



The Legal 500 & The In-House Lawyer
Comparative Legal Guide
Israel: Fintech (2nd edition)

This country-specific Q&A provides an overview of the legal framework and key issues surrounding fintech law in Israel.

This Q&A is part of the global guide to Fintech.

For a full list of jurisdictional Q&As visit <http://www.inhouselawyer.co.uk/index.php/practice-areas/fintech-2nd-edition>



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1. **What are the sources of payments law in your jurisdiction?**

Until recently, there was no specific legislation regulating all the aspects of payments in Israel, although there were several laws and regulations which handled certain fragments or types of payment services.

On January 2019, the Knesset (the Israeli Parliament) enacted the Payment Services Law, 5779-2019, which was supposed to become effective on January 2020 but its validity is likely to be postponed until July 2020.

Until the Payment Services law is effective, the regulation of payments is based on the current existing laws:

a. The Charge Cards Law, 5746-1986 which deals with the relationships between holders of charge cards (credit cards, debit cards, payments cards and bank (ATM) cards) and the issuers thereof. It grants several consumers protections and imposes several duties on the issuers including, among other things, a requirement for a written agreement, disclosure requirements, protection against fraud and unauthorized use and rights regarding card-not-present transactions. The said law also regulates the termination of charge card agreements.

b. banking regulations: since many payment services are provided by banks, the regulation applicable to banks are relevant to payments. The Banking (Services to Customers) Law, 5741-1981 and the regulations promulgated thereunder define general disclosure and contractual requirements relating, among other things, to payment services. In addition, the Banking Ordinance, 1941, and the "Proper Conduct of Banking business" ("PCB") directives which the Bank of Israel issued pursuant to the said ordinance relate to certain payment services: (i) standing orders [PCB no. 439]; (ii) use of ATMs [PCB no. 442]; and (iii) charge cards [PCBs no. 470, 471 and 472].

c. The Payments Systems Law, 5768-2008: this law is not a "payments law" but rather regulates the authorization of controlled payment services. Nonetheless, the said law determines the finality and irrevocability of payment made in a controlled payment system. The "Zahav" payment system, which provides RTGS services in Israel, was authorized as a Designated Controlled Payment System pursuant to the said law. The rules relating to the operation thereof are set forth in the agreement between the Bank of Israel and the operator of the Zahave system (which was appointed by the of the Bank of Israel) - the Tel Aviv



Stock Exchange Settlement System. [In order to support the finality of the Zahav System and the stability thereof, the members of the Zahav system are required to keep at all time sufficient liquidated funds (cash or governmental bonds) securing their gross liabilities.

d. Masav's internal regulations: non RTGS domestic electronic funds transfers are performed using the services of "Masav" – the Interbanking Settlement System. Masav is a corporation owned by the various banks in Israel and provides services to the entire banking system and to private parties. The internal regulations of Masav were examined by the Bank of Israel and by the Antitrust Commissioner.

e. SWIFT and CLS internal regulations: international funds transfers are mainly performed using the SWIFT system and CLS and is therefore subject to their internal regulations. CLS was declared as a Controlled Payment System pursuant to the Payments Systems Law detailed above. It is also worthwhile mentioning, that the infrastructure for communication among issuers and acquirers of charge cards and merchants in Israel is managed by a public company called "Shva", which is partially owned by banks. This company is also partially regulated, in accordance with the 'Shtrum Reform", as set forth in the Law for the Increase of Competition and Decrease of the Centralization in the Banking Market in Israel (Legislation Amendment), 5777-2017. Shva was defined as an Interface System pursuant to the said law.

f. The Bills Ordinance [New Version], which is not a "payments law" but rather deals with three main types of bills: bills of exchange, cheques and promissory notes and It regulates the transferability of bills, their validity and more. There are some regulations and directive relating to the clearing and settlement of checks.

g. The Supervision of Financial Services (Regulated Financial Services) Law, 5766-2016 (the "RFS Supervision Law") is mainly designated to regulate the

licensing of payment services providers but also includes certain provision relating to disclosure, fair treatment and consumer protection.

h. AML/ CFT regulations: the Prevention of Money Laundering Law, 5760-2000 (the “AML Law”) and the order issues thereunder by the various regulators, including the Bank of Israel and the Supervisor of Regulated Financial Services, affect the provision of payment services, including the initial registration of clients and the monitoring and supervision of the performance of payments.

