THE PAYMENT AND SETTLEMENT SYSTEMS

1. INTRODUCTION

Payment and settlement systems are an essential part of the economic and financial infrastructure in modern economies, and their efficient functioning contributes to the economy's financial stability and development. As opposed to this, insufficiently reliable payment and settlement systems expose the participants in settlement to risks, and transmit risks from one economic system to another; this could lead to the development of "systemic risk" and a possible crisis in the economy as a whole. The growth in financial activity that characterizes many of the world's economies, as well as the growth in the volume of payments in the international capital markets, has underscored the importance of these systems—systems that can prevent or contribute to financial crises, both national and international.

Central banks strive to achieve financial stability and therefore work toward promoting the safety, reliability and efficiency of the payment and settlement systems, and take means to reduce the risks connected to settlement, particularly systemic risk, and liquidity and credit risks.

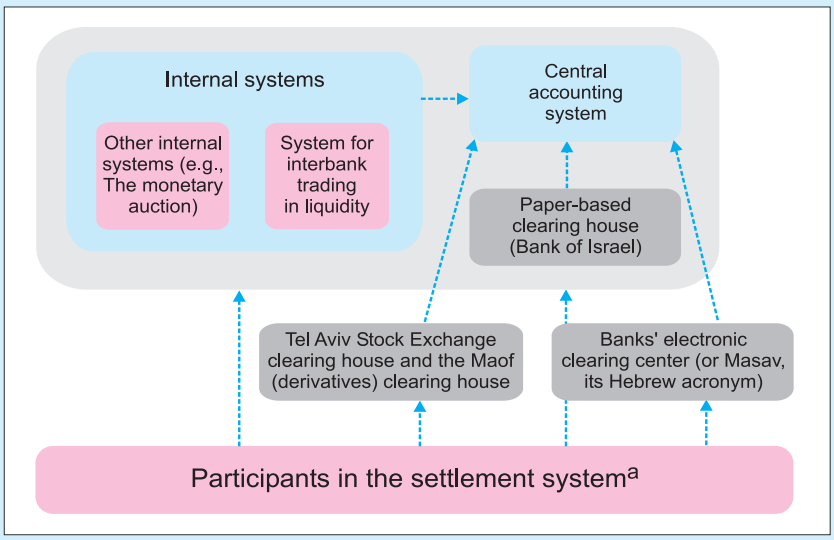
The rapid technological changes that have taken place in telecommunications and computerization since the beginning of the 1980s and that led to the growth in financial activity, and globalization processes—have all led to the increased involvement of central banks in the payment and settlement systems. The central banks have initiated reforms and have introduced changes in this area; Real Time Gross Settlement (RTGS) systems are directly operated in most countries by their central banks; and all the payment systems, even those operated by the private sector, are under the supervision and direction of the central bank.

Israel's payment and settlement systems are being upgraded, and at the end of the process they will conform with the international standards set by the Bank for International Settlement (BIS). In order to meet the international standards incorporated in the BIS directives, the Bank of Israel is effecting a far-reaching reform of the payment and settlement systems in Israel.

The existing payment and settlement systems have been brought into line with the international standards, in particular with the standard that the balance in banks shall be final at all times, especially at the end of the day. (The practical significance of this is that retroactive entries can no longer be made.)

The crowning achievement of the reform is the establishment of an RTGS system, through which all large-scale and other urgent payments will pass, and which will settle them finally on the same day. The intra-day clearing house will also settle the net results of the existing clearing houses—the paper-based clearing house, the banks' automated clearing house (ACH, or Masav, its Hebrew acronym) and the Tel Aviv Stock Exchange clearing house.

