information from entities with the power to impose a restriction in Israel [namely, the banks and the special entities empowered by the law (see above)]; determining the status of the customers, which in turn determines the relevant sanctions to be imposed; and the dissemination of information to the entities that are responsible for imposing sanctions (the banks and the collection entities) as well as additional stakeholders (the credit providers database, the public, a personal website for restricted customers, etc.). Furthermore, the Section is involved in the monitoring and maintenance of the integrity of the information in the database and correcting any defects in it; responding to enquiries from stakeholders in the entities that participate in the process of imposing restrictions; and complex enquiries on restricted customers and accounts; providing a professional response on issues related to the reliability of checks in general and of checks without cover in particular; regulatory changes; and handling queries from civil society organizations, the media and others.³¹

³¹ The Bank of Israel initiated an amendment to the Checks without Cover Law that will achieve the objectives of the law through the use of advanced tools, while reducing the side effects of the current mechanism of restrictions. This initiative is currently in the stage of advanced discussion with the Ministry of Justice.

5. MILESTONES IN THE DEVELOPMENT OF BANKING CONSUMERISM

The domain of banking consumerism has evolved gradually over the years.³² Nonetheless, there were a number of milestones that led to steep changes in its development and which are highlighted below:

The passage of the Banking (Service to the Customer) Law, 5741–1981

As mentioned, an important milestone in the development of the Banking Supervision Department's approach to consumerism occurred in 1981, with the passage of the Banking (Service to the Customer) Law. Section 16 of the law includes the following:

- (a) The Supervisor of Banks shall investigate public enquiries regarding the activities of the banking corporations that he views as genuine and will use his powers according to the Banking Ordinance, 1941 for that purpose.
- (b) If the Supervisor of Banks has found the enquiry to be justified, he will notify the customer and the banking corporation of that fact; in his notification, the Supervisor of Banks will describe the findings of the investigation and ways in which the problem can be resolved.
- (c) If the Supervisor of Banks finds that the enquiry is not justified or is not worthy of investigation, then he will notify the enquirer accordingly; in his response, the Supervisor of Banks can describe the findings of his investigation.
- (d) The decisions and findings of the Supervisor of Banks regarding the enquiry will not:
 - (1) provide the customer or any other individual with any rights or remedy in the courts that did not exist previously;
 - (2) prevent the customer or any another individual from using a different right or requesting a different remedy – however, if a deadline has been set in the legislation, then that deadline will not be extended by the submitting of an enquiry to the Supervisor of Banks or by its investigation.

Based on this Section, the legislature for the first time imposed an explicit obligation on the Banking Supervision Department to investigate enquiries from the public regarding the activity of the banking corporations. Similarly, it established that the powers provided to the Supervisor of Banks by the Banking Ordinance can also be used to investigate enquiries, and it provides the Supervisor of Banks with discretion to decide which enquiries to investigate. The imposition of a defined obligation by law to investigate public enquiries, together with the wide-ranging powers provided by the Banking Ordinance in order to fulfill this task, constitute an important milestone in the development of the process of handling public enquiries and provide the foundation for the active role of the

³² See “The development of banking consumerism” in this chapter.

Banking Supervision Department in protecting the rights of banking customers. The Supreme Court provided further interpretation of this paragraph and it is worth mentioning the Arbel case³³ and the Gezundheit case,³⁴ in which a claim against the Supervisor of Banks was rejected and the court ruled that he had correctly used his discretion not to investigate the claimants' complaints.

The case of credit provided for the purchase of securities

The phenomenon of providing credit to customers for the purpose of trading in securities, which included special marketing campaigns, among other things, was a common practice in the banking system at the end of 1993. In many cases, a balloon loan in the amount of NIS 100,000 was provided for a period of a year, with the expectation that the loan (principal and interest) would be returned and there would be profit left over from the increase in share prices. The negative consequences of this phenomenon were fully revealed during 1994. Share prices unexpectedly dropped, leading to a significant erosion in the value of investors' portfolios. During 1995, the number of enquiries received on this issue reached about 1,500. Most of the enquiries were received by the Public Enquiries Unit after February 1995, following a call by the then Supervisor of Banks, Zeev Abeles, to anyone with a complaint of this type to contact the Public Enquiries Unit. This led to an increase of about 68 percent in the number of enquiries to the Unit in 1995 relative to 1994, which required a change in the Unit's organization and the recruitment of additional workers, which constituted a significant milestone in the Unit's development.

The most common claim made in those complaints was that the bank teller persuaded the customer to accept a loan for the purpose of acquiring securities, which was generally by way of the bank's mutual funds. Most of the other claims were concentrated in the following domains: aggressive marketing;³⁵ nondisclosure of risk; and the providing of large amounts of credit that were not in line with the customer's economic means. Dealing with this phenomenon required that each case be dealt with individually according to circumstances and therefore was very intensive. Many complaints were found to be justified and the remedy took the form of a partial or complete erasure of their debt.

