



Bank of Israel
Payment and Settlement Systems

Israel's Payment and Settlement Systems

Red Book 2011

Bank of Israel
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Catalogue # 601683

Typesetting by Publications Unit, Bank of Israel
<http://www.bankisrael.org.il>
Printed in Israel by Printiv Printing Ltd.

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Acronyms and abbreviations

ACH	Automated Clearing House ¹
ATM	Automated Teller Machine
BIS	Bank for International Settlements
CCP	Central Counterparty
CET	Central European Time
CLS	Continuous Linked Settlement
CPSS	Committee on Payment and Settlement Systems
CSD	Central Securities Depository
DVP	Delivery Versus Payment
FIFO	First-In-First-Out
FSAP	Financial Sector Assessment Program
FX	Foreign Exchange
IBAN	International Bank Account Number
ICS	Intraday Credit System
IOSCO	International Organization of Securities Commissions
FMI	Financial Market Infrastructure
LSA	Loss Sharing Arrangement
POS	Point Of Sale
PVP	Payment Versus Payment
REPO	Repurchase Agreement
RTGS	Real Time Gross Settlement ²
SIPS	Systemically Important Payment Systems
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TASE	Tel Aviv Stock Exchange

¹ In Israel the automatic clearing house is known as Masav (a Hebrew acronym for Banks Clearing Center).

² In Israel the RTGS clearing house is known as the Zahav system (a Hebrew acronym for Credits and Transfers in Real Time).

Preface

This report on the payment and settlement systems in Israel is the third edition of a report known as the "Red Book". The Red Book was first published in 1980 by the Bank for International Settlements (BIS), and included data for 1978 about eleven developed countries. Updates have been issued each year since then. Israel was invited by the BIS to present a book of its own in the same format. Israel's first edition of this book was presented in 2000 by the Bank of Israel, under the auspices of the BIS. The second edition, published by the Bank of Israel in 2011, collated changes and trends in the area from 1999 until the end of 2010. This, the third edition, presents the structure of the payment and settlement systems in Israel, together with the trends, objectives and innovations that were applied and which were learned in 2011. This report is intended to provide an extensive description of the principal payment and settlement systems in Israel, and to examine changes that could result from technological progress.

The Bank of Israel, like other central banks worldwide, acts to increase the stability and efficiency of the country's payment and settlement systems. The stable functioning of the payment systems is extremely important to maintaining the stability of the financial system, and is essential for facilitating the proper functioning of the central bank. Inadequately reliable payment and settlement systems could expose their users to risks, and even transfer risks from one economic system to another. The growth in financial activity experienced in many economies worldwide, and the increased volume of payments in the international capital markets, have heightened the importance of these systems, which if they are strong enough, are likely to minimize the risks of a financial crisis. Since the Bank of Israel aims to strengthen financial stability, it endeavors to promote the safety, efficiency and reliability of the payment and settlement systems. To that end, it acts in order to reduce the risks involved in these systems.

The structure of the document is similar to the format accepted worldwide, and consists of four chapters: The first chapter describes the main developments that occurred in the area in the last decade and during the year reviewed. Furthermore, it presents the principal objectives of the payment and settlement systems in Israel. The second chapter presents the institutional aspects affecting the payment systems, and provides a brief description of the main entities involved. The third chapter describes the principal payment and settlement systems operating in Israel. The structure and mode of operation of the CLS Bank, as a global infrastructure for the settlement of payments in foreign currencies, are also described in that chapter. The fourth chapter focuses on the means of payment in the economy and presents older as well as the more innovative means used. The document ends with a statistical appendix, which contains tables of data matching the guidelines of the BIS, and a glossary of terms.

Chapter 1 - Main issues and objectives

1.1 Major developments in the past decade

In 2003, the Bank of Israel started to develop a program for reform in the payment and settlement systems based on accepted practice in central banks worldwide, a reform that would encompass the stock exchange clearing houses, the paper-based clearing house, and Masav (the automated clearing house). As part of the reform, the Bank launched in July 2007 the Zahav system—an RTGS (Real Time Gross Settlement) system—for final, efficient and reliable settlement of shekel payments in real time.

As part of the preparations for operating the Zahav system, the banking system as a whole was required to improve liquidity management and to move from “post-factum” liquidity management to liquidity management on an intraday basis. In order to do so, the Bank of Israel introduced, in collaboration with the clearing houses and the banking system, a series of changes and improvements in the existing payment systems, in order to bring them in line with international best practices (Box 1).

Box 1: The Major Changes in the Payment and Settlement Systems

Cancellation of retroactive recording of transactions in the banks' accounts so that balances in the banks' accounts are final at all times.

Extending the business day from 3:00 p.m. to 6:30 p.m. so that transactions can be performed in the Zahav system in the afternoons and evenings as well.

Creating an interbank arrangement to handle failure of one of the participants in multilateral Masav clearing, or the paper-based clearing house, to ensure that payments are settled by the clearing houses by the end of the day.

Implementing the improvements in the check clearing process, including mandatory electronic settlement for all banks, cancellation of retroactive check clearing, check imaging, initiation of a law for check truncation and improvements in technology and in the processes in the paper-based clearing house.

Implementing the improvements in the Masav clearing process, including a change in the order of operations so that files are sent to the banks (clearing) only after settlement in the Zahav system, cancellation of retroactive settlement of returns, and creation of two settlement windows during the day (morning and evening).

Preparation of the TASE Clearing Houses for a Delivery Versus Payment (DVP) system so that settlement of the payment in the Zahav system will be executed together with transfer of the security. This method significantly reduces the possibility of settlement risks in the TASE Clearing House.

Inclusion of Israel's currency in the CLS system—the inclusion of the shekel in CLS in 2008 significantly reduced the conversion risks bound up with the activity between businesses in Israel and businesses abroad.

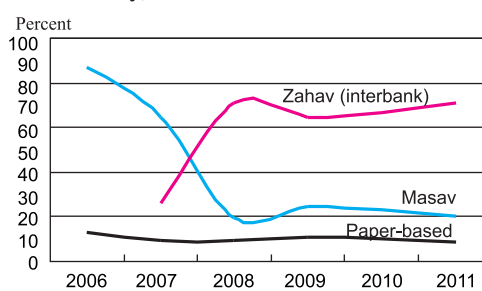
Enactment of the Payment Systems Law—in order to reduce the legal risk in the payment systems, the Bank of Israel initiated the enactment of the Payment Systems Law, 5768-2008. The law ensures the efficient activity of the payment systems in Israel, and minimizes the inherent risks.

Enactment of the Bank of Israel Law— the law stipulates, inter alia, that one of the Bank of Israel's functions is to “regulate the economy's payment and settlement systems so as to ensure their efficiency and stability”. This law, in conjunction with the Payment Systems Law, grants the Bank of Israel the power to carry out its responsibilities in the payment and settlement systems, including operating systemically important payment systems, and payment systems oversight.

These and other steps contributed to strengthening the stability of the domestic financial infrastructure, and allowed foreign and local bodies to continue executing transactions both in shekels and between the shekel and foreign currencies, immediately, finally, and safely, even as the global financial crisis worsened in September 2008.

Since the start of the reform, the distribution of activity between the various clearing houses has changed significantly. The major change is the inclusion of the Zahav system in the Israeli settlement system. As seen in Figure 1, with the launching of the Zahav system in mid-2007 there has been a sharp decline in the proportion of the value of Masav transactions, alongside a significant rise in the proportion of the value of Zahav transactions.

Figure 1
Distribution of the Clearing Houses' Activity, 2006-2011



SOURCE: Masav and Bank of Israel.

1.2 Major developments in 2011

In the last quarter of 2011 an evaluation of the Israeli financial system – FSAP – was conducted by an IMF delegation. The purpose of this process was to identify the risks involved in the system's activity and to assist in mitigating them. The FSAP also examined the Zahav (Israel's RTGS) system's compliance with accepted international standards for systemically important payment systems ("SIPS").

The IMF published its final conclusions and recommendations in the first half of 2012.³ The Bank of Israel is studying the recommendations and is acting to implement them.

In 2011, the Bank of Israel continued acting to increase the efficiency and safety of payment and settlement systems in Israel, so that those systems would conform to international standards. As part of that process the Bank continued to work to establish a unit that will oversee the payment and settlement systems in Israel. World Bank consultants have been advising the Bank of Israel on the project. The Bank also took actions to encourage the use of advanced and lower-risk electronic methods, to increase the safety of the payment systems, and to implement the Bank of Israel Law, 5770-2010.

In order to accelerate the transition to using advanced and lower-risk electronic methods, Bank of Israel examined in recent years the reform implemented by a number of countries for encouraging a reduction in the use of paper-based means of payment. In the course of studying this matter, it was found that many countries had decided to reduce the use of checks and even to eliminate them; mainly because the level of risks involved in the use of checks is significantly higher than in other payment methods, and the cost of handling a check is higher than the cost of handling an electronic transaction. Since Israel faces the same issues, and especially in light of the widespread use of checks in Israel compared with the rest of the world, a similar reform is being considered for Israel. For this purpose, a joint committee of the Bank of Israel and the banks was established in 2011.

In 2011, the Bank of Israel continued to search for electronic alternatives for the execution of payments that are presently settled manually in the paper-based clearing house (presentations and returns of manual debits and credits). As a result, manual clearing has been reduced and the value of manual clearing activity has decreased significantly. As part of the goal of reducing paper-based manual clearing, it became necessary to promote a comprehensive reform in the settlement process of the issuance of corporate securities. For this purpose a committee was established, headed by the Bank of Israel and the Israel Securities Authority ("ISA"), which includes members representing the TASE, banking institutions, underwriters and issuance leaders.

³ Additional details on the nature of the assessment, as well as the full assessment documents, can be found on the website of the IMF: www.imf.org.

In order to increase the safety of the payment systems, the Bank of Israel is acting to assimilate the use of an IBAN (International Bank Account Number) code among the general public. An IBAN code is an international standard for identifying bank account numbers that significantly reduces errors in transfers of payment transactions. One of the actions taken in order to facilitate the use of an IBAN code among the general public is printing the code on check stubs as from January 2012. The goal is that all customers be familiar with the IBAN code of their account in an accessible and convenient manner.

In the year reviewed, the Bank of Israel continued to act to ensure the business continuity of the payment and settlement systems. In recent years, the Bank has developed some arrangements and procedures aimed at ensuring the business continuity of the payment and settlement systems under its responsibility, in various scenarios. The Bank of Israel continues improving the backup systems for various components, and continuously examines new means of improving the existing backup array—both business and technological.