As noted above, The Payment Services Law, 5779-2019, is expected to become effective in 202. The said law is the Israeli equivalent to the European PSD 2 and set forth similar (although not identical) requirement regarding , disclosure obligations and other obligations on the payment service providers (vis-à-vis either the payer or the beneficiary of the payments). It also includes provisions regarding means of identification of users, and provisions regarding cancelation of payments due to fraud, unauthorized use, card-not-present transactions and other types of transactions. The Payment Services Law also regulate standing orders. The definitions in the Payment Services Law relate to any type of means of payments and is not limited to charge cards.

2. Can payment services be provided by non-banks, and if so on what conditions?

Yes, non-banks are allowed to provide payment services.

Until the year 2018, ther was no license requirements of providers of payment services, except where the services provided by such providers required registration pursuant to the AML Law (e.g. in case of cross-border payments, conversion of currencies, conversion between cash and non-cash). From the year 2012, acquiring of transactions made with charge cards requires a license pursuant to the Banking (Licensing) Law, 5741-1981 (the “Banking Licensing

Law”) but the license of acquirers is not a banking license (and in fact, according to the “Shtrum Reform” large capacity banks are not not entitled to control licensed acquirers).

From 2018, providers of payment services which are not regulated by other laws (e.g. banks, insurance companies, acquirers, pension funds, etc.)

The license requirement pursuant to the RFS Supervision Law only applies if the service providers actually handles funds (including holding and management of funds, transfer thereof or conversion thereof) and there is no license requirements for PSPs or facilitators which do not actually “touch” the money. Additionally, the RFS Supervision Law imposes a license requirements on issuers of credit cards. As noted above, the license requirements pursuant to the RFS Supervision Law do not apply to regulated entities.

A license for acquirers is granted by the Bank of Israel and is subject to a thorough examination, including a comprehensive “fit&proper” check of both the controlling shareholders and the officers of the acquirer, minimum capital and compliance with the regulations of the Bank of Israel. There are some exemptions for small acquirers (whose acquiring volume is less than ILS 1Bn (approximately USD 285M) per annum. B. a license for other payment services or for issuance of credit cards is granted by the Supervisor of Regulated Financial Services at the Ministry of Finance/ Capital Markets Authority. A “basic” license is limited to a business revenue of ILS 30M (approximately USD 8.5M), and requires equity of ILS 300K (approximately USD 85K). There is a fit&proper check of the controlling shareholders of the service providers and the officers thereof. An “extended” license is not limited to any revenue and also requires corporate governance mechanism and a detailed business plan.

It should be noted that due to the fact that the RFS Supervision Law came into effect recently and about seventeen hundred license applications were filed, there is a material lag in the examination of applications and the time required

to obtain a license may be relatively long.

3. What are the most popular payment methods and payment instruments in your jurisdiction?

According to reports of the Bank of Israel for the year 2017, the volumes of transactions in each of the payment instruments were:

Checks: ILS 885 Bn (approximately 104 million checks and paper based payments).

Domestic non RTGS ETFs (Masav): ILS 3,149 Bn (approximately 371 million transactions).

Domestic RTGS ETFs (Zahav, excluding CLS): ILS 3,597 Bn (approximately 966K transactions).

Domestic RTGS CLS ETFs (Zahav): ILS 955 Bn (approximately 12K transactions). This activity is basically inter-banking activity only.

Credit card transactions: ILS 272 Bn (8.2 million active charge cards).

* please note that the Zahav RTGS system also serves payments in other payment systems (ILS 2,934 Bn in the year 2017) and payments of the Bank of Israel itself (ILS 140,460 Bn in the year 2017).