Standard contracts

In 1994, a standard contracts team became active in the Bank-Customer Division of the Banking Supervision Department. The main legal framework of this team's activity was the Standard Contracts Law, 5743–1982. The banking corporations often make use of contracts that fall under the definition of a "standard contract" and according to paragraph 6 of the Law, the Bank of Israel can request the Standard Contract Court to annul discriminatory conditions in a standard contract. The team was

³³ Supreme Court 5048/07 Dov Arbel, att. versus the Bank of Israel – the Supervisor of Banks.

³⁴ Supreme Court 10788/06 Avraham Gezundheit versus the Bank of Israel – the Supervisor of Banks.

³⁵ As a result of this claim, on June 27, 1994 the Banking Supervision Department issued Proper Conduct of Banking Business Directive no. 455 – "Credit extension for the purchase of financial assets", which prohibits a banking corporation from persuading a customer by means of a marketing campaign and/or advertising to purchase financial assets using credit.

made responsible for checking the standard contracts in use by the banking corporations, identifying any discriminatory conditions and taking steps to remove them from the contract. In this context, and in collaboration with the Bank of Israel's Legal Department and the Ministry of Justice, four standard contracts were submitted to the courts:³⁶ a checking account contract used by Bank Leumi; a housing loan contract used by the First International Mortgage Bank; a guarantee contract according to the Sales (Homes)(Guaranteeing the Investment of Home Buyers) Law, 5735–1974 used by Bank Mizrahi Tefahot, and a contract for online services used by Bank Hapoalim.

In light of the drawn-out proceedings (in the case of the Bank Leumi checking account contract the proceedings went on for about 13 years)³⁷—and the understanding that the Banking Supervision Department has its own independent authority to require a banking corporation to remove or change a discriminatory paragraph within a contract, as well as the 2010 letter³⁸ sent to the banking system in which the banks were asked to review their contracts in order to repair any defects in paragraphs similar to those mentioned in the rulings, it was decided that this activity could be discontinued.

Publishing of the Survey of Public Enquiries³⁹

In 1994, a booklet was published for the first time which summarized the activity of the Public Enquiries Unit within the Banking Supervision Department during 1993. Since then the survey has been published annually.⁴⁰ The survey includes an introduction by the Supervisor of Banks, which reflects the Banking Supervision Department's approach to consumer issues; statistics on enquiries from the public during the period; information on the Unit's activity in the area of enforcement and the resolution of systemwide problems in the banking system; a description of the handling of selected and particularly informative complaints; and information on the guidelines for handling enquiries; and a spotlight on the activity in consumer regulation during the relevant period. In addition, the survey presents selected indices for the quality of the handling of complaints by the five large banks; with the goal of improving service in the banking system. The size of the annual survey has of course grown significantly over the years and currently it serves as an important source of information on consumer issues. It therefore informs all of the banking corporations about the positions taken by the Banking Supervision Department in the cases of specific banks.

³⁶ <https://www.BankofIsrael.org.il/en/questions-and-answers/consumer-information/standard-banking-contracts/>

³⁷ In 1997, the request to cancel or change discriminatory conditions was submitted to the Standard Contracts Court. In 2004, a ruling was handed down. Near that time, an appeal was submitted and in 2010 a ruling was handed down by the Supreme Court of Appeals.

³⁸ [Letter on correcting bank contracts according to rulings of the Standard Contracts Court and the Supreme Court \[Hebrew\]](#)

³⁹ <https://www.BankofIsrael.org.il/en/communication-and-publications/regular-publications/the-banking-supervision-department-s-handling-of-public-enquiries-and-complaints/>

⁴⁰ During its initial years, i.e., from 1994 until 2023, the survey was published biennially. The link in footnote 39 connects to the webpage that provides access to the Survey of Public Enquiries from 1998 onward.

The Heftziba affair

On August 6th, 2007, the courts issued a stay of proceedings against the Heftziba construction company. The handling of the situation by the Public Enquiries Unit began soon afterward, when enquiries from Heftziba buyers started to flow in. The Banking Supervision Department acted immediately and vigorously to gather information from the banks and Heftziba home buyers in order to formulate a decision with respect to the manner and scope of its involvement in this affair. As part of the handling of the enquiries, the Banking Supervision Department based its action on the position that the victims of Heftziba would receive compensation in the unprecedented amount of NIS 307 million. This compensation was provided in the context of 1,637 enquiries, which originated from 881 home buyers. It is worth mentioning that the Public Enquiries Unit related individually to every payment made by a home buyer.