1.3 Objectives

Payment and settlement systems oversight establishment

Under the Bank of Israel Law, 5770-2010, one of the Bank's functions is to ensure the efficiency and stability of the economy's payment and settlement systems. In line with central banks worldwide, the Bank of Israel began to establish an oversight unit for those systems. The aim of the oversight is to identify the risks inherent in the activity of the payment systems, through, among other things, examining the systems' compliance with the core principles set by the BIS.

The oversight authority and the arrangements relating to its implementation are stipulated in the Payment Systems Law, which includes, inter alia, the conditions and considerations for declaring a system a "controlled system", the obligations that apply to the operator of a controlled system, and the provision of instruments to the overseeing body to implement this authority.

The establishment of the payment and settlement systems oversight function is a complex undertaking which includes in-depth study of international oversight principles, and learning about the methods of oversight implementation in other countries. The payment and settlement systems oversight establishment in the Bank of Israel is being advised by the World Bank on this matter. This project will continue in 2013.⁴

⁴ For further information on this matter see section 2.3.2.2.

Developing regulatory policies for payment and settlement systems (including initiating reforms and improvements)

The Bank of Israel is working toward streamlining and improving the operational processes and the regulatory framework. For this purpose the Bank is studying the international principles in this area, and the reforms that are implemented worldwide. In this regard, the Bank of Israel has set several challenges:

Encouraging the use of electronic means of payment—the Bank of Israel has initiated, designed, and implemented the Zahav system alongside the other payment systems operating in Israel. In 2010, the Bank of Israel embarked on a campaign for implementing the use of the Zahav system, and issued a directive under which every payment instruction for a sum above NIS 1 million must be settled in the Zahav system. At the same time, the Bank of Israel is improving the settlement process in the paper-based clearing house, and is aiming to reduce manual settlement with the objective of completely eliminating it by the end of the process.

Reducing the use of paper-based means of payment—in the year under review, Bank of Israel decided to examine the reform that was implemented by a number of countries in recent years for encouraging a reduction in the use of paper-based means of payment. The use of checks in Israel is relatively extensive compared with the accepted use in Europe:⁵ checks in Israel are used by the business sector and households for, *inter alia*, the payment of taxes (including large amounts). In the course of studying this matter, it was found that the level of risks involved in the use of checks is significantly higher than that involved in the use of other means of payment, and that the cost of handling a check is higher than the cost of handling an electronic transaction. In the next years, the Bank of Israel will study the situation in Israel together with other relevant parties.

Improvement of the settlement process in the issuance of corporate securities—High cash value transactions are collated in the settlement of corporate securities issues. Many entities are involved in the process: the TASE, TASE members, underwriters, the paper-based clearing house, the nominees company, the ISA, institutional investors and the general public.

An examination of the settlement processes shows that the usual work processes involve time-consuming manual work, a situation which contains operational risk.

Accordingly, a reform of the settlement of corporate securities is now under consideration. A committee headed by the Bank of Israel and the ISA has been established for this purpose. The committee's members are representatives of the relevant bodies—TASE, the commercial banks, underwriters and issue coordinators.

⁵ About 53 percent of the payment orders settled in Zahav, Masav (credits) and the paper-based clearing house, compared with zero to 20 percent in European countries.

Chapter 2 - Institutional aspects

2.1 The regulatory framework

A firm legal basis is essential for anchoring the legal arrangements connected to the activity of the Bank of Israel and the different payment systems in Israel. Several laws and agreements regulate the activity of the payment systems, as detailed below:

The Bank of Israel Law, 5770-2010, (hereinafter: “The Bank of Israel Law”) stipulates in Section 4 that one of the Bank of Israel’s functions is to **“regulate the economy’s payment and settlement systems so as to ensure their efficiency and stability.”** This law provides the authority for the Bank of Israel to fulfill its objectives in the payment and settlement system, including the operation of systemically important payment systems, and overseeing the payment systems.

As part of the reform in the payment and settlement systems in Israel, the Bank of Israel led the enactment of the **Payment Systems Law, 5768-2008** (hereinafter: “The Payment Systems Law”), the aim of which is to ensure the efficient activity of the payment systems in Israel, and to minimize their attendant risks. The Law deals with various arrangements that are essential for the proper operation of the payment system, including, defining the term “payment system”, determining the criteria for the finality of payments in the system, and dealing with the situation of bankruptcy of a participant in the system. The Payment Systems Law also grants the Bank of Israel the authority to oversee the payment systems in Israel—under what conditions the overseeing body will be responsible for the payment systems, what obligations apply to the operator of a system that is subject to the oversight, and what instruments the Bank of Israel has to implement this authority. By virtue of the Law, the Bank of Israel has the authority to issue regulations.

In August 2011 the Knesset passed **Amendment No. 18 to the Banking (Licensing) Law, 5741-1981** (hereinafter: “the amendment”, and “the Banking (Licensing) Law”). Added to the Banking (Licensing) Law under the amendment is a section concerning the settlement of charge card transactions. This section prescribes, *inter alia*, a prohibition on engaging in the settlement of transactions that were made by charge cards without the receipt of a settlement license from the Governor of the Bank of Israel. A company that received a settlement license as said will be subject to the oversight of the Supervisor of Banks at the Bank of Israel. The amendment also contains directives that are aimed at removing entry barriers to the area in order to permit the entry of new issuers and settlers, and thereby increase competition. As a result of the amendment to the law, teams have been set up at the Bank of Israel for the purpose of examining the issues relating to the determination of the criteria for the receipt of a license, as well as the restrictions and the terms that will be imposed on the settler following the receipt of the said license.

In recent years, the Bank of Israel has been promoting the enactment of the **Electronic Check Clearing Law, 5768-2008** (hereinafter: “Check Truncation Law”). The significance of the Law is that the checks will remain in the presenting banks and will not be transferred to the paying banks; instead, image files will be transferred to the paying banks, and these will constitute binding legal and business evidence. Until the Check Truncation Law is passed, imaging of the checks will not constitute legal evidence that replaces the original check.

In addition to the legal amendments, the Bank of Israel signed several agreements and memorandums of understanding, with various bodies operating in the payment and settlement systems in Israel. In advance of the Zahav system operation, and in order to regulate the relationship with the bodies operating in the system, the Bank of Israel signed agreements with the banking corporations, Masav, and the TASE clearing houses. These agreements include the “**Rules of the Zahav System**” that establishes the rules and the arrangements for the activity of the Zahav system.

The securities clearing house and the Maof clearing house, which belong to the TASE, operate by virtue of the **Securities Law, 5728-1968**, and according to the bylaws of the clearing houses. As part of its role of overseeing the payment and settlement systems, the Bank of Israel signed a **memorandum of understanding** with the Israel Securities Authority to regulate cooperation between the Bank of Israel and the Securities Authority in all matters pertaining to oversight of the TASE clearing houses.

The banks clearing house, comprised of the paper-based (checks) clearing house and the automated clearing house (Masav), operates according to “**the clearing house rules**”—which are updated periodically according to the decisions of the Clearing House Committee (the banking corporations in Israel, the Postal Bank, and the Bank of Israel).

The Prohibition of Money Laundering Law, 5760-2000 (hereinafter: “Money Laundering Law”) was enacted in Israel in August 2000, and chapters dealing with the obligations imposed on financial bodies came into force about a year and a half later. Furthermore, the Governor published a directive at this time on the prohibition of money laundering, which includes requirements concerning identification, reporting, and record-keeping by the banking corporations. At the beginning of 2005 the **Prohibition of the Financing of Terrorism Law, 5765-2005** was enacted (hereinafter: “Prohibition of the Financing of Terrorism Law”), parallel to which the directives to the Israeli banking system were changed to include the means of fighting terrorism financing. Additional steps in the war against financing terrorism were taken in November 2006: the Knesset approved regulations dealing with the prohibition of financing terrorism.

New measures for fighting money laundering and financing terrorism in Israel are constantly being examined, re-evaluated, and updated according to developments; this

with the aim of providing solutions for dealing with the rise in the level of sophistication of crime in this area. The measures include legislative changes and regulations updates for increasing the demands to manage the risks (including special requirements relating to the use of payment cards for illegal transactions via the internet).

2.2. Financial intermediaries

The bodies providing services as part of the payment and settlement systems are:

Banking corporations—23 banking corporations operate in Israel, divided into four groups: banking corporations, foreign banks, mortgage banks, and joint services companies.⁶ The banking corporations provide a wide variety of banking services, and also participate in the different settlement systems. The banking corporations are supervised by the Supervisor of Banks.

The **Postal Bank** is a subsidiary of the Israel Postal Company, a fully owned by government corporation. The bank supplies a variety of financial services to business customers, government bodies, and the general public by means of its branches throughout the country. According to the Postal Law, 5746-1986, the bank cannot manage deposits or supply credit to its customers (because it is not entitled to pay or charge interest). The Postal Bank is government-owned, is under the supervision of the Ministry of Communications, and participates in the various settlement systems.

Banks in the Palestinian Authority—15 members of the banks clearing house operate in the Palestinian Authority. These banks provide checking account services in Israeli currency in the area of the Authority. The banks in the Palestinian Authority are represented in the paper-based clearing house by Israeli banking corporations.

Payment card companies—Israel has three large payment-card companies⁷, which issue five local and international brands.⁸ The companies issue both bank and extra-bank payment cards. In addition they offer their customers a range of credit solutions. In recent years customer-club cards have started being issued, in conjunction with payment cards. The payment-card companies also issue cards aimed at specific population segments, which provide the cardholders with special benefits.

⁶ The Supervisor of Banks considers a fifth category, financial institutions, in which there is one institution: Hasah Education Savings Fund.

⁷ Leumi Card, Isracard, and Cal.

⁸ Visa, MasterCard, American Express, Diners, and Isracard (the only local brand). Some of the brands are operated by more than one company. For example, the Visa international brand is operated by the three companies in Israel.

2.3 The Bank of Israel's functions

2.3.1. A central bank

The Bank of Israel Law details the Bank's functions, including:

Managing monetary policy with the aim of maintaining price stability, which supports economic growth. Price stability is defined by means of flexible inflation targets that the government determines as part of its economic policy.

Holding and managing the state's foreign exchange reserves—The reserves are used mainly to sell foreign currency to the government for servicing its debts, for reducing the probability of crisis in the foreign exchange market in Israel, and for improving Israel's status in the international financial environment.

Acting as the banker of the government and the banking corporations—The bank manages the government's accounts in shekels and foreign currency, and providing the government with banking services, such as executing receipts and payments for the activities of the government ministries and for its auxiliary units, interest rate calculations on the interest-bearing activity in its accounts, and producing daily bank statements and approvals of balances. The Bank of Israel also serves as the bank of the banking corporations. As part of this objective, it manages various types of deposits for the banking corporations: deposits by virtue of liquidity regulations and deposits in which the corporations at their initiative deposit the surplus money at their disposal. These deposits are in shekels and in dollars. The banks use the current accounts in the Bank of Israel for managing the intraday and the overnight liquidity. Furthermore, the Bank of Israel provides loans to the banks in daily auctions, overnight loans, and settlement services of shekel-dollar transactions.