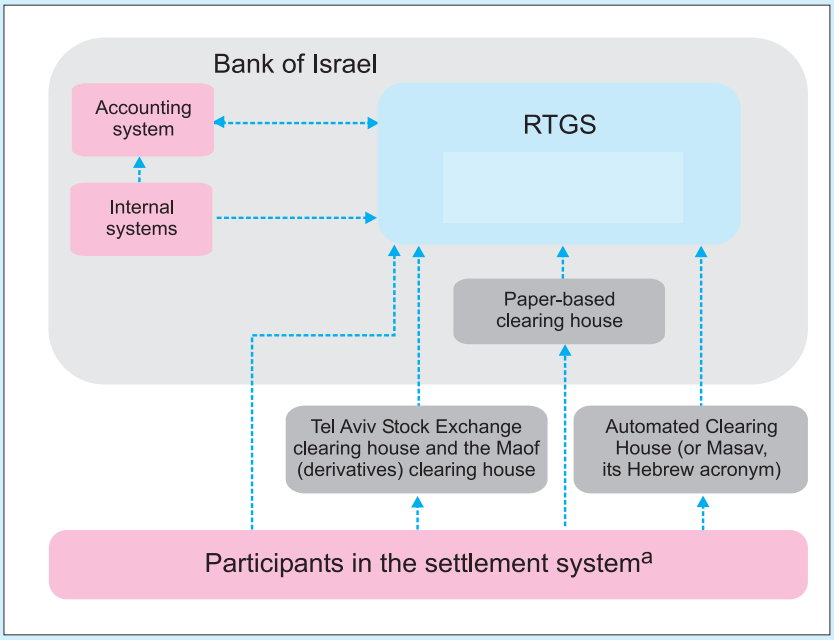
Figure 1
Israel's Current Settlement System



[a] Commercial banks, the Post Office Bank and the government.

SOURCE: Bank of Israel.

Figure 2
Israel's Future Settlement System



[a] Commercial banks, the Post Office Bank and the government.

SOURCE: Bank of Israel.

For many years payment orders with retroactive value dates were performed in Israel, a practice that prevented the payment from being final on the day it was performed. As part of the reform, that practice has been abolished.

The intra-day settlement system will be connected to all the systems that perform local-currency payments, and after its launch, planned for March 2007, will be the final settlement system for all Israel's payment systems. Settlement in the central accounting office in the Bank of Israel by the central accounting office, which is currently the final settlement body of the payment systems in Israel, will cease.

2. THE CHANGES IN THE PAYMENT AND SETTLEMENT SYSTEMS

The changes in the payment and settlement systems include the abolition of recording transactions with retroactive value dates, extending the banking business day, improving the process of check clearing, and of course the establishment of the RTGS system. The elimination of transactions with retroactive value dates derives from one of the core principles of the BIS, while the extension of the banking business day derives from the ability of the RTGS system to provide services throughout the whole of the business day, such that transactions performed in the afternoon should be executed and final on the same day.

With regard to the elimination of retroactive recording of transactions, the Bank of Israel, in conjunction with the banks, drew up the following timetable:

Elimination of retroactive recording of transfers to the government—July 2004;

Elimination of retroactive recording of returned checks—July 2005;

Elimination of retroactive recording of interbank transfers—November 2005;

Elimination of retroactive recording of the clearing of checks paper-based instruments—December 2005.

As steps towards the establishment of the RTGS system, various reforms were carried out in the clearing process and in the banking business day. As the system will operate throughout the day, it was decided to extend the banking business day so that it would coincide with most of the operating hours of the clearing house. Since 21 February 2005 the banking business day has ended at 18:30, instead of 15:00. As a result of this change, the following changes were introduced to the clearing process:

1. Electronic clearing, which hitherto had been the method used by only some of the banks, became mandatory: since November 2005 the banks transfer electronic files between each other, instead of actual checks.

2. All the checks are scanned, and the files of the images of the checks are transferred between the banks, and serve as proof of the correctness of the electronic files. This started operating in February 2006.

Until check truncation legislation is passed, the actual checks have to be transferred as well as the electronic files.