Furthermore, and as part of the process to draw conclusions from the Heftziba affair, the Banking Supervision Department was also active on the regulatory level during 2009 in order to guarantee the funds of home buyers and prevent a recurrence of the affair. The Banking Supervision Department issued the following Proper Conduct of Banking Business directives related to construction financing and the text of a guarantee according to the Sales (Homes) (Guaranteeing the Investment of Home Buyers) Law, 5745–1974: 1) Directive no. 326 – Project Finance, which went into effect on June 1, 2008 and is intended to guarantee the funds of home buyers in projects that are financed by construction loans. The directive introduced the use of coupons as an efficient and secure method of payment by a home buyer to a builder where the funds go directly into the project account at the financing bank and are guaranteed by the appropriate collateral. 2) Directive no. 456 – Text of the Guarantee according to the Sales (Homes) (Guaranteeing the Investment of Home Buyers) Law, 5735–1974, which went into effect on June 1, 2008, which establishes a standard text for the guarantee according to the Sales (Homes) (Guaranteeing the Investment of Home Buyers) Law, 5735–1974 and is incumbent on all of the banking corporations.⁴¹ In addition, the Banking Supervision Department took part in the amending of the Sales (Homes) (Guaranteeing the Investment of Home Buyers) (Amendment no. 4) Law, 5768–2008 and the Sales (Homes) (Guaranteeing the Investment of Home Buyers) (Amendment no. 5) Law, 5768–2008.⁴²

The handling of this affair, which lasted about 30 months, was very intensive. It led to a jump in the number of enquiries submitted to the Public Enquiries Unit and constituted a significant milestone in the Banking Supervision Department's recognition of the importance of consumerism. As a result of this insight, the Bank-Customer Division was established in 2008.

⁴¹ The standard text appearing in the directive was based on, among other things, the ruling of the Standard Contract Court handed down on November 25, 2007. It validated the ruling for consent attained between the Banking Supervision Department and Mizrahi Tefahot Bank Ltd. regarding the cancelation of discriminatory conditions in the guarantee according to the Sales (Homes) (Guaranteeing the Investment of Home Buyers) Law, 5735–1974 and which led to the annulment of the discriminatory conditions in the bank's guarantee document.

⁴² See the Banking Supervision Department's Handling of Public Enquiries and Complaints in the Heftziba Affair, February 25, 2009. <https://www.BankofIsrael.org.il/en/communication-and-publications/regular-publications/the-banking-supervision-department-s-handling-of-public-enquiries-and-complaints/>

The reform in bank fees

The reform in bank fees went into effect in July 2008, with the goal of increasing competition in the banking system. The reform was based on the assumption that information on prices paid by the customer for banking services should be transparent and presented in a way that will allow him to compare prices. This will give him greater negotiating power and if necessary he can switch to the bank that offers him the best terms. The reform was based on the recommendations formulated by the Banking Supervision Department to encourage competition in the banking system, which were adopted later on by the Parliamentary Investigation Committee on this issue during the first half of 2007. As a result, the Banking (Service to the Customer) (Amendment 12) Law, 5767–2007 was passed. It provided the Bank of Israel and the Banking Supervision Department with authority in the area of bank fees. The main powers provided by the law are as follows:

1. Establishing a standardized and clear list of banking services for which the banking corporations are permitted to collect fees. In this context, the Bank of Israel was given the power to significantly reduce the number of bank fees, and it used that power to cut the total down to one-third of the original number. The list of services was formalized in the Banking (Customer Service)(Bank Fees) Rules, 5778–2008 and in addition abbreviated price lists were established for the main domains of activity: checking accounts; mortgages; and debit cards;
2. Intervention in the pricing of banking services under certain conditions as set down in the law;
3. Publishing of comparisons with the goal of encouraging competition in the banking system.

The reform constitutes a milestone in the process of strengthening the consumer protection envelope around the customer. It was preceded by intense and prolonged criticism of the Banking Supervision Department and the Bank of Israel in the media, in the Knesset, and from the public with regard to the lack of uniformity in the names of the banking services offered by the banking system, the difficulty among customers to understand which fees they are paying and their rates. The legal situation that preceded the reform did not provide the banks or the Bank of Israel with the powers to intervene in the situation. The official powers that were granted to the Banking Supervision Department and the Bank of Israel for the first time facilitated the creation of a simple, standardized and clearcut framework for the names of the banking services and the manner in which fees are collected for them. It also enabled the monitoring of banking service prices and the establishment of a supervisory mechanism in the area of bank fees.

One of the main measures adopted as a result of the reform, which demonstrates the benefit to customers of simplifying the bank fees, is the consolidation of the most common services for the management of a checking account into two categories according to the channel of activity: “teller-executed transactions” and “customer-executed transactions” (services that were consolidated: deposits, withdrawals, transfers to and from the account, writing checks, depositing of checks, standing orders, authorization to debit an account, etc.). The reduction in the number of

these services to only two made it easier for customers to understand what they are paying for.