Issuing currency⁹, and regulating and guiding the cash system in the economy to ensure the orderly supply of cash to the economy according to the demand and supply.

Supervising and regulating the banking system—The Bank maintains a supervisory system of the banks in view of the essential role of the banking system, and the recognition that failure in this system could jeopardize the functioning of the economy. Included in the duties of Banking Supervision are supervising the banking corporations' stability as it affects the protection of depositors' money, ensuring the proper conduct of the banking corporations, and assuring fair business relations between banks and their customers.

⁹ Banknotes, coins, commemorative and special coins.

2.3.2 The Bank of Israel's functions regarding payment and settlement systems

The Bank of Israel Law stipulates, as mentioned, that one of the roles of the central bank is **“to regulate the economy’s payment and settlement systems so as to ensure their efficiency and stability.”** For this purpose the Bank strives to improve the safety, efficiency, and reliability of the payment and settlement systems, and takes measures to reduce settlement risks, by developing the oversight unit and encouraging the use of electronic means of payment.

2.3.2.1 Developing regulatory policies for payment and settlement systems

In developing regulatory policies, the Bank’s activities include: (1) Broadening the use of electronic means of payment among all the target groups, while determining guidelines to encourage their use; reducing the use of paper-based payments and promoting electronic alternatives; reinforcing the supportive legal framework, including the acceptance of electronic files as legal evidence; (2) Ensuring a comprehensive regulatory framework for the payment and settlement systems, including legislation, determining rules for the activity of the payment systems and enforcing them; (3) Initiating reforms for streamlining and adapting to international standards; (4) Ensuring business continuity in the payment and settlement systems.

In addition to the above, the Bank of Israel operates the Zahav system and the paper-based clearing house, and participates in the various payment systems in order to execute payments—activities that require electronic links to financial institutions in Israel and abroad. This linkage is carried out by means of various communication interfaces and appropriate applications, including Shva, Cyber-Ark, and SWIFT.

2.3.2.2 Payment systems oversight

Due to their awareness of the importance of the payment and settlement systems, and the intensity and the extent of the risks involved in them, central banks worldwide, including the Bank of Israel, have each established a unit for overseeing the activity of the payment and settlement systems.

The principal function of payment system oversight is to regulate the activity of the payment and settlement systems that have been declared as controlled systems or designated controlled systems. This is in order to assure their efficiency, stability, security and reliability. The payment systems oversight unit applies risk-focused examination of the risks inherent in the activity of the payment systems and takes measures to negate or control these risks. In addition, the payment systems oversight appraises the systems’ adherence to the BIS core principles. The oversight unit in the Accounting, Payment and Settlement Systems Department cooperates with other supervisory authorities in Israel and abroad.

The Payment Systems Law sets the Bank of Israel's authority to oversee the payment systems. The provisions of the law prescribe, *inter alia*, the terms and the considerations to be employed when declaring a payment system as a controlled system or as a designated controlled system subject to the oversight authority, the obligations imposed on the system's operator, and the tools available to the Bank of Israel for the purpose of exerting this authority. Under the law, the Bank of Israel is entitled to request information from the payment systems and to order a change to be made in their activity methods. To date, the Governor has declared the Zahav system and the CLS Bank as designated controlled payment systems that are subject to the oversight authority of the Bank of Israel.

Awareness of the intensity and the scale of the risks involved in the settlement process prompted the BIS to determine international standards for the payment and settlement systems. In order to reduce the risks inherent in the activity of those using these systems, in January 2001 the BIS stipulated ten core principles for payment systems. In April 2012, the BIS and IOSCO issued the draft of a new report for the approval of the world's central banks, which contains principles for financial market infrastructures (FMIs). This report contains new and more stringent standards for payment and settlement systems. The new standards are intended to ensure that the essential infrastructures supporting the financial markets are capable of withstanding financial shocks.

The report contains 24 principles that are to be applied to all the systems comprising the financial market infrastructure: Systemically Important Payment Systems (SIPS), Central Securities Depository (CSD), Central Counterparty (CCP), etc.

2.4 Public and private bodies operating in this area

The Council for Payment and Settlement Systems was established in 2009 to advance and assist in ensuring the efficiency and stability of the payment systems in Israel. Council members are representatives of various bodies operating in the payment systems in Israel, including representatives of the Bank of Israel, the banking corporations, and the payment systems. A further three members of the Council are representatives of relevant bodies.

The Israel Securities Authority was established in accord with the Securities Law, 5728-1968, in order to guard the interests of the public that invests in securities. The Authority deals with, among other things, the following: publication of prospectuses of corporations and mutual funds; examination of reports presented by corporations; regulating and supervising the activities of the mutual fund branch; licensing and supervising portfolio managers, investment advisers and investment marketing agents; and supervising non-bank stock exchange members. Since the enactment of the Payments Systems Law, the Authority oversees the TASE clearing houses as well. In accordance with a memorandum of understanding signed in 2009, the Bank of Israel and the Israel Securities Authority cooperate in matters concerning supervision of the TASE clearing houses.

The Association of Banks in Israel was founded in 1959 as an organization for all the banking corporations in Israel. It was established by the banking sector with the aim of maintaining effective dialogue with the different government authorities, and with the public and private environment on systemically important issues. The main aim of the Association of Banks is to assist in promoting the interests of the banking sector. Its activity focuses on area of regulation and economy, and it represents the banks in discussions with government institutions; public relations; and research of banking issues. The Association also represents the banking sector in the Coordinating Bureau of Economic Organizations and in parallel international forums. The Association has 18 members, including commercial banks, foreign banks and mortgage banks.

The banks' clearing house includes the paper-based (checks) clearing house and Masav. The clearing house is managed by the **Clearing House Committee**, whose members are drawn from the Bank of Israel and the banking system. The Committee's principal objective is to regulate the transfer of transactions and settlements between the banks. In order to fulfill this objective, the Clearing House Committee has formulated the "clearing house rules". The **Paper-Based (Checks) Clearing House** is managed by the Bank of Israel. **Masav (Bank Clearing Center Ltd.)** is a service company jointly owned by the five largest banks in Israel. The company has been in operation since 1984 and provides services to all the banking corporations and to business customers. Among the services the company provides are the execution of standing orders (direct debits) and the transfer of salary payments (direct credits).

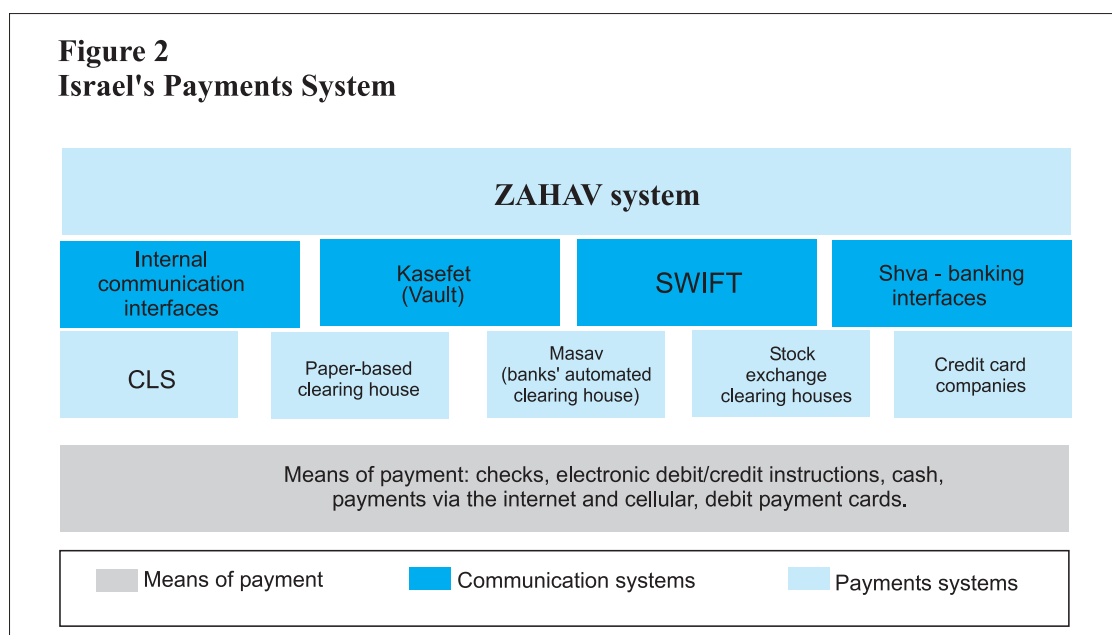
The TASE is a private company established by banks and brokers in 1953. The TASE operates computerized trading systems for all the traded securities: stocks, convertibles, bonds, makam (bills), exchange-traded funds, reverse certificates, and options. The TASE operates two clearing houses—the securities clearing house that settle the trading in securities, and the Maof clearing house that settles the derivatives market.

Shva (Hebrew acronym of automatic banking services) is a limited company established in 1978 by Israel's five largest banks to supply services to various financial institutions, such as banks, monetary institutions, credit-card companies, and provident funds. The company is a banking corporation and is regarded as a "joint services company", as defined in Paragraph 23 of the Banking (Licensing) Law, 5741-1981. Shva focuses on four main areas: management of the communication network of the payment card terminals; management of the automatic teller machines (ATM) that are not positioned at branches of the banks; management of the communication network of the ATMs that are positioned at branches of the banks; and providing additional communication services.

Chapter 3 – Payment and settlement systems

3.1 Review of the payment systems

Israel's financial infrastructure includes interbank payment and settlement systems that are used to transfer and settle payments, means of payments, participants and communication systems, as presented in Figure 2 below:



The important payment systems in Israel include the Zahav system, which was designed for irrevocable transfer of large amounts in real time and serves as the final settler of all the payment systems in the economy; the paper-based (checks) clearing house designed for transferring paper-based instruments; Masav, in which electronic payment instructions are cleared; the TASE clearing houses (the securities clearing house and the Maof clearing house), and the payment-card companies. The CLS system, which operates outside Israel, is an integral part of the payment and settlement systems in Israel since the shekel was added to the CLS settlement in May 2008, and it settles the Israeli currency (NIS) against the foreign currencies that are settled by CLS.

The participants, including the public, the government, and financial bodies, use various means of payment—cash, electronic payments (credits/debits), checks and paper-based payments, payment cards, internet payments, transfers abroad, and foreign currency-shekel conversions.

