



State Comptroller of Israel | Aspects of Dealing with the Cost
of Living | January 2024

Bank of Israel

Credit Database



Credit Database

Background

The Bank of Israel's credit database is a central database that began operating in April 2019. The Bank of Israel established the database under the Credit Data Law, 2016 (the Law) as one of the steps to advance competition in Israel's credit market. The database collects data about the credit liabilities of individuals who are citizens and residents of the State of Israel and how liabilities are paid. The above data sources are mainly credit entities, such as bank corporations, credit card companies, and off-bank credit providers, as well as various public authorities: The Insolvency and Financial Rehabilitation Commissioner, Execution Offices, and the Restricted Accounts Unit at the Bank of Israel. In addition, there are two credit bureaus currently operating in Israel. A credit bureau is a company that has received a license to operate credit data services and is authorized to provide various services, such as credit reports, credit ratings, and consulting services.

The bank corporations' control over the household credit derives, among other things, from the considerable amount of information they have on their clients. This information allows the bank corporations to accurately analyze a client's risk and whether or not it is advisable to grant credit to this client. Hence, to allow additional players to join the credit market and minimize the advantage of the large bank corporations over them, it was decided to establish a database that would be available to all credit providers in the market. Such a database might improve credit pricing and promote other credit providers' ability to compete with bank corporations. It should be noted that upon the completion of the report, the interest rate in Israel and around the world increased, and therefore, the importance and impact of the database increased as well.



Key Figures

NIS

770 billion

the total household debt to the financial sector as of the end of 2022 (an increase of about 49% compared to 2017)

97%

of household debt for housing in 2022 were to bank corporations and the rest were to institutional bodies

22%

the credit recipients' rate in 2022 who took a consumer loan from a credit provider who does not manage their current bank account

**only
13–15
basis
points**

the extent of reduction in "captive client premium"¹ following the establishment of the database

12,352,776

number of queries from credit bureaus to the credit database to obtain information in 2022 (an increase of about 210% compared to 2019)

36%

rate of public's queries to the credit database on the free channels (about 387,000 out of about 1.09 million queries). Other queries (about 700,000) were put on paid channels

**NIS
163
million**

the extent of deviation from the direct cost of the establishment of the credit database by the Bank of Israel (about NIS 255 million compared to about NIS 92 million, the initial cost estimate)

**NIS
30
million**

the extent of deviation from the first year's ongoing operating costs of the credit database (about NIS 60 million compared to about NIS 30 million, the initial cost estimate)

1 The bank corporation where the client manages his current account knows that the client has difficulty switching to another bank corporation and can therefore charge an excess premium from that client.



Audit Actions



From July 2022 to March 2023, the State Comptroller office examined various aspects of the establishment and operation of the credit database, including implementation of the provisions of the law, fulfillment of the purposes of the law, and the various interfaces between the credit bureaus and the information sources. The costs of the database's establishment and operation, its administrative structure, and the handling of public complaints were also examined. The examination focused on the unit responsible for credit data sharing at the Bank of Israel.

Key Findings



Increasing Competition in the Retail Credit Market – a credit database is necessary for the development of competition in the credit market, and its activity is essential for the existence and development of off-bank credit providers, and for integrating technological and financial entities in credit activities. Despite the growing use of the database by both the public and the credit providers, the Bank of Israel inspections showed that there had not been substantial changes in the mobility of the banking basket (a change of about 2% in the rate of borrowers who opened a current account at a new bank following the establishment of the database, compared to the rate of such borrowers in the first quarter of 2018) or in the decomposability of the banking basket² (The rate of credit recipients who took a consumer loan from a credit provider who do not manage their current account (minus the off-bank credit providers) was about 17% and remained essentially unchanged until the end of December 2020). According to the Bank of Israel, the data indicate a causal relationship between the database and improvement in competition. Still, they do not quantify the full effect of the database on competition. The very possibility of mobility created a change in competition by reducing the captive client premium; however, even this change did not significantly affect the market as a whole since after the establishment of the database, the captive client premium was reduced by only about 10 to 13 basis points (by about 13 to 15 basis points according to research update from March 2023).

2 Decomposability of the financial basket is the consumption of financial products from different suppliers which means that even if the client maintains a current account in one bank, he consumes additional financial services from another financial institution, even though these services are included in the basket of financial services of the bank where he maintains the current account.