One of the benefits of the reform is the reduction in the cost of a checking account and in the average cost of owning a debit card on a checking account over the long term. This decline started after the reform and from that point up until the first half of 2022, the cumulative decline was about 46 percent.⁴³

The Social Protest and the establishment of the team to examine competition in the banking system

The next milestone, which was also significant in the development of consumerism within the Banking Supervision Department, was the establishment of a team to examine competition in the banking system on December 7, 2011. The team was created following the recommendation by the Committee for Social and Economic Change, headed by Professor Manual Trajtenberg (known as the Trajtenberg Committee). The committee examined, among other things, competition in the banking sector in Israel and submitted its recommendations to the government on October 3, 2011. The team's letter of appointment defined its goals: "The team will examine ways in which to increase competition in the banking market in Israel and will recommend means and processes to accomplish that. The team will consider the various ways to simplify banking products, increase the customer's bargaining power and improve and upgrade the system for credit rating in the household and small business sector."⁴⁴

The joint team was headed by then-Supervisor of Banks David Zaken and many of its recommendations, which were submitted as part of the team's financial report in March 2013, went into the workplan of the Bank-Customer Division within the Banking Supervision Department. Almost all of the team's recommendations were implemented. As stated in the letter from the Supervisor of Banks to Finance Minister Yair Lapid and the Governor of the Bank of Israel, Professor Stanley Fischer, to whom the report was submitted, the recommendations were intended to provide practical solutions to strengthen the competitive position of the retail customer in the banking system. This was with a focus on solutions that can be implemented in the short and intermediate terms, and based on the belief that the implementation of the full array of recommendations and measures presented in the report will bring about significant change in bank-customer relations. Among the most significant measures adopted as part of the implementation of the team's recommendations were the following:⁴⁵

Streamlining the switch from one bank to another—amendment of Proper Conduct of Banking Business Directive no. 432—The amendment established the possibility that all of the steps would be carried out for the customer by the new bank. It also made it possible to transfer activity or to

⁴³ See the periodic report on the price of common banking services for households, first half of 2022. <https://www.BankofIsrael.org.il/en/communication-and-publications/regular-publications/the-banking-supervision-department-s-handling-of-public-enquiries-and-complaints/>

⁴⁴ The members of the team were representatives of the Banking Supervision Department, the Competition Authority, the Ministry of Finance, the Ministry of Justice and the National Economic Council.

⁴⁵ One of the most important measures implemented as part of the team's recommendations was the Credit Rating Law, 5786–2016 and the creation of a credit rating database at the Bank of Israel. This subject is not described in this chapter.

close an account in a manner more accessible to the customer, without the need to be present in a branch of the destination bank or in a branch of the bank the customer is leaving. It also required the banks to provide up-to-date information on activity in the account and on the process of closing the account in a way that is user-friendly and accessible to the customer and it established the finality of the account closure.⁴⁶

The banking identity card—Proper Conduct of Banking Business Directive no. 425—The banking identity card is a brief report that presents the customer with all of the existing activity in his account, in a manner that is clear, transparent and easy to compare. The information appearing in the report includes his checking account balances, a summary of deposits and savings, a list of loans (mortgages and others), information on credit lines, total bank fees paid by the customer and other details, such as standing orders, powers of attorney in the account, etc. The banking identity card allows the customer to identify the banking products in his account, negotiate with the bank in order to improve terms, compare the terms of his account with proposals from other banks and, if he is interested, transfer his account to a different bank online, without cost and in a user-friendly manner.

Disclosure of the cost of services in securities—Proper Conduct of Banking Business Directive no. 414, which applies to individuals and small businesses, went into effect on January 1, 2023. The directive requires banking corporations to present their customers—who are charged for the purchase, sale or redemption of Israeli and/or foreign securities or who pay management fees for a securities account—with comparative information on the bank fees paid by the banking corporation's other customers with a securities account of similar size. The comparative information also appears on the banking corporation's website and in addition is presented to the customer as part of his semiannual report, together with detailed information on fees for the purchase, sale and redemption of securities and fees he has been charged for the management of his securities account.

Fair Credit Law – The team examined the Non-Bank Loans Law, 5753–1993, which establishes an interest rate ceiling on unindexed loans. The law applies to loans to individuals in the amount of NIS 1 million or less. As a result of various developments during the period since the passage of the law, and in particular the decline in interest rates in Israel, it was realized that the mechanism for determining the interest rate ceiling is not optimal. In this context, the team identified barriers to the development of the nonbank credit markets in Israel. In particular, the interest rate ceiling makes the provision of nonbank credit unprofitable and prevents the entry of legitimate players into the market because the interest rate ceiling applies only to lenders in the nonbank market and not to the banking system, including the credit card companies. This results in a distortion, such that there is no legal barrier to credit being provided in the banking system at an interest rate that is higher than that permissible for nonbank entities.