Preparations for check truncation are being made in cooperation with the banks. This reform will result in the actual check remaining in the bank in which it was

presented, and its transfer to the drawee's bank will be "virtual," i.e., via electronic means. This reform will radically change the handling of checks—it will bring to an end the physical transfer of checks to the drawee's bank, in particular to the drawee's branch, and cut out the handling involved in retaining checks (currently held for seven years).

a. The abolition of transactions with a retroactive value

(i) Transactions of the government and the Bank of Israel

The Bank of Israel is the government's banker, and therefore it transfers payments from the government to the public, via the commercial banks, and receives from the banks taxes and other compulsory payments that they collect from the public on behalf of the government. In the past, the banks would transfer part of the tax collected with a retroactive value date. These retroactive transfers ended in July 2004, and currently payments for the government are credited on the day of transfer.

(ii) Check clearing

Until December 2005 the results of the clearing of checks was recorded in the Bank of Israel on the next day with the retroactive value of the day of clearing. As a result of the changes introduced into the clearing system and electronic clearing becoming mandatory, the results of the check clearing house can be cleared during the night (up to 24:00) of the day they were presented, and not on the following day.

(iii) Returns of checks and paper-based instruments

A small share (about 3 percent) of instruments in the paper-based clearing house (the check clearing house) and a share of those passing through the banks' automated clearing house (Masav) are returned to the bank in which they were presented by the drawee's bank for various reasons (lack of cover, etc.).

In the past returned instruments were entered in the Bank of Israel's books with a retroactive (the previous day's) value. Since July 2005 they are recorded at current value.

(iv) Interbank transfers

In the past banks could transfer liquidity balances between them at the previous day's value. This practice dated back to the days of very high inflation (in the 1980s) when interest rates on debit balances were very high. The lack of prior knowledge on the results of the clearing process led banks to make extensive use of interbank loans, even in excess of what was required to settle the results of the clearing. The arrangement for trading surplus liquidity between banks with retroactive value dates was abolished in November 2005, leaving the possibility for interbank trading at current value.

As long as the arrangement for retroactive entries was in operation, banks were not disturbed by a negative balance in their account in the Bank of Israel resulting from

the clearing process. With the cancellation of the arrangement they became obliged to have sufficient liquidity to cover a debit result in the clearing house. And indeed, following the change the balances of surplus liquidity that the banks hold rose from a daily average of about NIS 80 million to NIS 100 million prior to November 2005 to about NIS 200 million thereafter. The rise in the level of surplus liquidity derived from banks' concern not to deviate from their liquidity balance, as doing so would result in their paying "exceptional" interest. Following the change in the value date of interbank transfers, the number of transactions per month rose a little, while the average amount per transaction fell. The result was that the total amount of interbank transfers declined from NIS 53 billion per month before the change to NIS 44 billion thereafter.

Table 1
Trade in Liquidity, 2005

	Average number of transactions per month	Average transaction (NIS million)	Total per month (NIS million)
January to October	149	350	53,055
November to December	170	262	44,498
January to December 2005	153	335	51,629

b. The banking business day

As part of the program, it was decided that from February 2006 the banking business day will end at 18:30, and on Fridays and the eve of holidays at 14:00. As a result of the extension of the business day, bank transactions performed during the business day will be at that day's value: only transactions carried out via direct communications after the end of the business day will be entered at the following day's value.

As extensive preparations for the change in the definition of the business day would be required by the banks, the Governor of the Bank of Israel announced the amendment concerning the change in the Banking Supervision Directives as early as in August 2005. The banks made the necessary preparations, and the changeover seems to have proceeded smoothly.

The Central Bureau of Statistics announced that with the change to the new business day, the CPI would be published at the end of the business day, i.e., at 18:30 on weekdays and at 14:00 on Fridays and the eve of holidays (instead of 17:00 and 13:30 respectively, as hitherto). This new timetable became effective from the announcement

of the index for January 2006 (which was made on 15 February 2006).

c. Electronic clearing and check imaging

In order to enable clearing that only starts at 18:30 to be completed on the same day, it was decided that checks would be cleared electronically, and the current system of magnetic clearing would end. To allow the rapid transfer of information between banks and between all the branches of each bank it was decided that banks would also present electronic files to each other, that would include images of the checks.

Since November 2005 banks using the various clearing houses have been obliged to operate electronic clearing, and since December 2005 check clearing between the banks has been recorded at the same day's value date. Till then the results were entered the next day with the retroactive value date of the day of clearance. That arrangement has been cancelled.

