



Banking Supervision Department
Public Enquiries Unit

Public Enquiries Report

Report on the Handling of Public Enquiries
and Complaints in 2014

July 2015

Preface

Banking services are essential financial services for the function of the economy and the payment system, as well as for households and businesses. The banks and credit card companies rendering these services should fulfill their economic role while strictly adhering to the principles of transparency and fairness toward their customers for the benefit of the general public and in order to ensure their long term stability.

In order to promote these principles, the Banking Supervision Department uses numerous tools, including regulation of banking activity through Proper Conduct of Banking Business Directives, rules and circulars, audit and enforcement, public relations and financial education.

One of the main tools used by the Banking Supervision Department to ensure the fair treatment of customers by banks is the handling of public enquiries: the Public Enquiries Unit at the Banking Supervision Department clarifies customers' complaints, decides whether the complaints are justified and, if needed, orders the banking corporations to provide the customers with remedies.¹ The enquiries are handled by professional, experienced employees with relevant academic background, using various channels—telephone, mail and e-mail. This activity makes a significant contribution to promoting fairness in bank-customer relations, and in enhancing the public's confidence in the banking system as well as in the Banking Supervision Department as the authority protecting bank customers.

The following report presents the main actions employed by the Banking Supervision Department in terms of handling public enquiries in 2014, including examples of handling specific customer-related areas, for the benefit of the public.

In April 2015, a new Proper Conduct of Banking Business Directive went into effect regarding the handling of customers' complaints in banking corporations (No. 308A)—this directive is aimed at ensuring that banking corporations handle public enquiries in a comprehensive and efficient manner. Thus, the directive regulates the status and purviews of the ombudsmen and their subordinates at banking corporations, and sets standards for providing clarifications and answers, as well as a time limit for providing a response. In addition, a format was established for reporting on the

¹ This authority is in accordance with Section 16 of the Banking (Service to the Customer) Law, 5741–1981.

activity of ombudsmen in banking corporations as well as to the Banking Supervision Department and the Public.

According to the directive, a customer's complaint will first be handled by the banking corporation's customer complaints unit. If the customer believes that the unit has not handled his/her complaint appropriately, or has not complied with the time limit, the Banking Supervision Department will examine the case in accordance with its powers. This principle—of exhausting the inquiry procedures in banking corporations, will result, in the assessment of the Banking Supervision Department, in problematic and material issues and more significant disputes between banks and their customers reaching the Banking Supervision Department for clarification and decision, while other issues and requests will receive a swifter response from the banking corporations' ombudsmen. I believe that this move will result in improving the response provided to customers, both by the banking corporations and by the Banking Supervision Department's Public Enquiries Unit .

Respectfully,



David Zaken
Supervisor of Banks

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Introduction

The Banking Supervision Department handles public enquiries under the authority of Section 16 of the Banking (Service to the Customer) Law, 5741–1981. The enquiries are handled by the Public Enquiries Unit at the Bank–Customer Division of the Banking Supervision Department, and the Unit is empowered to clarify the public’s complaints regarding their business with banking corporations—the banks and credit card companies—in all areas of their activity including: management of current accounts, means of payment, deposits, foreign currency, fees, loans, mortgages, and activities related to securities. For further information on the Unit’s activity and how to submit enquiries, please go to the following address:

<http://www.boi.org.il/en/ConsumerInformation/PublicEnquiries/Pages/Default.aspx>

The purview of the Banking Supervision Department does not include: complaints against the Postal Bank (which is under the purview of the Ministry of Communications); complaints against insurance companies, provident funds and pension funds (which are under the purview of the Capital Markets, Insurance and Savings Division at the Ministry of Finance); complaints concerning the withholding of taxes (which is under the purview of the Israel Tax Authority); and complaints concerning securities investment advice (which is under the purview the Israel Securities Authority). Neither is the Banking Supervision Department involved in matters that are being discussed concurrently – or that were discussed in the past – in the courts, the Execution Office or other instances.

Under Directive 308A (Handling of Public Complaints), bank customers are to contact ombudsmen in banking corporations prior to filing complaints with the Public Enquiries Unit at the Banking Supervision Department. A person wishing to file a complaint against a banking corporation with the Public Enquiries Unit should attach a copy of the bank's response to his/her claims.

The rating of the banking corporations herein is based only on the information obtained by the Banking Supervision Department in its processing of customers' enquiries and complaints, and does not constitute a comprehensive rating of the banking corporation's entire range of activities. The rating is provided as a public service, and should not be regarded as a proposal or recommendation.

The complaints included in this report do not constitute a representative sample. They were selected because, in our view, they may be of interest to the general public. While these complaints may be indicative of the position of the Banking Supervision Department, they should not be regarded as binding precedents, since each case was handled in accordance with its specific facts and circumstances.

Part A – Statistical Data

1. Processing of public enquiries and complaints—general data

1.1 Data regarding all enquiries and complaints by the public

In 2014, the Banking Supervision Department handled 6,028 written enquiries and complaints, of which 4,307 were complaints related to a specific dispute between the customer and the bank and claims against the bank's conduct, and 1,721 were requests to receive information on consumer rights, questions and various clarifications.

In 2014, the Banking Supervision Department completed the handling of 5,555 written enquiries and complaints, of which 4,023 were complaints related to a bank's conduct, and 1,478 were requests to receive information on consumer rights, questions regarding policy and various clarifications. Of the complaints on which a position was taken, 15.8 percent were found to be justified. Approximately 81 percent of the enquiries and complaints were processed within three months, and approximately 93 percent were processed within up to six months (see Table 1 below), while in 2013, approximately 79 percent of the enquiries were processed within three months and 88 percent—within six months. In addition, in 2014, the Banking Supervision Department received approximately 20,300 enquiries by phone, which were answered shortly after they were received.

Table 1

Handling time for written enquiries and complaints, the handling of which was finalized in 2014

Up to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	More than 12 months
81%	12%	5%	1%	1%

1.2 Data on public enquiries

The findings resulting from the handling of complaints are used to identify and rectify systemic deficiencies and identify issues requiring regulation, audits and public relations campaigns.