⁴⁶ Another important phase in facilitating the switch between banks was carried out later, in 2021, with the launch of the customer mobility between banks project "Switching Banks with a Click".

With the goal of strengthening competition by increasing the number of players in the retail credit market, the team formulated recommendations that were intended, among other things, to create equivalent rules for all players in the market. This includes to modify the mechanism for determining the interest rate ceiling in order to ensure a normative interest ceiling in various market situations; to apply the interest rate ceiling also to the banking corporations; and to ensure adequate protection for consumers in the credit market, by establishing that the providing of credit at an interest rate above the rate to be decided on will be viewed as a criminal offense.

Following the recommendations of the team and as part of their implementation, the Ministry of Justice, in collaboration with the Bank of Israel, initiated the Law Regulating Non-Bank Loans (Amendment no. 5), 5777–2017, which is known as the Fair Credit Law.

Strengthening the role of the ombudsmen in the banking corporations – the transition to the exhaustion-of-proceedings system in handling public enquiries

In order to ensure that a banking corporation appropriately handles complaints from the public, a new Proper Conduct of Banking Business directive was issued in 2015, relating to a banking corporation's handling of complaints from customers (Directive no. 308A). The directive requires the banking corporations to establish a designated and independent unit, which will have defined powers to deal with complaints from the public, and to appoint an ombudsman for public complaints who will head the unit. It also establishes the roles of senior management and the board of directors in this domain. It established rules that are meant to ensure the banking corporation's appropriate handling of complaints from the public, based on the idea that fair and efficient handling of complaints by the banking corporation is an essential component in ensuring the public's trust in the banking system and maintaining the value of fairness in bank-customer relations.

According to the directive, the banking corporation's ombudsman will be the first stop for clarifying a customer complaint. In the first stage, the customer is required to contact the banking corporation's ombudsman, and if he does not receive a response within 45 days or the response is not to his satisfaction, he can turn to the Public Enquiries Unit within the Banking Supervision Department in order that it check his complaint according to the authority granted to it.

The directive is meant to increase the efficiency of the service and the handling of public enquiries in the entire banking system. It is driven by the idea that a banking corporation's customers are first and foremost its customers and therefore the initial response should come from the banking corporation. Nonetheless, there was concern that the change would lead a reduction in the amount of information about failures in the market reaching the Public Enquiries Unit. To overcome this disadvantage and to ensure that the banking corporation's customers receive high-quality service that meets the standards expected of the banking system, the banking corporations were required, among other things, to submit extensive information on the complaints dealt with by its ombudsman to the Banking Supervision Department, within the framework of Reporting Directive 826 on the subject of complaints from the public. According to this directive, the banks are required, in the case

of every complaint, to provide the following data: the date it received the complaint; the date on which a final response was provided to the customer; the subject of the complaint; the findings in the complaint; and finally the main remedy provided. The banking corporations are to submit the report to the Banking Supervision Department at two points in time: on September 1st for the first half of that year and March 1st of the following year for the annual data.

The Banking Supervision Department tracks and monitors these reports and works to identify defects based on their analysis. In order to streamline the monitoring process, an analytic system was created for the analysis of data received from the banking corporations as part of the reporting directive and for the management of controls. This database intakes information on about 30,000 complaints each year, including extensive information on how they were handled.

Eight years after the change in the process for handling complaints due to the directive, it can be said with certainty that it has achieved its goal. The change led to a shortening of response time to enquiries and has allowed the Banking Supervision Department to focus on more complicated complaints, and in addition, most of the routine responses are provided by the banking corporations' ombudsmen. No less importantly, the creation of the ombudsman position and the regulations that provide it with a prominent status in the organization have strengthened the entities that even beforehand were involved in dealing with the enquiries received by the banking corporations. It is clear today that they constitute the long arm of the Banking Supervision Department in the banking corporation and this is consistent with the supervisory approach of assimilating an organizational culture of fairness within the banking corporations.

