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Bank of Israel to allow fintech companies to connect to supervised payment systems

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Introduction

There are several supervised payment systems operating in Israel, in accordance with the Payment Systems Law, 5768-2008. The Bank of Israel's ZAHAV system, which is a real-time gross settlement (RTGS) system and the MASAV's system of credits, debits and transfers are the most famous, but there are other supervised systems, including the:

- faster payments system of MASAV, the volume of activity of which is going to increase;
- payment card services system; and
- automated teller machine (ATM) system operated by SHVA.

The payments market in Israel has undergone significant transformation in recent years, accompanied by regulatory developments to govern this dynamic sector. There has been a notable surge in interest from fintech companies and non-banking entities looking to offer payment services to Israelis in Israel. These entities now require access to supervised payment systems to facilitate various operations, including clearing, issuance of means of payment, payment transfers, payment account management, and more. Additionally, some of these entities also extend their offerings to encompass additional financial services like loan provision, savings solutions, currency exchange and other related services.

Payment Systems Access Guide

Against this backdrop, the Bank of Israel has taken a proactive step by issuing the [Payment Systems Access Guide](#). This guide, according to the Bank of Israel's [press release](#) of 21 June 2023, aims to provide information to fintech companies, both local and international, as well as other non-banking entities interested in participating in the core supervised payment systems alongside traditional banks. Its purpose is to present these entities with a comprehensive overview of the various options available for operating within the payment systems in Israel, along with the associated conditions and requirements. The guide seeks to facilitate the decision-making process and the joining procedures for these entities.

Additionally, the guide provides comprehensive background information and detailed insights into the roles of each supervised payment system, their modes of operation and the relevant use cases associated with them.

The threshold conditions for participation in any of the supervised payment systems are:

- A license – a relevant license is required, such as a license to provide services in a financial asset, clearing license and a banking auxiliary corporation. There is the possibility of obtaining an exemption (although, as a general rule, entities exempt from a license will only be able to operate through indirect access).
- An identification code – an identification code must be obtained from the Bank of Israel and the relevant terms and conditions must be met.
- An access model – the guide outlines the access layers and models that are available for each payment system, taking into consideration various technological, legal and business aspects. Participants will have the freedom to select the access model that best aligns with their needs, taking into account the specific conditions that apply to each layer.
- A clearing solution – participants have the flexibility to select their preferred clearing solution subject to the corresponding conditions. As an example, a non-banking entity can opt to open an independent clearing account with the ZAHAV system, provided they meet the access and connection requirements. However, in this scenario, the account would need to be emptied at the end of each day. Alternatively, the entity could choose to be represented by another participant, enabling them to settle their activities through the clearing account of the representative participant.

Additionally, the guide provides detailed information regarding the additional conditions that apply to each system and highlights exceptional cases in which the supervisory authority may grant exceptions to these conditions.

Foreign entities

The Bank of Israel will grant access to the supervised payment systems also for international payment service providers, provided they fulfil the conditions outlined in section 3(7) of the Financial Services Supervision Regulations (Regulated Financial Services) (Exemption from Licensing Obligation), 5783-2022. This access is extended to international providers even if they have not yet obtained a license in Israel, enabling them to participate in the payment systems while complying with the specified exemption regulations.

The primary requirement is that the foreign service provider must hold a valid license issued by the relevant regulator in a recognised country (ie, the United Kingdom, EU countries or the United States). This license will also serve as the key condition for eligibility to participate in the supervised payment systems.

Comment

Thoughtfully and carefully expanding the supply and diversity of financial services in Israel, along with an increase in the number of payment service providers, fosters healthy competition within the payment services market. When competition is pursued while ensuring the stability of the financial system, it ultimately enhances the overall consumer experience in Israel. By striking the right balance, these measures can lead to improvements in the accessibility, quality, and affordability of financial services for consumers in Israel.

While the Bank of Israel's decision to open access to the supervised payment systems for new entities is a necessary step, it is not without its complexities and challenges. However, this move, along with other initiatives led by the Bank of Israel, the Israeli Securities Authority and other regulators, presents valuable business opportunities for fintech companies and entities aiming to provide financial services in Israel. Moreover, it promotes the introduction of innovative payment solutions while reducing reliance on the traditional banking system. These collective efforts pave the way for a more diverse and dynamic financial landscape in Israel.

The [access guide](#) is subject to changes and updates by the Bank of Israel and can be viewed on the Bank of Israel's website.

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