In 2014, 1,602 complaints were fully processed, a position was taken on them and it was decided whether or not they were justified. 253 complaints were found to be justified, compared with 251 justified complaints in 2013. No position was taken on the remaining complaints, *inter alia*, due to an inability to decide between conflicting oral claims, due to concurrent legal proceedings, or due to the banks' readiness to accede to the customers' requests before a position was taken regarding the complaint, without the involvement of the Banking Supervision Department.

Due to intervention by the Banking Supervision Department in individual complaints, banking corporations paid² their customers a total of approximately NIS 3.6 million in 2014 (compared with 2013, in which approximately NIS 1.5 million was paid in individual cases).

Table 2

Number of complaints for which handling was completed, and number of justified complaints, 2014 compared with 2013

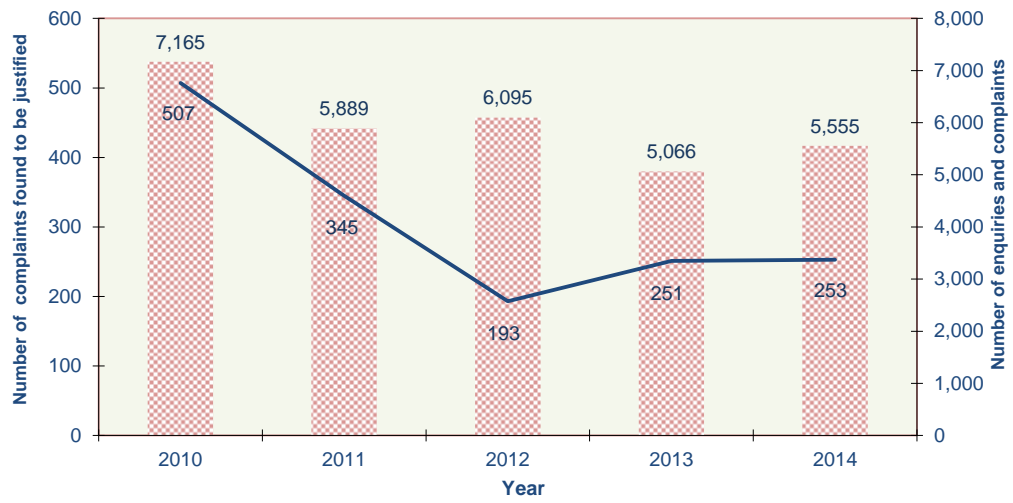
	2013	2014
Number of telephone enquiries	21,450	20,346
Number of enquiries and complaints in writing	5,067	5,555
<i>Of which:</i>		
Number of complaints	1,549	4,023
Number of complaints on which a position was taken	1,131	1,602
Number of complaints found to be justified	251	253

The increase in the number of complaints in comparison with 2013 is attributed, *inter alia*, to a change in methodology and classification of the complaints and enquiries. In addition to this change, the banks' willingness to accede to their customers' demands and resolve disputes without involving the Banking Supervision Department's also affected the number of complaints on which a position was taken.

As Figure 1 indicates, the number of written complaints and enquiries filed in 2014 was 10 percent greater than in the previous year. The number of justified complaints in 2014 is similar to that of the previous year.

² Including debt writeoffs.

Figure 1
Number of complaints & enquiries in writing, and number of complaints found to be justified, 2010–14



2. Detailed description of complaints against the banking corporations

The quality of treatment of customers by the five largest banks, as reflected in complaints handled by the Banking Supervision Department, is based on the following four criteria, which are based, in turn, on data accumulated by the Department while handling the complaints.

- a. The proportion of justified complaints out of the total number of complaints against a bank on which a position was taken;
- b. The ratio between the bank's share of justified complaints and its share in the banking system³;
- c. The proportion of complaints dealt with in a satisfactory manner by the bank out of the total number of complaints regarding which the Public Enquiries Unit contacted the bank;
- d. The proportion of cases where the bank acted in the customer's favor even if the complaint was not classified as justified.

On the basis of these criteria, the banking corporations are rated on the following scale, which is similar to the one used to evaluate the banking corporations' performance in terms of management and control: Particularly good, good, adequate, needs improvement, needs significant improvement, and deficient. See Appendix A to the report for a description of the criteria and the weighting attributed to them.

2.1 The overall rating

Table 3 outlines the overall ratings of the **five largest banks** (based on a weighting of the four above-mentioned criteria), in 2012–14. Other banks in the system and the credit cards company were not rated due to the small number of observations, which do not allow for statistical analysis. Data regarding the entire banking system are presented in Appendix B. Due to a change in the methodology for classifying and taking a position on complaints in 2014—this year's data are not comparable with previous years.

³ The share of the system by each bank was calculated using total assets less business credit by bank (taken from the monthly balance sheets for December 2014). Contrary to past reports, business credit includes credit provided to the small business segment.

During this reporting year, Mizrahi-Tefahot bank reached the best possible rating—"particularly good", while the remaining banks received a "good" rating.

Table 3
The ratings for the five largest banks, 2012–14

Bank ⁴	Rating		
	2012	2013	2014
Mizrahi-Tefahot	Adequate	Good	Particularly good
Discount	Adequate	Good	Good
First International	Good	Good	Good
Hapoalim	Adequate	Aadequate	Good
Leumi	Good	Good	Good

2.2 The rating criteria

The following are data regarding the five largest banks.

2.2.1 The proportion of justified complaints to the total number of complaints on which a position was taken

As indicated in Table 4, in 2014 the lowest proportion of justified complaints among the five largest banks was recorded in the First International Bank. The highest proportion of justified complaints out of the five largest banks, on the other hand, was recorded in Bank Leumi.

The decline in the number of justified complaints is explained, *inter alia*, in the banks' readiness to accede to their customers' demands and provide a response to the customers' claims or to resolve the disputes without involving the Banking Supervision Department. The Banking Supervision Department encourages the banks to resolve complaints and provide a direct response to

⁴ The banks appear in the table is according to their rating in 2014, and within the rating, by alphabetical order.

their customers' problems, in which case there is not need for the Department to take a position on the complaint.