It was decided that with the change in the time of the banking business day (21 February 2006), the transfer of the files of electronic clearing could take place until 22:30 (with the hope of eventually bringing that time forward). The physical exchange of checks and the exchange of the check image files would take place at 2:00 and 3:00 a.m. respectively.

Check imaging is an important step towards check truncation in Israel. Under the system of check truncation banks rely on digital imaging and do not retain (except for a relatively short time still to be determined) or exchange the checks themselves between them. The introduction of check truncation requires amendment of existing legislation or the passing of specific legislation to enable banks to operate under this system. The process of planning check truncation is currently under way in joint committees of the Bank of Israel and the banks.

Box 1
The Banks' Paper-Based (Checks) Clearing House

The banks' clearing house operates according to an agreement between its members—the commercial banks in Israel, the Post Office Bank, the Bank of Israel. Banks operating in areas under the Palestinian Authority are represented by banking corporations in Israel. The banks' clearing house is managed by the clearing house committee numbering fourteen members, half from the Bank of Israel and half from the banking system and the Post Office Bank. The banks' clearing house functions according to the Clearing House Regulations determined by the clearing house committee. The committee convenes from time to time as required, and publishes an annual report on its activities.

Paper-based instruments presented in the clearing house by the banks total

about NIS 65 billion a month, 97 percent of which are checks and other manual instruments presented, and the rest, returns.

In addition to checks, other manual instruments such as manual credits (mainly salaries for up to 30 employees) and one-off debits. Manual instruments constitute only about 14 percent of the total value of instruments presented in this clearing house.

Data on the extent of clearing in the paper-based clearing house in 2005 is shown in the following table:

Table 2
The Paper-Based Clearing House
(NIS million)

	Amount of instruments presented	Returns	Total
January	64,720	2,024	66,744
February	59,195	1,555	60,750
March	64,148	1,857	66,005
April	55,656	1,616	57,272
May	65,774	1,942	67,715
June	64,174	1,678	65,852
July	65,774	2,202	67,976
August	64,400	1,973	66,373
September	63,903	1,695	65,598
October	55,744	1,736	57,481
November	64,812	1,794	66,606
December	65,153	1,894	67,047
Average	62,788	1,830	64,618
Percent	97	3	100

SOURCE: Bank of Israel.

The clearing house committee recently decided that all manual instruments will be handled by the Masav, the Automated Clearing House (ACH), by the end of May 2006. The declared intention is to end the transfer of manual instruments via the paper-based clearing house.

More than 600,000 instruments were cleared daily in the paper-based clearing house in December 2005, of which 592,000 were checks. The total value cleared was NIS 2.9 billion a day (NIS 2.7 billion of which was via checks). The average sum per check was NIS 4,550, slightly above the average of NIS 4,140 in December 2004.

In the high-inflation period at the end of the 1970s and in the first half of the 1980s the value date of financial transactions had great economic significance.

At that time it was decided that checks would have the value of the day on which they were deposited. Due to Israel's small size, checks from any part of the country could reach the paper-based clearing house on the same day; as the banking business day closed at 15:00, the checks could all arrive in the next few hours. The banks instituted a logistic system that functions well, and checks are cleared in the time specified in the regulations.

The extension of the banking business day shortens the time available to the banks to handle checks, and necessitates logistic changes. In addition, the banks are now prevented from transferring the result of the clearing the next day and using a retroactive value date. Following discussions with the banks, it became clear that they were able to cope with the changes, provided that all checks are cleared electronically, and that check imaging is operated. It was therefore decided not to change the current practice at this stage; in other words, the value date for check clearing is the date of deposit.

Box 2
The Automated Clearing House–ACH (Masav)

The automated clearing house (Masav) settles transactions that are not based on paper documents, such as authorizations to debit accounts ("standing orders") and various credits (salary payments, tax rebates). The clearing is done according to electronic files transferred to the clearing house by the banks or by various bodies authorized by the banks to submit files directly to it.

