



STATE OF ISRAEL
MINISTRY OF FINANCE

SPOKESPERSON OFFICE

INTERNATIONAL AFFAIRS
DEPARTMENT

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Press Release

Minister of Finance Presents Bill to Promote Competition in the Credit-Card Industry, Aimed Primarily at Improving Bargaining Power of Small Business Owners Outside Central Israel

Minister of Finance **Dr. Yuval Steinitz** submitted the bill, which was formulated by the accountant general of the Ministry of Finance, in collaboration with the Bank of Israel and the Ministry of Justice, to the ministerial committee on legislation. The bill seeks to correct failures in the credit-card market and increase competition; it would mainly benefit small-business owners in general, and those located in peripheral regions in particular.

The key goal of the bill is to increase competition in the area of clearing. The bill states that an issuer of 10% or more of credit cards is a large issuer, and is to be obligated to allow other clearers to clear transactions executed using the large issuer's cards. This proposal would increase competition in the clearing market, primarily granting small-business owners with lesser bargaining power the ability to choose the credit-card company with which they contract to accept the major credit cards (CAL, Leumi Card, or Isracard), in contrast to the current situation.

Another important item in the bill refers to the factoring market; its goal is to remove barriers in this market and allow an increase in activity, in order to benefit businesses. Today, businesses must obtain the approval of the credit-card company in order to exercise factoring of transactions executed using credit cards. The credit-card companies tend to create difficulties for businesses that wish to contract with factoring companies not under their ownership. Under the bill, credit-card companies would not be permitted to prevent businesses from contracting with factoring companies.

The bill also proposes allowing new competitors to enter the market. Entry barriers for new issuers are currently high, as they lack clearing infrastructures; the bill states that any clearer of 20% or more of transactions is to be obligated to clear transactions of other issuers. In effect, new issuers would be able to use the existing companies' clearing infrastructures and would not need to establish their own systems. The bill also addresses additional issues, such as requiring clearers to obtain a license from the



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governor of the Bank of Israel and authorizing the supervisor of banks to monitor the rate of interchange fees.

The bill was created following the recommendations of the interministerial committee for the examination of market failures in the credit-card clearing system in Israel, appointed in August 2005. During the formulation of the bill, the accountant general conducted an in-depth study of the market and met with all of the relevant parties in the industry, including all of the credit-card companies as well as factoring companies, insurance companies, retail firms, and small businesses. He also surveyed the existing government regulation in this area elsewhere in the world.

Minister of Finance **Dr. Yuval Steinitz**: “The bill will grant small businesses in non-central regions bargaining power against the credit-card companies, and will lead to a reduction of clearing fees by all of the credit-card companies. In addition, the bill will significantly increase competition in the credit-card market.”

Accountant General **Shouky Oren** added: “Opening the market to competition will mainly improve the standing of small businesses, in Israel in general and in non-central regions in particular; improve the service provided by credit-card companies to small businesses; and bring about a decrease in fees for merchants, who we hope will ultimately also lead to lower prices for consumers.”