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The sale of Israel's major credit card companies is underway.

Israel's two largest banks, Bank Leumi and Bank Hapoalim, are now officially compelled to divest their credit card businesses - Leumi Card and Isracard – and the engines are warming up on these sales.

Last week, on January 23rd 2017, the Israeli parliament passed the “Strum Law”¹, obligating Israel's two largest banks, Bank Leumi and Bank Hapoalim, to divest their credit card businesses, namely Leumi Card (80% held by Leumi) and Isracard (99.5% held by Hapoalim). These two payment card companies are the largest players in the Israeli payment card market and dominate approx. 76% of the payment card market in Israel (Isracard circa 50% and Leumi Card circa 26%).

According to the Strum Law, in order to enhance competition, large Israeli financial and non-financial institutions and corporations are prohibited from purchasing these payment card companies, which in turn promotes and encourages the entrance of foreign players such as PE funds and foreign financial participants (until now prohibited from doing so) to compete for the acquisition of such businesses.

Bank Leumi and Bank Hapoalim are each required to divest their credit card companies within three years. An additional year is granted if at the end of three years, the credit card company is taken public with a free float of 25% in public hands, and no more than 40% remains held by the bank.

Following the sale, Leumi and Hapoalim will be prohibited from engaging in merchant acquiring (clearing) transactions and from providing credit cards issuance processing (but will be allowed to offer and issue credit cards to their clients, set the rate of card issuance and usage fees and provide credit card holders with credit). The banks will be entitled to acquire clearing and issuance processing services from the credit card companies and will not be allowed to engage exclusively with one credit card company.

1. The enhancement of competition and limitation of centralization in the Israeli banking market (Legislative Amendments) Law, 2017

Credit card companies will be entitled to offer the banks' clients their own credit cards and the banks will only be allowed to offer the issue of new credit cards to existing clients within 45 days prior to the expiration date of a card (subject to certain exceptions).

Bank Leumi and Bank Hapoalim are required to reduce, within the period of four years, the amount of credit provided through credit cards to 50% of the amount provided by them in 2015 (such limitation will be removed at the end of 2023).

The regulator of the credit card companies will be the central bank (Bank of Israel), which has announced significant reliefs to credit card companies and their controlling shareholders, as opposed to the regulatory regime applicable to banks and their controlling shareholders.

A key element in these sales that will require close attention on the part of the selling banks will be the commercial arrangements to be put in place with the credit card companies going forward. It is expected that a primary objective of the selling banks will be to secure a long term cooperation agreement with respect to an entire host of issues, including clearing and card issuance processing services to the banks, provision of credit by the banks to the credit card companies, use of information and distribution of cards by the banks. This, no doubt, will add a layer of complexity to the transactions and highlight not only the price but the full package of terms.

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