The transactions handled by Masav include debits totaling some NIS 16.5 billion a month and credits—mainly interbank and salaries—totaling about NIS 340 million a month.

The amounts cleared through the Masav greatly exceed those via the paper-based clearing house.

The difference between the number of payments cleared through the two clearing houses is smaller: the paper-based clearing house clears about 14 million transactions a month, with a total value of NIS 65 billion, while the Masav clearing house clears 18 million transactions a month, worth about NIS 356 billion. Hence the average per instrument in the Masav is about NIS 20,000, and that in the paper-based clearing house about NIS 4,550.

About 90 percent of the credits are for more than NIS 1 million per transaction, as most of them are interbank transfers (conversions of foreign currency, etc.). Thus, with the switch to the RTGS, the value of payments cleared via the Masav will be significantly reduced. On the other hand, the number of high-value transactions as a share of the total number cleared via the Masav is low,

only about 1 percent, so that the number of payments via that clearing house will hardly change when the RTGS system starts operating.

The Masav receives customers' instructions (banks and others) during the day, in accordance with the set procedures, procedures that ensure the uniformity of the structure of the electronic files and the security of the data. In the early evening the Masav combines all the files received and transfers details of the debits and credits to each bank. The net overall financial results are transmitted to the Bank of Israel.

Debit or credit instructions may be returned to the issuer of the instruction for various reasons, listed in the clearing house regulations (lack of cover, etc.). Debit instructions via the Masav can be returned up to five business days from the date the instruction was issued; the value date of the clearing is the value date of the date of return.

The effect of the change in the opening and closing hours of the banking business day on the Masav is expected to be less pronounced than that on the paper-based clearing house. Although the time available for performing the various calculations has been shortened, the calculation of the net movements in the Masav will allow it to meet the shortened deadlines.

It was decided that the data regarding the net clearing will be transmitted to the Bank of Israel at the same time as the transfer of data to the paper-based clearing house, at 22:30. If the timing of the transfer of the data from the paper-based clearing house is brought forward, so will be that of the Masav.

Data on the extent of clearing in the automated clearing house (Masav) in 2005 is shown in the following table:

Table 3
Transactions in the Banks' Automated Clearing House (Masav), 2003–05

	2003	2004	2005	Rise in 2005
				(percent)
Debits				
Transactions (million)	129	131	136	4
Amount (NIS billion)	165.5	177.9	197.9	11
Average amount (NIS)	1,285	1,354	1,450	7
Credits				
Transactions (million)	81	83	84	2
Amount (NIS billion)	2,800.9	3,072.6	4,079.1	33
Average amount (NIS)	34,576	37,182	48,328	30
Total				
Transactions (million)	210	214	220	3
Amount (NIS billion)	2,966.4	3,250.4	4,276.9	32
Average amount (NIS)	14,142	15,186	19,366	28

Source: The Banks' Automated Clearing House (Masav).

Box 3
The TASE (Tel Aviv Stock Exchange) Clearing House

The TASE clearing house clears transactions related to the purchase or sale of securities and other services such as interest payments.

The clearing house clears the securities on the day of the trade, but the clearing is conditional until receipt of the results of the financial clearing, which takes place on the next business day. The banks credit and debit their customers on the day the payment is implemented, and the date of clearing the security and the date of the payment do not coincide.

The clearing house is planning the change in the clearing process such that payment will take place simultaneously with the transfer of the security Delivery Versus Payment (DVP). Securities will be transferred the day after the transaction date, the same day as the payment is cleared. The change is planned to take place in July 2006, when the clearing house switches to a new trading system in government bonds, with main market makers (MTS—a computerized trading system for market makers).

The fact that there is no time lag between the transfer of the security and receipt of the payment reduces the potential of a clearing failure arising from a failure of one of the sides to meet its commitments, and thus also avoids the necessity for a correction to the clearing of the security in the event of a failure.

