



Report of the State Comptroller of Israel |
November 2022

Ministry of Economy and Industry

Consumer Protection Issues



Consumer Protection Issues

Background

The consumer public in Israel, especially consumers from among populations deserving support, such as new immigrants, the elderly, and minors, are in many cases at a disadvantage vis-à-vis business owners. Consequently, laws were enacted to ensure the rights of consumers, and a government regulation system was established to implement the provisions of the laws on consumer issues and to enforce them.

Consumer legislation in Israel includes several laws, the principal one is the Consumer Protection Law, 1981 (Consumer Protection Law). The law imposes duties on business owners, the main of which are disclosure, marking of goods, and displaying product prices. Moreover, it forbids misleading the consumer and taking advantage of their adversities.

The Minister of Economy and Industry (the Minister of Economy) is in charge of consumer protection and is responsible for implementing the provisions of the Consumer Protection Law and the Israel Consumer Council Law, 2008 (the Council Law).

Government bodies have been established under laws to monitor and enforce consumer protection laws and protect consumer's rights. The Consumer Protection and Fair-Trade Authority (the Consumer Protection Authority) is an independent entity established under Amendment 20 to the Consumer Protection Law in 2006. Among other things, it enforces the provisions of consumer legislation, foremost the Consumer Protection Law. The Israel Consumer Council (Consumer Council) a government company, is a consumer organization under the Council Law, and among other things, protects consumers and preserves their rights.

In addition, the Minister of Finance, the Minister of Justice, the Bank of Israel, and several government ministries, including the Ministry of Economy and Industry, the Ministry of Communications, and the Ministry of Energy, have the authority and means to guarantee consumer rights.



Key Figures

514 enforcement cases

opened by the Consumer Protection Authority in 2021 – a reduction of 50% compared to 2018. Of these, three criminal cases were opened

only 31%

the collection rate for the sanctions imposed on businesses by the Consumer Protection Authority in 2018–2021 (NIS 37 million were collected out of NIS 119 million imposed)

15 class actions

filed by the Israeli Consumer Council in 2019–2021 out of 1,603 total class action lawsuits filed on consumer issues in those years (about 1% only)

over 76% of the public

suffered a consumer injustice in 2020–2021 (according to the State Comptroller's Office public participation survey)

2.9 out of 5

the satisfaction level with the Israeli Consumer Council of those who inquire about it. By the State Comptroller's Office public survey, 40% were satisfied with the Council's handling of their inquiries – a low level of satisfaction

about NIS 16.6 million

estimate of the voucher value that consumers who are members of membership clubs do not redeem every year. Of which about NIS 6.3 million of expired vouchers, which the Pais (lottery) Club (NIS 2.9 million) and the "Tov," "Hever" and "Together for You" membership clubs did not return to consumers who did not use them

about 77%


of the consumers are not aware of the terms under which it is allowed to stop payments made via credit card

about 20%

of the open complaints at the Israeli Consumer Council in 2018–2020 were closed to reduce the number of unhandled complaints




Audit Actions

 From July 2021 to March 2022 (the Audit Period), the State Comptroller's Office examined government ministries and other entities' actions in consumer protection. The audit was conducted at the Consumer Protection Authority, the Israel Consumer Council, the Ministry of Economy, the Budget Division of the Ministry of Finance (Budget Division), and the Bank of Israel. Supplementary examinations were conducted at the Courts Administration, the Ministry of Justice, the State Attorney's Office, the Competition Authority, and the Government Companies Authority. In addition, meetings were held with experts and researchers from academia, private consumer organizations, the "Hever" membership club for standing army personnel and army retirees and "Hever Consumer" membership club, the "Tov" culture and leisure club for state employees (Tov Club), the "Together for You" membership club, the police funds membership club – "First Of All For You" (the Police Funds) and the "Pais Plus" consumers membership club (Pais Club).


In December 2021, the audit conducted a public participation survey of over 600 respondents. The survey dealt with consumer injustice and its handling by the authorities, consumer awareness, and the scope of consumer injustice in the past two years in purchasing products and services in various fields (Public Participation Survey).