Minimizing Discrimination in Credit Provision and Economic Gaps – it was found that the Bank of Israel indicated in the Governor's annual report to the Knesset's Economic Committee for the year 2020 that the database may have benefited medium and medium-low-rated local authorities but did not significantly benefit the residents of the low-rated local authorities (in a research update from March 2023, the Bank of Israel indicated that the lowest-ranked local authorities paid the highest excess premium and that following the establishment of the database, the captive client premium was significantly reduced even in the lowest-ranked local authorities, but remained the highest excess premium among the rating groups). According to the Bank of Israel, as of the third quarter of 2021, the rate of individuals who took out a consumer loan in non-Jewish local authorities was high compared to other local authorities (about 52% and 57% in low and medium-ranked non-Jewish local authorities, respectively, compared to about 41% and 39% in ultra-orthodox Jewish local authorities, respectively), a figure that supports the hypothesis that in the Arab society, consumer loans, are widely used to finance the purchase of an apartment. It was further found that out of all population groups, the ultra-orthodox population demonstrates the highest rate of housing loan takers (about 43%). This raises doubts about the database's success in meeting the goal of minimizing discrimination in credit provision amongst different populations.

Indication on the Question of Whether to Give Credit to a Client that a Credit Bureau Transfers to a Credit Provider to Enter into a Credit Transaction – the credit data regulations specified the circumstances under which it must be clearly stated that the client fails to make payments on time for credit indication. The regulations specify, among other things, the following circumstances: there are data on a request to initiate proceedings submitted by the debtor; An order was issued to initiate proceedings and a request for debt settlement was submitted; An execution office case where the amount of the debt at the time of opening exceeds NIS 5,000; Data from the Restricted Accounts Unit of the Bank of Israel according to which the account holder is restricted or significantly restricted, and the like. The regulations establish a closed list of circumstances that indicate that the client fails to repay his debts and do not allow a broader answer to whether or not to grant credit to the client, but rather a "yes" or "no" answer. Therefore, all those clients of whom there is derogatory information may be harmed by this, even though there may be positive information about them that might be of great value to the credit provider, for example, clients who received derogatory indication due to one of the circumstances specified in the regulations, will continue to receive a derogatory indication for three years even though they meet their other obligations. Furthermore, the Credit Data Law sought to avoid a "black" list of clients who will not receive credit but rather to open the market to a broader range of cases in which clients may receive credit. A situation where the answer to a question is "yes" or "no" generates a "black" list of recipients of negative answers, and that might harm the purpose of the law.



Transfer of Information to the Credit Database by Public Bodies – it was found that the Insolvency and Financial Rehabilitation Commissioner occasionally refuses to accept the request of the Credit Data Sharing Commissioner to correct data transferred to the database. For example, Data correction is required in cases where the court issues an order to end proceedings. The client should contact and present the order (if he is aware of it) to the Insolvency and Financial Rehabilitation Commissioner, and the Commissioner will then close the case and report to the credit database. Therefore, the Commissioner's reporting to the credit database is carried out from the date the Commissioner receives the order from the client and not from the date on which the court issues the order, and as a result, derogatory information on clients remains in the database for a longer time. The time gap might extend further in case clients are unaware of the need to submit the order to the Insolvency and Financial Rehabilitation Commissioner so that the Commissioner can close the case and update the credit database.

Use of the Credit Database by the Institutional Bodies – it was found that although the volume of non-housing credit granted by institutional bodies to households in 2022 was about NIS 33 billion (about 14% of the volume of credit in this sector), the volume of the institutional bodies' requests for credit reports that year was the lowest among the other bodies (bank corporations, credit card companies and regulated bodies) and amounted to about 15,000 requests (about 0.31% of the total number of requests for credit reports).

Differences in Rating Amongst Credit Bureaus – credit rating is one of the main services credit bureaus provide (estimating the likelihood that clients will repay their liabilities). This service, provided to credit providers and private clients, is based on a statistical model of each of the bureaus. It turned out that the rating scale of each of the bureaus is different, and the difference may mislead the public. For example, a client's credit rating of 700 will be considered a "reasonable" rating in credit bureau A compared to a "good" rating in credit bureau B.