** Standing orders are usually cleared using Masav ETFs or credit card clearing.

*** the information does not include payments within the stock exchange

settlement system.

Please note that these numbers refer to the total number and volume of the transaction in each payment system. These figures include inter-banking transactions. In many cases, a transaction in one type of payment means will trigger payment in other payment means as well (for instance: Masav ETFs among private users may trigger a Zahav ETF among the relevant bank; acquiring of credit card transaction will also lead to ETFs among the various participants (issuer, acquirer, card holder, merchant and their respective banks)).

The reports of the Bank of Israel indicate that since the year 2015 there is an increase in the volume of transactions made using charge cards and Masav ETFs, and a decrease in the use of checks and Zahav ETFs.

Until the year 2016 there was a moderate increase in the use of cash but this trend changes in 2017. In the year 2019, the Law for the Decrease of Use of Cash, 5778-2018 came into effect. This law limits the amounts that can be paid in cash among individuals and among merchants and is likely to decrease the use of cash even more.

- 4. What is the status of open banking in your jurisdiction (i.e. access to banks' transaction data and push-payment functionality by third party service providers)? Is it mandated by law, if so to which entities, and what is state of implementation in practice?**

The open banking reform has not yet reached Israel. Most of the IT systems of banks are not adapted to it and there are no regulatory demands in this direction. We see publications of the Bank of Israel that may indicate its intention to consider applying this reform and understand that there are draft



directives which are discussed internally but were not published to the public's comments so far. We expect the Bank of Israel to circulate a draft to the public in the next few months. We also assume that the Bank of Israel will allow a long organization period.

As part of the "Shtrum Reform", banks will be required to allow their clients access to aggregated information of all their credit cards (whether or not issued by the same bank). Additionally, banks will be required to allow access to information providers of banking-cost-comparison services.

Additionally, The Bank of Israel will force Shva to allow any entity that meets Shva system requirements to connect to the system and actually use its protocols and infrastructure. This requires Shva to publish its list of requirements.

Today, most of the commercial banks in Israel allow limited API access for very specific modules of them. Most banks allow access to a securities trading system via the API some allow also for foreign currency trading and some also allow API access for limited-scale information.

The core computer systems of many banks is proprietary and relatively old and the support of open-banking will require such banks to invest in substantial IT developments.

5. How does the regulation of data in your jurisdiction impact on the provision of financial services to consumers and businesses?

In recent years, the regulations relating to privacy protection and the use of information have become stricter and more comprehensive, and the enforcement thereof is more prudent. The limitations address two main aspects:

(i) obtaining the client's consent for collecting and storing of information, the uses thereof and the transfer of stored information to third parties and (ii) stricter requirements regarding data security.

On May 2018, the Privacy Protection (Data Security) Regulations came into force. The said regulations address the latter issue. The Privacy Protection Authority issued certain circulars regarding the first issue.

The rules regarding the use of personal information is similar (but not identical) to those of the GDPR.

In general, it is possible to collect and use information, provided that (i) the data subject expressly consents to the collection and information; (ii) the consent is an informed consent (usually – in an opt-in scheme); (iii) the consent expressly defines the type of information collected; (iv) the consent expressly defines the types of uses allowed; (v) in order to allow transfer of data to third parties, there should be an express consent to such transfer, detailing the permitted transferees. In the event that the data will be used for statistical purposes, where the output does not contain information identifiable to any certain individual, the consent can be more general.

The Credit Data Law, 5776-2016 created a database managed by the Bank of Israel which includes credit data of individuals in Israel. There is an opt-out mechanism of the storing of the information in the database and there is an opt-in mechanism regarding the use of information, i.e. only the information of those who have positively given permission to use it shall be used.

6. What are regulators in your jurisdiction doing to encourage innovation in the financial sector? Are there any initiatives such

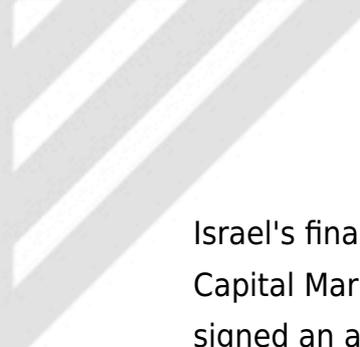
as sandboxes, or special regulatory conditions for fintechs?