The participants in the various payment systems are the banking corporations, the Postal Bank, the Bank of Israel, financial bodies, the government, and the general public.¹⁰

3.2 The Zahav system

The Zahav system, which was launched in July 2007, is an advanced system for the efficient, reliable and irrevocable settlement of shekel payments in the economy, in real time. The system guarantees its users the rapid and safe execution of payments. Settlement in this system is executed within minutes, cannot be cancelled, and the recipient of the payment can use the money immediately, without being exposed to risks. The Zahav system, as mentioned, serves as the final settler of the overall payment systems in Israel.

The Zahav system significantly reduces the risks connected to the activity of the payment systems—both the risks of credit and liquidity, and those of the dependence of each participant on the other participants in the settling—a fact that significantly reduces the systemic risk of the participating banks. The Zahav system facilitates the safe implementation of transactions without settlement risks, even in situations of financial uncertainty.

The system also enables the Bank of Israel to examine in real time various financial indicators portraying the banks' state of liquidity, and in this regard assists in maintaining the stability of the system's participants, and of the financial system.

Principles of the Zahav system

The Zahav system is a settlement system in a single currency—the New Shekel. The system facilitates the execution of delivery versus payment (DVP) and payment versus payment (PVP). Settlement in the Zahav system is carried out in real time during the system's working hours (according to the banking business day): From Sunday to Thursday the system is open between 7:45 a.m. and 6:30 p.m., and on Fridays and holiday eves between 7:45 a.m. and 2 p.m. Every payment reaching the system is settled separately, without netting debits and credits of the bank presenting the payment.

The activity in the Zahav system is conducted by means of a "settlement account" that is defined for each participant in the settlement. The settlement account includes a current account and an intraday credit account to which the Bank of Israel transfers, as needed, intraday credit against collateral. The Zahav system handles the payment instructions in the order of their arrival—"first in first out" (FIFO). At the same time the system enables the user to determine the priority of his various payment instructions according to their importance and urgency. If the sending bank does not have a sufficient balance for debiting its account in the Bank of Israel, the payment instruction remains pending in the queue,

¹⁰ Payments between accounts in the same bank does not require the use of the interbank payment systems.

until a sufficient balance is provided. The instructions waiting in the queue are sorted according to the order of priority determined by the user, and within each priority—according to FIFO.

The Zahav system complies with the stringent requirements of the Israeli National Information Security Authority. Thanks to the use of the IBAN code, the errors in transactions made by means of the system are few.

The Zahav system executes two kinds of transactions:

Bilateral transactions—instructions for debiting the account of the sending participant and crediting the account of another participant are executed between the banks' customers, between the banks participating in the settling, and also between the participants in the settling and the Bank of Israel (actions such as credit to banks, the banks' deposits in the Bank of Israel, drawing cash from the Bank of Israel, etc.). Bilateral payment instructions are conducted by the FIFO method, and are received continuously by the system during its operating hours.

Multilateral transactions—transactions executed simultaneously between many participants, and consisting of several debits and several credits. The Zahav system settles the net results of the other payment systems (Masav, the paper-based clearing house, and the TASE), as well as Bank of Israel instructions. Transactions of this kind, which are sent by the clearing houses, are settled at predetermined times during the day, and receive higher priority than those of bilateral transactions.

Participants in the Zahav system

The participants in the Zahav system are all the banking corporations in Israel, the Postal Bank, the CLS Bank, the clearing houses (Masav, the TASE clearing houses, and the paper-based clearing house) and the Bank of Israel. The participants holding a settlement account in the system and that are defined as "settlement participants" are the banking corporations, the CLS, the Postal Bank, and the Bank of Israel. These participants are entitled to send payment instructions for settlement in the Zahav system.

There are two types of "settlement participants:" an online participant that can send and receive payments directly through the Zahav system; and an offline participant which is not linked directly to the Zahav system, and is assisted, for the purpose of sending and receiving payments, by an online participant as a link to the Zahav system. As of the end of 2011, the system included 19 online and 3 offline participants.

The operational aspect of the Zahav system

The bilateral settlement in the Zahav system takes place in real time throughout the working day. Upon receipt of the instruction from the customer, the customer's branch

sends a payment instruction to its head office, and from there it is sent directly to the Zahav system in the Bank of Israel. If the balance in the sending bank's account with the Bank of Israel is sufficient, the settlement is executed immediately: the system debits the sending bank's account and credits the account of the receiving bank. The debiting and crediting are final and cannot be cancelled.

The Zahav system manages the settlement accounts of the participants in the settlement. The participant's settlement account balance includes the balance of the current account in which the settlement of the payments is executed, and the balance of the participant's intraday credit accounts. Furthermore, reserve accounts are defined for each participant, which ensure that enough liquidity is reserved for the multilateral transactions of the clearing houses. Payment instructions sent by the clearing houses (TASE, Masav and paper based) are settled at predetermined times known as "settlement windows". There are six such settlement windows during a regular working day, three of which are for the TASE clearing houses¹¹, two for Masav, and one for the paper-based clearing house.

The intraday credit accounts include intraday credit granted to the participant by the Bank of Israel against collateral that is deposited in the Bank of Israel's account in the TASE, and against the participant's deposits (in shekels and dollars) held in the Bank of Israel. Since the end of 2010, the Bank of Israel grants credit to participants in the Zahav system against foreign securities as well.

Managing intraday liquidity in the Zahav system

The Zahav system's method of settlement requires the banks to manage the liquidity in their accounts on an intraday basis. The bank's liquidity has to suffice for the immediate settlement of all the payment instructions reaching the system throughout its hours of operation. The Bank of Israel places intraday credit at the disposal of the participating banks, which they can use as necessary throughout the time of operation of the system.

The intraday credit is provided to the banks interest-free, against full collateral, for the day of activity only, and they have to repay it by the time the Zahav system closes. The collateral required against the intraday credit can be government bonds, the banks' deposits in shekels and dollars held in the Bank of Israel, and deposits of foreign securities.

The TASE has developed for the Bank of Israel a unique system for managing the collateral obtained against the intraday credit (ICS). During the day, the system's participants can dynamically change the value of intraday credit entering their account, and the system automatically calculates the value of intraday credit that the participant is entitled to, according to the scale of the collateral that it holds.

¹¹ On Fridays and holiday eves, the TASE has two clearing windows.

3.3 The banks' clearing house

The banks' clearing house consists of the paper-based (checks) clearing house, in which checks and manual drafts are settled, and in which the rules are determined for authorized credits and debits settled electronically at Masav.

The banks' clearing house is administered by the Clearing House Committee, which consists of 14 members appointed by the Governor of the Bank of Israel or anyone authorized by him. Half the members are Bank of Israel representatives, and half are representatives of the banking system. The activity of the banks' clearing house, as aforesaid, is conducted on the basis of agreement between its members, known as the "clearing house rules".¹² The clearing house rules are updated from time to time as decided by the Clearing House Committee. The committee convenes periodically to discuss the current needs of the clearing house, and to update its rules as necessary.

A loss sharing arrangement is an arrangement between the participants in the payment system regarding the distribution of losses that could be caused through the failure of a participant in the system. This is in accordance with the core principles of the BIS, under which the settlement of a multilateral payment instruction has to be executed in the designated time and at the latest by the end of the working day. The Bank of Israel accepted the responsibility to plan and operate arrangements for guaranteeing the multilateral settlements of the banks' clearing house. (An arrangement was worked out for each of the clearing houses—the paper-based clearing house and Masav.)

The arrangement stipulates the distribution of losses between the participants in the settlement, each according to its relative share of activity. The arrangement will be activated by the Bank of Israel in the event that one of the participants in Masav or the paper-based clearing house does not meet its commitments. This principle is critical for the system, because it reduces the uncertainty connected to net settlement, reduces the credit and liquidity risks in the system, and guarantees the settlement of the multilateral payment instruction by the end of the business day.

3.3.1 Masav

Masav is an electronic system that settles non-paper-based interbank transactions in shekels—account debit authorizations, salaries and tax payments that are sent to Masav by the banks and by authorized organizations.

¹² Also known by the former name "the clearing house regulations".

Principles of Masav

Two types of instruction are executed in Masav: direct credits—payments originating in organizations (including the government) that in essence are salaries, payments to suppliers, tax and other payments, and also payments originating in the banks, which reflect the actions of customers; and direct debits—debits originating in organizations (standing orders to debit an account).

The debit and credit instructions transmitted to Masav are cleared on the evening of the day of transfer according to the value on that day (T). The interbank transfers—which are the settling of accounts between the banks for the instructions transferred in Masav—are transferred for settlement in the Zahav system on the business day following the transfer day (T+1). Payment instructions are received by Masav throughout the working day.

Payment instructions cleared in Masav are not final, because the beneficiary is entitled to return the credit within 3 days, and the payer is entitled to return the debit within 5 days. The value date of returned payment instructions is the day they were presented.

Participants in Masav

Masav participants include all the organizations that are entitled to send payment instructions to the system. There are 23,983 organizations that participate in Masav—including banking corporations, the Postal Bank, government ministries, public institutions, and other settlement organizations, such as payment-card companies. All the participants in Masav are direct participants.

The operational aspect of Masav

Payment instructions are transferred to Masav from the participants in the course of the working day by means of batch files. The clearing house committee decided on the time limits in which files can be sent to Masav for processing on that day.

On receipt of the files, Masav conducts a clearing process—a calculation of the mutual liabilities of the participating banks, and creation of a net file designated for final settlement in the Zahav system. During the working day, from time to time, Masav produces interim calculations, the results of which are submitted to the banks—prior to sending the final net amount to the Zahav system. This step allows the banks to prepare the necessary liquidity for executing the settlement in the Zahav system.

Two settlement windows are defined in the Zahav system for Masav—the first at the start of the working day (at 10:00 a.m.), and the second toward the end of the day (at 6:00 p.m. on regular working days, and at 1:30 p.m. on Fridays and holiday eves).

3.3.2 The paper-based clearing house

The paper-based clearing house settles transactions given on paper. The transactions presented by the banks in the paper-based clearing house are mainly checks that are now presented and returned only by electronic methods. In addition, manual instruments, also known as vouchers, are presented in the clearing house (non-magnetic credits and debits, and magnetic collection vouchers).

In recent years Israel has promoted several procedures concerning the paper-based clearing house. Among other things, a Check Truncation law draft has been formulated, the imaging of checks has commenced, steps have been taken for reducing the number of manual instruments, and for determining a standard for a uniform check. Recently the Bank of Israel has considered steps to reduce the use of checks.

Participants in the paper-based clearing house

The paper-based clearing house has 36 members. The members of the clearing house are the banking corporations in Israel, the Postal Bank, and the Bank of Israel. Some operate directly in the clearing house, and some are represented by other banks. In the clearing of the electronic transactions, 8 banks have the status of direct participants and 27 the status of being represented, 15 of which are banks in the area of the Palestinian Authority. In the clearing of the manual instruments, 13 banks are direct participants and 23 are represented, 15 of which are banks in the area of the Palestinian Authority. The banks operating in the Palestinian Authority are represented by three of the banking corporations in Israel.¹³

The Bank of Israel participates in the paper-based clearing house in the dual role as a member of the clearing house and as its operator.