The multilateral clearing by the TASE clearing house will be transmitted to the intra-day clearing house for each of four different processing modes according to the type of transaction—MAOF (options and derivatives), securities, payments, and funds—several times on every trading day in the stock exchange. Bilateral clearing of large sums or urgent transactions will be transmitted to the intra-day clearing house immediately with the implementation of the transaction.

Unrelated to the extension of the banking business day, the TASE decided to extend the trading day on the stock exchange to 15:30, in order to improve the alignment of the trading day on the stock exchange in Israel with that on the stock exchanges in the US.

All transactions performed in the stock exchange, whether the stock exchange is a central counterparty (CCP) clearing house or not, are performed in the TASE clearing house, and the results of its clearing are transmitted to the central accounting office in the Bank of Israel.

The results of clearing in the TASE clearing house in 2005 were as follows:

Table 4
Turnover in Securities, 2003–05
(NIS billion)

		Bonds				
	Shares and convertibles	Government	Other	Total	*Makam*[a]	Total
2003	90.3	170.6	6.7	177.3	119.9	387.5
2004	159.9	216.4	16.3	232.7	152.6	545.2
2005	245.4	275.1	53.1	328.2	165.6	739.2
Rise in 2004 (%)	77	27	143	31	27	41
Rise in 2005 (%)	53	27	226	41	19	36

[a] Short-term government bills.
SOURCE: Tel Aviv Stock Exchange.

The three clearing houses operating in 2005 carried out payments totaling NIS 5,792 billion, or about NIS 483 billion a month, exceeding the 2004 amount by some 28 percent. About 47 percent of all payments are cleared by the Masav clearing house, and the rest are split evenly between the paper-based clearing house and the TASE clearing house.

The rise in the total amount cleared in 2005 in the Masav and TASE clearing houses came to more than 30 percent of the total amount cleared in 2004, while the amount cleared in the appear-base clearing house rose by only 4 percent.

Table 5
Activity of the Clearing Houses, 2004 and 2005
(NIS billion)

	2004	2005	Increase (percent)
Annual data			
Paper-based (checks) clearing house	746	775	4
Automated clearing house (Masav)	3,250	4,277	32
TASE clearing house	545	739	36
Total	**4,541**	**5,792**	**28**
Monthly averages			
Paper-based (checks) clearing house	62	65	
Automated clearing house (Masav)	271	356	
TASE clearing house	45	62	
Total	**378**	**483**	

3. THE DEVELOPMENT OF A REAL TIME GROSS SETTLEMENT (RTGS) SYSTEM

The development and implementation of an RTGS (Real Time Gross Settlement) system that executes immediate and final settlement of payments in real time constitutes an important element in the reform of the payment and settlement systems. The purpose of such a system is to minimize and overcome various risks present in payment and settlement systems, such as systemic risk, clearing risk and credit risk. The system clears banks' payments immediately, so that at any point in time the balance of each participant[1] in the system is final. The accounts in the system will consist of a participant's current (checking) account in the Bank of Israel and the intra-day credit account (details below). The planning of the system and its operating method are based on the core principles published by the Committee on Payment and Settlement Systems appointed by the BIS (Bank for International Settlement), as a means to reducing the risks mentioned above.

RTGS is a system for interbank clearing, in which participants send instructions to debit their accounts; the payment instruction reaches the system, undergoes various checks, and if the balance in the payer's account is sufficient to cover the payment instruction, the payment is carried out immediately and finally. The payer's account is debited, and then the payee's account is credited. The RTGS executes payment instructions in accordance with their time of arrival, on a First In First Out (FIFO) basis, and participants will have the option of determining an order of priorities for their payment instructions. If there is insufficient cover in the account, the instructions will be arranged in a queue. The issuers of the instruction will be responsible for managing the queue, and the system will make available several instruments for that purpose: the participant will be able to a) change the order of priorities in the queue, b) cancel payment instructions in the queue, and c) increase the intra-day credit limit. The possibility of obtaining credit from the Bank of Israel throughout the business day is intended to prevent the exertion of liquidity pressures on participants in the system. Such credit is granted to participants, interest-free, against full collateral—deposits in the Bank of Israel and government bonds—and the participant must repay it by the end of the day. During the day participants can add to and withdraw from this collateral according to their needs and according to the amount of credit allocated to them at any given time. At the end of the day, when the intra-day credit is repaid, the collateral in the earmarked account will be returned to the participant. If after repayment of the intra-day credit the bank has a debit balance, it can obtain overnight, interest-bearing, credit from the Bank of Israel against the same collateral.