Securities:

On July 23, 2018 Israel Securities Authority announced the establishment of a regulatory Innovation Hub in the field of Fintech. This initiative was aimed at promoting common discourse between the ISA and relevant players in the field of Fintech. The ISA encourages Fintech companies and entrepreneurs to engage the ISA in order to learn and understand the relevant regulatory framework and to adjust their activity to meet regulation standards, through guidance of the ISA's staff. And at the beginning of 2019 the ISA announced it has joined the Global Financial Innovation Network (GFIN) with financial regulators worldwide including in the UK, Australia, United States, Hong Kong, Singapore, South Africa, and others. [The GFIN is an international network of 29 financial regulators and international agencies, including the IMF and the World Bank Group, for promotion of financial innovation declaring its view to the interests of the investors. The GFIN aimed for establishing an international sandbox and a forum in which leading regulators worldwide can share practical and innovative information. The international sandbox is designed for firms that wish to test innovative products, services, or business models in multiple jurisdictions concurrently.]

The ISA chairman publicly announced on January 2019: *"I have placed the field of financial innovation at top of the ISA's priorities and on the agenda of the capital market. Israel is the source of ground-breaking innovations in FinTech, cyber, and other fields. It is our duty to provide the regulatory infrastructure to firms that both protects the interests of the investors and supports the development of innovative technologies that will ultimately improve and enhance the public's access to financial services in Israel with minimum mediation. I invite firms to join us and participate in building a technologically advanced, efficient capital market, with greater value for the investors."*

On July 9th, 2019 the New York State Department of Financial Services and



Israel's financial regulators – Supervisor of Banks at the Bank of Israel, Head of Capital Markets, Insurance and Savings Authority and Chairwoman of ISA, signed an agreement to encourage and enable cross-border innovation in financial services technology. Similar agreements were signed also with Croatia, France and Switzerland.

Banking/ payment services:

There is no similar mechanism such as sandbox or hubs with regard to the banking regulator (the Bank of Israel) and the non-banking payment services regulator (the Supervisor of Regulated Financial Services). The Bank of Israel does try to encourage innovative technology implementation in the banks, but demand that any such implementation shall be carried out cautiously. The board of each banking corporation is required to form an innovation committee and to consult with experts.

On June 23, 2019 the Supervisor of the Banks had issued a circular to the banking corporations which outlines the Supervisor's position on how banks should embrace innovation in a way that considers the risks inherent in it:

1. In accordance with the requirements of Proper Banking Conduct Directive 301, banking corporations are required to formulate a clear and holistic approach to adopting innovation in their banking activities.
2. Banking corporations have to ensure that the strategic approach to innovation, based on the integration of technological capabilities, addresses, inter alia: Improvement of customer experience in banking services; make operational processes more efficient and automatic including compliance aspects; and increase the competitiveness of the banking corporation.
3. Banking corporations are required to assess the various risks arising from the implementation of new and innovative products and services.
4. Banking Supervision encourages banking corporations to establish internal sandboxes that will enable them to test new technologies, including in collaboration with FinTech companies and their suitability to the processes existing in a banking corporation.
5. The Banking Supervisor acknowledges that innovation initiative experiments are

sometimes accompanied by risks. therefore, creating an experimental environment for examining the risks is an important consideration in the examination and approval process by the Bank of Israel.

6. Banking Supervision wishes to remove regulatory barriers to innovation and infrastructure development that will facilitate innovation, updating communications banking instruction, cloud technology, and setting an open banking standard.