Table 4
The five largest banks: Number of complaints and proportion of justified complaints in 2014

Bank	Number of complaints against the bank	Number of complaints on which a position was taken	Proportion of justified complaints in 2014	Number of justified complaints in 2014	Number of justified complaints in 2013
First International Bank Ltd.	239	89	12.4%	11	12
Bank Hapoalim Ltd.	949	403	14.4%	58	74
Bank Mizrahi-Tefahot Ltd.	436	165	14.5%	24	28
Israel Discount Bank Ltd.	431	172	15.1%	26	27
Bank Leumi Ltd.	768	317	18.3%	58	39
Total	2,823	1,146	15.4%	177	180

2.2.2 The ratio between the bank's share of justified complaints and its share of the banking system

The second assessment criterion is the ratio between the Bank's share of justified complaints and its share in the banking system. A low ratio may indicate that the Bank is adequately handling customers' complaints both in its branches and in its dedicated complaints handling department. Table 5 indicates that this ratio increased at Bank Leumi compared to 2013. Similarly, the ratio increased in Discount Bank as well, though moderately. At Mizrahi-Tefahot, Hapoalim and First International, there was a decline in this ratio, which reflects, as noted, the bank's adequate handling of complaints.

Table 5
The five largest banks: The ratio between the share of each bank in the number of justified complaints and its share in the banking system, 2014 vs. 2013

Bank	Share of justified complaints	Share in the system*	Ratio between share of justified complaints and share in the system, 2014	Ratio between share of justified complaints and share in the system, 2013
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Bank Mizrahi-Tefahot Ltd.	9.5%	16.4%	0.58	0.68
First International Bank Ltd.	4.3%	6.1%	0.71	0.74
Bank Leumi Ltd.	22.9%	26.0%	0.88	0.56
Bank Hapoalim Ltd.	22.9%	25.4%	0.9	1.13
Israel Discount Bank Ltd.	10.3%	10.0%	1.03	0.98

* Total assets less business credit by bank (according to the monthly balance sheets for December 2014) constitutes an estimate of the each bank's share of activity relevant to the Unit's purview.

2.2.3 The proportion of complaints that were satisfactorily processed by the bank to the total number of complaints regarding which the Banking Supervision Department addressed the bank

According to the Banking Supervision Department, the manner in which a banking corporation handles a complaint vis-à-vis the Banking Supervision Department reflects the corporation's view of treatment of customers' complaints, and also attests to the importance it attributes to handling complaints adequately. Thus, the Department weights this figure in the Banks' rating measure.

Similar to previous years, in 2014, the five largest banks handled a large proportion of the complaints adequately — approximately 98 percent (see table 2 in Appendix B). In this respect, the banking system showed significant improvement, compared with 2009, when the average proportion of adequate handling stood at 86 percent.⁵

2.2.4 The proportion of cases where the bank acted in the customer's favor even if the complaint was not found to be justified

In certain cases, banking corporations express willingness to act in the customer's favor even if the complaint is not found to be justified. These cases are notable for the credibility shown by the corporation for the customer's version despite the difficulty in proving it, or in the bank's deciding in favor of the customer, ex gratia, due to extreme distress. In some cases, banking corporations exhibit a standard of fairness which is higher than required by law.

⁵ Details appearing in the survey of the activity of the Banking Supervision Department in the area of handling enquiries and complaints by customers for 2010 (Table 3 on page 10): http://www.boi.org.il/deptdata/pikuah/publ_inqu/eng/act10e.pdf

Table 6 shows that similarly to 2013, about a quarter of the disputes filed with the banks in 2014 were resolved due to the banks' willingness to accede to the customers' requests and to their satisfaction. While the First International Bank showed a marked decrease in this figure, and Mizrahi-Tefahot showed a more moderate one, in Bank Hapoalim there was a marked increase in cases in which the Bank was lenient, deciding in favor of the complaining customers. The data for Bank Leumi and Bank Discount are similar to last year's. The Banking Supervision Department attributes great significance to resolving disputes directly with customers, and regards such resolution as meeting a high standard of fairness, as expected of a bank while conducting its business. Past experience regarding handling public complaints teaches that numerous enquiries addressed directly to the bank received a response and were handled by the bank. These reasons led to the principle whereby, prior to contacting the Banking Supervision Department due to a complaint, the customer must first contact the bank's ombudsman. Thus, the Banking Supervision Department will act as an additional venue for handling the complaint.

Table 6
The five largest banks: Share of cases where the bank acted in the customer's favor even though the complaint was not classified as justified, 2014 vs. 2013

Bank	No. of complaints submitted to the bank which were not classified as justified	Complaints not classified as justified where the bank acted ex gratia in the customers favor	Total ex gratia rebate to complainants in unjustified complaints ('000 NIS)	Total rebate to complainants in all complaints ('000 NIS)	Share of cases the bank acted in customer's favor out of total complaints not classified as justified 2014	Share of cases the bank acted in customer's favor out of total complaints not classified as justified 2013
Bank Hapoalim Ltd.	606	167	1,087	1,337	27.6%	22.9%
First International Bank Ltd.	151	41	170	192	27.2%	39.6%
Bank Mizrahi-Tefahot Ltd.	252	63	93	160	25%	29.1%
Israel Discount Bank Ltd.	283	69	414	961	24.4%	25.4%
Bank Leumi Ltd.	499	113	256	533	22.6%	21.4%
Total	1,791	453	2,022	3,184	25.3%	25.5%

2.3 Data regarding the handling of public complaints by other banks

Table 7 below shows the data on the handling of complaints by all the banks. Analysis of the data of handled complaints indicates that while the share of the five largest banks in the banking system stands at approximately 84% of the banking activity in Israel⁶, their share in the number of complaints, as well as in the number of justified complaints, stands only at approximately 70 percent. The share of the remaining banks in the number of complaints is approximately 16 percent, and in justified complaints—approximately 22 percent, although their total share in the system is approximately 12 percent.