Bureau A		Bureau B	
Defining the Scale	Scale Range	Defining the Scale	Scale Range
excellent	851–1000	very good/excellent	720+
good	731–850	good	660–719
reasonable	561–730	reasonable	640–659
low	321–560	low	580–639
very low	0–320	very low	300–579



The Credit Bureaus' Business Model – during the discussions of the Supreme Steering Committee³ in 2016, it was determined that according to the data analysis, the revenue potential from the core activity of the bureaus is meager and reaches about NIS 10 million. The conclusions that were raised from the analysis are: (a) the Bank of Israel is required to subsidize the system; (b) at a certain point in time, the Ministry of Finance and the Bank of Israel will be required to consider allowing the bureaus to engage in additional areas, which requires the approval of the Knesset's Economic Committee. In 2017, the Supreme Steering Committee confirmed that it is necessary to expand the activity base of the bureaus and allow them to offer the following services: financial information pooling services, budget management services, economic consulting, and formation of economic models. In addition, it was proposed to expand the list of information sources to all supervised credit providers, including the entities supervised by the Capital Market, Insurance, and Savings Authority, under the Supervision of Financial Services Law. However, it was found that the credit bureaus cannot use the credit data in the context of the additional services they were authorized to provide by the Governor and that the additional services that the credit bureaus are authorized to provide to credit providers are minimal since they are only allowed to provide consultation based on the credit data and not on any other kind of data. It was further found that officials at the bureaus are concerned with the current business model's profitability and might give back their license, to provide credit services, to the Bank of Israel. Moreover, it was found that the Bank of Israel is not prepared for a scenario in which it would be required to find solutions for continuing the operation of the credit data sharing market, for direct queries from all credit providers, for developing a valid statistical model, etc.



Supervision by the Commissioner of the Credit Bureaus and Supervision of the Users of Credit Data – it was found that the Supervision and Control Unit at the Commissioner's office audits the bureaus by an external accounting firm and that supervisors from the Bank of Israel are not present when these audits take place, which does not comply with the provisions of the law. It was further found that the Supervision and Control Unit of the Commissioner of Credit Data Sharing performs on-site audits of 3 out of about 40 credit data users each year; therefore, credit data users may not be audited on-site for over a decade. The Bank of Israel noted that the Commissioner carries out supervision and control procedures beyond the on-site audits.



Examining the Purpose of Expanding Access to Credit – it was found that the staff of the Research Department at the Bank of Israel has limited ability to determine whether the purpose of the law regarding the expansion of access to credit is fulfilled since the database only contains data on approved credit applications but not on rejected ones.

3 An inter-ministerial steering committee headed by the Deputy Governor of the Bank of Israel and the Director General of the Ministry of Finance. The duties of the committee, among others, are to provide support in the process of establishing of the database and discuss the main professional issues related to the project.



Therefore, the Bank of Israel cannot examine its compliance with this purpose of the law.

Improving Credit Rating – it was found that even upon audit completion, some business entities in the credit market were providing clients with paid services even though these services were free of charge. These entities offered clients improvement in their credit rating. Still, in practice, they logged into the system with the clients' personally identifiable information, excluded the clients from the database, and immediately afterward re-included them. Performing such actions deletes clients' information from the system, and the clients might become credit excluded.

Establishment of a Fund for Credit Excluded Individuals – it was found that seven years after the law was approved in 2016, no fund for credit-excluded individuals has been established, despite the commitment of the Minister of Finance at the time, and although, as part of the establishment process, three tenders were published to select a credit provider who will offer loans under the protection of the state for a low rating. Two of the tenders were not successful, and the winner of the third one, which was successful, is expected to start operating the fund in September 2023. It was further found that the Ministry of Finance and the Bank of Israel do not have information about the scope of credit-excluded individuals.

The cost of Establishing and Operating the Database

- **The Cost of Establishing the Database** – the total cost of establishing the credit database was about NIS 287 million: about NIS 255 million – direct cost, and about NIS 32 million – indirect cost⁴. It was found that the direct cost exceeded both the initial estimates (an increase of approximately 177% compared to the initial estimate of about NIS 92 million, which did not include the indirect cost) and the project budget that was approved by the Bank of Israel (an increase of about 19% compared to a total of about NIS 214 million approved by the Administrative Council in May 2017 before the agreement with the supplier was signed).
- **Database Operating Costs vs. Database Effectiveness** – it was found that according to the estimate of the Budget Department, the benefits from a credit database are about NIS 100 million per year, and the running costs of the database in 2022 is almost NIS 100 million (about NIS 80 million for ongoing operations in addition to about NIS 17 million for changes and improvements, a total of about NIS 97 million). It should be noted that according to the Bank of Israel's assessment, the benefits from the database are more significant than the Budget Department estimates but cannot be quantified.

⁴ An indirect cost is a cost that does not directly apply to the Bank of Israel, but rather to other entities related to the database.