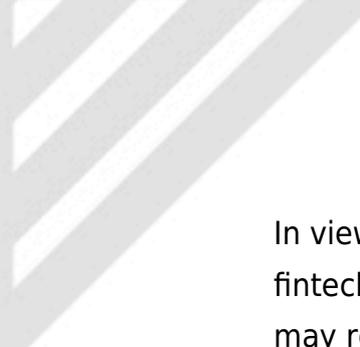
7. **Do you foresee any imminent risks to the growth of the fintech market in your jurisdiction?**

We foresee three main imminent risks or impediments to the growth of fintech market in Israel:

1. AML/ Interconnection with the banking and financial system.

The AML regulation in Israel is a major obstacle in the adoption of new technologies and in the entrance of new fintech based players. Although the AML/ CFT principles implemented in Israel are similar to those employed in many other OECS countries and are based on the FATF recommendations, there is no pre-ruling mechanism or other measure which allow banks and other financial institutions to mitigate their AML risks. This situation has led to a state, in which many fintech find it hard or even impossible to interconnect and interface with the banking system (e.g. open a bank account). The fact that the AML order applicable to non-banking payment services providers are still draft and were not approved makes things even more complicated - the problem continues during on-going operation, since banks cannot rely on the internal compliance procedures of the fintech service providers.

Banking corporations in Israel, although having an obligation not to prevent services from clients, act with extra caution with regard to companies involved in the holding or transfer of funds or financial assets due to their risk based policies.



In view of the aforesaid, the Bank of Israel recently announced that every fintech Company experiencing difficulties with opening a bank account may report and seek assistance from the Bank of Israel. It is yet to learn whether this action will solve the problem

2. Regulatory changes and uncertainty

The State of Israel has undergone many regulatory changes in the past few years with regard to fintech and financial services. Those changes include, among other things, new license requirements to certain providers or financial services, several reforms in the banking world (starting from the Bechar reform more than a decade ago and ending with the Shtrum reform several months ago) and the regulation of financial services (e.g. the Payment Services Law). Although many of these changes should be helpful and should contribute to the developments of fintech, in the long run, their immediate effect may be the opposite. There is a lack of guidelines as to the implementation of these laws; there is some ambiguity as to their interpretation; and there is a material setback in the response time of the regulators, including a very troubling delay in the license process of new players.

3. Small internal market size:

The fact that Israel's economy is relatively small and concise makes it hard to commercially base fintech activity on the Israeli market. Moreover, the fact that Israel employs a different language and even alphabet (Hebrew) and is based on RTL user interface means that IT systems have to be uniquely adjusted for use in Israel. Similarly, the fact that Israel has its own regulatory system, which is significantly based on EU and US regulation but nonetheless sometimes differs therefrom, means that IT fintech systems have to be localized not only in their interface and language but also in their content and flow.

Since the market in Israel is not large, it is often unprofitable to start a fintech project in Israel.



Due to these problems, despite the fact that Israel is often described as the “Start-up Nation” and has indeed unproportionally large number of fintech endeavours, many of these projects are not implemented in Israel but are rather directed to EU or US area.

Notwithstanding the aforesaid, it should be noted that some perceive the small market size as a advantage and not as a risk, and believe that the concise market structure assists in the testing of new services and technology.

8. What tax incentives exist in your jurisdiction to encourage fintech investment?

There are no tax incentives in Israel designated to encourage fintech investments.

There are several tax incentives for R&D / innovative activity and to activities which may result in export activity, and those tax incentives can be used for fintech projects, if they qualify. Nonetheless, these incentives are not directed at fintech project and any project which meets the criteria may benefit from such incentives, regardless to its exact field of business.

Nonetheless, we believe that many fintech projects may qualify for the said tax incentives.

Please note that some tax incentives are contingent upon keeping the IP in an Israeli entity and keeping manufacturing activity in Israel.

9. Which areas of fintech are attracting investment in your jurisdiction, and at what level (Series A, Series B etc)?

According to an unofficial survey and check made by an independent non-profit



organization which assists startups in Israel, there are currently around 430 active fintech startup in Israel in 2018.