Table 7
Number of complaints, number of justified complaints and the proportion between the corporation's share in the justified complaints and its share in the system⁷, 2014⁸

Banking corporation	No. of complaints out of the total enquiries	The corporation's portion of the complaints	No. of complaints found to be justified	Share of the corporation out of the justified complaints	Share of the corporation out of the system	The ratio between the bank's share of justified complaints and its share of the banking system;
Israel Discount Bank Ltd.	431	10.7%	26	10.3%	10.0%	1.03
Bank Hapoalim Ltd..	949	23.6%	58	22.9%	25.4%	0.90
Bank Leumi Ltd..	768	19.1%	58	22.9%	26.0%	0.88
First International Bank Ltd..	239	5.9%	11	4.3%	6.1%	0.71
Bank Mizrahi-Tefahot Ltd.	436	10.8%	24	9.5%	16.4%	0.58
Bank Massad Ltd.	37	0.9%	7	2.8%	0.5%	5.22
Bank of Jerusalem Ltd.	84	2.1%	8	3.2%	1.4%	2.33
Bank Yahav for State Employees	179	4.4%	13	5.1%	2.2%	2.29

⁶ Total assets less business credit by bank (according to the monthly balance sheets for December 2014) constitutes an estimate of the each bank's share of activity relevant to the Unit's purview.

⁷ For the following banks – PAGI (Bank Poalei Agudat Israel), Arab Israel Bank and U-Bank, the ratio between their share in the justified complaints and their share in the system was not calculated, due to the small number of observations, which does not allow drawing statistical conclusions.

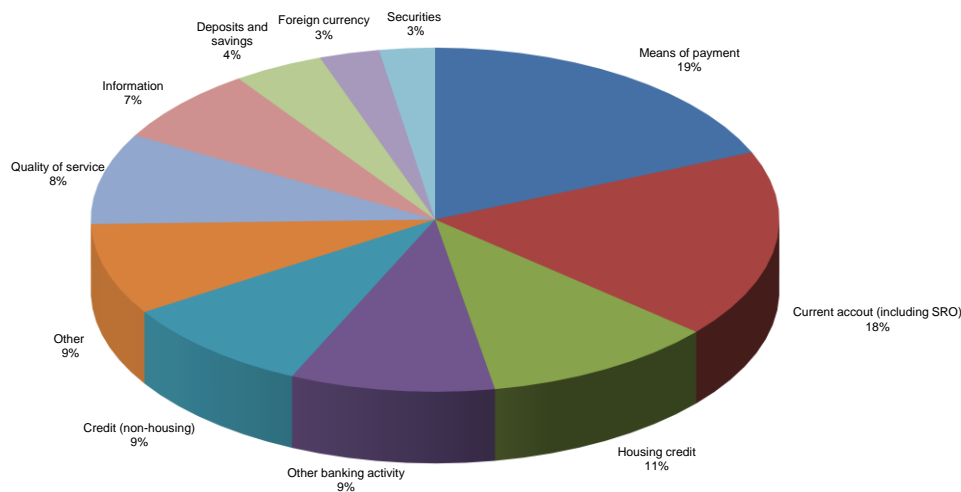
⁸ When calculating a banking corporation's share in the system, the corporation's share of complaints and its share in justified complaints also include credit card companies.

Ltd.						
Bank Otsar HaHayal Ltd.	100	2.5%	8	3.2%	1.4%	2.23
Mercantile Discount Bank Ltd.	79	2.0%	7	2.8%	1.7%	1.63
Union Bank of Israel Ltd.	97	2.4%	7	2.8%	3.1%	0.89
Bank Poalei Agudat Israel Ltd.	35	0.9%	3	1.2%	0.2%	
Arab Israel Bank Ltd.	27	0.7%	1	0.4%	0.6%	
U-Bank Ltd.	5	0.1%	1	0.4%	0.9%	

3. Areas of banking activity to which enquiries and complaints were related

The following figure (Figure 2) presents a segmentation of the areas of activity of the enquiries and complaints addressed to the Banking Supervision Department. As seen, customers complain primarily on: means of payment (19 percent), current accounts issues (18 percent) and issues related to credit for housing (11 percent).

Figure 2
Distribution of enquiries and complaints by banking activity types, 2014⁹



In the means of payment area, most of the complaints filed were related to customer activities with checks (36 percent of the enquiries and complaints were in this segment), and a similar percentage were filed on issues related to debit cards (34 percent of the enquiries and complaints.)

Out of the enquiries and complaints filed regarding current accounts, more than 40 percent were related to banks' refusal to open accounts for customers, 14 percent were regarding the closing of accounts, and 10 percent—regarding current account management. In this context, it would be noted that various amendments were published in these areas, including to Proper Conduct of Banking Business Directive 422 "Opening of a Current Account with a Positive Balance and its Management", as well as amendments to the Banking (Customer Service) (Fees) Rules, 5768-2008.

Approximately one third of the enquiries and complaints regarding housing loans were filed following the bank's refusal to grant a loan (27 percent of the enquiries and

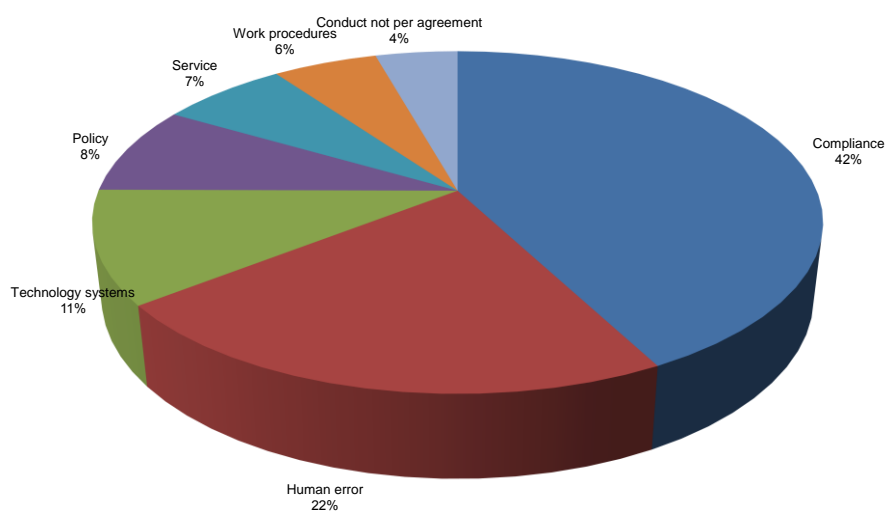
⁹ Additional activities performed by banks: Debt collection, distribution of estates, implementing injunctions issued under law, reporting to companies providing credit data services, etc.

complaints in this segment). In this context, it should be noted that an approval of, or refusal to grant, a loan and credit of any kind, are subject to the bank's own business considerations. The Banking Supervision Department and the existing law in the State of Israel do not require banks to grant credit to their customers. However, complaints related to the process of approving and/or granting a loan are examined by the Banking Supervision Department, and regulatory changes in this area are made from time to time. An additional issue in the area of credit for housing which arises from the enquiries and complaints is the difficulties banks sometimes pose for customers when calling for early repayment of a loan.

