



January 11, 2018

Circular no. C-06-2552

Attn:

The banking corporations and credit card companies

Re: Payment Cards

(Proper Conduct of Banking Business Directive no. 470)

Introduction

1. The Enhancing Competition and Reducing Concentration in the Banking Sector in Israel (Legislative Amendments) Law, 5777-2017 (hereinafter, “the Law”) was published on January 31, 2017.
2. Section 9(a) of the Law is titled “Limitations during the transition period regarding a bank that issues payment cards”. It includes, among other things, authorizations for the Supervisor of Banks to issue directives. These authorizations appear in Sections 9(a)(2)(b)(1) and 9(a)(2)(b)(3) of the Law.
3. In order to establish the Directives required in accordance with these authorizations, and in order to update the mechanism for issuing a payment card, this amendment to the Directive is required.
4. In addition, within the framework of establishing Proper Conduct of Banking Business Directive no. 472 on “Merchant acquirers and acquiring payment card transactions”, the contents of Sections 17(c), 23 and 25 were transferred to it, and their cancellation in this Directive was necessary.
5. In view of the above, and after consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have amended this Directive.

Changes to the Directive

6. Section 4 of the Directive was updated so that the prohibition on issuing a payment card in a customer’s name prior to receiving a documented request from the customer was replaced with a prohibition on allowing the payment card to go into effect prior to receiving said documented request.

Explanation

Section 4 is intended to prevent a situation in which customers are charged fees in respect of a payment card that was set up for them without having requested one. In order to bring the Directive in line with today’s technological reality, which makes it possible for the card’s activation and going into effect to be distinct from its issuance, and to make things easier for customers, who are currently required to carry out two activities in order to receive a payment card—to submit a request, and at a later stage to receive the card and activate it—the mechanism was revised so that it is possible to issue the card without receiving a request from a customer, provided that it only is activated following the receipt of a request from the customer.

7. Section 9a—titled “Contact due to material change in economic situation”—was added to the

Directive in order to implement Section 9(a)(2)(b)(1) of the Law. In addition, Section 9b—titled “Contact to reduce credit facility”—was added to the Directive in order to implement Section 9(a)(2)(b)(3) of the Law.

Explanation

Within the framework of the Law, limitations were placed on banks that would apply during the “transition period” as defined in Section 9(a) of the Law. This was in order to grant “infant industry protection” to the credit card companies after their separation from the banks, and to other new issuers that will be established.

Among other things, it was established that a bank with a wide scope of activity that issues payment cards will be permitted to contact a customer regarding the renewal of a credit card only within 45 work days before the expiration date of the credit card contract. However, a bank may contact a customer before said period in certain cases:

- a. In a case in which there has been a material change in the customer’s economic situation
- b. In a case in which there is reason to prevent use of the existing credit card
- c. In a case in which the contact is made solely to reduce the customer’s credit facility.

With regard to the cases in subsections a. and c. above, the Banking Supervision Department was authorized to issue directives. Following is a condensed list of the directives that were established:

- a. Section 9a, on “Contact due to material change in economic situation” establishes that the bank is to document—in a restorable manner—in its systems the contact with the customer. The bank is also required to establish in its procedures the different major types of changes in the customer’s economic situation that require contacting the customer, and the manner of documentation. The section’s requirements are intended to allow the carrying out of control of the bank’s contract to customers and their necessity.
- b. Section 9b, on “Contact to reduce credit facility” establishes that contact in order to reduce the customer’s credit facility shall be made in writing, a reasonable amount of time in advance, without derogating from the provisions of any law, in order to allow the customer to prepare adequately.

8. Sections 17(c), 23, and 25 of the Directive, which apply to merchant acquirers, were cancelled in view of the transfer of their contents to Proper Conduct of Banking Business Directive no. 472 on “Merchant acquirers and acquiring payment card transactions” within the framework of Circular no. C-06-2498 dated May 1, 2016.

Effective date

9. a. Sections 4, 17(c), 23, and 25—on the publication date.
b. Sections 9a and 9b—three months after the publication date. A banking corporation may work in accordance with these sections from an earlier date.

Update of file

10. Update pages for the Proper Conduct of Banking Business Directive file are attached. Following are the provisions of the update:

Remove page

(6/15) [11] 470-1-8

Insert page

(1/18) [12] 470-1-8

Respectfully,

Dr. Hedva Ber
Supervisor of Banks