The said survey categorized the active fintech projects according to their field of operation:

- Trading and investment - approx. 29%
- Payments - approx. 23%
- Enterprise Solutions - approx. 15%
- Anti-Fraud, Risk & Compliance - approx. 13%
- Lending & Financing - approx. 10%
- Personal Finance Management - approx. 6%
- International Money Transfer & Currency Exchange - approx. 4%

Please note that these numbers relate to the number of projects, regardless to their scope, no. of employees, amount raise, etc.

The said survey focused, among other things, on Insuretech companies. The service shows a steady increase in the number of Insuretech companies, from 27 companies in the year 2014 up to 66 companies in the year 2018. The survey also checked the capital raised in during these years, which varied from US\$7m in 2014 up to US\$199m in 2017. The capital raised in 2018 was US\$57m.

Among the leading fintech companies mentioned in this survey:

- Payoneer: a leading cross-border payment platform.
- Lemonade: digital insurance, mainly active in the US.
- Bluevine: an invoice factoring and business line of credit provider.
- SafeCharge: a global omni-channel payments service provider for online merchants.
- Superderivative: a provider of cloud-based, real-time market data, derivatives technology,

and valuation services for the financial and commodity markets.

- Behalf: an alternative financing provider that specializes in working capital credit for SMEs.

Please note that most of these fintech companies were innovated by Israelis but are operating outside Israel and some of them started their operations and incorporated their business outside Israel, from the first place or were later acquired by international players.

According to this survey, Israeli Fintech startups have raised more than \$1.8B in total across 211 deals since 2014.

10. **If a fintech entrepreneur was looking for a jurisdiction in which to begin operations, why would it choose yours?**

Israel, often considered as the Start-up Nation, is a place with a lot of technologic innovation with great entrepreneur environment. Israel is a small country and can serve well as experimental site for Fintech innovation. It has know-how resources of leading players in all fintech areas and supporting areas (like cybersecurity). People in Israel are early adopters of innovative technology and alternative financing services. Israel is one of the leading countries in blockchain technologies. Significant academic works were published on crypto-tech. There is a relatively big and active blockchain and Fintech community. More than 80 Israeli blockchain companies. Cumulative amount raised till 2018: \$190M (VCs), \$503M (ICOs). There is an increasing awareness of the consumers and regulators of the advantages of Fintech in Israel. Banks and insurance companies are pretty much involved in the markets. They run Fintech accelerators, innovation labs, and investment funds. [1] However, despite the increasing awareness, there are still some difficulties with integration with traditional banking systems.

[1] - Start-Up Nation Central "ISRAEL - HOME TO DISRUPTIVE FINTECH AND INSURTECH INNOVATIONS" available at <https://www.startupnationcentral.org/wp-content/uploads/2018/06/Fintech.pdf>

11. **Access to talent is often cited as a key issue for fintechs - are there any immigration rules in your jurisdiction which would help or hinder that access, whether in force now or imminently? For instance, are quotas systems/immigration caps in place in your jurisdiction and how are they determined?**

There are no special rules for employing talent employee for fintechs.

There are rules for obtaining a work permit for employing foreign experts in general.

An application process and a permit to hire foreign experts employees usually take about two-three months and in order to obtain such a permit, several conditions must be met:

1. The company first tried to recruit an employee with the required expertise in Israel and was unsuccessful. The employee for whom the Company is applying for a work visa is indeed unique and has special expertise.
2. The Company have to declare that if the expert will receive a work visa, it will pay him a salary that is not less than twice the average monthly wage, and will pay him all the labor rights granted to an employee under Israeli law. In addition, for a foreign employee (whether he is an expert or not) the company should also have to pay for medical insurance and take care of a place of residence or pay a minimum amount for proper residence.

A work visa is given for a period of one year. The work visa can be renewed every year up to a maximum of five years.



The cost of the work visa application is about NIS 11,000 (and a renewal each year costs the same amount)

There are no specific quotas or restrictions in connection with talent employees in fintechs.

Nonetheless, these requirements only apply for employees residing in Israel at the time of their employment. There are no such requirements for people providing services from locations outside the area of the State of Israel.