4. The reasons for the deficiencies which were found in the justified complaints

When the justified complaints are segmented by type of deficiency, one finds that in more than 40 percent of the cases, the reasons for the deficiencies in banking corporations was due to failure to meet certain sections of the Supervisor of Banks' directives, or of laws, such as: The Banking Law¹⁰, the Checks Without Cover Law¹¹, the Debit Cards Law¹², the Pledges Law¹³, etc. It should be noted that in some cases, human error led to the compliance violations. In addition, in approximately 22 percent of the cases, the complaint was classified as justified due to a failure resulting from human error, which did not lead to a compliance violation.

Figure 3
Segmentation of the justified complaints by reason for the deficiencies, 2014



¹⁰ The Banking (Service to Customer) Law, 5741–1981.

¹¹ The Checks Without Cover Law, 5741–1981.

¹² The Debit Cards Law, 5746–1986.

¹³ The Pledges Law, 5727-1967.

Part B -- Examples of complaints processed in 2014

General: Checking the complaints and reaching decisions regarding them

The relationship between banks and their customers is characterized by gaps in information and in negotiating power, which warrant increased protection for bank customers. The protection is regulated by banking legislation (special laws, regulations and rules stemming therefrom and Proper Conduct of Banking Business Directives issued by the Supervisor of Banks) and general civil legislation. The normative system for decision also includes letters and position papers issued by the Banking Supervision Department, including position papers which are developed through the handling of customer complaints. Wide ranging principles, which were prescribed in court rulings, as well as the duty of trust and care by which a banking corporation is bound vis-à-vis its customers, as well as the duties imposed on a banking corporation by the very fact that it is perceived as a semi-public sector entity, rule all areas of banking activity and their purpose is to ensure a proper relationship between the banks and their customers. The contractual engagements between a bank and its customers are bound by the various protections mentioned above, as well as decision by the standard contract courts, the Supreme Court and other courts, which determines which terms and conditions are prohibited from being included in contracts, due to being discriminatory.

In addition, responsible and fair conduct by a banking corporation is one of the overriding principles of the OECD (Organization for Economic Cooperation and Development) for the purpose of protecting consumers of financial services.¹⁴ This principle was adopted by us in Directive 308A regarding handling of public complaints.

The complaints filed with the Banking Supervision Department are examined and handled in accordance with the duties imposed on the banking corporations which were mentioned above. Nevertheless, it should be remembered that each enquiry is examined on a case by case basis, according to each case's particular circumstances.

The following are examples of specific complaints handled by the Banking Supervision Department, and which we wish to bring to the attention of the public and the banking system.

¹⁴ G20 High-Level Principles on Financial Consumer Protection (the statement of principles, as well as other relevant documents, can be found on the OECD's website).

1. Unreasonable refusal to open an account

The Banking (Service to the Customer) Law, 5741–1981, requires banks to open an account for a person asking for one, as long as there are no reasonable grounds for denying that request. Thus, for example, a bank may refuse to open an account for a person who has left an unpaid debt with the bank. Can a bank refuse to open an account for a person because the latter has left an unpaid debt at another bank?

An enquirer filed a request to open an account. The bank provided him with a reference no. for the request and noted that it needed several days in order to examine the request. After examining the documents, the bank informed the enquirer that it refuses to open a bank account for him, since his past conduct with another bank was improper (he left an unpaid debt with the bank.)

It was decided in this case, that the fact that the enquirer has a past debt with another bank does not constitute an adequate reason for refusing to open a bank account for him. The enquiry was thus classified as justified, and it was determined that the bank should open an account for the customer. However, it was clarified that under the law the bank was not required to provide the customer with a service which includes credit (such as a credit line, loans, a credit card, etc.)

Due to the numerous complaints filed with the Banking Supervision Department according to which banks refuse to open accounts and pose difficulties for customers who were restricted or customers who were restricted in the past, the Banking Supervision Department issued a new Proper Conduct of Banking Business Directive (No. 422) in May 2014, which regulates the issue of opening and managing a current account with no credit facility. The directive extends the law and interprets it, regarding anything to do with opening an account for private customers. The directive outlines, *inter alia*, the cases where a customer may not be prevented from opening an account, such as: past or current filing for bankruptcy, restriction, etc.

In addition, the directive determines an appropriate procedure for opening an account, including the time limit on providing a response to a customer (that the request to open an account was approved or denied) and defines two types of services the bank is obliged to provide to the customer as part of opening and managing the account.

This case is an example of regulating an issue through a Proper Conduct of Banking Business Directive following inquiries by customers filed with the Banking Supervision Department.

2. Imposing a financial sanction on Discount Bank due to failure to comply with a determination of the Public Enquiries Unit

In 2011, an inquiry by a minor and his parents was received whereby Bank Discount allowed the minor's account to be overdrawn by NIS 7,200, although the credit facility approved by the parents stood at NIS 500.

According to Proper Conduct of Banking Business Directive 416 regarding minors' accounts, banking corporations may not allow a minor's account be overdrawn unless the bank has obtained the permission of the minor's representative in writing and in advance. Since in this case, the bank did not prove that the overdraft in the minor's account was approved by the minor's representative, a determination was sent to the bank in 2012, whereby the bank may not demand that the minor or his parents repay the overdraft beyond the amount of the credit line – NIS 500.