The settlement process in the paper-based clearing house

Each day, at the closure of the working day at 6:30 p.m., the banking corporations collect all the manual instruments (most of which are checks) deposited by customers in the branches during that day. Parallel to this (during the day or at its closure), the banks produce electronic files containing information on the instruments that were deposited on that day. Each bank sends the files to the other members of the clearing house at the end of the day, so that the banks obtain electronic information from each other about the instruments that will reach them that evening.

¹³ The representative banks are Bank Hapoalim, Discount Bank, and Mercantile-Discount Bank, except for branches operating in the Gaza Strip whose representation by Bank Hapoalim and Discount Bank were terminated in January 2009.

That night the representatives of the banks meet at the paper-based clearing house, which is located close to the banks' head offices in Tel Aviv, in order to transfer the checks and the manual instruments from the collecting banks to the paying banks. The collecting bank is the bank in which the beneficiary's account is held. The banks' representatives reconcile the electronic files that were sent, and the clearing house computes all the data into one net summary transaction. This net transaction is sent for settlement in the Zahav system the following day (T+1) in the settlement window of the paper-based clearing house that opens at 9:30 a.m.

This procedure enables the banks' customers to benefit from the recording of the instruments according to the current value of the day of the deposit (the T-day value), while the financial settlement between the banks is recorded, as aforesaid, in the Zahav system on the following working day (T+1). Because of this difference of one working day between the value date that the customer obtains and the value date that the bank obtains, the Bank of Israel settles the accounting of the interest between the banks at the end of each calendar month.

The banks are entitled not to honor electronic and manual instruments presented to them, for various reasons—insufficient coverage, errors in the details, etc.—and these are returned, usually on the day following their deposit, and within 3 days of being deposited.

3.4 The TASE clearing houses

The TASE clearing houses in Tel Aviv settle the transactions in securities executed in the stock exchange, and provide additional services connected to securities. The settlement complements the trading activity conducted on the stock exchange: after a share is purchased, the clearing houses handle its transfer and the transfer of the money paid in exchange for the stock between the members of the stock exchange who represent the buyer and the seller. The payment is transferred by means of the Zahav system.

The stock exchange has two clearing houses—the securities clearing house and the Maof clearing house. **The securities clearing house** settles all the securities transactions that were executed inside and outside the stock exchange. In addition, it provides services connected to mutual funds and the keeping of securities, as well as making dividend payments, interest, etc. **The Maof clearing house** settles the derivatives: the options and futures contracts traded on the stock exchange.

The net settlement results of the securities clearing house and the Maof clearing house are settled by the Zahav system.

Participants in the TASE clearing houses

The members of the stock exchange are brokers and banks through which any investor can trade on the stock exchange. The trading is conducted between the various stock exchange members, who submit purchase and sale orders to the stock exchange on behalf of their customers. As of the end of 2011, the stock exchange had 28 members—14 of which were banks and 14 members which were not banks.

Most members of the stock exchange are also members of the securities clearing house. The securities clearing house has 21 members—11 of which are banks, the Bank of Israel, and 9 members which are not banks. The Maof clearing house has 9 members, all banks.

The principles of the TASE clearing houses

Stock exchange trading takes place from Sunday to Thursday between 9:30 a.m. and 4:30 p.m. The TASE clearing houses (each one separately) calculate the net amount of each bank in the various trading activities, and transfer the net results to the Zahav system for debiting and crediting the banks' accounts in the Bank of Israel.

The TASE clearing houses transfer two types of payment instructions to the Zahav system—bilateral and multilateral. **Bilateral instructions** reflect transactions outside the stock exchange. These transactions can be settled in the Zahav system throughout the working day, from the opening of the day for business (7:45 a.m.) until the end of the activity of the clearing houses in the Zahav system—7:30 p.m. The TASE clearing houses also transfer **multilateral instructions** to Zahav, which reflect the net calculation of the banks participating in the settlement. These instructions are settled in the Zahav system in three settlement windows during the day: at 8:50 a.m., 3:45 p.m., and 5:45 p.m. On Fridays and holiday eves, two settlement windows operate—at 8:50 a.m., and 12:30 p.m.

The settlement of government bonds, corporate bonds and makam is parallel to the time of financial settlement (DVP).

3.5 Intraday credit system (ICS)

In order to supply an intraday credit line to participants in the Zahav system, the Bank of Israel demands full collateral. In this context, an intraday system for managing collateral (ICS) has been established in the TASE. The ICS system is managed by the Bank of Israel, and its current operation is in the hands of the TASE.

A participant who is interested in obtaining intraday credit against TASE collateral from the Bank of Israel¹⁴, deposits the collateral in the Bank of Israel's account in the ICS system,

¹⁴ Government bonds according to a list determined by the Bank of Israel, and updated from time to time.

which then entitles it to obtain the intraday credit in its account in the Zahav system. The ICS system is dynamically updated, according to the balance of securities recognized as collateral for granting intraday credit. The amount of intraday credit that each bank can use in the Zahav system is determined according to the haircut rates. The action in the ICS system is executed immediately, and the interface between the banks, the TASE and the Zahav system enables participants to see the updated information on the credit lines and securities details in real time. These processes are anchored in an agreement between the Bank of Israel, the TASE, and the participants in the Zahav system.

3.6 Payment card companies

Payment card companies in Israel issue debit and credit cards to customers. Payment-card holders use the cards as means of payment in businesses, and these businesses supply card holders with goods or services. Furthermore, the companies supply settlement services for the payment cards.

In Israel, three large companies issue and clear payment cards: Isracard, Leumi Card, and Cal. The companies issue and clear international payment cards according to licenses accepted from the relevant international organizations.

Payment card activity has greatly expanded in recent years due to several factors, among which are the issue of extra-bank payment cards (generally connected to customer clubs), as well as the widening of the range of services provided by the companies in the areas of credit and financing, by means of instruments that enable card holders to decide on the amounts and the dates on which they will be debited, according to their needs and ability. The acceleration of activity is also the result of the growing use of cards among the public. The source of this growth is the widespread acceptance of these cards and the convenience of using them in making purchases. The option of purchasing via the Internet and by telephone, using a payment card, has also contributed to their use.

3.7 CLS

The operation of the Zahav system opened new options for Israel from an international perspective. The most important was the inclusion of Israel's currency in the CLS system in May 2008. The CLS Bank, which began its commercial activity in September 2002, operates as an international clearing house for conversion transactions between currencies. Its activity is similar to that of an RTGS type system, where, instead of settlement in one currency, CLS simultaneously executes the settlements and conversions from one currency to another. The current activity of CLS is executed by banking corporations, among them those that are able to send payment instructions on behalf of their customers to the CLS. These banks are known as "settlement members".

The settlement member provides settlement services in CLS for its customers—other banks, financial bodies, and companies. A bank that wishes to be a settlement member is required to hold CLS shares, to operate under strict supervision, and to meet stringent operational and financial requirements. A country that is interested in adding its currency to CLS is required to appoint two settlement members, as well as three liquidity suppliers whose objective is to assist in providing liquidity when needed, as will be explained below.

The mechanism of supplying CLS liquidity is constructed so that in the event of there not being sufficient CLS liquidity for settling transactions in a certain currency, the CLS is entitled to approach the liquidity supplier and demand from it to supply the liquidity that is lacking in that currency, in exchange for transferring another currency to its account. In practice, this is a commitment of the liquidity supplier to execute a swap transaction for one night.

It should be emphasized that the immediate implication of including the shekel in the CLS system was to define the CLS Bank as a participant in the Zahav system. An account was opened for CLS in the system, by means of which CLS payments are transferred.

The principles of CLS

The settlement system of the CLS Bank is an RTGS type settlement system that in 2011 settled transactions between 17 different currencies. The aim of the system's activity is to execute conversion transactions safely, and it significantly reduces the risks of this type of transaction. Payments are settled by the CLS Bank on the basis of payment versus payment (PVP).

The CLS system operates from Monday to Thursday between 7:00 a.m. and 12:00 midday (CET). The system is closed on Christian public holidays, according to the calendar that CLS publishes each year. Because of the nature of the CLS system, which combines a large number of currencies, there are days on which even though the system is active, a certain currency is inactive because in its source country the day is not defined as a business day.

3.8 Means of communication

The payment systems data is transmitted between the systems by means of the following communication interfaces and designated applications:

SWIFT

The Bank of Israel began using SWIFT in 1983 as part of the foreign currency banking services that it provides to the government (executing its payments and obtaining receipts on its behalf) and the banks (executing transactions to abroad and from abroad against

their foreign-currency accounts in the Bank of Israel), as well as for sending instructions and authorizations to outside bodies after completion of the transaction.

Since the launching of the Zahav system in 2007, SWIFT has served as a platform for transferring data of payment instructions and other messages between the Zahav system and its participants (banking corporations, the Postal Bank, CLS, and the TASE clearing houses), and between the banking corporations and the TASE clearing houses. In addition, all the shekel payment transactions transferred between the banking corporations by SWIFT are settled in the Zahav system. Also, Zahav system applications have been built to enable the banks participating in this system to manage their accounts independently, efficiently, and in real time.

Kasefet

Kasefet—the Hebrew name for Cyber-Ark’s digital vault software—facilitates the management of virtual safes used for secure and encoded transfer of information (data files) between organizations through the Internet. In order to enable the transfer of secured data on the Internet, the system provides several layers of security and encryption of the data. The information transferred from the source of transmission to the target organization is protected inside computerized safes with sophisticated access authorizations and controls. Each safe is accessible only to a defined group of users. On connecting, a user of the system can access only the authorized safes.

In 2003 Kasefet started being used for computerizing the transfer of payment instructions from the Ministry of Foreign Affairs to the Foreign Currency Department of the Bank of Israel. Since the end of 2004, most data transfers (statistical data, classified documents, bank statements, etc.) from the banking corporations to the Bank of Israel and back are conducted by means of “Kasefet”. When the Zahav system was established, the use of “Kasefet” was extended to transferring payment instructions to the system from Masav and from the government ministries. The contact with participants in the paper-based clearing house is also based on this application.

Shva

The Shva company operates in four main areas: management of the communication network between payment-card companies and payment-card terminals installed in businesses (POS) that accept cards issued by companies in Israel and abroad; management of the network of automatic teller machines (ATM) that are not positioned at branches of the banks; management of the communication network of the ATMs that are positioned at the banks; and providing communication services to payment-card companies in their dealings with Masav and the banking corporations participating in the monetary auctions of the Bank of Israel.

