

## Press Release

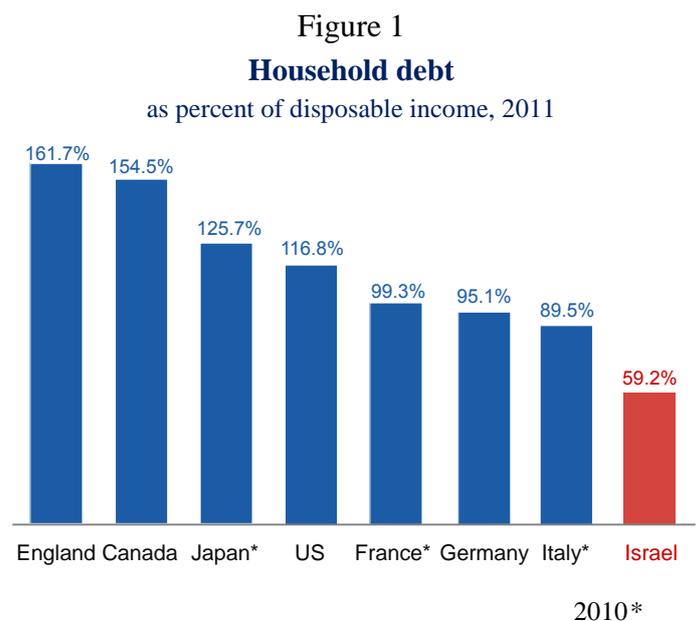
### **A new Taub Center study on Israel's treatment of debtors finds that the current system impedes competition in the credit market and imposes unnecessary hardship on debtors**

A study on Israel's treatment of insolvent debtors by Dr. Asher Meir, a Research Fellow at the Taub Center for Social Policy Studies in Israel and Senior Lecturer in Economics at the Jerusalem College of Technology, presents new findings on the functioning of the consumer credit market in Israel.

**The widespread idea that Israelis borrow with abandon but are slow to repay appears to be a misconception according to the study by Meir.** The ratio of household debt to disposable income in Israel is lower than any country in the G7 and is less than half the average level for these countries (Figure 1). Rates of missed payments on loans of all kinds are no higher than those in comparable countries.

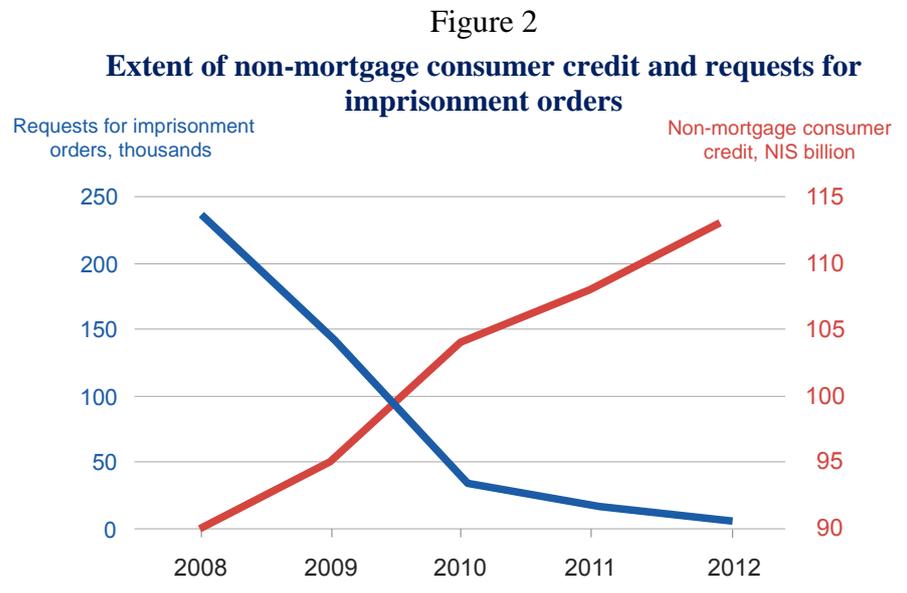
**The study found that the market for credit information on borrowers is insufficiently developed in Israel.** Fuller implementation of the Credit Information Service Law and additional reforms would enable better access to the credit market for most Israelis and protection from over-indebtedness for others. According to Dr. Meir, an additional benefit would be improved competition: "The current situation gives the bank monopoly on the payment information of their customers, which strengthens concentration in the market for loans."

**The Taub Center study found that one out of seven Israeli adults has an open collection file at the Enforcement and Collection Authority, and that files remain open for prolonged periods.** According to the 2012 report of the Enforcement and Collection Authority, around 755,000 individuals have open files in the Authority. Dr. Meir comments: "These figures point to a problem of worrisome extent, affecting around 15 percent of the adult population of Israel." About half of the files remain open after four years.



**Source:** Taub Center for Social Policy Studies in Israel  
**Data:** OECD, Bank of Israel, Central Bureau of Statistics

**The study found no evidence that imprisonment of debtors improves the credit market and claims that it is liable to harm the market.** Dr. Meir explains: "Imprisonment for debts is a severe punishment and very exceptional on an international basis. In addition, the threat of imprisonment is a drag on credit demand and thus on the total level of demand in the economy. When leniencies to this policy have been introduced, including the virtual elimination of imprisonment for debtors in 2011, no negative impact was found on credit markets, and even collection was not negatively impacted." Figure 2 shows that in recent years, the extent of household loans other than mortgages has continuously grown even as the threat of imprisonment has continuously declined.



**Source:** Taub Center for Social Policy Studies in Israel

**Data:** Bank of Israel, Enforcement and Collection Authority

The Taub Center study found that the Israeli approach, in which debtors face intrusive sanctions for inability to pay routine debts, is not accepted throughout Europe and North America. Even when a debtor who is recognized as being "of limited means" (i.e. unable to meet the original conditions of the loan repayment and subject to a revised payment schedule), he can face sanctions such as limitations on his bank account, revocation of credit card, and prohibition on leaving the country. This is in sharp contrast to most countries, where restrictions of this nature apply only to debts relating to child support.

The Taub Center study also found that bankruptcy is currently not an effective source of relief for indebted households in Israel. One declared objective of the bankruptcy law is to provide a fresh start for people who find themselves unable to pay back their household debt. In fact, Dr. Meir found that out of over 50,000 Israelis officially recognized in 2007 as "of limited means," only a few hundred were able to obtain such a fresh start by 2012. Many bankruptcy filings are rejected, and those that are accepted take many years. A figure discovered for the first time by Dr. Meir is that among the bankruptcy filings, only a minority are for personal debts. In a random sample from 2007, the majority of filings, about 55%, were for business debts.

**In light of these findings, Dr. Asher Meir makes the following recommendations:**

- 1. Continued development of an effective consumer credit scoring system would benefit consumers and the credit market as a whole.**
- 2. There is no justification for punitive sanctions on limited means debtors, or for imprisonment for non-payment of routine debts.**
- 3. There is a need for transparent and equitable standards for a fresh start.**

The Taub Center for Social Policy Studies in Israel, headed by Professor Dan Ben-David, is an independent, non-partisan institution for socioeconomic research based in Jerusalem. The Center provides decision makers, as well as the public in general, with a big picture perspective on economic and social areas. The Center's interdisciplinary Policy Programs – comprising leading academic and policy making experts – as well as the Center's professional staff conduct research and provide policy recommendations in the key socioeconomic issues confronting the State.

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