Key Findings



 **The Public's Satisfaction with the Israeli Consumer Council and the Consumer Protection Authority** – by the Public Participation Survey, 76% of the participants, experienced consumer injustice in 2020–2021; 25% of them noted they do not know the main consumer entities. Moreover, over 60% of those who applied to these entities received a response (from the Consumer Protection Authority – 75%, and from the Consumer Council – 65%). Still, less than 50% were greatly satisfied with their treatment.



 **The Consumer Protection Authority Enforcement Extent** – in 2021, the Authority visited 2,664 (about 0.5%) businesses to which the Consumer Protection Law applies (600,000 in number) and opened 514 active enforcement cases (a 50% reduction in the number of cases in 2018). The scope of collectible sanctions imposed on the businesses in these years was NIS 119 million (after reduction), but the collection rate is only 31% (37 out of NIS 119 million). Moreover, the Authority rarely uses its criminal enforcement tools. Thus it opened only three criminal cases in 2020–2021, even though in these



years, there were 13 other tortfeasor companies whose financial sanctions were defined as uncollectible, and they did not have criminal cases opened against them. Therefore, the Authority's ability to deter businesses that violate consumer protection laws has been compromised.



The Consumer Protection Authority's Handling of Consumer Complaints – in 2020, the number of complaints to the Consumer Protection Authority increased by 58% compared to 2019: about 19,450 complaints compared to about 12,300 in 2019. Even though the Consumer Protection Law mandated the Authority to handle complaints concerning violations of the law or any other harm to the consumer, it does not handle personal complaints and does not assist in the recovery of funds for the consumers that were harmed. This state of affairs and the conclusions emerging from the public participation survey (according to which 26% of respondents reported low satisfaction with the response they received and 30% reported moderate satisfaction) raise concerns that consumers do not have much confidence in the Authority because its actions in handling individual inquiries are not sufficiently focused.



The Israeli Consumer Council's Handling of Consumer Complaints – by the Council's activity reports for 2018–2020, about 90,000 consumer complaints were received. It was raised that the Council closed about 5,300 complaints that it had begun processing but, for various reasons, was unable to receive a response to its inquiries from the parties involved in the complaint for over 30 days (about 20% of the open complaints). Moreover, although the Council determined that a consultation request must be answered within four days, on average, in 2019–2021, 46% of consultation requests were answered within 30 days, 13% of the requests were answered within 60 days, 8% were answered within 90 days, and the rest (about 32%) – within over 90 days. Less than 1% of consultation requests were answered within four days or less. Furthermore, a satisfaction survey of the Israeli Consumer Council raised that the average level of satisfaction of consumers with the response of the Israeli Consumer Council to their complaints in 2021 was 2.9 (out of 5). A public participation survey raised that 40% attested to low satisfaction and 25% attested to moderate satisfaction with handling their complaints.




Cooperation between the Consumer Protection Authority and the Israeli Consumer Council – it was found that there is no agreed procedure for the joint work of the Consumer Protection Authority and the Israeli Consumer Council, and the cooperation between them is not conducted according to defined guidelines.




The Bank of Israel's Handling of Consumer Complaints, Fraud, and the Abuse of Credit Cards – the Bank of Israel did not handle the complaints forwarded to it by the Consumer Council. These complaints contained information about the deception of consumers through credit cards, and scams aimed at the elderly. Moreover, the Bank of Israel did not examine the actions of the credit card companies to stop clearing transactions of businesses that misled consumers or committed fraud using credit cards,



including against the elderly. It was also raised that the Bank of Israel did not form a list of "red flags" and measurable conduct clauses that characterize businesses suspected of committing fraud. It also did not set actions that credit companies must take to establish reasonable suspicion so clearing can be stopped if necessary. The Bank also did not request reports or perform audits of the clearing companies to examine the corporate governance implemented for the suspension of clearing for businesses operating fraudulently and their compliance with this governance, nor did it examine the issuers' handling of consumer requests to cancel transactions, including their policies, systems, procedures, and handling of the resulting credit risk. It was also found that the Bank of Israel did not set individual supervisory requirements for issuers and clearers in the aforementioned areas.