About two years later, an additional complaint was received by the Public Enquiries Unit from the same complainant regarding a process of debt collection through the Execution Office begun against him in the amount of approximately NIS 9,300, based on the same debt from 2012, after he had paid the bank NIS 500 and after the account balance was reset to zero. According to the bank, the branch complied with the position and cancelled the overdraft after collecting NIS 500 from the customer. However, when the minor reached the age of 18, the bank claimed it had the right to file a suit against the customer for unjust enrichment.

In addition to a demand to close the debt collection process through the Execution Office against the complainant, the Banking Supervision Department operated according to the Banking (Service to the Customer) Law, 5741–1981, which allows the imposing of a financial sanction of up to NIS 250,000 on a bank in a case of failing to comply with a determination reached by the Banking Supervision Department. Since the bank did not comply with the position of the Supervisor of Banks that the bank should not collect additional amount from the minor beyond the NIS 500, a financial sanction was imposed on the bank in the amount of NIS 200,000.

3. Deficiencies in granting exemptions from fees to Holocaust survivors receiving allowances and pensions, by Mercantile Discount and Discount Bank

After looking into a complaint by a customer, the Department found that an account of a Holocaust survivor, who receives compensation allowances and pension monies as victims of Nazi persecution, was not granted benefits given to such accounts, contrary to the banks' decision. The benefits set by the banks were published in their fees list. Following the complaint, the Department feared that other such customers may have failed to receive the exemptions from fees as mandated by the banks' fee list. As a result, the banks were asked to identify accounts which were not given their deserved exemptions. The Department discovered that in 2011, due to system conversions in both banks, the exemptions from fees for transferring annuities and pensions from overseas to accounts of Holocaust survivors were accidentally revoked. In addition, customers who converted the allowance into shekels were charged a foreign exchange fee.

Following the intervention of the Banking Supervision Department, the banks reimbursed their customers over NIS 720,000.

4. Improper use of the word "scholarship" in advertising a loan

As part of the banks' strategy of focusing on a specific customer segment, the banks launch, from time to time, various plans for recruiting customers. The plans are usually adapted to the needs of a certain customer segment and may benefit that niche. However, it is important to make sure that when advertising these plans, full disclosure is given to the plans' terms and conditions, and that the terms are adequately used to reflect the plan's nature.

In a dedicated plan launched by Mercantile Discount Bank with the purpose of recruiting university students as customers, students were offered a NIS 15,000 loan, with financial benefits, including a NIS 100 cash bonus. When advertising the loan, the bank used the term "scholarship program". One of the students who approached the bank to inquire about the loan filed a complaint regarding the use of the term "scholarship" in the bank's advertising, claiming that this was incorrect since it was not a scholarship.

Although we believed that the bank's advertising was not misleading, and it was clear from the ad that this was about a loan offered to students, the complaint was found to be justified, since the plan in essence was not about providing a grant, but rather a loan with convenient terms. The bank was asked to remove the work "scholarship" from its advertising on various media outlets.

This case is an example of examining individual complaints and enforcing corrections that impact all bank customers.

5. Extending the loan period after early partial repayment at First International Bank

When a borrower makes a partial early repayment of a loan, he/she may choose to either: to leave the monthly installment as agreed in the loan agreement, thus shortening the loan period, or to leave the original ending date intact as agreed in the loan agreement and respectively decrease the monthly payment.

A First International Bank customer filed a complaint, according to which while making a partial early repayment of a housing loan, the bank extended the remaining loan period beyond the original loan period.

Since during the partial repayment the bank did not use one of the alternatives noted above, the customer's complaint was found to be justified, and the bank credited the customer by NIS 12,500.

The bank was asked to check whether there were additional customers for whom the bank might have extended the remaining loan period the customer made a partial repayment. As a result, the bank credited additional customers. In addition, following our intervention, the bank made changes to its IT systems in order to prevent a situation where a loan period would be extended in case of early repayment.

This case illustrates how lessons are drawn and customers are reimbursed as a result of a complaint filed by a single customer.

6. Charging interest in arrears due to a delayed payment as a result of the bank's error

When a customer delays loan repayments, the bank may charge interest in arrears. What happens when the delay is the result of the bank's error?

A customer was granted a zero-interest, unindexed tuition loan of NIS 15,000. Due to an error by the bank, the debit order was issued late, thus resulting in a few days' delay in debiting the customer's account for the loan repayment. Although the error was the bank's, the latter charged the customer, in addition to the repayment amount, interest in arrears .

After examining the case, we determined that the bank's conduct was inadequate and the customer's complaint was found to be justified. The bank returned to the customer the excess amount it had charged her.

This case is an example of a customer incurring charges as a result of the bank's error. The bank was able to make the surcharge due to the standing order for the loan repayment without having to obtain the customer's consent .

7. Failure to meet disclosure requirements towards a guarantor

A guarantee is not a regular charge. It involves higher risks for the guarantor of a loan, and the need to provide effective disclosure of material details to guarantors is of high importance, so that they can estimate the financial ramifications which may arise from signing the letter of guarantee

A guarantor approached us with a request to examine whether the bank acted properly when exercising a guarantee, due to the disclosure provided to him prior to signing the letter of guarantee.

When looking into the enquiry, we discovered that the bank had failed to include a material detail in the "information disclosure" form, whereby the guarantee was for refinancing an existing debt. The Guarantee Law, 5723-1967 requires disclosing to a single guarantor on the "information disclosure" form that a guarantee is for financing an existing debt. Failure to disclose such a detail is cause for exempting the guarantor from his guarantee. As a result, we instructed the bank to exempt the guarantor from his guarantee, and reimburse him the amount he paid, in addition to interest and indexation differentials. We asked the bank to do the same with other guarantors who have paid money in this case and to whom the bank also failed to meet its disclosure

obligations. Following our intervention, the bank reimbursed the guarantors a total of approximately NIS 64,000.

In this case, we held the bank accountable after discovering it did not meet its disclosure obligations towards guarantors under the law.

8. Holding a bank accountable for actions taken for third parties

A person was restricted under aggravated circumstances from withdrawing checks from a certain account pursuant to the Checks Without Cover Law, 5741–1981. The law was designed to protect customers and third parties from people who withdraw checks without cover, in order to prevent future damage. Even if an account owner agrees to have his/her account used by a customer who was restricted under aggravating circumstances, the banking corporation's role is to prevent unlawful actions, assuming it knows about it or should have known about it.