Chapter 4 – Means of payment

The major means of payment available to the public in Israel are cash, paper-based payments (checks and vouchers), electronic payments, payment cards, Internet payments, and cellular phone payments.

The choice of the means of payment reflects agreement between the parties to the transaction to use it. The major characteristics taken into account in making this choice are: the ease of use and the convenience for the payer and the beneficiary; the conditions under which and the time in which the money will be available (the beneficiary is interested to know when the capital will be available for use); security—reflected mainly in the ability to verify details of the payer or the beneficiary; protecting the confidentiality and the reliability of the means; the ability to prove that the payment was executed; and the cost—in terms of commissions charged to the beneficiary or the payer, and the liquidity costs.

4.1 Cash

Banknotes and coins are the most liquid means of payment. The demand for cash in Israel is characterized by fluctuations over the months and years. The seasonal pattern of demand for each of the banknotes has been the same over the years, as is the demand for coins. The seasonality is characterized by a high demand over Passover, the summer vacation (July and August), during the High Holidays, and over Chanukah. Coins are issued with values of $\frac{1}{2}$, 1, 2, 5, and 10 new shekels, as well as 10 agorot. Banknotes are issued with values of 20, 50, 100, and 200 new shekels.

In the recent years the growth trend in the means of drawing cash has continued. The number of ATMs has grown, and alternatives for drawing cash were placed in the marketing chains, in public recreation sites, and in gas stations throughout the country. Besides these, various businesses provide machines owned by private companies for drawing cash.

4.2 Paper-based payments

Paper-based means of payment—checks—are accepted and used widely in Israel. More than half the payment instructions settled in the interbank payments systems are checks.¹⁵ A paper-based means of payment could be a check or a voucher. These payments, and their returns, are settled in the paper-based clearing house.

¹⁵ The payment instructions cleared in Zahav (interbank), Masav (credits), and in the paper-based clearing house.

A check transaction in Israel is executed as follows: the customer presents the check to his bank (the collecting bank). The collecting bank sends the check to the bank of the customer to be debited, using the paper-based clearing house. The paying bank examines the check, verifies the signature of the payer and the balance in his account, and accordingly honors or returns the check. A check that is deposited in a commercial bank by the end of the business day (6: 30 p.m.) will be credited to the depositor's account on that day (day T). The beneficiary's account is credited with the amount of the transaction on day T conditionally, for three days, during which the paying bank is entitled to cancel the credit.

4.3 Direct electronic payments

Direct electronic payments (direct debit/ direct credit) are payments executed automatically, without manual intervention in the process. In Israel, two systems execute payments of this kind—Zahav and Masav. The Zahav system, an RTGS type system, executes only credits (the initiator of the instruction can credit the other party, but cannot debit him.) As against this, both debits and credits are executed in Masav.

Direct credits, as aforesaid, are executed in Israel by means of the Zahav system or Masav. The credits are initiated by the payer, who instructs the bank to debit his account and credit the beneficiary. The payer transfers the payment through the bank in which his account is held. If there is a sufficient balance in his account, the bank transfers the payment instruction to the clearing house (Zahav or Masav), which settles the payment. If the payment is settled in Zahav, the credit is immediate, final, and cannot be returned. If it is settled in Masav, the party credited can return the payment within 3 days from the day of execution. Most direct credits (salaries, pension and other payments) are initiated electronically, which significantly reduces the handling cost of every payment instruction—to the customer, the bank, and the clearing house.

Direct debits are executed in Israel only through Masav. Debits are payments initiated by the beneficiary through the bank that holds his account. The beneficiary's bank collects the money from the bank holding the payer's account, subject to legal conditions to which the payer agreed. Direct debits rely on the assurance that the payer can cancel debits that were erroneously collected from him or that are illegal, within 5 days from the time of execution. Standing orders (payments to service providers—electricity, water, telephone, etc.) are the major type of direct debits in Israel, which are executed automatically every month at current value. Payments by direct debits have grown significantly in Israel in recent years, both in terms of the number of debits and their values.

4.4 Payment cards

The most frequent use of payment cards in Israel is that of the “deferred debit card”, which is linked directly to the customer’s bank account, and enables the card holder to draw cash from an ATM and/or pay for goods and services at a business up to the credit limit allocated to him by the issuer of the card. The sum of the transactions the customer executes is calculated each month and debited to his bank account. A “debit card” is similar to a deferred debit card, with one difference: the customer’s account is debited immediately following the transaction, and not as a single monthly amount. A “credit card” (revolving credit) is a type of payment card the holder of which can choose at the end of every month whether to pay the whole balance or to pay the amount in installments. In the event of paying in installments, the customer pays interest to the payment-card company. A “prepaid card” is also a payment card that the customer loads in advance for the maximum amount to be debited, and each payment is deducted from the balance on his card until it reaches zero. Some cards allow reloading, while others are for one-time use. A “prepaid card” includes various types of cards—a loaded card, gift card, fuel card, dialing card, etc.

4.5 Internet banking

The area of electronic commerce has developed significantly in recent years. Electronic commerce is defined as executing commercial transactions electronically, usually by means of computer communication. The development of the Internet gave a strong impetus to the use of electronic commerce for purchasing goods and services, without the need for an encounter between buyer and seller. Most banks in Israel enable their customers to execute payments through the Internet—whether transfers between accounts or payments to governmental and public institutions. In certain cases Internet access is even permitted outside the working hours of the branches—a great improvement in service to the customer.

4.6 Mobile wallet

A new means of payment that is gathering momentum worldwide in recent years is the mobile wallet. A cellular phone owner periodically deposits a certain amount, by means of which he can execute purchases at various businesses. The payment is made directly from a cellular phone by sending an SMS or by a sticker with a magnetic code that can be read by a special eyepiece installed in the shop. The use of this means of payment is beginning to develop in Israel.

4.7 Foreign currency transfers abroad

Foreign currency transfers abroad are payments that are executed not through the banking corporations, but rather by means of entities defined as “currency services providers” located throughout the country. A currency services provider is defined as one that supplies currency-conversion services of one country in the currency of another country. The Ministry of Finance is responsible for registering currency services providers and supervising their activity.

Payments between customers are executed by the currency services providers according to the stipulations of the Money Laundering Law. These payments are executed by various payment systems/infrastructure communication systems—SWIFT, GMT, Western Union, MoneyGram, etc. In certain cases the payment is executed directly against another currency services provider abroad who has an agreement with a currency services provider in Israel. These monetary transfers facilitate the deposit of an amount of money in cash in Israel, and draw the amount in cash at the target point abroad. The service is available for passers-by and does not necessitate opening an account for transferring the money. The transaction is executed relatively quickly, and the service is also offered outside the regular banking hours.

These systems serve, among others, foreign workers, for transferring relatively small sums of money to their families in their country of origin (remittances). This method is advantageous for them because of the high cost of interbank transaction at various currency conversion rates and between different countries, and because many foreign workers do not have bank accounts in their country of origin or in Israel.

4.8 Foreign currency-shekel conversions

These are transactions of exchanging foreign currency for local currency and vice-versa. Currency conversion worldwide determines the exchange rate of the various currencies. The Bank of Israel publishes representative rates of various currencies versus the shekel each business day. The rates that the Bank of Israel publishes are an indicator of the business activity that took place on the business day. The publication of these rates is not legally binding, and the parties executing foreign currency-shekel conversions are entitled to determine any rate agreed between them for the transaction. In Israel foreign currency-shekel conversions can be executed at the banking corporations, the Postal Bank, or through currency services providers that are authorized to do so.

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Table 1
Basic Information on the Israeli Economy
 (Current prices, at year end)

	2005	2006	2007	2008	2009	2010	2011	Annual Change (percent)
Average population (thousands) ¹	6,930	7,054	7,180	7,309	7,463	7,625	7,728	1.35
GDP (NIS billions)	603	651	690	726	768	814	870	6.88
Per capita GDP	87,013	92,288	96,100	99,330	102,908	106,754	112,578	5.46
Annual CPI (percent) ²	2.38	-0.09	3.39	3.8	3.91	2.66	2.17	-18.41
Average monthly inflation rate (percent)	0.2	-0.01	0.28	0.31	0.32	0.22	0.18	-17.79
NIS/dollar exchange rate	4.603	4.225	3.846	3.802	3.775	3.549	3.821	7.66
NIS/dollar exchange rate, annual average	4.486	4.453	4.110	3.586	3.923	3.732	3.579	-4.10

¹ Calculated as the average between December of the current year and the previous December.

² CPI of December of the current year against CPI of the previous December.

SOURCE: Central Bureau of Statistics and Bank of Israel.

Table 2
Means of Payment Used by Non-Banks
 (NIS millions, average for December)

	2005	2006	2007	2008	2009	2010	2011	Annual Change (percent)
Value of the public's current account deposits in banks	27,374	30,737	36,602	41,916	73,621	75,889	73,505	-3.14
Money supply (M1) ¹	48,161	52,138	61,221	71,895	109,481	114,467	116,518	1.79

¹ Cash held by the public and current-account deposits.

SOURCE: Bank of Israel.

Table 3
Means of Payment Used by the Banks
(NIS millions, daily average for December)

	2008	2009	2010	2011	Annual Change (percent)
Banks' deposits in the Bank of Israel ¹	27,172	99,939	92,950	119,656	28.73
Of which:					
Reserve requirement ²	18,063	21,468	21,702	25,487	17.44
Free reserves	9,109	78,471	71,248	94,169	32.17
Credit provided by the Bank of Israel:					
Volume of intraday credit lines ³	29,986	93,049	86,385	105,791	22.46
Credit lines used	na	na	na	na	-
Intraday credit ⁴	0	16	0	0	-
Long-term credit ⁵	0	0	0	0	-

¹ Current account deposits and short-term deposits, in local and foreign currency.

² The reserve requirement is calculated according to the average of the last reserve month of the year (starting on the last Thursday of November and ending on the last Wednesday of December).

³ Start of day balances. The collateral system is dynamic and enables immediate matching of the amount of collateral to the banks' needs.

⁴ Credit provided by the Bank of Israel for one working day.

⁵ Credit provided by the Bank of Israel for more than one business day.

SOURCE: Bank of Israel.