The Increasing Frequency of Generating Data Pooling Reports from the Credit Database

— the data from the reports that are generated from the database show that the use of data from the credit database is increasing, from a volume of about 117,000 reports in 2019 (April to December), about 151,000 reports in 2020 and about 289,000 reports in 2021, to about 1.09 million reports in 2022 (an increase of about 619% in 2020–2022). The increase of about 276% in the number of reports produced in the years 2021 and 2022 might be due to the service provided by the credit bureau that allows clients to receive updates regarding changes in the credit rating on an ongoing basis based on a data pooling report. The increasing frequency of generating data pooling reports applies to credit providers who receive the data and segment them to come up with an offer to clients who can see the broad picture of their financial situation and the credit they use. However, the volume of public queries on the free channels constitutes about 36% of the total number of queries (about 387,000 queries out of about 1.09 million queries).

Key Recommendations



It is recommended that the Bank of Israel and the Ministry of Finance examine the reforms to increase competition in the credit market while considering the costs and benefits of promoting the reforms most efficiently and beneficially.



It is recommended that the Bank of Israel formulate a methodology for examining the realization of the purpose of expanding access to credit. It is recommended to obtain sample data on rejected credit applications as part of the examination if necessary.



It is recommended that the Bank of Israel and the Ministry of Justice examine ways to eradicate the phenomenon of business entities that offer clients to improve their credit rating but, in practice, log into the system with the clients' personally identifiable information, exclude them from the database and immediately re-include them. The Bank of Israel and the Ministry of Justice should formulate an arrangement that will balance between maintaining clients' right to submit a request for exclusion, and abuse of the right of exclusion, which undermines the purposes of the law. Hence, credit applicants will not be harmed by business entities that want to make a profit, particularly at the expense of citizens from low socio-economic backgrounds. In this framework, it is recommended to consider adding a field to the credit database that indicates that the client submitted a request for exclusion and, after a pre-defined time, was re-included in the database.



It is recommended that the Ministry of Finance establish the credit-excluded fund, announce it to the public, and examine the effectiveness of its activity after a while to



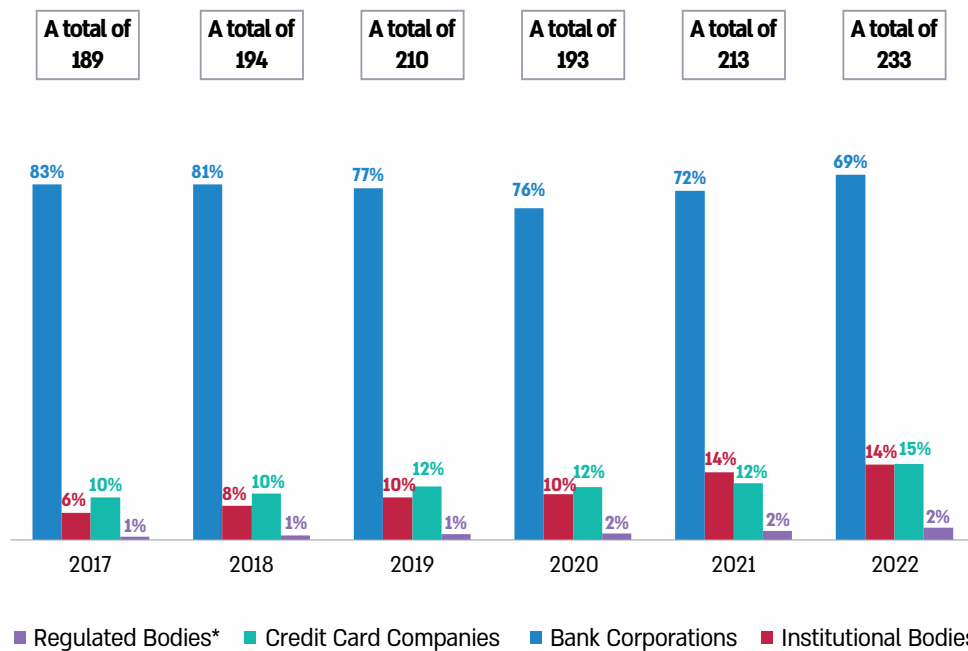
optimize its operation. It is further recommended that the Ministry of Finance consider additional channels to improve the financial situation of credit-excluded individuals.



It is recommended that the Bank of Israel draw lessons from the underestimation of the database cost, prepare in advance for the establishment of business and technological projects both in terms of their scope and their complexity, and periodically examine the available budgetary alternatives while considering the budget. It is further recommended that the Bank of Israel draw conclusions regarding the gap between the initial estimates of costs and actual costs and ensure the inclusion of indirect costs as part of the costs presented upon project approval.