We were approached by a customer who complained about her husband's actions in her account, which included, *inter alia*, ordering checkbooks and signing checks contrary to the signatory rights in the account. In this case, the husband was restricted under aggravating circumstances, pursuant to the Checks Without Cover Law. The checks bounced due to "insufficient funds" and numerous debt collection processes through the Execution Office were begun against the bank account owner by third parties.

Our inquiry disclosed that the bank acted inappropriately as regards the activity of a customer restricted under aggravating circumstances with checks in another customer's account by not banning this activity. We instructed the bank to pay the third parties the remaining balances in the Execution Office files in the amount of hundreds of thousands of shekels.

This case illustrates how a bank can be held accountable for violating a statutory obligation (Checks Without Cover Law, 5741–1981.)

9. Transferring funds of a deceased person to the private account of an authorized party

A bank is obliged to take adequate precautions in order to prevent cases where a party defrauds its customer and steal his/her property. Who is accountable when a party authorized to act in an account empties that account?

One of the heirs of a deceased person complained that a party with power of attorney in the account emptied her mother's account, by transferring the funds to the authorized party's own account.

We found that the party with power of attorney indeed emptied the account by making a number of bank transfers from the deceased's account to his own account, prior to her death. In this case, we found that the transfer of funds from the deceased's account to the authorized party's private bank account was contrary to the agency laws and determined that, as a rule, the bank should transfer the funds to a supplier's account or to some third party's account (e.g., nursing home, geriatric institution, etc.)

We found, *inter alia*, that the party with power of attorney also withdrew funds in the amount of NIS 20,000, which was unusual in relation to any activity in the deceased's bank account. We determined that this action – due to the significant amount and its extraordinary nature (essentially emptying out the entire account), in addition to other actions and circumstances – ought to have raised the bank's suspicion. As part of our inquiry, we determined that the bank should reimburse the deceased's heirs with the funds, in addition to interest and indexation.

This case is an example whereby a bank violated its obligations both under the Agency Law 5725-1965 and in terms of its precautionary duty towards the account's owners.

Appendix A: Explanation of the rating criteria

The Public Enquiries Unit in the Bank–Customer Division of the Banking Supervision Department rates the five largest banks. The principle purpose of the rating is to evaluate the quality of the treatment of customers, as reflected in the complaints processed by the Banking Supervision Department, from the aspects of service, compliance with consumer regulations, and implementation of fairness—which forms the basis for proper bank–customer relations.

Banks are rated with respect to their treatment of customers by weighting four criteria:

- a. The proportion of justified complaints out of the total number of complaints against a bank on which a position was taken;
- b. The ratio between the bank’s share of justified complaints and its share in the banking system;
- c. The proportion of complaints dealt with in a satisfactory manner by the bank out of the total number of complaints regarding which the Public Enquiries Unit contacted the bank;
- d. The proportion of cases where the bank acted in the customer's favor even if the complaint was not classified as justified.

The following is a brief explanation of each of the criteria and the manner in which the evaluation is made:

a. The proportion of justified complaints out of the total number of complaints against a bank on which a position was taken;

The weighting of this criterion in the overall evaluation is 30 percent.

Calculation of the criterion: For each bank, the number of complaints for which the processing was completed in the reviewed year and which were found to be justified, divided by the total number of complaints against that bank the processing was completed in the reviewed year and on which a position was taken (either justified or unjustified).

M = number of complaints against the bank the processing of which was completed in the reporting year and that were found to be justified.

E = number of complaints against that bank the processing of which was completed in the reporting year and on which a position was taken (either justified or unjustified.)

$$P1 = M / E$$

b. The ratio of the bank's share of total justified complaints to its share in the banking system

The weighting of this criterion in the overall evaluation is 30 percent.

Calculation of the criterion: The ratio of the number of complaints against the bank in question, the processing of which was completed in the reporting year and that were found to be justified, to the total number of complaints against all the banks the processing of which was completed in the reporting year and found to be justified in the reporting year, divided by the ratio of the bank's total assets (minus business credit¹⁵) to the banking system's total assets (minus business credit).

M = number of complaints against that bank, the processing of which was completed in the reporting year and that were found to be justified.

ΣM = total complaints against all the banks, the processing of which was completed in the reporting year and that were found to be justified.

A = Total assets of the bank minus business credit as at the end of the reporting year.

ΣA = Total assets of the banking system minus business credit as at the end of the reporting year.

$$P2 = (M/\Sigma M) / (A/\Sigma A)$$

A ratio of less than 1 implies that the bank's share of total justified complaints (against all the banks) is lower than its share in the banking system (retail and commercial banking.)

¹⁵ Total assets minus business credit (based on reports received by the Banking Supervision Department on monthly balance sheet data at the end of the reviewed year) serves as an estimate for each bank's share of retail activity.

c. Proportion of complaints processed satisfactorily by the bank within the total number of complaints regarding which the bank was contacted by the Public Enquiries Unit at the Banking Supervision Department

The weighting of this criterion in the overall evaluation is 20 percent.

Calculation of the criterion: Number of complaints the processing of which was completed in the reporting year in a satisfactory manner¹⁶ by the bank in question divided by the total number of complaints, the processing of which was completed in the reporting year and regarding which the bank was contacted by the Unit.

T = number of complaints, the processing of which was completed in the reporting year in a satisfactory manner by the bank in question.

B = number of complaints, the processing of which was completed in the reporting year and regarding which the bank was contacted by the Unit.

$$P3 = T / B$$

d. The proportion of cases where the bank acted in the customer's favor even if the complaint was not classified as justified

The weighting of this criterion in the overall evaluation is 20 percent.

In view of the nature of this criterion (which reflects an act of good will), the scores “needs improvement” or “deficient” were not used in the evaluation.

Calculation of the criterion: For each bank, it is the number of cases the processing of which was completed in the reporting year and in respect of which the bank acted in the customer's favor even though the Unit did not classify the complaint as justified, divided by total complaints the processing of which was completed in the reporting year, regarding which the Unit contacted the bank, less complaints that were found to be justified.