12. **If there are gaps in access to talent, are regulators looking to fill these and if so how? How much impact does the fintech industry have on influencing immigration policy in your jurisdiction?**

For the best of our knowledge regulators in Israel are not looking to fill gaps in access to talent in the fintech industry

13. **What protections can a fintech use in your jurisdiction to protect its intellectual property?**

All common intellectual property protections exist in the western world apply in Israel as well: Patent registration, copyrights etc. Israel is a member of the Patent Cooperation Treaty (PCT) and various other IP treaties and offer the same level of IP protection as in any other western countries. There is also protection for copyrights and designs.

We believe that the protection offered to intellectual property in Israel is similar to the one provided in other OECD countries.

14. **How are cryptocurrencies treated under the regulatory framework in your jurisdiction?**

Until 2016, there was no specific regulatory treatment to cryptocurrencies (except for one minor reporting duty applicable to registered currency service providers).

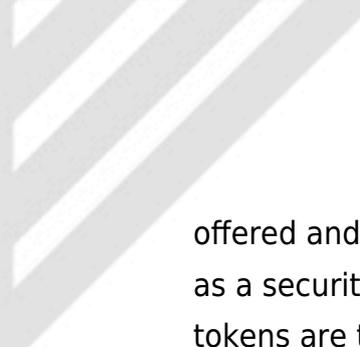
In 2016, cryptocurrencies were categorized as financial assets under the RFS Supervision Law, which requires a license for providers of management, transfer or exchange services relating to cryptocurrencies. In addition, both the Tax Authority and the Israeli Security Authority issued circulars, analyzing the different types of cryptocurrencies and distinguishing between utility tokens, security tokens and means of payments. The regulator published draft regulations relating to the reporting duties of such service providers. According to the draft regulations, in addition to identification of the client, services providers are required to record the public keys used by the clients and the IP address from which the communication was made.

According to the Tax Authority's circular, all these types are considered as a digital assets (and not as a currency) and profits from the sale thereof are taxed.

According to the Israeli Securities Authority, issuance or offer of security tokens is subject to permit and prospectus duty exactly like any other security.

15. **How are initial coin offerings treated in your jurisdiction? Do you foresee any change in this over the next 12-24 months?**

The treatment of ICOs depends on the type of the crypto token or currency



offered and the rights attached thereto. In the event that the token is classified as a security token, it shall be treated as security. Utility tokens and payment tokens are theoretically not subject to the Israeli Securities Law, 5728-1968. To the best of our knowledge, the lack of regulatory clarity in this area resulted that no coin offering had been carried to investors residing in Israel. The difficulties in integrating into the traditional banking system make it very difficult for crypto and blockchain projects in Israel and until there is a solution, probability for ICOs of TGEs in Israel is likely to remain low.

Following a recent court ruling, which forced banks to provide certain services to crypto service providers, we might see some changes in the policy of banks to cryptocurrency activity in the upcoming 12-24 months.

16. **Are you aware of any live blockchain projects (beyond proof of concept) in your jurisdiction and if so in what areas?**

Israel has a vibrant blockchain sector with various companies currently with or working towards blockchain related projects. These projects represent a cross-section of specialization areas with express focus on security and fintech. Major Israeli blockchain companies include Bancor Network, which provides a decentralized cross-chain liquidity network, and Orbs, which helps provide a scalability solution to decentralized apps.

Another player which should be mentioned is Neema, which assists the Marshal Islands with the issuance of their cryptocurrency - Sovereign.

17. **To what extent are you aware of artificial intelligence already being used in the financial sector in your jurisdiction, and do**

you think regulation will impede or encourage its further use?