Segmentation of Household Debt Balance (for purposes other than housing) to the Financial Sector, 2017–2022 (in percentages and billions of NIS)



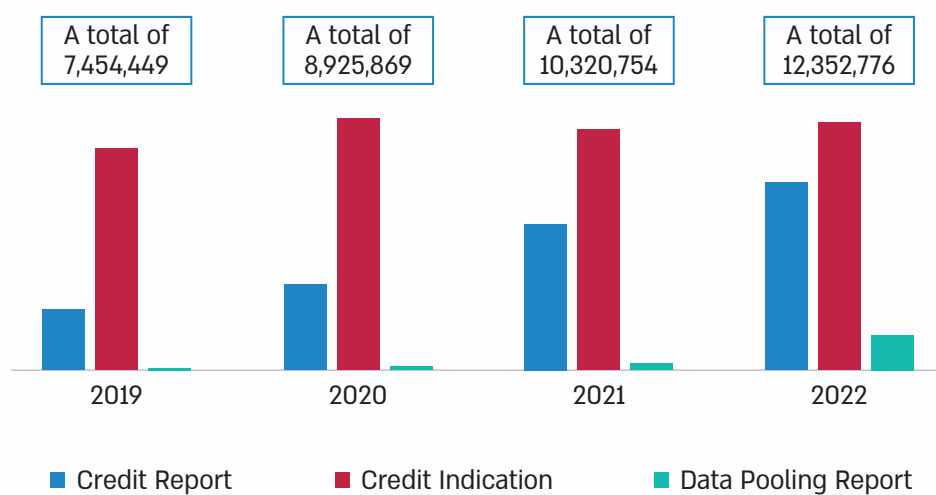
According to the Bank of Israel's Information and Statistics Department and the Committee for Examining Competition in the Credit Market report, it is processed by the Office of the State Comptroller.

* Regulated bodies⁵ are presented according to the report to the Committee for Examining Competition in the Credit Market; the change in 2022 compared to 2021 was measured according to the rate of change.

⁵ According to the Governor's report to the Knesset's Economic Committee on the implementation of the Credit Data Law in 2019 which was submitted in May 2020, regulated bodies are non-institutional bodies that are licensed to provide credit, to provide deposit and credit services or to operate a credit mediation system according to the Financial Services Supervision Law (Regulated Financial Services), 2016.



Informational Queries to the Database Made by Credit Bureaus, 2019–2022



According to the reports of the Bank of Israel's Governor to the Knesset's Economic Committee, it is processed by the Office of the State Comptroller.



Summary

The credit database, established by the Bank of Israel, which began operating in April 2019, is intended to improve transparency in the Israeli credit market, increase competition for credit clients who repay their debts, and provide credit institutions in the Israeli market with extensive, current and updated information on the history and credit habits of loan applicants while assessing their repayment capacity. The audit found that the direct cost of establishing the database was about NIS 255 million (a deviation of about 177% from the initial estimate) and that the indirect cost, which was not considered initially, is estimated at about NIS 32 million so the total cost of establishing the database is estimated at NIS 287 million. It was further found that the operating cost for 2022 was about NIS 97 million, while the Budgetary Department at the Ministry of Finance estimated that the benefit of a credit database would amount to about NIS 100 million per year.

Despite the cost of establishing and operating the database, it was not found that the purposes of the law were fully met. Moreover, it was found that the Bank of Israel could not examine the implementation of many of the purposes, such as expanding access to credit, reducing discrimination in the provision of credit, and minimizing economic gaps. As for the increased competition in the non-housing household credit market, in which the scope of debt balances at the end of 2022 was about NIS 233 billion, it was found that the database did not affect the mobility of clients between bank corporations and did not reduce credit costs to new clients. The Bank of Israel indicates that the interest rate gap between exclusive and non-exclusive borrowers narrowed following the establishment of the database, but this change was not substantial either. It was further found that the database did not contribute to increased competition in the household credit market (for housing), in which debt balances at the end of 2022 were about NIS 536 billion.

Upon audit completion, the interest rate in Israel and the world increased, so the database became even more critical and influential. The Bank of Israel, including all parties responsible under the Credit Data Law, such as the Credit Data Sharing Commissioner, should rectify the report's deficiencies and implement the recommendations to improve all Israeli citizens' access to credit. Moreover, the entities above should also expand the benefits derived from the database, increasing competition and decreasing the cost of credit in Israel.