“Financial Accessibility” and other covenants

In January 2016, the Financial Accessibility covenant was launched. This is a voluntary covenant intended to help the following groups cope financially: women in battered women's shelters or in a halfway house and their children; victims of violence in centers for the prevention and treatment of domestic violence in the community (starting from March 6, 2022) and prostitution survivors (starting from March 12, 2023).⁴⁷ The assistance is provided by means of financial solutions that are tailored to their needs, so as to help them overcome the economic abuse they have experienced and to help them turn over a new leaf. Since its launch, the covenant has helped about 2,115 women deal with economic abuse in a variety of ways, such as opening a new bank account, debt rescheduling and clarification of pledges, freezing of a mortgage, requests to leave a joint account and removing ownership from an account, cancellation of credit cards, etc. In addition to the Banking Supervision Department, many other entities are part of the covenant, including the Association of Banks in Israel, which is organizing the project, the financial institutions (banks, credit card companies and the postal bank), the Ministry of Welfare and Social Security, the Enforcement and Collection Authority, the non-profit organizations which operate the battered women's shelters and other civil society organizations.

⁴⁷ <https://www.BankofIsrael.org.il/en/communication-and-publications/press-releases/the-banking-supervision-department-held-its-annual-update-meeting-on-the-financial-availability-covenant>

The Banking Supervision Department views the Financial Accessibility covenant as part of a responsible and impactful banking philosophy. According to this philosophy, the banking system has an important part to play in shaping the social tapestry and it should devote special attention to various populations that have difficulty taking advantage of its services. According to the Banking Supervision Department's philosophy, the banks and credit card companies are professional and experienced entities that have expertise in their domains and their activity spans numerous facets of people's everyday lives. The combination of these characteristics means that the financial system has a role to play in advancing important social and community goals.

Leading countries worldwide measure their banking systems also according to their civil activity. The Banking Supervision Department's activity in this area is based on an understanding of the moral importance of this issue, while at the same time it monitors the policies implemented worldwide. It requires the banks to transparently inform the public of the environmental and social consequences of their activity, with the goal of strengthening the contribution of the banking system to the environment and to society.

The importance of the Financial Accessibility covenant lies in the fact that it is the first step of the Banking Supervision Department in this direction. Since then, additional voluntary measures have been promoted as part of covenants or programs. An important example is the program for deferring loan payments that was implemented during the COVID-19 pandemic, in which the banking system permitted the deferral of loan payments, a measure that was supported by the Banking Supervision Department and based on the desire to help households and businesses deal with the extreme circumstances that had been forced on them.⁴⁸ Another covenant that is worth mentioning in this context is the voluntary covenant to promote mutual responsibility instituted on December 30, 2020. It was also implemented during the COVID-19 pandemic, in partnership with the Ministry of Social Equality, the Association of Banks in Israel, and the banking system, with the goal of making banking services more accessible to senior citizens.⁴⁹ This covenant helped senior citizens cope with the challenges that arose in obtaining banking services and led to greater accessibility. This was accomplished by improving telephone response, giving priority to them in the queue for service in the branches and providing alternatives in order to create greater access for them to banking services, including a mobile branch in locations with a large concentration of the elderly.

⁴⁸ The program was announced on May 7, 2020 and was later expanded and extended on July 13, 2020 and on September 29, 2020.

⁴⁹ https://www.BankofIsrael.org.il/media/ghdhfjfx/%D7%90%D7%9E%D7%A0%D7%AA-%D7%96%D7%9E%D7%99%D7%A0%D7%95%D7%AA-%D7%A4%D7%99%D7%A0%D7%A0%D7%A1%D7%99%D7%AA_2023.pdf [Hebrew]

The COVID-19 Pandemic – the Banking Supervision Department's consumer activity⁵⁰

The onset of the COVID-19 pandemic in March 2020 and its impact on the economic situation in Israel and worldwide, which affected both households and businesses, created a large number of barriers for the banking system and the community of customers. The changes in the economic situation and in the labor market, together with the uncertainty that was created by the response to the pandemic and its duration, altered the risks facing the banking system and impacted the financial situation of many of its customers.

The Banking Supervision Department reacted quickly to the crisis using a variety of tools to help the banking system's customers cope with the economic uncertainty and with the cash flow difficulties experienced by some customers. This was in parallel to the monetary tools used by the Bank of Israel to support the capital market and increase liquidity and the availability of credit in the economy. The main goals of the Banking Supervision Department in coping with the crisis were as follows: to enable the public to continue receiving essential banking services; to assist the banking system's customers in dealing with the crisis and its impact on their financial situation; and to maintain the stability of the banking system, while harnessing its power and ability to continue supporting economic activity. The aforementioned is in parallel to maintaining a sensitive and fair attitude toward customers who are experiencing financial difficulties. The Banking Supervision Department used a variety of regulatory tools in order to assist the public, including, among other things, amendments to the Proper Conduct of Banking Business directives. In addition, there was collaboration with the government ministries and with other supervisory authorities in order to promote initiatives to benefit the public and provide support for specific legislative initiatives to deal with the pandemic.⁵¹