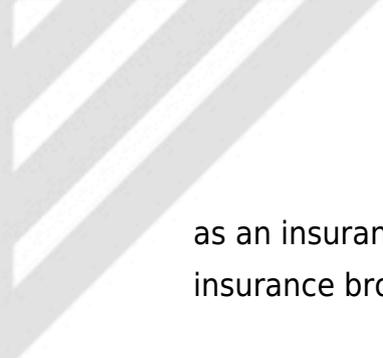
The Israeli financial sector has begun incorporating artificial intelligence and machine-learning with a wide variety of start-ups utilizing artificial intelligence to provide solutions to the financial sector. Israeli banks are not standing idly by and have shown both an interest to invest in and utilize artificial intelligence. While the Israeli regulator has not given clear instructions as to the boundaries of the use of artificial intelligence in the fintech sector, the Bank of Israel is to issue its first banking license for more than 40 years. The license will be issued to a new venture currently called The Digital Bank (which is represented by this firm). Other entities in Israel such as Personetics are using AI to develop technology for use by the banking sector for personalized banking services.

18. Insurtech is generally thought to be developing but some way behind other areas of fintech such as payments. Is there much insurtech business in your jurisdiction and if so what form does it generally take?

There are several ventures we know of. For example pension counselling and pension marketing procedures carried out by systems that support counselling.

As a general rule, only licensed insurance companies and insurance agents are allowed to sell insurance policies or give brokerage insurance consulting. However, the Capital Markets Authority had issue a circular which permits the involvement of other entities in the insurance process. This allows some insurtech services that are very limited because they must be informational services free of charge or performed by someone who is licensed.

The most known insurtech project in Israel is an insurance comparison and selection website operated by “Wobi”. Please note that Wobi elected to register



as an insurance agent in order to comply with the regulations applicable to insurance brokerage.

The most known insuretech company which originated in Israel is Lemonade, which was initiated and incorporated by Israelis but does not operate in Israel.

19. **Are there any areas of fintech that are particularly strong in your jurisdiction?**

The Israeli fintech ecosystem boasts a large and diverse amount of startups spread over the various sub-areas of the fintech landscape. In general we believe that enterprise fraud management (for example Actimize) and payment solution (eg Payoneer) technology will be areas in which Israeli technology will dominate

20. **What is the status of collaboration vs disruption in your jurisdiction as between fintechs and incumbent financial institutions?**

Traditional banking corporations are very interested in Fintech and the technological innovation in the field, but due to regulatory requirements they are limited. On the other hand, some of them make it difficult to integrate with the banking system because of problems related to anti money laundering. However, some of the Fintech companies allege that there might be commercial considerations which banks take into account, when inspecting the activities of fintech companies and sometimes denying the provision of banking services to them.

21. **To what extent are the banks and other incumbent financial institutions in your jurisdiction carrying out their own fintech development / innovation programmes?**

According to what we know, all banks in Israel are exploring various potential fintech projects, have their own innovations teams and consider development of fintech projects or partnering with existing fintech players.

Three of Israel's largest banks developed electronic wallets (for FIAT only) and provide payment services to the users thereof (some of which are NOT account holders with the said banks).

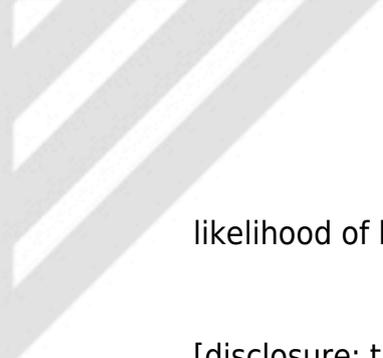
All insurance companies and pensions funds are exploring fintech tools, including onboarding solutions and underwriting, risk assessment and consulting tools.

22. **Are there any strong examples of disruption through fintech in your jurisdiction?**

The activity of Wobi in the insurance field turned out as a disruption in the automobile insurance field. This disruption has affected the travel insurance area too but has not yet penetrated other insurance areas (life insurance, pension, elementary insurance).

The activity of the banks' electronic wallets (Bit/ Pepper/ Paybox) seems to be disruptive in the area of micropayments.

The bank of Israel recently notified its consent to grant a bank license to the Digital Bank innovated by Marius Nacht (one of the founders of Checkpoint) and Amnon Shaashua (one of the founders of MobileEye). This has a strong



likelihood of becoming a disruptive force in the banking world.

[disclosure: the undersigned represent the Digital Bank]