 **Regulation Regarding Recalls** – in Israel, there is no procedure for the recall of products that regulates the rules and milestones to collect these products and handle them under the International Standard 10393, and there is no uniformity in the instructions for the recall of various products. Also, no regulation requires support for the consumer when issuing a recall – the business is not obligated to compensate the consumer, and the method of collecting the products from consumers is not regulated. Moreover, there are products on the market to which an official standard does not apply. In these cases, the standardization officer has no authority to compel the supplier to issue a recall, and he does not publish the recall notice for these products on the Ministry of Economy website. For these products, the supplier is not obliged to report to the standardization officer, and no one guarantees that the marketing of the product has stopped or that the product has been collected and destroyed.

 **Consumers' Awareness of Their Consumer Rights** – a public participation survey, among other things, found the following findings: (a) **Cancellation of Credit Card Payments:** about 77% of the respondents are not aware of the terms that allow them to halt credit card payments, about 34% of those who wished to cancel a credit card transaction did not apply to any entity, and about 13% of them did not know who to contact or did not know their rights. It was found that no information was published to the public in the media about the activities of the Public Inquiries Unit in the Banking Supervision Division of the Bank of Israel on the subject of "failure to deliver" and "denial of transaction"; (b) **Disconnection from Service:** About 1,300 complaints regarding disconnection from service were submitted to the Authority and the Council in 2017–2021. By a public participation survey, 48% of respondents are not aware of their rights regarding disconnection from service, including the possibility of receiving remedies without proof of the damage that courts may rule in their favor; (c) **"Delay in the Arrival of a Technician":** According to the survey, 38% of the respondents are not aware of their rights to receive remedies in the event of a delay in receiving service; (d) **Waiting Time for a Response on the Phone:** by the audit team examination, in 22% of the cases the service providers in the Internet sector did not comply with the provisions of the law for answering the phone, and for service providers in the water and sewage sector – in 25% of the cases. According to the public participation survey, 65%



of the respondents are unaware of the obligation to provide a human response on the phone within six minutes.






The Consumer Protection Authority and the Consumer Council Websites' Accessibility to the Public – by the State Comptroller's Office examination, persons with disabilities have difficulty submitting complaints on the websites of the Consumer Protection Authority and the Consumer Council. For example, there is difficulty in filling out the application and the applicant's details on the Authority's website, and when finally submitting the complaint, the applicant did not know whether the submission was successful. On the Council's website, difficulties arose in independently reaching the page where the online complaint is submitted, and in entering several fields of personal details in the complaint form. It was also found that the Council's website is not adapted for browsing with mobile phones. Furthermore, the Authority and the Council websites are only partially translated into Arabic and do not include all the information. In addition, there is no unified and central government website where the consumer can submit their complaint. When a consumer has the option to submit a complaint to two or more government bodies, it must fill in different details about the complaint. This is not in line with the government's policy to reduce the bureaucratic burden.



In the seven sectors in which the Consumer Protection Authority operates, it measurably assessed the effect of its actions and found that the frequency of violations decreased, a desire to move to self-enforcement increased, and the phenomena of scamming were eradicated.

The Police Funds Consumer Club is proactive in guaranteeing exercise of members rights and refunds money to its members for vouchers they did not redeem.

Key Recommendations

-  Given the low level of consumer awareness of the activities of the Consumer Protection Authority (34%) and the Consumer Council (37%), it is recommended that the Minister of Economy consider to bring their activities to the public's attention.
-  It is recommended that the Authority and the Council examine the relatively low level of satisfaction in the surveys, and improve the provision of service to consumers.
-  It is recommended that the Consumer Protection Authority and the Consumer Council examine the lack of coordination and cooperation between them, the consumers inability to distinguish them apart with respect to the handling of complaints, and the complexity of filing a complaint process. It is also recommended that the Minister of Economy,



responsible for implementing the Consumer Protection and Council Law, ensure they cooperate. The Minister of Economy should consider ensuring cooperation and coordination and creating interfaces between the Authority, the Council, and other government bodies. Among other things, it is recommended that they consider establishing a unified website for consumer inquiries.