The CRM system

Starting in the late 1990s, the Public Enquiries Unit has operated by means of a computerized system, which was considered to be very advanced in those days. Recently, **a new CRM system** was launched for the purpose of managing public enquiries and consumerism monitoring. The system was built in a cloud environment with the goal of improving processes, making them more efficient and improving service to the public. The system includes a portal on the Bank of Israel website that makes it possible to view enquiries and the status of their handling, submit requests for information, etc. The connection with customers has been expanded and is now maintained also by means of email, sms, a variety of forms, official letters, etc. In addition, the portal includes a "customer identification" system by way of the Accessible Government website, which supports the maintenance of customer

⁵⁰ For further details on the Banking Supervision Department's main consumer activities during the COVID-19 pandemic with the goal of helping the banking system's customers to weather this challenging period, see the Survey of Public Enquiries and Protection of the Customer for 2019 and a View to 2020 (the COVID-19 pandemic).
<https://www.BankofIsrael.org.il/en/communication-and-publications/press-releases>

⁵¹ For further details on the Banking Supervision Department's consumerism activity during the COVID-19 pandemic, see Chapter 5 of the Survey of Enquiries from the Public and Steps to Protect the Customer for 2019 and a View to 2020 (COVID-19 pandemic).
<https://www.Bank of Israel.org.il/en/communication-and-publications/press-releases>

confidentiality and that of the database. In addition, the development of the system included many reports and processes to promote and improve the management of cases by means of managerial controls, tables, dashboards, control panels, etc. The system has a designated portal for the transfer of information and correspondence that is direct, speedy and secure, and which includes tables, dashboards and control panels that present the user with information on the handling of cases. The new system allows those submitting enquiries to the Public Enquiries Unit within the Banking Supervision Department to obtain better service, while expanding the channels of communication with the Unit, and improving the transparency of the handling process and its accessibility.

With a view to the future

The Banking Supervision Department is currently in the midst of a number of processes that are expected to result in a steep change in the assimilation of a fairer system of relations between the banking system and its customers and in its activity to improve service. These include the following:

Regulation – The Banking Supervision Department is currently investing effort to promote new guidelines for the fair behavior of banking corporations toward their customers. They will be based on international standards, such as the OECD principles for protecting the financial customer, as well as the FCA guidelines. The first step was taken on March 29, 2023, with the issuing of Directive no. 501, which establishes the guidelines for appropriate banking behavior in the provision of service and support; the next steps to be taken are already in the advanced stage.

Service provided by the Banking Supervision Department in response to public enquiries – The new CRM system, which is currently being installed, will significantly improve the service provided to customers who have submitted enquiries;

Consumer-oriented evaluation – The development of a fairness index, as described in this chapter, is part of a broader plan to deepen and expand the processes for consumer-oriented evaluation of the banking system, alongside the prudential evaluation that has existed already for many years.

Enforcement – The Banking Supervision Department has been, and will continue to be, active in strengthening consumer-oriented enforcement using the variety of tools available to it, as described in this chapter.

6. CONCLUSION

In this chapter, we have described the development of consumer-related issues in the Banking Supervision Department. By means of the Bank-Customer Division, the Banking Supervision Department is involved in all aspects of financial consumerism. It can provide powerful protection for the banking consumer. It is intensely involved in systemwide activity that affects all banking customers, as well as individually oriented activity for the benefit of those who turn to it for assistance, with emphasis on households, disadvantaged populations and small businesses.

In recent years, the Banking Supervision Department has placed emphasis on an approach of fairness as a value rather than only as a risk. In other words, it is promoting an organizational culture, rather than just the management of behavioral, legal or reputational risk, to which the bank may become exposed when acting unfairly toward its customers. The idea underlying this change is that fairness toward customers is a value in itself, which is worth protecting and nurturing independently of risk management. This is based on internal motivation and emphasis on the customer at the center. The Banking Supervision Department therefore expects that the fair treatment of customers will be motivated by values rather than coercion or a fear of the realization of risk. The supervisory expectation is that, beyond compliance with consumerist regulation, the banking corporation will assimilate values that support a culture of fairness toward its customers and that this culture will be integrated both bottom-up and top-down.

Similarly, and in addition to the goal of fair, inclusive, and impactful banking, there has been another goal in which the Banking Supervision Department has invested effort, namely to motivate the banking system to take a more significant role in the socioeconomic aspects of Israeli society.

The message of the Banking Supervision Department with regard to the centrality of an organizational culture of fairness for the banking system and the importance of its integration as an integral part of the banking system is conveyed by the Banking Supervision Department to the supervised bodies and their customers in five main ways:

Day-to-day activity – As described briefly in this chapter, this includes the issuing of regulations that obligate the banks to act fairly; providing a response in writing and by means of a telephone center that handles thousands of enquiries from the public; supervision and consumer-oriented enforcement; periodic publishing of comparative reports in a variety of domains; consumer information campaigns; involvement in class action suits; promotion of reforms and social initiatives; etc. All of this is accomplished with a deep feeling of duty and with great dedication, in order that we might be able to live in a better society.