The RTGS system will also clear the results of the other three clearing houses—Masav, TASE, and paper-based. These will send multilateral payment instructions to

[1] In the first stage the participants in the system will be the commercial banks, the Post Office Bank, the clearing houses and the Bank of Israel. Other entities may join at a later stage.

the system. Each of them will send the net debits and credits,[2] so that each participant will have one debit or one credit.

Progress in establishing the system

The Bank of Israel assumed responsibility to establish and operate the RTGS system––a lengthy process that requires interaction between many elements: the commercial banks, the clearing houses, the Post Office Bank, and the Bank of Israel. In the first stage all parts of the required system were analyzed, and the business model was published in July 2004. In April 2005 a tender for the establishment of the system was published, and at the end of 2005 a contract was signed with the successful foreign bidder. The launch of the new system is scheduled for the first quarter of 2007.

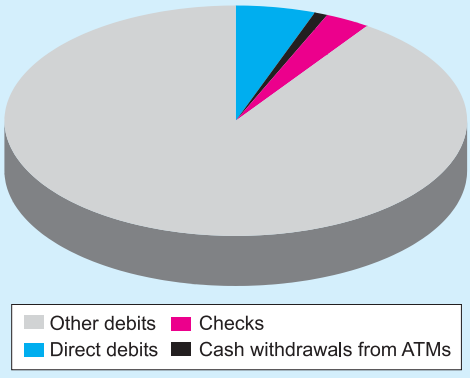
In addition to the detailed specification of the system itself, teams from the Bank of Israel are engaged in working vis-à-vis the banks and the clearing houses regarding all aspects—including legal and operational—of its operating environment. The members of the teams are investing great efforts and cooperating fully to ensure that they achieve their objectives.

4. MEANS OF EXECUTING PAYMENTS

In 2005 the public's debits on current accounts totaled NIS 15,200 billion, exceeding the amount in 2004 (NIS 12,500 billion).

These debits include: the drawing of checks deposited in the drawee's bank or in other banks; the withdrawal of cash via bank tellers and ATMs; direct debits and other debits, including one-off payments or standing orders (of constant amounts) to be transferred to a third party or to the bank itself; the purchase of securities; deposits; and repayment of loans from the bank. Since the other debits constitute most (90 percent) of the public's debits and include all payments not included in the other categories, there is no purpose served in analyzing this item.

Figure 3
Debits, by Type, 2005



[2] In other words, after netting all the debits and credits of each participant.

a. Drawing checks

The amount of money paid in 2005 by means of checks totaled NIS 820 billion, slightly higher than the amount drawn by checks in 2004 (NIS 790 billion).

Payments by check in 2005 constituted 5.6 percent of total debits of the public. Most checks (about 80 percent) were transferred via the clearing house to other banks (see Box 2 above), and a small proportion were deposited in the drawee's bank by a third party. In 2005 checks drawn on other banks presented in the clearing house totaled some NIS 650 million, out of the total payments by check of NIS 820 million referred to above.

The use of checks has contracted since December 2000, albeit at a slow pace. In December 2005 payments by check constituted 4.9 percent of all the public's debits, compared with 8.3 percent in December 2000. This decline can be attributed mainly to the increased use of credit cards since December 2000 (see below). The number of checks has also fallen, from 15.8 million in December 2000 to 13.6 million in December 2005 (about 490,000 a day)

The following table traces the share of payment by check in the total debits of the public from December 2000 to December 2005.