It is recommended that the "Pais Club," the "Together for You" membership club, the "Tov Club" and "Hever," consider taking proactive steps (even if there is no explicit legal provision in the law other than the provisions concerning unjust enrichment) within the rules of commercial fairness, and return at least part of the funds paid by the members, estimated at NIS 6.3 million, regarding expired vouchers.



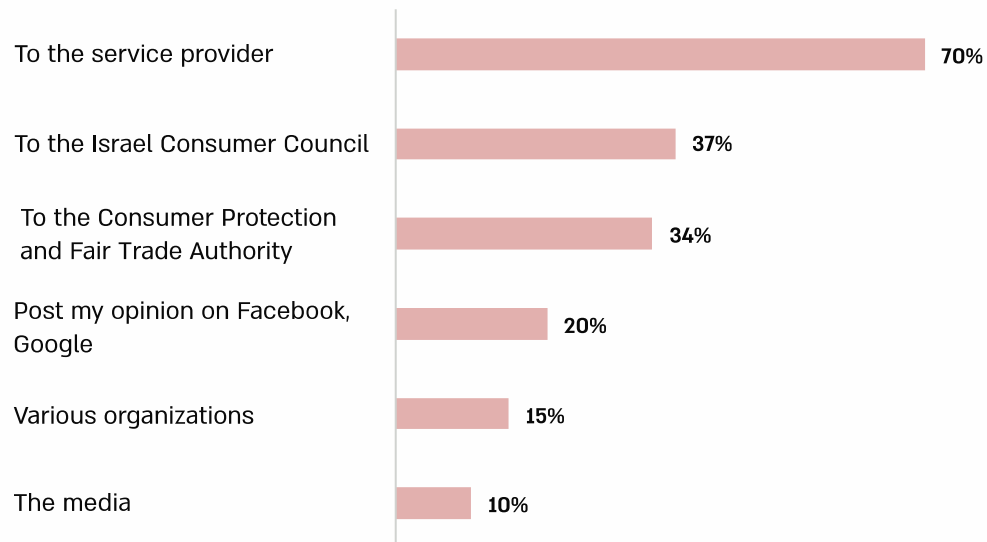
The Bank of Israel should use its authority to handle complaints regarding the suspension of charges originating from credit card fraud, particularly in cases of systematic fraud against the elderly and populations deserving support. It is recommended that the Banking Supervision Division establish standard interfaces with the Consumer Council and the Consumer Protection Authority to receive assistance from them in clarifying these complaints and in handling them. It is recommended that the Bank of Israel audit the issuers and clearers regarding the stopping of clearing operations for businesses that engage in deception and credit card fraud.



Digital price marking may save costs for retailers and is accepted in different countries of the world. At the same time, it is recommended that the Ministry of Economy, the Consumer Protection Authority, and the Consumer Council ensure that the format to be determined will protect the interests of consumers. They should ensure that changing the marking method will not be used for price manipulations to the detriment of consumers and that the cost savings will also be passed on to consumers. It is also required to consider accessibility for the entire population, particularly the elderly population, the non-Hebrew-speaking population, and persons with disabilities. The Ministry of Economy, the Consumer Protection Authority, and the Consumer Council should continue to ensure that the price marking method complies with the provisions of the Equal Rights Law and, in particular, regarding accessibility for persons with disabilities.



Public Awareness of the Entities to Which a Complaint can be Made About Consumer Injustice (in Percentages)



According to the findings of a public participation survey by the State Comptroller's Office.



Summary

The consumer public is, in many cases, at a disadvantage vis-à-vis the business owners due, among other things, to unfamiliarity with the laws that protect their rights and the difficulty of receiving assistance from entities responsible for implementing these laws.

The audit raised deficiencies in various issues of the service provided to the consumer and the quality of the response provided by multiple government bodies in cases of violation of consumer rights.

The entities responsible for assisting and protecting consumers, including the Minister of Economy, the Consumer Protection and Fair Trade Authority, the Israel Consumer Council, and the Ministry of Economy and Industry, should rectify the deficiencies noted in this report and consider the implementation of its recommendations to prevent harm to consumers, improve the service and raise the level of satisfaction and the level of trust from the entities responsible for the protection of their rights.