Table 4
Banknotes and Coins
 (NIS millions, at year end)

	2008	2009	2010	2011	Annual Change (percent)
Banknotes and coins in circulation ¹	34,351	41,479	44,828	48,976	9.25
Banknotes in circulation	33,073	40,114	43,367	47,419	9.34
Of which:					
NIS 200 banknote	16,132	21,485	25,773	30,356	17.78
NIS 100 banknote	13,998	15,425	14,486	14,090	-2.73
NIS 50 banknote	2,298	2,535	2,397	2,288	-4.55
NIS 20 banknote	612	637	709	683	-3.67
Other ²	33	32	2	2	0.00
Coins in circulation	1,278	1,365	1,461	1,557	6.55
Of which:					
NIS 10 coin	452	486	524	566	7.95
NIS 5 coin	265	280	300	319	6.21
NIS 2 coin	45	70	81	88	8.50
NIS 1 coin	369	376	392	411	4.96
NIS 1/2 coin	59	61	65	71	8.80
10 agurot coin	88	92	99	102	3.37
Cash held by the banks ³	4,372	5,619	6,231	5,963	-4.31
Cash held by the public	29,979	35,860	38,597	43,013	11.44

¹ The value of the banknotes and coins in circulation includes the cash held by the public and in the banks' safes, excluding commemorative coins and collectors' coins.

² Old banknotes which can be exchanged at the Bank of Israel.

³ Banknotes and coins in the safes of the commercial banks. Does not include money held by the public.

SOURCE: Bank of Israel.

Table 5
Institutions Offering Payment Services to Non-Banks
 (At year end)

	2008	2009	2010	2011
Bank of Israel¹				
Number of branches or offices	3	3	3	3
Number of accounts, (banks and non-banks)	427	431	449	616
Number of accounts, banks	60	60	60	61
Number of accounts, non-banks	367	371	389	555
Value of the accounts, all (NIS million)	45,315	117,738	112,488	140,855
Banking corporations				
Number of institutions	24	23	23	24
Number of branches and offices	1,105	1,137	1,177	1,205
Banking corporations in Israel, by categories:				
Regular banking corporations				
Number of institutions	15	15	15	15
Number of branches or offices	1,071	1,112	1,150	1,179
Mortgages banks				
Number of institutions	3	2	2	2
Number of branches or offices	25	15	17	16
Joint services companies²				
Number of institutions	2	2	2	2
Number of branches or offices	2	2	2	2
Branches of foreign banks³				
Number of institutions	4	4	4	5
Number of branches or offices	7	8	8	8
Other institutions⁴				
Number of institutions	4	4	4	4
Of which:				
Postal Bank				
Number of institutions	1	1	1	1
Number of branches or offices	717	723	737	729
Credit card companies⁵				
Number of institutions	3	3	3	3

¹ Accounts in which payments can be executed in local currency.

² Masav and SHVA.

³ Foreign banks that are legally recognized as banking corporations in Israel.

⁴ Credit card companies and the Postal Bank.

⁵ These are Isracard, Leumi Card, and Cal.

SOURCE: Bank of Israel.

Table 6
Number of Payment Cards and Terminals
 (At year end)

	2008	2009	2010	2011	Annual Change (percent)
Cards issued in Israel^{1,2}					
Cards with cash withdrawal function	na	5,949,310	6,451,991	6,986,137	8.28
Debit cards ³	na	2,099,250	2,269,106	2,456,954	8.28
Deferred-debit cards ⁴	na	4,021,238	4,259,923	4,589,125	7.73
Credit cards	na	4,607,068	4,856,696	5,145,267	5.94
Electronic Money Cards ^{5,6}	na	556,676	623,526	460,201	-26.19
Of which: cards that were loaded at least once	na	379,854	397,880	301,538	-24.21
Total number of active cards ⁷	5,013,650	5,353,919	5,674,448	5,998,113	5.70
Terminals located in Israel					
ATMs	4,637	5,504	5,944	6,269	5.47
Of which: ATMs with cash withdrawal	2,453	3,237	3,662	4,029	10.02
Selling points that honor payment cards ⁸	99,793	105,112	108,576	111,461	2.66

¹ Each card can be used for several functions (e.g., card that is used both for deferred debit and cash withdrawal).

² Valid cards at the end of the year (active and inactive).

³ Cards allowing an immediate debit of the customer's account for transactions executed in Israel.

⁴ Cards allowing a debit of the customer's account at the end of the period, and do not permit the division into installments against interest.

⁵ Reloadable pre-paid cards.

⁶ The decline in 2011 derives from a change in the data collection method.

⁷ Cards that had at least one transaction during the last quarter of the year.

⁸ Electronic terminals in which payments can be made by means of payment cards.

SOURCE: The credit-card companies, SHVA, the Supervisor of Banks, and Bank of Israel processing.

Table 7
Indicators of the Use of Payment Systems by Non-Banks: Volume of Transactions
 (Thousands, cumulative annual)

	2008	2009	2010	2011	Annual Change (percent)
Volume by the means of payment					
Direct credits	96,638	98,175	103,725	111,323	7.33
Of which:					
Paper-based credits ¹	252	270	241	37	-84.65
Electronic credits ²	96,386	97,905	103,484	111,286	7.54
Direct debits ³	153,144	157,979	168,376	174,305	3.52
Payments with cards issued in Israel ⁴	535,634	582,567	647,193	708,770	9.51
Checks ⁵	159,347	151,748	150,865	149,147	-1.14
Volume by type of terminal					
Total transfers in terminals in Israel ⁶	826,668	870,115	896,861	950,295	5.96
Of which:					
Withdrawals from ATMs ⁷	128,494	125,573	124,863	123,248	-1.29
Deposits in ATMs	na	na	na	na	-
Transfer of payments at points of sale ⁸	698,174	744,542	771,998	827,047	7

¹ Manual credits at the paper-based clearing house. estimation based on one day in a month.

² Interbank credits settled in Masav and Zahav.

³ Manual debits in the paper-based clearing house (estimation based on one day in a month) and debits in Masav.

⁴ Payments executed in Israel or abroad. including actions for obtaining information at terminals, excluding ATM withdrawals.

⁵ Including interbank and intrabank transactions.

⁶ Including transfers by manual terminals.

⁷ Including ATMs owned by the banks and by SHVA.

⁸ Transfers executed at electronic points of sale by means of payment cards. including debit and credit transactions.

SOURCE: Bank of Israel and SHVA.

Table 8
Indicators of the Use of Payment Systems by Non-Banks: Value of Transactions
(NIS millions, cumulative annual)

	2008	2009	2010	2011	Annual Change (percent)
Value by the means of payment					
Direct credits ¹	2,741,691	2,621,267	2,915,942	3,273,089	12.25
Of which:					
Paper-based credits ²	4,999	9,027	11,693	1,204	-89.70
Electronic credits ³	2,736,692	2,612,240	2,904,249	3,271,885	12.66
Direct debits ⁴	282,153	300,322	355,681	371,642	4.49
Payments with cards issued in Israel ⁵	101,132	104,853	117,927	128,826	9.24
Checks ⁶	924,131	859,666	905,949	941,527	3.93
Value by type of terminal					
Total transfers in terminals in Israel ⁷	229,590	241,729	258,919	275,126	6.26
Of which:					
Withdrawals from ATMs ⁸	63,297	67,157	70,853	73,718	4.04
Deposits in ATMs	na	na	na	na	-
Transfer of payments at points of sale ⁹	166,293	174,572	188,066	201,408	7

¹ Interbank credits of customers settled in Masav, Zahav, and the paper-based clearing house.

² Manual credits between banks in the paper-based clearing house.

³ Interbank credits of customers in Masav and Zahav.

⁴ Debits in Masav and manual debits in the paper-based clearing house.

⁵ Payments executed in Israel or abroad. Does not include ATM withdrawals.

⁶ Includes interbank and intrabank transactions.

⁷ Includes transfers with manual terminals.

⁸ Includes ATMs owned by the banks and by SHVA.

⁹ Transfers executed at electronic points of sale by means of payment cards. Including debit and credit transactions.

SOURCE: Bank of Israel and SHVA.

Table 9
Participation in Interbank Systems for Transferring Payments
 (At year end)

	2008	2009	2010	2011
Zahav - Payment system for large amounts				
Number of participants	22	22	22	22
Direct participants¹	18	18	18	19
Banking corporations	15	15	15	16
Bank of Israel	1	1	1	1
Postal Bank	1	1	1	1
CLS Bank ²	1	1	1	1
Indirect participants³	4	4	4	3
Retail payment systems				
Masav				
Number of participants	na	25,023	25,023	23,983
Direct participants ^{1,4}	na	25,023	25,023	23,983
Indirect participants	0	0	0	0
Paper-based clearing house				
Number of participants				
The manual clearing house	37	37	36	36
Direct participants ¹	13	13	13	13
Indirect participants ⁵	24	24	23	23
Of which: Israeli banking corporations	8	8	8	8
Palestinian banking corporations ⁶	16	16	15	15
Electronic clearing house	36	36	35	35
Direct participants ¹	8	8	8	8
Indirect participants ⁵	28	28	27	27
Of which: Israeli banking corporations	12	12	12	12
Palestinian banking corporations ⁶	16	16	15	15

¹ A direct participant is one that can execute actions in the system without an intermediary.

² The CLS bank performs settlement between 17 currencies.

³ Banks that manage liquidity independently, but their communication interface to Zahav is through another bank.

⁴ Estimation. Includes bodies such as large companies, small businesses and community centers.

⁵ Participants represented by direct participants.

⁶ The Palestinian corporations are represented by Israeli banks.

SOURCE: Masav and the Bank of Israel.

Table 10
Volume of Transactions in Selected Payment Systems
 (Thousands, cumulative annual)

	2008	2009	2010	2011	Annual Change (percent)
Zahav - payment system for large amounts					
Total transactions ¹	217	197	261	349	33.72
Local transactions	211	187	251	339	35.06
Transactions sent to CLS	3	5	5	5	0.00
Transactions received from CLS	3	5	5	5	0.00
Concentration ratio in terms of the volume of transactions (%) ²	75.78	73.28	74.88	76.46	2.11
The retail payment systems					
Masav³					
Total transactions	249,208	255,227	271,512	285,180	5.03
Direct credits	96,316	97,478	103,326	111,055	7.48
Direct debits	152,892	157,749	168,186	174,125	3.53
Concentration ratio in terms of the volume of transactions (%) ^{2,4}	75.00	75.71	75.80	75.34	-0.60
Checks clearing house³					
Total transactions	132,224	121,757	122,076	120,800	-1.05
Direct credits	233	270	241	37	-84.65
Direct debits	252	229	190	180	-5.26
Checks	131,739	121,258	121,645	120,583	-0.87
Concentration ratio in terms of the volume of transactions (%) ^{2,5}	77.00	77.62	78.06	78.06	0.00

¹ Transactions of customers, banks, clearing houses, and the Bank of Israel.

² Market share of the five most active institutions in the system.

³ The data does not include returns.

⁴ Etsimation.

⁵ The 2008 data is an etsimation.

SOURCE: Masav and Bank of Israel.

