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Paid Proxy: The Advanced Way to Provide Credit Advice for Clients

Client Updates

Until recently, financial advisors, mortgage consultants, and credit planners had to collect credit documents from their clients in order to provide them with optimal advisory services.

The Credit Data Law, 2016 (hereinafter: "the Law") transformed the field by giving financial advisors the ability to receive power of attorney from their clients in order to serve as their proxy and obtain their credit information directly from the Bank of Israel.

The paid proxy and his/her obligations

A paid proxy is an individual or corporation that has been given power of attorney by a client, becoming that individual's agent to obtain his/her credit data from the Bank of Israel. As a result, the proxy is able to assess clients' financial performance and recommend ways to improve their profile and credit rating, as well as to present credit offers from other lenders- all in return for a commission.

A paid proxy has obligations under the law and its related rules and regulations. These include the obligation to behave fairly towards the client, sign a client agreement, and maintain confidentiality, and the prohibition against transferring the information to a third party without the client's authorization. In addition, the proxy is obligated to keep the credit data for 60 days from the date of its issue or, with the client's express consent, for a period of up to 7 years, or until the end of the contract. After this time, the paid proxy is obligated to delete the client's data permanently and irretrievably.

What is credit data?

Credit data, which is stored in the Bank of Israel, includes information about the customer's credit behavior (such as payment compliance, honoring of checks, loan data, and loan repayment) in all financial institutions such as banks, credit companies, and other companies that report to the Bank of Israel. For our firm's full article on the subject, please click [here](#).

What services does the paid proxy provide?

A paid proxy is generally a financial advisor who receives power of attorney from a client to contact the Bank of Israel directly on his/her behalf, either on a one-time or ongoing basis, in order to receive the client's credit report. This information helps the advisor guide the client accurately, in real time, about

his/her credit situation, assess the financial behavior of the client, and suggest changes in order to improve the client's credit rating. In addition, the paid proxy may present the client with credit offers from different credit providers, usually with more favorable conditions than the existing provider offers.

How can I register to be a paid proxy?

In order to become a licensed paid proxy, the following documents are required:

- A detailed client agreement that relates to all aspects of the consultation, compensation, and compliance with the Bank of Israel directives
- The client's signature on the power of attorney
- Registration as a paid proxy at the Bank of Israel (filling out an application and other documents)
- Compliance with the privacy protection directives of the Bank of Israel and the Privacy Protection Law
- Signed agreements with credit bureaus and a computer interface for receiving the data

Upon receiving the license from the Bank of Israel, the applicant becomes a paid proxy and is bound by all relevant obligations, including maintaining confidentiality, protecting privacy, and permanently deleting the client's data as explained above.

The process of obtaining the license from the Bank of Israel and the importance of consulting with a knowledgeable lawyer

The licensing request is made by submitting a special application along with an affidavit and other documents to the Bank of Israel. As part of the application process, the supervisor responsible for sharing credit data determines whether the applicant is eligible to be a proxy and receive a client's credit data. The supervisor checks, among other factors, that the applicant has not had a criminal conviction and is not insolvent. The supervisor has the discretion to deny the application on other grounds, as well, which cause him/her to believe that the applicant is not suitable to serve as a paid proxy.

From the moment the applicant is issued a license to be a paid proxy, the Bank of Israel allows him/her to receive the credit data of clients who have authorized him/her to do so. Therefore, in order to clarify the scope of the service, the paid proxy is required to draft agreements with the client defining the areas of the paid proxy's representation. Also, as mentioned above, the paid proxy is bound by strict rules of privacy protection, data confidentiality, and discarding of the data after the applicable period as defined by the law.

In order to comply with the many conditions and to implement all the regulatory obligations that the Bank of Israel places on a paid proxy, we recommend that the licensing process and its subsequent supervision

be guided by a lawyer who has knowledge and experience in the field. Compliance with the applicable regulatory provisions will thus be ensured, enabling the paid proxy to perform his/her duties and concentrate solely on providing service to the client.

As experts in the field of financial regulation, Gornitzky & Co. helps many paid proxies comply with the new regulations, providing ongoing advice and direction. We advise them on privacy protection and guide them through the licensing process with the Bank of Israel - from the application stage to obtaining the license and drafting agreements that comply with the provisions of the law.

For advice regarding paid proxies, please contact Ido Malin, Partner, as well as our financial regulation team.

Key Contacts



Ido Malin
Partner