L = Number of cases the processing of which was completed in the reporting year and in respect of which the bank acted in the customer's favor even though the Unit did not classify them as justified.

¹⁶ In contrast to complaints handled unsatisfactorily by the bank.

B = number of complaints, the processing of which was completed in the reporting year and regarding which the bank was contacted by the Unit.

M = Number of complaints against that bank, the processing of which was completed in the reporting year and which were found to be justified.

$$P4 = L / (B - M)$$

Each criterion (P1, P2, P3 and P4) was assigned a numerical score on the basis of an evaluation scale (0–6) formulated by the Banking Supervision Department.

The overall rating was calculated as follows:

$$G = 0.3 * P1 + 0.3 * P2 + 0.2 * P3 + 0.2 * P4$$

A textual evaluation was determined for each numerical score as follows: Particularly good, good, adequate, needs improvement, needs significant improvement, and deficient. The overall evaluation of the bank from the aspect of customer relations, as reflected from processing of the public's complaints, is published in a textual format only.

Appendix B: Data on the Entire Banking System¹⁷

Table 1: No. of complaints and proportion of justified complaints in 2014*

Banking corporation	No. of complaints out of the total enquiries	Complaints on which a position was taken	No. of complaints found to be justified	Proportion of justified complaints to those on which a position was taken, 2014
Bank Hapoalim Ltd.	949	403	58	14.4%
Bank Leumi Ltd.	768	317	58	18.3%
Israel Discount Bank Ltd.	431	172	26	15.1%
Bank Mizrahi-Tefahot Ltd.	436	165	24	14.5%
First International Bank Ltd.	239	89	11	12.4%
Bank Yahav for State Employees Ltd.	179	71	13	18.3%
Bank Otsar HaHayal Ltd.	100	46	8	17.4%
Union Bank of Israel Ltd.	97	46	7	15.2%
Mercantile Discount Bank Ltd.	79	35	7	20.0%
Bank of Jerusalem Ltd.	84	41	8	19.5%
Bank Massad Ltd.	37	20	7	
Bank Poalei Agudat Israel Ltd.	35	13	3	
Arab Israel Bank Ltd.	27	7	1	
U-Bank Ltd.	5	3	1	
Isracard Ltd.	115	39	8	20.5%
Cal (Cartisey Ashrai Le'Yisrael)-Israel Credit Cards	108	49	7	14.3%
Leumi Card Ltd.	52	23	6	
Diners Club Israel Ltd.	2	1	0	

¹⁷ All the data in this Appendix refer to complaints for which the handling was completed in 2014 and that were submitted against one of the banking corporations on the list.

* The report outlines the proportion of justified complaints regarding a banking corporation against which at least 30 complaints were filed, decided, and a position was taken on them. The same is true for the following tables in this appendix.

Table 2: Proportion of complaints that were processed satisfactorily by the corporation, 2014

Banking corporation	Number of complaints regarding which the Dept. contacted the corporation	No. of enquiries handled satisfactorily	Number of complaints processed particularly well	Number of complaints processed unsatisfactorily	Proportion of complaints processed satisfactorily and particularly well, 2014
Bank Hapoalim Ltd.	664	596	59	9	98.6%
Bank Leumi Ltd.	557	532	15	10	98.2%
Israel Discount Bank Ltd.	309	294	11	4	98.7%
Bank Mizrahi-Tefahot Ltd.	276	259	17	0	100.0%
First International Bank Ltd.	161	151	10	0	100.0%
Bank Yahav for State Employees Ltd.	129	120	3	6	95.3%
Bank Otsar HaHayal Ltd.	74	70	3	1	98.6%
Union Bank of Israel Ltd.	69	65	4	0	100.0%
Bank of Jerusalem Ltd.	65	59	2	4	93.8%
Mercantile Discount Bank Ltd.	60	53	7	0	100.0%
Bank Massad Ltd.	31	28	3	0	
Bank Poalei Agudat Israel Ltd.	26	25	1	0	
Arab Israel Bank Ltd.	22	22	0	0	
U-Bank Ltd.	3	3	0	0	
Cal (Cartisey Ashrai Le'Yisrael)-Israel Credit Cards	61	58	1	2	96.7%
Isracard Ltd.	60	58	0	2	96.7%
Leumi Card Ltd.	37	36	1	0	100.0%
Diners Club Israel Ltd.	1	1	0	0	

Table 3: Proportion of requests and complaints that were processed ex gratia even though they were not classified as justified, 2014

Banking corporation	No. of complaints not classified as justified and for which the corporation was contacted	Cases where corporation acted in customer's favor even though complaint not classified as justified (unjustified complaints)	Total rebate to customers with unjustified complaints (NIS)	Total rebate to all complainants (NIS)	Proportion of requests processed ex gratia to total complaints referred to bank and not classified as justified, 2014
Bank Hapoalim Ltd.	606	167	1,087,373	1,337,245	27.6%
Bank Leumi Ltd.	499	113	255,789	533,178	22.6%
Israel Discount Bank Ltd.	283	69	414,661	961,296	24.4%
Bank Mizrahi-Tefahot Ltd.	252	63	93,945	160,137	25.0%
First International Bank Ltd.	151	41	170,143	192,191	27.2%
Bank Yahav for State Employees Ltd.	116	18	1,177	88,886	
Bank Otsar Hahayal Ltd.	66	16	18,155	22,766	
Mercantile Discount Bank Ltd.	53	13	73,083	93,080	
Union Bank of Israel Ltd.	63	11	2,651	6,398	
Bank Poalei Agudat Israel Ltd.	23	9	100,825	108,600	
Bank of Jerusalem Ltd.	57	5	5,000	5,694	
Bank Massad Ltd.	24	2	1,700	5,512	
Arab Israel Bank Ltd.	21	1	–	–	
Cal (Cartisey Ashrai Le'Yisrael)-Israel Credit Cards	54	15	3,169	3,886	
Isracard Ltd.	53	11	3,194	26,741	
Leumi Card Ltd.	31	10	52,604	58,342	