Table 6
The Share of Payments by Check in the Public's Total Debits, 2000–05

	Total debits		Checks		Share of checks in total debits (percent)	
	Amount (NIS million)	No. of transactions (thousands)	Amount (NIS million)	No. of checks (thousands)	Amount	No. of checks
December 2000	863,181	59,185	71,737	15,769	8.3	26.6
December 2001	1,045.147	61,453	69,238	15,481	6.6	25.2
December 2002	1,085,814	65,347	75,939	16,106	7.0	24.6
December 2003	1,064,981	62,313	67,330	14,687	6.3	23.6
December 2004	1,219.638	61,099	71,270	14,324	5.8	23.4
December 2005	1,457,940	63,280	71,233	13,613	4.9	21.5

SOURCE: Banking Supervision Department, Bank of Israel.

b. Cash withdrawal

During 2005 about NIS 137 billion was withdrawn in cash—19 percent higher than in 2004. This rise is similar to the rise of 17 percent from December 2004 to December 2005 in the amount of cash in circulation.

Of the overall amount of cash withdrawn during the year, about a third was withdrawn from ATMs, and the rest from bank tellers. Most of the cash withdrawn is

via bank tellers because those withdrawals are of higher amounts: the average sum withdrawn via a teller was NIS 5000, compared with an average of NIS 400 withdrawn from ATMs.

Banknotes and coins in circulation at the end of the year totaled NIS 24.4 billion, up from NIS 20.8 billion at the end of 2004. The average amount of cash in circulation during 2005 was about NIS 22.6 billion, and the total cash withdrawal during the year was NIS 137 billion, as stated. That is to say, the velocity of money was 6.06, in other words the amount of money withdrawn was exchanged about six times during the year, or was held on average for about two months, similar to the velocity in 2004.

Table 7
Cash Withdrawals by the Public
(NIS million)

	Via bank tellers	ATMs	Total cash withdrawals	Total debits
2003	70,852	40,314	111,166	11,544,140
2004	73,201	41,878	115,079	12,482,652
2005	93,010	43,950	136,960	15,159,684
Increase in 2005 (%)	27.1	4.9	19.0	21.4

SOURCE: Banking Supervision Department, Bank of Israel.

c. Direct debits

Direct debits—payments to credit card companies (see below) and other authorized debits from accounts—totaled NIS 1,219 billion in 2005. This was 12 percent higher than the amount in 2004, a rise similar to the 11 percent increase in payments by credit card.

Despite the increase in direct debits, their share of total debits of the public declined from 3.4 percent in 2004 to 3.1 percent in 2005. This was due mainly to the 23 percent jump in other debits from 2004 to 2005—payments from customers to banks (e.g., for the purchase of securities).

d. Debits via credit cards

The amount of credit card debits increased in 2005 by about 11 percent from the previous year, and totaled NIS 111 billion.

The ratio of credit card payments to payments by checks rose slightly in 2005, to 14 percent. Payments by check include large payments, whereas most credit card payments are for relatively low amounts. Among relatively small payments, the share paid by credit cards is higher. The average payment by check in 2005 was NIS 5,230,

including checks deposited in the drawer's bank, while the average credit card payment was only NIS 240.

The use of credit cards (number of transactions) has also grown rapidly in recent years. In 2005 it rose by 10 percent, whereas the number of payments by check declined slightly. As a result the number of credit card transactions rose to 2.9 times the number of transactions by check, although as stated the ratio of credit card payments to payments by checks by value rose only slightly in 2005, to 14 percent.

These figures relate only to local currency transactions, including cash withdrawals, while the use of credit cards issued by Israeli companies includes purchases and cash withdrawals in foreign currency too. Foreign currency cash withdrawals, most of which take place abroad, totaled about NIS 5 billion in 2005, equivalent to 4.5 percent of local currency cash withdrawals.

Table 8
The Use of Credit Cards and Checks

	Credit cards		Checks	
	Transactions (million)	Amount (NIS million)	Transactions (million)	Amount (NIS million)
2003	396.4	96,284	170.6	768,622
2004	429.6	100,355	166.1	786,677
2005	473.4	111,835	164.2	820,666
Increase in 2005 (%)	10.2	11.4	–1.1	4.3

SOURCE: Banking Supervision Department, Bank of Israel.