A resonating message – The message is included in a clear and unambiguous manner in the Banking Supervision Department's publications and in the dialogue of the Banking Supervision Department with the supervised entities and the public. These include: the Proper Conduct of Banking Business directives; letters from the Supervisor of Banks; surveys; press releases; meetings with the supervised entities; lectures; etc. In recent years, there has been a surge in this activity and messages regarding the "customer at the center" and the importance of integrating an organizational culture of fairness and decency appear frequently in the Banking Supervision Department's various publications.

Enforcement – Routine consumer-oriented enforcement activity, which is both proactive and responsive, has expanded in recent years. It strengthens the implementation of laws, rules and consumer-oriented directives issued by the Banking Supervision Department. This activity has been reinforced by the creation of the Consumer-issues Control Section within the Consumer Enquiries and Inspections Unit in 2020.⁵²

Measurement – The development of the fairness index, which will measure and evaluate the level of fairness in the banking system's organizational culture, is intended to serve as a standard for the level of fairness in each of the banking corporations. The Banking Supervision Department is currently working on the development and improvement of this consumer evaluation process, with the public's involvement, and it intends to publish the findings.

Transparency – It is of critical importance to increase the transparency of the Banking Supervision Department's activity on behalf of banking customers, with the goal of helping the public utilize their rights. One of the most important measures in this direction is the publishing of the annual Survey of Public Enquiries. Similarly, there are designated webpages on the Bank of Israel website for this purpose: a page that reviews public enquiries;⁵³ a page on financial sanctions;⁵⁴ a page on the positions submitted as part of class action suits and other proceedings;⁵⁵ a page on service to the public;⁵⁶ a page of guides;⁵⁷ and a page of reports to the Knesset.⁵⁸ An important recent step toward strengthening transparency is the publishing of interest rates paid by the banks on deposits and the interest rates on credit. This followed the increase in interest rates and inflation during the second half of 2022, which made it more important that customers understand the consequences of these changes and are able to compare between the terms being offered to them by the various banks on a variety of banking products, both on the credit side and the deposit side.⁵⁹

We are hopeful that the review in this chapter, which presents the historical development of the Banking Supervision Department's consumer-related philosophy, will shed light on the importance of the Banking Supervision Department's activity, such that it will be more effective to the extent that it becomes more familiar to the public in Israel.

⁵² Consumer-oriented enforcement is also the responsibility of the Unit for Monitoring Corporate Governance and Control in the Auditing Branch, through the execution of consumer-oriented audits.

⁵³ <https://www.BankofIsrael.org.il/en/communication-and-publications/regular-publications/the-banking-supervision-department-s-handling-of-public-enquiries-and-complaints>

⁵⁴ <https://www.BankofIsrael.org.il/en/economic-roles/supervision-and-regulation/financial-sanctions>

⁵⁵ See footnote 28.

⁵⁶ <https://www.BankofIsrael.org.il/publications>

⁵⁷ <https://www.BankofIsrael.org.il/en/communication-and-publications/press-releases>

⁵⁸ <https://www.BankofIsrael.org.il/en/economic-roles/supervision-and-regulation/report-to-the-knesset-economics-committee>

⁵⁹ See the press releases from October 2022 and February 2023, as well as the webpage for comparing interest rates on the Bank of Israel site.

<https://www.BankofIsrael.org.il/publications/pressreleases/%D7%A9%D7%A7%D7%99%D7%A4%D7%95%D7%AA-%D7%A6%D7%A8%D7%9B%D7%A0%D7%99%D7%AA-%D7%91%D7%A1%D7%91%D7%99%D7%91%D7%94-%D7%A4%D7%99%D7%A0%D7%A0%D7%A1%D7%99%D7%AA-%D7%9E%D7%A9%D7%AA%D7%A0%D7%94-%D7%A4%D7%A8%D7%A1%D7%95%D7%9D-%D7%A9%D7%99%D7%A2%D7%95%D7%A8%D7%99-%D7%94%D7%A8%D7%99%D7%91%D7%99%D7%95%D7%AA-%D7%A9%D7%9C-%D7%94%D7%AA%D7%90%D7%92%D7%99%D7%93%D7%99%D7%9D-%D7%94%D7%91%D7%A0%D7%A7%D7%90%D7%99%D7%99%D7%9D-%D7%94%D7%A9%D7%9C%D7%9E%D7%AA-%D7%94%D7%A9%D7%9C%D7%91-%D7%A8%D7%90%D7%A9%D7%95%D7%9F> [Hebrew]