Table 11
Value of Transactions in Selected Payment Systems
 (NIS millions, cumulative annual)

	2008	2009	2010	2011	Annual Change (percent)
Zahav - payment system for large amounts					
Total transactions ¹	21,874,139	62,303,647	75,784,201	88,943,903	17.36
Local transactions	21,368,871	61,374,025	74,688,533	87,535,915	17.20
Transactions sent to CLS ²	252,634	464,811	547,834	703,994	28.50
Transactions received from CLS ²	252,634	464,811	547,834	703,994	28.50
Concentration ratio in terms of the value of transactions (%) ³	79.24	76.62	77.56	80.75	4.12
The retail payment systems					
Masav⁴					
Total transactions	1,733,581	1,773,858	1,951,934	2,094,174	7.29
Direct credits	1,472,788	1,502,623	1,635,149	1,751,716	7.13
Direct debits	260,793	271,235	316,785	342,458	8.10
Concentration ratio in terms of the value of transactions (%) ³	78.50	79.24	79.33	78.85	-0.60
Checks clearing house⁴					
Total transactions	803,223	765,427	834,245	852,562	2.20
Direct credits	4,999	9,027	11,693	1,204	-89.70
Direct debits	21,360	29,088	38,895	29,184	-24.97
Checks	776,864	727,312	783,657	822,174	4.92
Concentration ratio in terms of the value of transactions (%) ³	84.38	84.43	84.76	84.29	-0.55

¹ Transactions of customers, banks, clearing houses, and the Bank of Israel.

² The data for 2008 are for the period beginning on May 27, the date the shekel joined the CLS.

³ Market share of the five most active institutions in the system.

⁴ The data does not include returns.

SOURCE: Masav and Bank of Israel.

Table 12
Israeli Participants in SWIFT
 (Year end)

	2005	2006	2007	2008	2009	2010	2011
Members ¹	9	9	9	9	9	9	9
Secondary members ²	3	3	5	5	5	6	7
Participants ³	2	3	4	4	4	4	4
Total users	14	15	18	18	18	19	20
Total SWIFT users ⁴	7,888	8,105	8,332	8,830	9,281	9,705	10,118
Members	2,231	2,288	2,276	2,276	2,356	2,344	2,334
Secondary members	3,077	3,120	3,212	3,305	3,306	3,331	3,355
Participants	2,580	2,697	2,844	3,249	3,619	4,030	4,429

¹ Organizations with shares in the SWIFT organization.

² Organizations that are owned by the members of SWIFT.

³ Organizations that do not have shares in SWIFT, and whose activities in the SWIFT system are restricted.

⁴ Global data.

SOURCE: SWIFT.

Table 13
Transfer of SWIFT Messages From and To Local Participants¹
 (Thousands, cumulative annual)

	2005	2006	2007	2008	2009	2010	2011
Messages sent	4,371	4,641	5,949	7,262	7,979	9,160	9,797
Of which:							
Category I ²	1,649	1,706	1,884	2,054	2,021	2,268	2,392
Category II ³	818	794	1,065	1,124	854	553	555
Messages received	4,063	4,688	6,424	7,793	9,225	10,154	10,542
Of which:							
Category I ²	1,570	1,643	1,780	1,998	1,983	2,229	2,397
Category II ³	286	296	563	601	507	506	526
Local traffic in Israel	704	543	821	965	849	628	776
Global traffic	2,518,285	2,864,537	3,501,163	3,854,576	3,760,314	4,031,935	4,431,100

¹ The traffic of messages in the table includes transfers in shekels and foreign currency.

² Transmissions used by the banks to transfer money to the customer's account.

³ Transmissions used by the banks to transfer money to the account of another bank.

SOURCE: SWIFT.

Table 14
Number of Participants in the TASE
 (At year end)

	2008	2009	2010	2011
Number of participants	28	28	27	28
Of which:				
Local participants	24	23	22	22
Bank of Israel	1	1	1	1
Banks	11	11	11	11
Other	12	11	10	10
Foreign participants	4	5	5	6
Banks	2	2	2	2
Other	2	3	3	4

SOURCE: TASE.

Table 15
Number of Registered Securities
 (At year end)

	2008	2009	2010	2011	Annual Change (percent)
Total number of securities designated for trading	1,880	1,885	2,003	1,947	-2.80
Bonds	720	747	710	733	3.24
Bonds issued for a year or less ¹	11	12	15	13	-13.33
Bonds issued for more than a year ²	709	735	695	720	3.60
Stocks	632	611	603	580	-3.81
Other ³	528	527	690	634	-8.12

¹ Short-term loans.

² Government and corporate bonds.

³ ETFs and options.

SOURCE: TASE.

Table 16
Market Capitalization of Listed Companies
 (NIS millions, at year end)

	2008	2009	2010	2011	Annual Change (percent)
Market Capitalization of Listed Companies ¹	670,200	769,700	806,140	600,102	-25.56

¹The data includes cross-listed stocks issued in Israel and abroad.

SOURCE: TASE.

Table 17
Number of Members of the TASE Clearing Houses
 (At year end)

	2008	2009	2010	2011
Securities clearing house				
Members of the clearing house	23	22	21	21
Bank of Israel	1	1	1	1
Banking corporations	11	11	11	11
Other	11	10	9	9
Local members of the clearing house	21	20	19	19
Bank of Israel	1	1	1	1
Banking corporations	9	9	9	9
Other	11	10	9	9
Foreign members of the clearing house	2	2	2	2
Banking corporations	2	2	2	2
Other	0	0	0	0
Maof clearing house				
Local banking corporations that are members of the clearing house	10	10	9	9

SOURCE: TASE.

Table 18
Volume of Transactions Settled in the TASE Clearing Houses
 (Thousands, cumulative annual)

	2008	2009	2010	2011	Annual Change (percent)
Volume of transactions settled	109,617	94,934	106,294	122,722	15.46
Securities clearing house					
Volume of securities transactions settled	17,114	23,879	27,506	23,734	-13.71
Bonds	4,577	6,867	6,860	6,764	-1.40
Makam	782	438	368	391	6.25
Bonds issued for more than a year ¹	3,795	6,429	6,492	6,373	-1.83
Stocks	12,537	17,012	20,646	16,970	-17.80
Volume of repo actions settled ²	nav	18	4	24	500.00
Maof clearing house					
Volume of derivatives transactions settled	92,503	71,037	78,784	98,964	25.61

¹ Government and corporate bonds.

² Trade in repo takes place only in government bonds are issued for more than a year.

SOURCE: TASE.

Table 19
Value of Transactions Settled in the TASE Clearing Houses
(NIS millions, cumulative annual)

	2008	2009	2010	2011	Annual Change (percent)
Value of transactions settled	1,609,399	1,437,803	1,590,607	1,349,042	-15.19
Securities clearing house					
Value of securities transactions settled	1,492,332	1,437,644	1,586,478	1,347,185	-15.08
Bonds	1,044,380	1,054,928	1,088,646	969,691	-10.93
Makam	181,054	149,879	291,143	186,796	-35.84
Bonds issued for more than a year ¹	863,326	905,049	797,503	782,895	-1.83
Stocks	447,952	382,716	497,832	377,493	-24.17
Value of repo actions settled ²	nav	106	2,752	1,238	-55.02
Maof clearing house					
Value of derivatives transactions settled	117,067	81,205	83,117	120,024	44.40

¹ Government and corporate bonds.

² Trade in repo takes place only in government bonds are issued for more than a year.

SOURCE: TASE.

Glossary

Authorized debits (standing orders)	A method of executing payments in which the beneficiary collects money from the payer through the bank. The payer's bank account is debited, and the beneficiary's account is credited by virtue of a debit presented by the beneficiary according to a letter of authorization given by the payer.
Batch processing in the payments system	Accumulation of a group of payment instructions and their joint processing at a particular time.
Business continuity in the payments system	Arrangements in the payments system to ensure that it will meet agreed levels of service, even in the event of failure of one or more of its components, or as a result of an exceptional external event. This term includes both preventive measures as well as arrangements for dealing with unexpected events.
Clearing house	A central location or a central processing mechanism by means of which financial institutions agree to exchange among themselves payment instructions or other financial obligations. The institutions settle between themselves the exchanged items at an agreed time, and the clearing house manages the finances and the risks for the settlement system.
Controlled system	A payment system subject to the authority of the Bank of Israel's oversight of payment and settlement systems, in accordance with the Payment Systems Law. A controlled system is a system in which settlement (credit/debit) is not conducted, and determining finality for the payments in it is irrelevant.
Credit	The right to use goods and services, or to purchase them, with an undertaking to pay at a later date.
Daily credit	Credit provided for a single working day. This credit is also known as a daily overdraft and intraday credit.
Designated Controlled system	A payment system subject to the authority of the Bank of Israel's oversight of payment and settlement systems, in accordance with the Payment Systems Law. A designated controlled system is a system that executes settlement, determines the finality of the payments settled in it, and protects payments against insolvency on the part of a participant.
Intraday liquidity	Liquidity ability in the course of the working day.
Liquidity	The ability of a business entity to meet current liabilities from its current assets (cash, tradable securities, etc.).

Monetary loan	A loan that the Bank of Israel gives to the banks for the period of a day (daily auction) or a week (weekly auction), using a method of auctioning at different interest-rate intervals.
Money laundering	Financial actions whose purpose is to conceal the source of the money, usually money from an illegal source or money on which tax has not been paid. The process of "prohibition of money laundering" returns the money to the legal system.
Money supply (M1)	Total cash in the hands of the public and the amount of the public's current account deposits in the banks. This definition does not include the balances deposited in the Bank of Israel and the balances kept in the banks' safes.
Net settlement	Settlement of several obligations or transfers between or within a group of opposing parties on a net basis.
Payment card companies	In Israel three companies issue and settle payment cards: Isracard, Leumi Card, and Cal. The companies issue and settle international payment cards according to licenses given to them by the relevant international organizations.
Repo	A repurchase agreement (repo) is a transaction in which the Bank of Israel sells, possibly by auction, government bonds and <i>makam</i> to banks and financial institutions, and buys them back after one week at a pre-set price.
Security/collateral	Tangible property pledged to a bank as security for the repayment of a loan. Collateral can be liquid, enabling it to be realized easily—such as securities traded on the stock exchange, bank deposits, debtors accounts, and other property of various kinds (tradable collateral)—or immovable assets (non-tradable collateral). This collateral becomes the property of the lender in the event that the borrower does not comply with the conditions of the loan.
Settlement	An action that discharges the obligations between two or more parties regarding the transfer of money, securities or other financial assets.
SWIFT	The communications system of the SWIFT international organization (Society for Worldwide Interbank Financial Telecommunication), which enables the secure dispatch and receipt of designated electronic messages between financial institutions worldwide.
Value day	The day on which the participant's account in the payment and settlement systems or the customer's account is credited/debited.
